

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

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2024.

OR

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

OR

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

For the transition period from to

Commission file number 001-38425

**GreenTree Hospitality Group Ltd.**

(Exact name of Registrant as specified in its charter)

**Cayman Islands**

(Jurisdiction of incorporation or organization)

**1228 Zhongshan North Road, Putuo District**

**Shanghai 200065**

**People's Republic of China**

(Address of principal executive offices)

**Contact Person: Dr. Yiping Yang, Chief Financial Officer**

**+86-21-3617-4886**

**1228 Zhongshan North Road, Putuo District**

**Shanghai 200065**

**People's Republic of China**

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

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

<b>Title of each class</b>	<b>Trading Symbol(s)</b>	<b>Name of each exchange on which registered</b>
American depository shares, each representing one Class A ordinary share Class A ordinary shares, par value US\$0.50 per share *	GHG	New York Stock Exchange, Inc.

\* Not for trading, but only in connection with the registration of American Depositary Shares representing such Class A ordinary shares pursuant to the requirements of the Securities and Exchange Commission.

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

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

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

**66,761,582 Class A ordinary shares were outstanding as of December 31, 2024**

**34,762,909 Class B ordinary shares were outstanding as of December 31, 2024**

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

Yes  No

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

Yes  No

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

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

Yes  No

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

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

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

<sup>†</sup> The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

U.S. GAAP

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

Other

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

Item 17  Item 18

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

Yes  No

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

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

Yes  No

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GREENTREE HOSPITALITY GROUP LTD.

FORM 20-F ANNUAL REPORT  
FISCAL YEAR ENDED DECEMBER 31, 2024

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## Conventions that Apply to this Annual Report on Form 20-F

In this annual report, unless otherwise indicated:

- “ADR” or “ADRs” are to the American depositary receipts, which, if issued, evidence our ADSs;
- “ADS,” in the context of our restaurant business, are to average daily sales per store, which are calculated by multiplying our restaurants’ average daily tickets by its average check;
- “ADSS” are to our American depositary shares, each of which represents one (1) Class A ordinary share;
- “China” and the “PRC” are to the People’s Republic of China, excluding, for the purposes of this annual report only, Taiwan, the Hong Kong Special Administrative Region and the Macao Special Administrative Region;
- “GreenTree Inns” brand are to hotels operated under the GreenTree Inns and GreenTree Inns Express brands;
- “leased-and-operated hotels” and “L&O hotels” are to hotels that we lease or own the premises and operate;
- “leased-and-operated restaurants” and “L&O restaurants” are to restaurants that we lease or own the premises and operate;
- “franchised-and-managed hotels” and “F&M hotels” are to hotels that we manage pursuant to various franchise agreements;
- “franchised-and-managed restaurants” and “F&M restaurants” are to restaurants that we manage pursuant to various franchise agreements;
- “franchise agreements” are to franchising agreements, management entrustment contracts and/or brand consulting contracts (as applicable);
- “RMB” or “Renminbi” are to the legal currency of China;
- “ramp up stage” are to hotels in operation that have been open for six or fewer months;
- “RevPAR” are to revenue per available room, which are calculated by multiplying our hotels’ average daily room rate by its occupancy rate;
- “shares” are to, collectively, our Class A ordinary shares and Class B ordinary shares, par value US\$0.50 per share;
- “Tier 1 cities” are to the term used by the National Bureau of Statistics of China and refer to Beijing, Shanghai, Shenzhen and Guangzhou;
- “Tier 2 cities” are to the 32 major cities, other than Tier 1 cities, as categorized by the National Bureau of Statistics of China, including provincial capitals, administrative capitals of autonomous regions, direct-controlled municipalities and other major cities designated as “municipalities with independent planning” by the State Council;
- “Tier 3 and lower cities” are to cities in China other than Tier 1 cities and Tier 2 cities;
- “US\$,” “U.S. dollars,” or “dollars” are to the legal currency of the United States;
- “U.S. GAAP” are to accounting principles generally accepted in the United States; and
- “we,” “us,” “our company” and “our” are to GreenTree Hospitality Group Ltd., our Cayman Islands holding company, and its subsidiaries, as the context requires.

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2022, 2023 and 2024, and as of December 31, 2023 and 2024.

Our ADSs are listed on the New York Stock Exchange under the symbol “GHG.”

### Currency Translations

This annual report on Form 20-F contains translations of Renminbi amounts into U.S. dollars at specific rates solely for the convenience of the reader. Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report on Form 20-F were made at a rate of RMB7.2993 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on December 31, 2024. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report on Form 20-F could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all.

### Special Note Regarding Forward-Looking Statements

This annual report contains forward-looking statements that involve risks and uncertainties, including statements based on our current expectations, assumptions, estimates and projections about us and our industry. The forward-looking statements are contained principally in the sections entitled “Item 3. Key Information — D. Risk Factors,” “Item 5. Operating and Financial Review and Prospects,” “Item 4. Information on the Company — B. Business Overview” and “Item 4. Information on the Company — B. Business Overview — Regulatory Matters” in this annual report. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. In some cases, these forward-looking statements can be identified by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “potential,” “continue,” “is/are likely to” or other similar expressions. The forward-looking statements included in this annual report relate to, among others:

- our goals and growth strategies;
- our future business development, financial condition and results of operations;
- trends in the hospitality and restaurant industries in China and globally;
- competition in our industry;
- fluctuations in general economic and business conditions in China and other regions where we operate;
- the regulatory environment in which we and our franchisees operate; and
- assumptions underlying or related to any of the foregoing.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. Except as required by law, we undertake no obligation any forward-looking statements to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this annual report and the documents that we have referred to in this annual report and have filed as exhibits to the registration statement, of which this annual report is a part, completely and with the understanding that our actual future results may be materially different from what we expect.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not required.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not required.

ITEM 3. KEY INFORMATION

A. Reserved

B. Capitalization and Indebtedness

Not required.

C. Reasons for the Offer and Use of Proceeds

Not required.

D. Risk Factors

**Risks Related to Doing Business in China**

*Adverse changes in the Chinese economy could have a material adverse effect on the hospitality and restaurant industries in China which could adversely affect our business.*

We conduct our operations primarily in China and derive our revenues primarily from our operations there. As the travel, hospitality and restaurant industries are highly sensitive to business and personal discretionary spending levels, it tends to decline during general economic downturns. Accordingly, our results of operations, financial condition and prospects are subject to a significant degree to economic, political and legal developments in China. The Chinese economy differs from the economies of most developed countries in many aspects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While China's economy has experienced significant growth in the past 30 years, growth has been uneven across different regions and among various economic sectors of China. The growth rate of China's GDP decreased in the past few years. We cannot assure you that China's economy will continue to grow, or that if there is growth, such growth will be steady and uniform. If there is a slowdown, such a slowdown could have a negative effect on our business. There is also a possibility that China's economic growth rate may materially decline in the near future, which may have adverse effects on our financial condition and results of operations. Risk of a material slowdown in China's economic growth rate may be based on several current or emerging factors, including: (i) occurrence of unusual circumstances; (ii) overinvestment by the government and businesses and excessive credit offered by banks; (iii) a rudimentary monetary policy; (iv) excessive privileges to state-owned enterprises at the expense of private enterprises; (v) the dwindling supply of surplus labor; (vi) a decrease in exports due to weaker overseas demand; (vii) failure to boost domestic consumption; and (viii) challenges resulted from international situations, for instance the tariff war.

*We face various legal and operational risks and uncertainties as a company based in and primarily operating in China.*

The PRC government has enhanced its regulatory oversight of Chinese companies listing overseas. Under PRC laws and regulations in effect as of the date of this annual report, after consulting our PRC legal counsel, Shanghai Qiaowen Law Firm, we are not aware of any PRC laws or regulations which require us to obtain any permission or approval from the China Securities Regulatory Commission, or the CSRC, or the Cyberspace Administration of China, or the CAC, in connection with our subsidiaries' operations in China. As disclosed elsewhere in this annual report, our operations in China are subject to various licensing and permit requirements of different PRC governmental agencies. See, e.g. "—Failure to comply with government regulations relating to the franchise, hospitality and restaurant industries, construction, fire prevention, food hygiene, safety and environmental protection could materially and adversely affect our business and results of operations." While we do not hold certain requisite permits or licenses for our subsidiaries' operations in China; except as otherwise disclosed in this annual report, the lack of any such permit or license, whether individually or in the aggregate, is not expected to have a material adverse effect on our subsidiaries' operations in China. If applicable laws, regulations, or interpretations are to change, and we or our subsidiaries in China are required to obtain any new or additional permission or approval from the CSRC, CAC or any other PRC governmental agency in the future, we may be unable to obtain such required permissions or approvals in a timely manner, or at all, and such permissions or approvals may be rescinded even if obtained. Furthermore, if we or our subsidiaries in China (i) do not receive or maintain such permissions or approvals, or (ii) inadvertently conclude that such permissions or approvals are not required, any such circumstance could subject us to penalties, including fines, suspension of business and revocation of required licenses, significantly limit or completely hinder our and our subsidiaries' ability to continue our operations in China or offer securities to investors and cause our securities to decline in value or become worthless.

*Changes in the political and economic policies of the PRC government may materially and adversely affect our business, financial condition and results of operations and may result in our inability to sustain our growth strategy.*

The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, and control of foreign exchange and allocation of resources. Although the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the PRC government plays a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth by allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, regulating financial services and institutions and providing preferential treatment to particular industries or companies.

While the PRC economy has experienced significant growth in the past, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may also have a negative effect on us. Our financial condition and results of operations could be materially and adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. The PRC government also has significant authority to exert influence on the ability of an issuer with substantial operations in China, such as our company, to conduct securities offerings overseas and/or allow any foreign investments in issuers with substantial operations in China, which could result in a material change in our operations and/or the value of our ADSs. In particular, the China Securities Regulatory Commission has published the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies and several guidelines for the application of regulatory rules concerning overseas offerings and listings, which exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers with substantial operations in China. Such control could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of our securities, including our ADSs, to significantly decline or become worthless. See "—Uncertainties with respect to the Chinese legal system could adversely affect us." In addition, the PRC government has implemented in the past certain measures to control the pace of economic growth. These measures may cause decreased economic activity, which in turn could lead to a reduction in demand for our services and consequently have a material adverse effect on our businesses, financial condition and results of operations.

***Uncertainties with respect to the Chinese legal system could adversely affect us.***

We conduct our business primarily through our subsidiaries in China. Our operations in China are governed by PRC laws and regulations. Our subsidiaries are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to foreign-invested enterprises. The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court of the PRC. Unlike common law systems, prior court decisions may be cited for reference but have limited precedential value. Since the 1970s, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past four decades has significantly enhanced the protections afforded to various forms of foreign investments in China. However recently-enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published court decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties and may not be as consistent and predictable as in other jurisdictions. In addition, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, and which may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until after the violation occurs.

Furthermore, any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our business and results of operations.

The PRC government has significant oversight and discretion over the conduct of our business and may intervene with or influence our operations as the government deems appropriate to further regulatory, political and societal goals. The PRC government has published new policies that significantly affected certain industries such as the education and internet industries in the past. While we have not experienced similar changes in government policies or regulatory environment that significantly affected our business and operations in the past, we cannot rule out the possibility that new regulations or policies or changes to existing regulations and policies regarding our industry will be adopted or released in the future that could materially and adversely affect our business, financial condition and results of operations. See “—We face various legal and operational risks and uncertainties as a company based in and primarily operating in China.” Furthermore, the PRC government has also indicated an intent to exert more oversight and control over securities offerings and other capital markets activities that are conducted overseas and foreign investment in China-based companies like us. Any such action, once taken by the PRC government, could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of our securities, including our ADSs, to significantly decline or become worthless.

***We could be adversely affected by political tensions between the United States and China.***

Political tensions between the United States and China have escalated in recent years due to, among other things, the trade war between the two countries since 2018, the PRC National People's Congress' passage of Hong Kong national security legislation and decision of the National People's Congress on improving the electoral system of the Hong Kong, the imposition of U.S. sanctions on certain Chinese officials from China's central government and the Hong Kong Special Administrative Region by the U.S. government, the imposition of sanctions on certain individuals from the U.S. by the Chinese government, restrictions in investment into Chinese companies engaged in artificial intelligence, semiconductors and microelectronics, and quantum information technologies sectors as well as various executive orders and proposed regulations including potential restrictions in provision of cloud-computing services to China-based companies. Rising political tensions between China and the U.S. could reduce levels of trade, investment, technological exchanges and other economic activities between the two major economies, which would have a material adverse effect on global economic conditions and the stability of global financial markets. The measures taken by the U.S. and Chinese governments may cause investors to lose confidence in Chinese companies and counterparties, including us.

Furthermore, there have been media reports on deliberations within the U.S. government regarding potentially limiting or restricting China-based companies from accessing U.S. capital markets, and in January 2021 the New York Stock Exchange, or the NYSE, resolved to delist certain China-based companies in compliance with an executive order issued in November 2020. These delistings have introduced greater confusion and uncertainty about the status and prospects of Chinese companies listed on the U.S. stock exchanges. Any further such deliberations or delistings may have a material and adverse impact on the stock performance of China-based issuers listed in the United States such as us, and we cannot assure you that we will always be able to maintain the listing of our ADSs on a national stock exchange in the U.S., such as the NYSE or the Nasdaq Stock Market, or that you will always be allowed to trade our ADSs.

***Governmental control of currency conversion may limit our ability to utilize our revenues effectively and affect the value of your investment.***

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive most of our revenues in RMB. Under our current structure, our income will be primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency dominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE, by complying with certain procedural requirements. However, foreign exchange transactions under our capital account items are subject to significant foreign exchange controls and require approval from the SAFE or its local branches. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions if foreign currencies reserve falls below a certain level. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

***Fluctuations in exchange rates could result in foreign currency exchange losses and could materially reduce the value of your investment.***

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions and the foreign exchange policy adopted by the PRC and other governments. On July 21, 2005, the PRC government changed its policy of pegging the value of the RMB to the U.S. dollar. The RMB depreciated approximately 8.2%, 2.9% and 2.8% against the U.S. dollar in 2022, 2023 and 2024, respectively. It remains unclear what further fluctuations may occur.

Most of our revenues, costs and expenses are denominated in RMB. We are a holding company and we rely on dividends paid by our operating subsidiaries in China for our cash needs. Any significant revaluation of the RMB may materially reduce any dividends payable on, our ADSs in U.S. dollars. To the extent that we need to convert U.S. dollars we receive into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we would receive. Conversely, if we decide to convert our RMB into U.S. dollars for business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amount.

Limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

***Rapid urbanization and changes in zoning and urban planning in China may cause our hotel and restaurant properties to be demolished, expropriated or otherwise affected.***

China is undergoing a rapid urbanization process, and zoning requirements and other governmental mandates with respect to urban planning of a particular area may change. When zoning requirements or other governmental mandates change with respect to the areas where our hotels and restaurants are located, the affected hotels and restaurants may need to be demolished or removed. As a result, we may have to relocate our hotels and restaurants to other locations. We have experienced such demolition and relocation in the past and we may encounter additional demolition and relocation cases in the future. Our hotels and restaurants could suffer from demolitions or interruptions due to zoning or other local regulations in the future. Any such demolition and relocation could cause us to lose primary locations for our hotels and restaurants and cause the licenses and permits held by the hotels and restaurants facing demolition to not be renewed or even be revoked, and we may not be able to achieve comparable operational results following the relocations. While we may be reimbursed for such demolition and relocation, we cannot assure you that the reimbursement, as determined by the relevant government authorities, will be sufficient to cover our direct and indirect losses. Accordingly, our business, results of operations and financial condition may be adversely affected.

Furthermore, the PRC government has the statutory power to acquire or demolish any land in the PRC for reason of changes in urban planning or zoning or otherwise. In such events, we may be forced to relocate or close our hotels and restaurants. Although we might be paid compensation for such forced acquisition, demolition or closure, the amount of compensation to be awarded to us may not cover our losses and adversely affecting our operations.

***Failure to comply with PRC regulations regarding the registration requirements for employee stock ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.***

In December 2006, the People's Bank of China promulgated the Administrative Measures of Foreign Exchange Matters for Individuals, which set forth the respective requirements for foreign exchange transactions by individuals (both PRC or non-PRC citizens) under either the current account or the capital account. In January 2007, the State Administration of Foreign Exchange issued, and later amended on May 29, 2016, implementing rules for the Administrative Measures of Foreign Exchange Matters for Individuals which, among other things, specified approval requirements for certain capital account transactions such as a PRC citizen's participation in the employee stock ownership plans or stock option plans of an overseas publicly listed company. Pursuant to the Notice of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration of the Overseas Investment and Financing and the Round-trip Investment Made by Domestic Resident through Special-Purpose Companies, or Circular 37, issued on July 4, 2014, PRC residents who participate in share incentive plans in overseas non-publicly listed SPVs due to their position as director, senior management or employees of the PRC subsidiaries of the overseas SPVs may submit applications to SAFE or its local branches for the foreign exchange registration with respect to such overseas SPVs.

On February 25, 2012, the State Administration of Foreign Exchange promulgated the Circulars on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Equity Incentive Plans of Overseas-Listed Company, or the Stock Option Rules. Under these rules, PRC citizens or foreigners who have lived within the PRC for at least one year or, collectively, the PRC optionees, who participate in an equity incentive plan of an overseas publicly listed company are required to register to handle issues such as foreign exchange registration, account establishment, funds transfer and remittance, and entrust an overseas institution, or the "Overseas Trustee" to handle issues like exercise of options, purchase and sale of corresponding stocks or equity and transfer of corresponding funds. A "Domestic Agency" shall be a domestic company participating in the equity incentive plan or a domestic institution which is qualified for asset custody business as chosen by us according to PRC law.

We adopted our 2018 share incentive plan in January 2018. Our board of directors has authorized the issuance of up to 9,000,000 Class A ordinary shares upon exercise of awards granted under our 2018 share incentive plan. See “Item 6. Directors, Senior Management and Employees — Share Incentive Plan.” We and the PRC optionees who participate in the 2018 share incentive plan will be subject to these regulations, as such, the 2018 share incentive plan provides that the PRC optionees shall not exercise their options nor shall they purchase or subscribe for our shares before our company becomes a publicly listed company in the United States. After our initial public offering in the U.S., we have advised our employees and directors participating in the 2018 share incentive plan to handle foreign exchange matters in accordance with the Stock Option Rules. We cannot provide any assurance that we or the PRC optionees of our share incentive plans have complied or will comply with the requirements imposed by the Stock Option Rules. If we or our PRC optionees fail to comply with these regulations, we or our PRC optionees may be subject to fines and other legal or administrative sanctions, and our ability to further grant shares or share options under our share incentive plans to, and to adopt additional share incentive plans for, our directors and employees may be restricted. Such events could adversely affect our operations.

Further, a notice concerning the individual income tax on earnings from employee share options jointly issued by Ministry of Finance, or the MOF, and the State Taxation Administration, or the STA (previously known as State Administration of Taxation, or the SAT), on March 28, 2005, and its implementing rules, provide that domestic companies that implement employee share option programs shall (i) file the employee share option plans and other relevant documents to the local tax authorities having jurisdiction over them before implementing such employee share option plans; (ii) file share option exercise notices and other relevant documents with the local tax authorities having jurisdiction over them before exercise by the employees of the share options, and clarify whether the shares issuable under the employee share options mentioned in the notice are the shares of publicly listed companies; and (iii) withhold taxes from the PRC employees in connection with the PRC individual income tax. To comply with the requirement, we will file the 2018 share incentive plan with the relevant local tax bureau.

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

There are significant legal and other obstacles in China to providing information needed for regulatory investigations or litigation initiated by regulators outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the United States involves uncertainty. Furthermore, according to Article 177 of the PRC Securities Law, or Article 177, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation, evidence collection and other activities within the territory of the PRC. While detailed interpretation of or implementation rules under Article 177 have yet to be promulgated, the inability for an overseas securities regulator to directly conduct investigation or evidence collection activities within China may further increase difficulties faced by you in protecting your interests.

***Our employment practices may be adversely impacted by the Labor Law and the labor contract law of the PRC.***

On July 5, 1994, the Standing Committee of the National People’s Congress, or the SCNPC, promulgated the Labor Law of the People’s Republic of China, or the Labor Law, which became effective on January 1, 1995, and amended them on August 27, 2009 and December 29, 2018. In accordance with the Labor Law, a labor contract shall be concluded for establishment of work relationships.

The PRC National People’s Congress promulgated the Labor Contract Law which became effective on January 1, 2008 and was amended on December 28, 2012, and the State Council promulgated implementing rules for the labor contract law on September 18, 2008. The labor contract law and the implementing rules impose requirements concerning, among others, the execution of written contracts between employers and employees, the time limits for probationary periods, and the length of employment contracts. The interpretation and implementation of these regulations are still evolving. Our employment practices may violate the labor contract law and related regulations and we could be subject to penalties, fines or legal fees as a result. If we are subject to severe penalties or incur significant legal fees in connection with labor law disputes or investigations, our business, financial condition and results of operations may be adversely affected.

The Labor Contract Law prohibits an employer to establish staff dispatching companies to place workers with themselves or their subsidiaries. We have established a subsidiary which is the employer of most of our employees of other subsidiaries. This subsidiary has entered into a service outsourcing arrangement with other relevant subsidiaries of ours. Since the current labor dispatch regulation does not clearly define the distinction of labor dispatch and service outsourcing business, our service outsourcing arrangement could be considered as labor dispatch by the relevant PRC government authorities and our abovementioned subsidiary might be regarded as dispatching entity and therefore subject us to fines, or termination of such outsourcing arrangement.

In accordance with the PRC Social Insurance Law and the Regulations on the Administration of Housing Fund and other relevant laws and regulations, China establishes a social insurance system and other employee benefits including basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance, maternity insurance, housing fund, and a handicapped employment security fund, or collectively the Employee Benefits. An employer shall pay the Employee Benefits for its employees in accordance with the rates provided under relevant regulations and shall withhold the social insurance and other Employee Benefits that should be assumed by the employees. For example, an employer that has not made social insurance contributions at a rate and based on an amount prescribed by the law, or at all, may be ordered to rectify the non-compliance and pay the required contributions within a stipulated deadline and be subject to a late fee of up to 0.05% per day. If the employer still fails to rectify the failure to make social insurance contributions within the stipulated deadline, it may be subject to a fine ranging from one to three times the amount overdue.

Under the Regulations on the Administration of Housing Fund, PRC companies must register with applicable housing fund management centers and establish a special housing fund account in an entrusted bank. Both PRC companies and their employees are required to contribute to the housing funds.

We have not made adequate contributions to employee benefit plans, as required by applicable PRC laws and regulations. We have recorded accruals for the estimated underpaid amounts for the current employees in our financial statements. However, we have not made any accruals for the interest on underpayment and penalties that may be imposed by the relevant PRC government authorities. If we are subject to investigations related to non-compliance with labor laws and are imposed severe penalties or incur significant legal fees in connection with labor law disputes or investigations, our business, financial condition and results of operations may be adversely affected.

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

As a holding company, we rely principally on dividends and other payments from our wholly owned operating subsidiaries in China for our cash requirements, including funds necessary to service any debt we may incur, to pay dividends and other cash distributions to our shareholders and to pay our operating expenses. If our subsidiaries or any newly formed subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our subsidiaries are permitted to pay dividends to us only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. Pursuant to laws applicable to entities incorporated in the PRC, each of our subsidiaries in the PRC must make appropriations from after tax profit to a statutory surplus reserve fund. The reserve fund requires annual appropriation of 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end) after offsetting accumulated losses from prior years, until such reserve reaches 50% of the subsidiary's registered capital. The reserve fund can only be used to increase the registered capital and eliminate further losses of the respective companies under PRC regulations. As of December 31, 2022, 2023 and 2024, total statutory reserves of our PRC subsidiaries were RMB150.2 million, RMB152.4 million and RMB155.3 million (US\$21.3 million). These reserves are not distributable as cash dividends, loans or advances. In addition, due to restrictions under PRC laws and regulations, our PRC subsidiaries are restricted in their ability to transfer their net assets to the company in the form of dividend payments, loans or advances. Amounts of net assets restricted include paid up capital and statutory reserve funds of our PRC subsidiaries amounted to RMB898.6 million, RMB901.5 million and RMB834.7 million (US\$117.6 million) as of December 31, 2022, 2023 and 2024, respectively. As a result, our Chinese subsidiaries are restricted in their ability to transfer a portion of their net assets to us or any of our other subsidiaries in the form of dividends, loans or advances. Limitation on the ability of our Chinese subsidiaries to pay dividends to us or any of our other subsidiaries could materially and adversely limit our ability to borrow money outside of China or pay dividends to holders of our ADSs. Also, see “— Risks Related to Doing Business in China — It is unclear whether we will be considered as a PRC “resident enterprise” under the Enterprise Income Tax Law of the PRC, and depending on the determination of our PRC “resident enterprise” status, dividends paid to us by our PRC subsidiaries may be subject to PRC withholding tax, we may be subject to 25% PRC income tax on our worldwide income, and holders of our ADSs may be subject to PRC withholding tax on dividends on, and gains realized on their transfer of, our ADSs.”

***PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of our initial public offering to make loans or additional capital contributions to our PRC subsidiaries which would materially and adversely affect our liquidity and our ability to fund and expand our business.***

In utilizing the proceeds of our initial public offering of ADSs as an offshore holding company of our PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any loans or additional capital contributions to our PRC subsidiaries are subject to PRC regulations and approvals. For example, loans by us to our subsidiaries in China, which are foreign-invested enterprises, to finance their activities cannot exceed statutory limits and must be registered with the SAFE or its local counterpart.

We may also decide to finance our subsidiaries by means of capital contributions. According to the relevant PRC regulations on foreign-invested enterprises in China, depending on the total amount of investment, capital contributions to our PRC subsidiaries are no longer subject to the approval of the PRC Ministry of Commerce or its local branches. Instead, we are required to file and submit required information and documents online within 20 working days of such event. However, we cannot assure you that the regulations will always remain favorable to us. If the regulations are revised in the future or we fail to complete such registration or obtain such approvals on time, our ability to use the proceeds from our initial public offering of ADSs and to capitalize on our operations in the PRC may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

Except for the filing required by PRC Ministry of Commerce or its local branches, when using the capital contributions to exchange for RMB funds, the domestic institutions including foreign-invested enterprises, must comply with certain foreign exchange requirements. For example, SAFE promulgated the Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or Circular 16, on June 9, 2016. Under Circular 16, the foreign exchange receipts under capital accounts of a domestic institution and the RMB funds obtained thereby from foreign exchange settlements may be used for expenditure under current accounts within its business scope or expenditure under capital accounts permitted by laws and regulations. However, they may not be used (i) directly or indirectly, for expenditure beyond the enterprise's business scope or expenditure prohibited by laws and regulations of the state; (ii) unless otherwise specified, directly or indirectly, for investments in securities or other investments than banks' principal-secured products; (iii) for the granting of loans to non-affiliated enterprises, except where it is expressly permitted in the business license; and (iv) for the construction or purchase of real estate for purposes other than self-use (except for real estate enterprises). In addition, the RMB funds obtained thereby from foreign exchange settlements may not be used to repay RMB loans if the proceeds of such loans have not been fully used by the domestic institution, including a foreign-invested company like us.

We cannot assure you that we will be able to obtain these government approvals on a timely basis, if at all, with respect to future capital contributions by us to our subsidiaries. If we fail to receive such approvals, our ability to use the proceeds of our initial public offering and to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

***It is unclear whether we will be considered as a PRC "resident enterprise" under the Enterprise Income Tax Law of the PRC, and depending on the determination of our PRC "resident enterprise" status, dividends paid to us by our PRC subsidiaries may be subject to PRC withholding tax, we may be subject to 25% PRC income tax on our worldwide income, and holders of our ADSs who are not PRC residents may be subject to PRC withholding tax on dividends on, and gains realized on their transfer of, our ADSs.***

Under the PRC Enterprise Income Tax Law and its Implementation Regulations, or the EIT Law, dividends, interest, rent, royalties and gains on transfers of property payable by a foreign-invested enterprise in China to its foreign investor who is a non-resident enterprise without any establishment or place of business within China or if the received dividends, interest, rent, royalties and gains have no connection with the establishment or place of business of such foreign investor will be subject to a 10% withholding tax, unless such non-resident enterprise's jurisdiction of incorporation has a tax treaty with China that provides for a reduced rate of withholding tax. Under the EIT Law, an enterprise established outside China with its "de facto management body" within China is considered a "resident enterprise" in China and is subject to the Chinese enterprise income tax at the rate of 25% on its worldwide income. The "de facto management body" is defined as the organizational body that effectively exercises overall management and control over production and business operations, personnel, finance and accounting, and properties of the enterprise. There are no detailed rules or precedents governing the procedures and specific criteria for determining "de facto management body."

The Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82, provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore-incorporated enterprise is located in China. According to Circular 82, a Chinese-controlled offshore incorporated enterprise will be regarded as a PRC tax resident by virtue of having a “de facto management body” in China and will be subject to PRC enterprise income tax on its worldwide income only if all of the following criteria are met: (i) the primary location of the day-to-day operational management is in China; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in China; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders meeting minutes are located or maintained in China; and (iv) 50% or more of voting board members or senior executives habitually reside in China.

Although substantially all of our operational management is based in the PRC, it is unclear whether PRC tax authorities would require (or permit) us to be treated as a PRC resident enterprise. It is also unclear whether the dividends we receive from our PRC subsidiaries will constitute dividends between “qualified resident enterprises” and therefore qualify for exemption from withholding tax if we are deemed to be a “resident enterprise” for PRC enterprise income tax purposes. We are not controlled by a Chinese enterprise or PRC enterprise group and as such we do not believe that our company meets all of the conditions to be deemed a PRC resident enterprise. For the same reasons, we believe our other subsidiaries located outside China are not PRC resident enterprises. In addition, we are not aware of any offshore holding companies with a corporate structure similar to ours ever having been deemed a PRC “resident enterprise” by PRC tax authorities. However, the tax resident status of an enterprise is subject to determination by PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.” While we do not currently consider our company or any of our overseas subsidiaries to be a PRC resident enterprise, there is a risk that the PRC tax authorities may deem our company as a PRC resident enterprise since a substantial majority of the members of our management team are located in China, in which case we would be subject to the PRC enterprise income tax at the rate of 25% on our worldwide income.

If the PRC tax authorities determine that we are a resident enterprise for PRC enterprise income tax purposes, among other things, we would be subject to the PRC enterprise income tax at the rate of 25% on our worldwide taxable income, substantially higher than the 10% withholding tax rate to which we are subject as a non-PRC resident enterprise. Furthermore, if we are treated as a PRC resident enterprise, payments of dividends by us may be regarded as derived from sources within the PRC and therefore we may be obligated to withhold PRC income tax at 10% on payments of dividends on the ADSs or shares to non-PRC resident enterprise investors. In the case of non-PRC resident individual investors, the tax may be withheld at a rate of 20%. In addition, if we are treated as a PRC resident enterprise, any gain realized on the transfer of the ADSs and/or shares by non-PRC resident investors may be regarded as derived from sources within the PRC and accordingly may be subject to a 10% PRC income tax in the case of non-PRC resident enterprises or 20% in the case of non-PRC resident individuals. The PRC tax on dividends and/or gains may be reduced or exempted under applicable tax treaties between the PRC and the holder’s home country.

In addition, under the Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Resident Enterprises, or STA Public Notice 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. Gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to STA Public Notice 7, “PRC taxable assets” include assets attributed to an establishment in China, immovable properties in China, and equity investments in PRC resident enterprises. See “Item 4. Information on the Company — B. Business Overview — Regulatory Matters — Regulations Relating to Tax.” As part of our restructuring, GreenTree Hospitality Group Ltd., or GreenTree Hospitality, the listing entity for the purpose of our initial public offering, acquired through a share exchange the entire share capital of GreenTree Samoa, including the equity interests in most of our PRC operating subsidiaries then held by it. See “Item 4. Information on the Company — C. Organizational Structure.” This acquisition of equity interests in our PRC operating subsidiaries by GreenTree Hospitality may be deemed to be an indirect transfer of PRC taxable assets, and the gains from the acquisition may be subject to PRC enterprise income tax at a rate of up to 25%. However, there is uncertainty as to the implementation details of STA Public Notice 7. If STA Public Notice 7 was determined by the tax authorities to be applicable to the abovementioned and other of our transactions involving PRC taxable assets, we might be required to spend valuable resources to comply with STA Public Notice 7 or to establish that the relevant transactions should not be taxed under STA Public Notice 7. If such transactions involving PRC taxable assets were subject to PRC enterprise income tax, our results of operations and financial condition could be adversely affected.

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

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

In late 2012, this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese accounting firms, including our independent registered public accounting firm. In January 2014, the administrative law judge reached an initial decision to impose penalties on the firms including a temporary suspension of their right to practice before the SEC. The accounting firms filed a petition for review of the initial decision. On February 6, 2015, before a review by the commissioners of the SEC had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepts that future requests by the SEC for the production of documents will normally be made to the CSRC. The firms will receive matching Section 106 requests, and are required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via the CSRC. If they fail to meet specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Remedies for any future noncompliance could include, as appropriate, an automatic six-month bar on a single firm’s performance of certain audit work, commencement of a new proceeding against a firm, or in extreme cases the resumption of the current proceeding against all four firms. The audit committee is aware of the policy restriction and communicated with our independent auditor to ensure compliance.

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

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

***The audit report included in this annual report is prepared by an auditor which the U.S. Public Company Accounting Oversight Board was unable to inspect and investigate completely before 2022 and, as such, our investors have been deprived of the benefits of such inspections in the past, and may be deprived of the benefits of such inspections in the future.***

Our auditor, the independent registered public accounting firm that issues the audit report included elsewhere in this annual report, as an auditor of companies that are traded publicly in the U.S. and a firm registered with the U.S. Public Company Accounting Oversight Board, or the PCAOB, is required by the laws of the U.S. to undergo regular inspections by the PCAOB to assess its compliance with the laws of the U.S. and professional standards. According to Article 177 of the PRC Securities Law which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC. Accordingly, without the consent of the competent PRC securities regulators and relevant authorities, no organization or individual may provide the documents and materials relating to securities business activities to overseas parties. In 2021, PCAOB made determinations that the positions taken by PRC authorities prevented the PCAOB from inspecting and investigating firms headquartered in mainland China and Hong Kong completely. On August 26, 2022, the PCAOB signed a Statement of Protocol with the China Securities Regulatory Commission and the Ministry of Finance of the PRC, taking the first step toward opening access for the PCAOB to inspect and investigate completely registered public accounting firms headquartered in mainland China and Hong Kong including our auditor. According to its announcement, the PCAOB sent staff to conduct on-site inspections and investigations in Hong Kong from September to November 2022 and conducted inspection field work and investigative testimony in a manner consistent with the PCAOB's methodology and approach to inspections and investigations in the U.S. and globally. The PCAOB inspections have identified numerous deficiencies in the audit firms in China, which are consistent with the types and number of findings the PCAOB has encountered in other first-time inspections around the world. If audit firms in China had been subject to such inspections in the past, such deficiencies may have been identified earlier and these audit firms, including our auditor, may have taken remedial measures to address any such deficiencies, and the historical inability of the PCAOB to inspect audit firms in China has deprived our investors of the benefits of such inspections. Because our auditor was not subject to such inspections before 2022, we cannot assure you that it will have sufficient time to fully address any deficiency that may be identified as part of the inspection process to improve future audit quality. The inability of the PCAOB to conduct complete inspections of auditors in China before 2022 may have made it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections, which could cause investors or potential investors in our ADSs to lose confidence in the quality of our consolidated financial statements.

In addition, while the PCAOB announced in December 2022 that it secured complete access to inspect and investigate registered public accounting firms headquartered in China, we cannot assure you that the PCAOB will continue to have such access in the future. If the PCAOB is not able to inspect and investigate completely auditors in China for any reason, such as any change in the position of the governmental authorities in China in the future, our investors may be deprived of the benefits of such inspections again.

***If the PCAOB determines that it is unable to inspect or investigate completely our auditor at any point in the future, our ADSs may be prohibited from trading in the United States under the Holding Foreign Companies Accountable Act, as amended, or the HFCA Act, and any such trading prohibition on our ADSs or threat thereof may materially and adversely affect the price of our ADSs and value of your investment.***

The HFCA Act was signed into law on December 18, 2020 and amended pursuant to the Consolidated Appropriations Act, 2023 on December 29, 2022. Under the HFCA Act and the rules issued by the SEC and the PCAOB thereunder, if we have retained a registered public accounting firm to issue an audit report where the registered public accounting firm has a branch or office that is located in a foreign jurisdiction and the PCAOB has determined that it is unable to inspect or investigate completely because of a position taken by an authority in the foreign jurisdiction, the SEC will identify us as a "covered issuer", or SEC-identified issuer, shortly after we file with the SEC a report required under the Securities Exchange Act of 1934, or the Exchange Act (such as our annual report on Form 20-F) that includes an audit report issued by such accounting firm; and if we were to be identified as an SEC-identified issuer for two consecutive years, the SEC would prohibit our securities (including our shares or ADSs) from being traded on a national securities exchange or in the over-the-counter trading market in the United States.

In December 2021, the PCAOB made its determinations, or the 2021 determinations, pursuant to the HFCA Act that it was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China or Hong Kong including our auditor, Ernst & Young Hua Ming LLP. After we filed our annual report on Form 20-F for the fiscal year ended December 31, 2021 that included an audit report issued by Ernst & Young Hua Ming LLP on May 17, 2022, the SEC conclusively identified us as an SEC-identified issuer on June 14, 2022. As such, we were required to satisfy additional disclosure requirement for SEC-identified issuers that are also foreign issuers in our annual report as of December 31, 2022 and for the year then ended.

Following the Statement of Protocol signed between the PCAOB and the China Securities Regulatory Commission and the Ministry of Finance of the PRC in August 2022 and the on-site inspections and investigations conducted by the PCAOB staff in Hong Kong from September to November 2022, the PCAOB Board voted in December 2022 to vacate the previous 2021 determinations, and as a result, our auditor, Ernst & Young Hua Ming LLP, is no longer a registered public accounting firm that the PCAOB is unable to inspect or investigate completely as of the date of this annual report or at the time of issuance of the audit report included herein. As such, we were not identified as an SEC-identified issuer following the filing of our annual reports in 2023 and 2024 and we do not expect to be so identified following the filing of our annual report in 2025 either. However, the PCAOB may change its determinations under the HFCA Act at any point in the future. In particular, if the PCAOB finds its ability to completely inspect and investigate registered public accounting firms headquartered in mainland China or Hong Kong is obstructed by the PRC authorities in any way in the future, the PCAOB may act immediately to consider the need to issue new determinations consistent with the HFCA Act. We cannot assure you that the PCAOB will always have complete access to inspect and investigate our auditor, or that we will not be identified as an SEC-identified issuer again in the future.

If we are identified as an SEC-identified issuer again in the future, we cannot assure you that we will be able to change our auditor or take other remedial measures in a timely manner, and if we were to be identified as an SEC-identified issuer for two consecutive years, we would be delisted from the NYSE and our securities (including our shares and ADSs) will not be permitted for trading "over-the-counter" either. If our securities are prohibited from trading in the United States, there is no certainty that we will be able to list on a non-U.S. exchange or that a market for our shares will develop outside of the United States. Such a prohibition or any threat thereof would substantially impair your ability to sell or purchase our ADSs when you wish to do so, and the risk and uncertainty associated with delisting would have a negative impact on the price of our ADSs. Also, such a prohibition or any threat thereof would significantly affect our ability to raise capital on terms acceptable to us, or at all, which would have a material adverse impact on our business, financial condition, and prospects. Moreover, the implementation of the HFCA Act and other efforts to increase the U.S. regulatory access to audit information could cause investor uncertainty as to China-based issuers' ability to maintain their listings on the U.S. national securities exchanges and the market price of the securities of China-based issuers, including us, could be adversely affected.

#### **Risks Related to Our Business**

##### ***Our results of operations are subject to conditions typically affecting the hospitality and restaurant industries.***

Our results of operations are subject to conditions typically affecting the hospitality and restaurant industries, including the following:

- changes in national, regional or local economic conditions;
- natural disasters or travelers' fears of exposure to serious contagious diseases;
- changes in travel patterns, food patterns or consumption patterns;
- changes in governmental regulations that influence or determine wages, prices or construction costs;
- local market conditions such as an oversupply of, or a reduction in demand for, hotel rooms and restaurants;
- our ability to secure desirable locations for our hotels and restaurants;
- the attractiveness of our hotels and restaurants to potential guests and competition from other hotels and restaurants;

- changes in occupancy and room rates for our hotels, as well as average checks, average daily tickets and average daily sales per store for our restaurants;
- increases in operating costs and expenses due to inflation and other factors;
- our ability to develop and maintain positive relations with current and potential franchisees;
- the performance of managerial and other employees of our hotels and restaurants;
- issues related to food safety and instances of food borne diseases;
- risks arising from failures to uphold effective quality assurance systems across our restaurant operations;
- potential exposure to significant liability claims due to customer complaints regarding food contamination or incidents of food tampering;
- shortages or interruptions in the availability and delivery of food products and other essential supplies;
- fluctuations in prices of raw materials, which may impact our cost structure; and
- labor shortage, increase in labor costs and large personnel mobility.

Changes in any of these conditions could adversely affect our occupancy rates, average daily rates, and Revpar for hotels, average checks, average daily tickets, average daily sales for restaurants or otherwise adversely affect our business, results of operations and financial condition.

***We are subject to various operational risks inherent in the franchised-and-managed business model.***

Our success could be adversely affected by the performance of our franchised-and-managed hotels and restaurants. As of December 31, 2024, we franchised-and-managed approximately 98.8% of our hotels, and we derived 62.2%, 58.4% and 58.6% of our revenues from those hotels in 2022, 2023 and 2024, respectively, which include revenues from membership fees of franchised-and-managed hotels. We plan to increase the number of franchised-and-managed hotels and restaurants in operation to increase our national presence in China. Our franchisees may not be able to develop or construct hotel or restaurant properties on a timely basis, which could adversely affect our growth strategy and may impact our ability to collect fees from them on a timely basis. If our franchisees reduce their investments in the hospitality and restaurant industries, develop or construct fewer hotel or restaurant properties, or abandon such development or construction altogether, our business, results of operations and financial condition may be materially and adversely affected.

We oversee and manage the operations of our franchised-and-managed hotels and restaurants pursuant to various franchise agreements. However, we are not able to control the actions of our franchisees. Under those franchise agreements, our franchisees are typically responsible for developing hotel or restaurant properties on a timely basis, bearing the costs and expenses of developing and operating the hotels or restaurants, including costs of constructing, decorating or renovating the hotels or restaurants to our standards and recruiting and employing relevant staff. However, if our franchisees have difficulties in accessing capital or are reluctant to make investments for the construction, decoration, management or renovation of the hotels or restaurants, we may not be able to force them to secure the required capital and the quality of operations our franchised-and-managed hotels and restaurants may be thereby diminished.

We normally require our franchisees to secure relevant governmental approvals and permits for operating the hotels or restaurants in our standard franchise agreements and require that our franchisees provide us with some basic approvals and permits, including business licenses, public hygiene license, food operation license, special industry licenses and fire prevention safety inspection certificates. However, some of our franchisees may not be able to obtain such approvals or permits in a timely manner, or at all. See “— Failure to comply with government regulations relating to the franchise, hospitality and restaurant industries, construction, fire prevention, food hygiene, safety and environmental protection could materially and adversely affect our business and results of operations.”

As many factors affecting the operations of those hotels and restaurants are beyond our control, we cannot assure you that the quality of the services in our franchised-and-managed hotels and restaurants are consistent with our standards and requirements. Although we send for routine inspection purposes regional managers and members of our quality control team to franchised-and-managed hotels and restaurants on a regular basis, we may not be able to identify problems in their operations and make responses on a timely basis. As a result, our image and reputation may suffer, which may have a material adverse effect on our business and results of operations.

In addition to quality standards, safety incidents such as fire accidents may occur at our franchised-and-managed hotels and restaurants despite our supervision or entrusted management. Any such occurrence may result in substantial reputational harm to us and our brands. In addition, if such safety incidents occur at any of the franchised-and-managed hotels and restaurants that do not possess the relevant licenses, permits or inspection certificates, there could be substantial negative publicity, thereby triggering large-scale government actions that could impact our entire network of hotels and restaurants, which in turn will have a material adverse impact on our business, results of operations and financial condition.

Although our proprietary information system can collect operational and financial data of each hotel and restaurant, we may not be able to avoid fraud or manipulation of such data by some franchisees, which may adversely affect the ability to effectively respond to potential issues. In addition, many of our franchisees do not own the hotel land or restaurant land or the property but typically lease the property from landlords who are either a property owner or a sub-lessor. We cannot assure you that all landlords who lease the hotel or restaurant property to our franchisees have good and marketable title, or have unencumbered rights to lease or sub-lease the property to our franchisees. If any third party such as the ultimate property owners or relevant governmental authorities successfully challenge the lease of our franchisees, or if our franchisees fail to renew the leases when they expire, or if the landlords early terminate the lease, or if the properties or lands owned or leased by our franchisees are demolished, acquired or otherwise reclaimed by the government, our franchisees may have to close their hotels or restaurants and thus terminate the franchise agreements and as a result, our business and results of operations may be adversely affected. Moreover, the term of the leases for some of the property of our franchisees is shorter than the typical term of our franchise agreements. We cannot assure you that upon expiration, these franchisees will be able to renew their leases in order to perform their franchise agreements with us.

*We may not be able to renew our existing franchise agreements or renegotiate new franchise agreements when they expire.*

We franchise hotels and restaurants to third parties pursuant to franchise agreements. These franchise agreements may be renegotiated or may expire. The versions of hotel agreements we have used during recent years typically have an initial term of 10 to 20 years except for the franchise agreements with our shell franchisees. The versions of restaurants franchise agreements we have used during recent years typically have an initial term of 3 to 5 years. We plan to renew our existing franchise agreements upon expiration or renegotiate with our franchisees for new franchise agreements. However, we may be unable to retain our franchisees on satisfactory terms, or at all. If a significant number of our existing franchise agreements expire and new franchisees do not cover those expired franchises, our revenue and profit may decrease in the future, and our results of operations could be materially and adversely affected.

As the hospitality and restaurant industries in China are highly competitive, the terms of our franchise agreements are influenced by contract terms offered by our competitors. We cannot assure you that the terms of franchise agreements for new franchised-and-managed hotels or restaurants entered into or renewed in the future will be as favorable as the terms under our existing franchise agreements. If such agreements cannot be renewed on satisfactory terms upon expiration, our results of operations could be materially and adversely affected.

*Failure to comply with government regulations relating to the leased-and-operated and franchised-and-managed business models, hospitality and restaurant industries, construction, fire prevention, food hygiene, safety and environmental protection could materially and adversely affect our business and results of operations.*

Our business is subject to various compliance and operational requirements under PRC laws and regulations, which include public safety, construction, fire prevention, public area hygiene, health and sanitation and environmental protection, as well as requirements related to construction or decoration of hotel and restaurant premises. The failure of any of our hotels or restaurants to comply with applicable laws and regulations may incur substantial fines and penalties from the relevant PRC government authorities. Each hotel in our network must hold a basic business license and a special industry license issued by local government authorities and must conduct its hotel operations within the business scope of its business license. These hotels must also obtain various other licenses and permits. For example, if our hotels provide catering service, they are required to obtain a food operation permit. In addition, any project construction undertaken by our hotels may be subject to governmental approvals or filings requirements, and our failure to comply with the aforementioned requirements may subject us to fines or the suspension or even the cessation of operations, which could materially and adversely affect our business, financial condition and results of operations. In any event, we may not be able to obtain all permits, licenses, certificates and other approvals required by government regulations, which could negatively impact our business and significantly harm our reputation.

As of December 31, 2024, we operated 55 leased-and-operated hotels. As of December 31, 2024, out of our 55 leased-and-operated hotels, 7 had not obtained fire prevention safety inspection certificates, 8 had not obtained public area hygiene permits or the permits had been expired, 9 had not obtained special industry permits, and 9 which engage in catering business had obtained the food operation permits. As of December 31, 2024, 6 of our leased-and-operated hotels shared and operated on the same premises as our other leased-and-operated hotels; these 6 leased and operated hotels had not obtained their own licenses, and are unlikely to be able to obtain them. Given the significant discretion local government authorities have in the examination of our application as well as other factors beyond our control in certain areas, we may be unable to obtain the above outstanding operation permits at all.

Owners of our franchised and managed hotels are subject to same permit and safety requirements as our leased-and-operated hotels. Although we require the hotel owners to obtain and maintain all required permits or licenses, we have limited control over the franchised and managed hotel owners. Any failure to obtain and maintain the required permits or licenses may require us to delay opening of a franchised and managed hotel or to forgo or terminate our franchised and managed hotel arrangement, which could harm our brand, result in lost management revenues and subject us to potential indirect liability. Each of the foregoing could materially and adversely affect our financial condition and results of operations

For our leased-and-operated hotels and restaurants that have not obtained the necessary licenses, and to the extent that the franchisees who did not provide us with the licenses had not obtained the licenses prior to the commencement of their operations, the legal consequences will be as follows:

- Business license: (i) orders by the registration authority to take corrective action, with the illegal income confiscated; (ii) if market entity refuses to take corrective action, it shall be fined not less than RMB10,000 nor more than RMB100,000, or (iii) if the circumstances are serious, be ordered to suspend or cease continuing operations, and be fined not less than RMB100,000 nor more than RMB500,000;
- Special industry license (only for the hotel business): warnings or fines of up to RMB1,000 and even up to a 15-days detention. In addition, pursuant to various local regulations, hotels failing to obtain the special industry license may be subject to warnings, orders to suspend or cease continuing business operations, confiscations of illegal gains or fines (for instance, the fines could reach RMB200,000 in Jiangsu if the circumstances are serious);
- Fire prevention safety inspection certificate: (i) suspension of construction of projects, and/or use or operation of the business; and (ii) fines between RMB30,000 and RMB300,000;
- Public hygiene license (only for the hotel business): a range of administrative penalties depending on the seriousness of a hotel's activities: (i) warnings; (ii) fines between RMB500 and RMB30,000; or (iii) suspension of operations for rectification, or revocation of public hygiene license; and
- Food operation permit: (i) confiscation of illegal gains, food illegally produced for sale and tools, facilities and raw materials used for illegal production; or (ii) fines between RMB50,000 and RMB100,000 if the value of food illegally produced is less than RMB10,000 or fines of 10 to 20 times of the value of food if such value is equal to or greater than RMB10,000.

In addition to the above licenses, hotels and restaurants operating food and beverage businesses are also required to have valid health certificates for employees engaged in food production and operation in accordance with the Food Safety Law of the People's Republic of China, the Regulations on the Management of Hygiene in Public Places, and other regulations. If staff members do not obtain health certificates or if their health certificates have expired, hotels and restaurants may be ordered by the food safety supervision and management department at or above the county level to make corrections and be given a warning; if they refuse to make corrections, they will be fined from RMB5,000 to RMB50,000; if the circumstances are serious, they will be ordered to suspend or cease production and business operations until their licenses are revoked.

If any franchisee is subject to the foregoing legal consequences, whether fines or orders to suspend or even cease operations, due to its failure to obtain necessary licenses and permits or to comply with other requirements, our image and reputation may suffer, and such franchisee may defer making or refuse to make payments in breach of its franchise agreement with us. As we hold equity interests in certain of our franchisees, any regulatory non-compliance by such franchisees may also decrease the value of our investments. In either case, our business and results of operations may be adversely affected. Furthermore, as to certain hotels and restaurants that are being converted from the leased-and-operated model to the franchised-and-managed model, if any franchisee refuses to return and uses any of our hotels' or restaurants' permits in breach of their supplementary agreements with us, our company as the registered permit holder could be held liable for any regulatory non-compliance by our franchisees. See "— Our hotels and restaurants being converted into franchised-and-managed hotels may not be able to obtain their own operational licenses or fail to pay us the rent, which may materially and adversely affect our business and results of operations."

In respect of our franchising business, we are subject to a comprehensive disclosure requirement when recruiting and managing our franchisees. In the past, we have not received penalties in relation to such requirements. However, our communication with our franchisees could be found in violation of these requirements in the future.

*We may terminate franchise agreements earlier under certain circumstances, and we may have disputes with our franchisees which may materially and adversely affect our business and result of operations.*

Our franchisees may terminate our franchise agreements in the event that, among others, the performance or the franchised-and-managed hotels or restaurants is worse than they expect. Although they are not permitted to do so by our franchise agreements, the franchisees may still attempt to unilaterally terminate their franchise agreements. In such instances, we may have disputes with them, and it will be difficult for us to force them to continue the performance of our franchise agreements until they expire. If the franchise agreements are eventually terminated either based on a settlement between us and the franchisees or with a judgment or arbitral award which requires the franchisees to compensate us for our losses and costs, such compensation may not cover our losses which we have suffered as a result of the early termination, and we may no longer receive the franchise fees and related management fees from the termination. Furthermore, if our franchisees breach or terminate their franchise agreements with us before the hotel or restaurant commences operation, we might not be able to grow our hotel and restaurant network as planned.

Due to our rapid expansion in recent years, we have added a large number of new franchised-and-managed hotels and restaurants into our network, some of which may not be able to provide consistent and high-quality service to meet our standards. To avoid potential damage to our brand name and to ensure the quality of services provided to our guests, we may terminate our franchise agreements with such franchisees. In addition, if any of our franchisees defaults or commits wrongdoing and fails to cure defaults or wrongdoings, we may also need to terminate our franchise agreements. Although our franchise agreements typically allow us to terminate the agreements under many circumstances, our franchisees may dispute our termination or our claim and in such cases we have to submit such disputes for the settlement by courts or arbitration. For example, as of December 31, 2024, we mainly had 27 pending legal proceedings with franchised-and-managed hotels or restaurants. Also, we have in the past closed and may close in the future certain franchised-and-managed hotels and restaurants as a result of disputes with the franchisees for their failure to comply with our requirements on, among other things, the punctual payment of our franchise fees or management fees, the decoration or operation standard, use of our brand, maintenance of the hotel or restaurant condition and appearance, the avoidance of competition between the franchisees, including keeping appropriate distances between the franchised-and-managed hotels or restaurants. For example, for the year ended December 31, 2024, we terminated 206 franchised-and-managed hotels and 27 franchised-and-managed restaurants that did not comply with our brand and operating standards, respectively. If a significant number of our existing franchise agreements are terminated early, our revenue and profit may decrease in the future.

In case of a dispute with our franchisees, even if such disputes can be resolved in favor of us, the disputes could divert our management attention, affect our brand image, and incur cost for us. There could also be situations where the franchisee is not in a position to sufficiently compensate us for losses which we have suffered as a result of their defaults or wrongdoings. If we eventually terminate any franchisees, we will lose such franchisees and can no longer collect franchise fees and management fees from them. If new franchisees do not cover those terminated franchisees, our results of operations and financial conditions could be materially and adversely affected.

***Our hotels and restaurants being converted into franchised-and-managed hotels and restaurants may not be able to obtain their own operational licenses or fail to pay us the rent, which may materially and adversely affect our business and results of operations.***

During the past few years, we have sought to convert some hotels and restaurants from the leased-and-operated model over to the franchised-and-managed model through selling relevant business assets and handed over the management of such hotels and restaurants, in most of the cases pursuant to an asset, business and personnel transfer agreement or an entrusted operation agreement, or Transfer Agreements, to certain individuals or entities that have subsequently entered into franchise agreements with us and have therefore become our new franchisees. According to the Transfer Agreements, such new franchisees shall take over and operate such hotels and restaurants on their own account and shall take the risks and enjoy the benefits of operating such hotels and restaurants from the completion of the transfer contemplated by such agreements. However, the Transfer Agreements typically allow our franchisees under such arrangements to continue to use the permits of the hotels or restaurants that were previously obtained by us and remain in the name of our company for a transitional period. As of December 31, 2024, some of the abovementioned new franchisees were still using our permits for the relevant hotel or restaurant, most of which are our restaurant franchisees. All of these franchisees have executed a supplementary agreement which requires them to stop using and return to us our permits upon execution of the supplementary agreements. Such supplementary agreements also require the franchisees to indemnify us against all losses, costs or liabilities incurred by us for their defaults under such agreements. However, if any franchisees refuse to return and continue to use any of our permits, our company could be held liable as the registered permit holder for any regulatory non-compliance on the part of our franchisees. As a result, any breach by our franchisees of relevant regulations could cause us to incur relevant legal liability under PRC law, which may materially affect our brand image and our results of operations. In addition, in such instances, because the relevant leases have not been transferred to our new franchisees, we continue to be the tenants of the relevant premises and we remain liable to pay the rent to our landlords, and may not thereafter be fully compensated by the new franchisees. As a result, our result of operations and financial conditions may be materially and adversely affected by the default of such franchisees. Furthermore, such arrangement between us and the new franchisees could be deemed as a sublease, and our landlords may claim that our subleasing arrangement without our landlords' consent constitutes a default. In such cases, we may be required by our landlords to terminate sublease arrangements and compensate their losses, if any, which may further increase our costs and risks. Moreover, we may not be able to enforce our rights against the franchisees under the supplementary agreements, which would hinder our ability to prevent the franchisees from using our permits and negatively impact our business and our reputation.

***Our leased-and-operated hotels and restaurants are subject to a number of operational risks.***

For hotels and restaurants under the leased-and-operated model, a significant portion of operating costs, including rent, is fixed. Accordingly, a decrease in revenues could result in a disproportionately larger decrease in earnings because the operating costs and expenses are unlikely to decrease proportionately. For example, the period during both the New Year and Chinese Spring Festival holidays generally accounts for a smaller portion of our annual hotel revenues than the other periods, but the expenses do not vary in proportion to changes in occupancy rates and revenues. Major construction work near our hotels or restaurants may also have a negative impact on their business operations. We need to continue to pay rent and salaries, make regular repairs, perform maintenance and renovations and invest in other capital improvements for our leased-and-operated hotels and restaurants throughout the year to maintain their attractiveness. Therefore, the costs and expenses of our leased-and-operated hotels and restaurants may remain constant or increase even if their revenues decline. The operations of our leased-and-operated restaurants located in shopping malls depend on foot traffic in the mall; if there are fewer people in the shopping mall, the restaurant's operations will be adversely affected. The operation of each leased-and-operated hotel goes through the stages of development, ramp-up and mature operation. Our involvement in the development of such properties presents a number of risks, including construction delays or cost overruns, which may result in increased project costs or forgone revenue. During the development stage, significant pre-opening expenses will be incurred, and at the ramp-up stage, which is usually six months, when the occupancy rate increases gradually, revenues generated by these hotels may be insufficient to cover their operating costs, which are relatively fixed in nature. As a result, most newly opened leased-and-operated hotels may not achieve profitability until they reach mature operations. We also may be unable to recover development costs we incur for projects that are not completed. Any expansion of our leased-and-operated hotel portfolio would incur significant pre-opening expenses during the development stage and relatively low revenues during the ramp-up stage of such newly opened leased-and-operated hotels, of which expenses may have a significant negative impact on our results of operations. Properties that we develop could become less attractive due to market saturation, oversupply or changes in market demand, with the result that we may not be able to recover development costs as we expect, or at all.

We also may acquire or develop owned-and-operated hotels and restaurants on a limited, case-by-case basis to seize unusually attractive business opportunities. Any such owned-and-operated hotels and restaurants will be subject to risks similar to those of our leased-and-operated hotels and restaurants. Such owned-and-operated hotels and restaurants will also be subject to depreciation in the value paid by us for the underlying hotel or restaurant property, which usually is influenced by macroeconomic and local political and economic factors.

In certain circumstances, we have needed to liquidate certain of our PRC subsidiaries and branches which previously operated leased-and-operated hotels and restaurants, upon the completion of conversion or closure of hotels or restaurants. In liquidating such subsidiaries and branches, we need to complete various deregistration procedures, which may be time-consuming and therefore we cannot assure you that such subsidiaries and branches can be deregistered in a timely manner. In the future, we may need to liquidate more subsidiaries and branches which have ceased to operate leased-and-operated hotels and restaurants.

***The legal rights of our franchisees and us to use certain leased properties could be challenged by property owners or other third parties, which could prevent our franchisees or us from operating the affected hotels and restaurants or increase the costs associated with operating these hotels and restaurants.***

For most of our franchised-and-managed hotels and restaurants and all but 3 of our leased-and-operated hotels and restaurants, we and our franchisees do not hold property ownership with respect to the premises under which those hotels and restaurants are operated. Instead, we and our franchisees rely on leases or contracted management arrangements with third parties who either own the properties or lease the properties from the ultimate property owner. As of December 31, 2024, 26 of the ultimate owners of the properties of our leased-and-operated hotels or restaurants failed to provide us with the relevant title certificates. As to these 26 ultimate owners, if they have not obtained and provided such title certificates because the relevant properties were constructed by such ultimate owners without having obtained or in violation of a construction project planning permit, our of such properties may be challenged or even invalidated by a government authority or relevant dispute resolution institution. Meanwhile, the property title certificates for the premises on which approximately half of our leased-and-managed hotels or restaurants are located have a different designated use from the actual usage of those properties, and our lease of such properties may be challenged by relevant government authorities and subject us to cessation of operations or fines in an amount of up to RMB30,000 for each property or approximately RMB480,000 in aggregate. If the property owners' title and the legal rights of our franchisees and us to the leases of such properties are successfully challenged by a government authority or dispute resolution institution as mentioned above, the development or operations of our hotels and restaurants on such properties could be adversely affected.

In addition, we and our franchisees are subject to the risks of potential disputes with property owners or our immediate lessors and to forced closure of hotels and restaurants by the government. Such disputes and forced closures, whether resolved in the favor of our franchisees and us, may divert management attention of our franchisees and us, harm our reputation or otherwise disrupt and adversely affect our business.

Where immediate lessors are not the ultimate owners of hotel or restaurant properties operated by our franchisees and us, in some instances, no consent was obtained from the owners to sublease the hotel or restaurant properties to our franchisees or us. A property owner's failure to duly obtain the title to the property or a sub-lessor's failure to receive any necessary approvals from the ultimate owner or the primary leaseholder, as applicable, could potentially invalidate the underlying lease or result in the renegotiation of such lease which may lead to less favorable terms. Some of the properties we or our franchisees lease from third parties were subject to mortgages at the time the leases were signed. In such circumstances and where consent to the lease was not obtained from the mortgage holder, the lease may not be binding on the transferee of the property if the mortgage holders foreclose on the mortgage and transfer the property, which could in turn materially and adversely affect the ability of our franchisees and us to operate the hotel or restaurant facility located on such property. In the past, although our operations have not been disrupted simply due to the lack of title certificates or consent from the owners, such events could occur in the future.

We also sublease the property parts we do not use to third parties and in some instances where we have closed or converted our leased-and-operated hotels and restaurants, we may also need to sublease the whole properties we leased for such hotels and restaurants to third parties to save costs if our landlords do not agree to early terminate our lease. In some instances, no written consent was obtained from our landlords to sublease such property parts or the whole property to third parties. Our failure to receive any necessary approvals from our landlords could potentially invalidate the underlying lease or result in our default under such subleases, which may in turn affect our business. In addition, if our sub-lessees are not able to pay us rent in a timely manner or at all, we are obligated to pay the rent to our landlords on our own account. If we fail to pay such rent, we may be required by our landlords to terminate the sublease arrangements and compensate their losses, if any, which may adversely affect our result of operations and our financial condition.

*The leases of our franchisees and us could be terminated early, we and our franchisees may not be able to renew the existing leases on commercially reasonable terms and the rents paid by us or our franchisees could increase substantially, which could materially and adversely affect our operations.*

The terms of leases for our franchised-and-managed hotels and restaurants and leased-and-operated hotels and restaurants typically provide, among other things, that the lease could be terminated under certain legal or factual conditions. If any such lease were terminated early, operations of the related hotel or restaurant property may be interrupted or discontinued and costs may be incurred by us or our franchisees to relocate to another location. Furthermore, we may be liable to our lessors, guests, franchisees and other vendors and may be required to pay losses and damages due to our default under relevant contracts. As a result, our business, results of operations and financial condition could be materially and adversely affected.

Although we intend to coordinate with our franchisees to renew existing leases of our franchised-and-managed hotels and restaurants, and to renew existing leases of certain of our leased-and-operated hotels and restaurants, there can be no assurance that we and our franchisees will be able to renew such leases and maintain current hotel and restaurant operations on satisfactory terms, or at all. In particular, we and our franchisees may experience increased rent payments and increased operating cost in connection with renegotiating leases; this is especially true for our restaurants, whose lease terms are generally shorter in duration than those for our hotels, their leases need to be renegotiated more often, and their leases may be terminated early. If we and our franchisees fail to maintain current hotel and restaurant operations on satisfactory terms upon expiration of the leases, the respective operating costs of our company and our franchisees may increase, the ability of our franchisees to pay their franchise fees may decline, and overall profits generated from hotel and restaurant operations may decrease. If we and our franchisees are unable to pass on increased costs to our guests through room rate increases, the operating margins and earnings of our company and our franchisees could decrease and our results of operations could be materially and adversely affected.

*If we are unable to compete successfully, our business, financial condition and results of operations may be harmed.*

The hospitality and restaurant industries in China are highly competitive. Competition in the industry is primarily based on convenience of location, geographic coverage, service quality, room rates, quality of accommodation, brand name recognition, range of services and guest amenities. We compete primarily with branded chain hotels and restaurants as well as regional and local hotels and restaurants. As for hotels, we also compete with four- and five-star hotels, as we offer rooms with standards comparable to many of those hotels while maintaining competitive pricing. Furthermore, we compete with other hotels for guests in each market segment in which we operate, as our typical business and leisure traveler guests may change their travel, spending and consumption patterns and choose to stay in hotels in different markets. New and existing competitors may offer competitive rates, greater convenience, services or amenities or superior facilities, which could attract guests away from our hotels, resulting in a decrease in occupancy and average daily rates for our hotels. In addition, competition among franchised hotels is intense in attracting potential franchisees and retaining existing franchisees. We believe that hotel operators choose hospitality franchisors based on primarily the value and quality of a franchisor's brand, reputation and service and the extent to which affiliation with that franchisor may increase the franchisee's hotel occupancy rates and profitability. Any of these factors may have an adverse effect on our competitive position, results of operations and financial condition. As for restaurants, our high-end restaurants offer comprehensive menus of food and beverage items at competitive and affordable prices. We compete with independent and street-side restaurants, providing a comfortable dining environment with faster service, and more hygienic ingredients. We must continuously adapt our restaurants to their local market environments and the tastes of local customers, and regularly update dishes accordingly. New and existing competitors may offer more competitive or affordable prices, new dishes, better services, and more spacious dining environments to attract our guests, thus adversely affecting our restaurants' average daily tickets and average checks. We also need to compete with other restaurant chain businesses in China for franchisees. If our restaurant brands, reputation, profitability and ingredient prices are not sufficiently attractive, we may be unable to attract potential franchisees and retain existing franchisees.

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

Our growth strategy includes expanding through franchised-and-managed hotels and restaurants by entering into franchise agreements with our franchisees. We believe that our ability to attract new franchisees and compete for franchise agreements with them depends primarily on our brand recognition and reputation, the results of our overall operations in general and the success of our current franchised-and-managed hotels and restaurants. Other competitive factors for franchise agreements include marketing support, membership program, efficiency of our central reservation system, our ability to provide systems and support to assist franchisees to operate their hotels and restaurants cost-effectively. The terms of any new franchise agreements that we obtain also depend on the terms that our competitors offer for those agreements. In addition, if the availability of suitable locations for new properties decreases, or governmental planning or other local regulations change, the supply of suitable properties for additional franchised-and-managed hotels and restaurants could diminish. If the performance of our franchised-and-managed hotels and restaurants is less successful than that of our competitors' hotels and restaurants or if we are unable to offer terms as favorable as those offered by our competitors, we may not be able to compete effectively for new franchise agreements and we may not be able to attract as many new franchisees as we expect. As a result, we may not be able to achieve our planned growth and our business and results of operations may be materially and adversely affected.

*We may terminate our leases early for certain reasons and any failure by us to terminate a lease for cause may subject us to payment of liquidated damages.*

Our leases typically allow us to terminate the lease early under limited circumstances, and in some instances, our leases contain a term which requires us to pay the contingent rent for our wrongful early termination of such agreements. In the past, we have early terminated some leases of hotel and restaurant properties and closed our leased-and-operated hotels and restaurants underlying such leased properties, and disputes arose between us and our landlords whereby we were demanded to pay the contingent rents and liquidated damages. If such disputes occur in the future, and are resolved in favor of our landlords, we may need to pay losses and damages to the landlords and as a result, our business, results of operations and financial condition could be materially and adversely affected.

*Our growth depends on our ability to increase revenues generated by our existing hotels and restaurants.*

While sales growth will depend in part on our plans for new hotel and restaurant openings, deeper penetration into existing and new geographic markets and increased sales at our existing hotels and restaurants will also affect our sales growth and will continue to be critical factors affecting our revenue and profit. Our ability to increase the revenues generated by our hotels and restaurants depends in part on our ability to successfully implement our growth strategy and related initiatives. Our ability to penetrate further into the existing geographic markets where we already have a presence depends in part on our ability to successfully market ourselves and to maintain and increase sales to our existing members, including individual members and corporate members and attract more members to our membership program. We may not be able to achieve our targeted sales growth at our existing hotels and restaurants, and sales at existing hotels and restaurants could decrease. In addition, we may not be able to achieve our targeted level of expansion within existing and new geographic markets. The occurrence of any of such events may have a material adverse effect on our business, financial condition and results of operations.

*Our growth depends on our ability to grow the number of hotels and restaurants in operation.*

Our growth depends on our ability to open and profitably operate new hotels under both franchised-and-managed model and leased-and-operated model. In 2022, 2023 and 2024, we opened 287, 414 and 403 new franchised-and-managed hotels, respectively. In 2022, 2023 and 2024, we opened 29, 8 and 2 new leased-and-operated hotels, respectively. For the catering part, in 2024, we opened 39 new franchised-and-managed restaurants. In 2024, we closed 24 leased-and-operated restaurants for strategic purpose. We plan to increase the number of our hotels and restaurants in the future. We may not be successful in identifying and leasing or franchising additional hotel and restaurants properties at desirable locations and on commercially reasonable terms or at all. In more developed cities, it may be difficult to increase the number of hotels and restaurants because we or our competitors may already have operations in such cities. In less developed cities, demand for our hotels and restaurants may not increase as rapidly as we expect. We also may incur substantial costs in connection with evaluating hotel and restaurant properties and negotiating with property owners, including ones that we are subsequently unable to lease or franchise.

The growth in the number of hotels and restaurants is subject to numerous risks, many of which are beyond our control. Among other risks, the following factors affect our ability to open and operate additional hotels and restaurants profitably and achieve growth in the number of our hotels and restaurants:

- the availability and cost of suitable hotel and restaurant locations;
- the availability and cost of capital to fund construction or conversion;
- cost-effective and timely construction of hotels and restaurants (which construction can be delayed due to, among other reasons, labor and materials availability, labor disputes, local zoning and licensing matters, and weather conditions);
- the ability of our company and our franchisees to secure required governmental permits;
- the availability of qualified hotel and restaurant management staff and other personnel;
- our ability to enhance our reservation, operational and service delivery systems to support additional franchisees in a timely and cost-effective manner;
- our ability to effectively and efficiently implement our development plan;
- our ability to introduce our brands into new markets, any failure of which may adversely impact potential property owners' or franchisees' acceptance of and confidence in us; and
- our ability to attract new qualified franchisees and to retain existing franchisees.

*We may not be able to manage our expected growth, which could adversely affect our results of operations.*

We have experienced substantial growth since our inception. We have increased the number of our total hotels in operation in China from eight as of December 31, 2005 to 4,425 as of December 31, 2024, and completed our acquisition of Da Niang Dumplings and Bellagio, two leading restaurant chain businesses in China, in 2023. We intend to focus on developing additional franchised-and-managed hotels and restaurants in different geographic locations in China and internationally, as well as growing through mergers, acquisitions and strategic alliances. This expansion has placed, and will continue to place, substantial demands on our managerial, operational, technological, financial and other resources. There can be no assurance that we will be able to effectively manage our growth. If our growth initiatives fail, and if we fail to integrate new alliances, merged entities or acquired targets into our network, our businesses and prospects may be materially and adversely affected.

Our planned expansion will also require us to maintain the consistency of our brands and the quality of our services to ensure that our brands do not suffer as a result of any deviations, whether actual or perceived. In order to manage and support our growth, we must improve our existing operational, administrative and technological systems and our financial and management controls, and recruit, train and retain qualified hotel and restaurant managerial personnel as well as other administrative and sales and marketing personnel, particularly as we expand into new markets.

We cannot assure you that we will be able to effectively and efficiently manage the growth of our operations, recruit and retain qualified personnel and integrate new franchised-and-managed hotels and restaurants into our operations, whether they are organically developed or strategically acquired. Any failure to effectively and efficiently manage our expansion may materially and adversely affect our ability to capitalize on new business opportunities, which in turn may have a material adverse effect on our business, financial condition and results of operations.

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

If we are presented with appropriate opportunities, we may acquire or invest in businesses or assets. For example, in 2018, we acquired the majority of the equity interests in several hotel operating entities. In 2019, we acquired several properties for strategic development purpose. In 2020, we acquired all the hotel assets from a hotel management company located in Guangxi, and thereafter opened one leased-and-operated hotel under “GreenTree Eastern” brand. In 2021, we have acquired some hotels in some cities where we had limited number of leased-and-operated hotels or we did not have any leased and operated hotels. In 2022, we opened eight leased and operated hotels, all located near transportation hubs, central business districts, or government centers in Shanghai, Chongqing, Hangzhou, Taiyuan, Haikou and Karamay. In 2023, we completed our acquisition of Da Niang Dumplings and Bellagio, two leading restaurant chain businesses in China. ***Company 2024 and recent transactions***

The existing and future acquisitions or investments may expose us to potential risks, including risks associated with unforeseen or hidden liabilities, risks that acquired or invested companies will not achieve anticipated performance levels, diversion of management attention and resources from our existing business, difficulty in integrating the acquired businesses with our existing operational infrastructure, and inability to generate sufficient revenues to offset the costs and expenses of acquisitions or investments. For example, in January 2019, we became a major shareholder of Argyle Hotel Management Group (Australia) Pty Ltd., or Argyle, via an acquisition transaction. The sellers, including Argyle and its founder, Mr. Kevin Zhang, failed to achieve the performance targets committed by them and since the middle of 2022 we have been in dispute with the sellers as to fulfillment of the committed performance targets and/or compliance with local laws and regulations, which disputes ultimately resulted in our deconsolidating Argyle from our financial statements starting from June 2022. Such disputes have diverted the attention of our management, caused us to incur expenses and will further cause losses to us. In addition, in March 2021, we entered into a letter of intent with Shanghai Hongyuan Shengshi Investment Development Co., Ltd, or Hongyuan Shengshi, to purchase two properties from Hongyuan Shengshi and we paid to Hongyuan Shengshi an earnest fee of RMB200 million. In December 2022, Hongyuan Shengshi went bankrupt, as a result of which, we will not be able to reclaim the earnest fee in full or at all. As of December 31, 2022, Hongyuan Shengshi has returned a total of RMB22.4 million to us. Company if any recent status

Furthermore, we have made loans to third parties including our franchisees, and other entities with which we have a business relationship or strategic cooperation. Although our loans to such third parties are generally secured by collateral or a guarantee, some of these third parties may not repay us, we may not be able to recover the loaned amounts of principal and any interest due, and we may thereby incur losses which could have a material adverse effect on our financial condition and results of operations.

***Our expansion into new markets may present increased risks.***

We plan to open new hotels and restaurants in markets in China as well as internationally where we have little or no operating experience. Those markets may have different regulatory requirements, competitive conditions, consumer preferences and discretionary spending patterns as compared to our existing markets. As a result, any new hotels and restaurants we open in those markets may be less successful than hotels and restaurants in our existing markets. Guests and franchisees in any new market may not be familiar with our brands and we may need more time to build brand awareness in that market through greater investments in advertising and promotional activities than we anticipated. We may find it more difficult in new markets to hire, motivate and keep qualified employees who share our vision, passion and culture. Hotels and restaurants operated in new markets also may have lower average sales or higher operating costs than hotels and restaurants in existing markets. Sales at hotels and restaurants operated in new markets may take longer than expected to ramp up and reach expected sales and profit levels, and may never do so, thereby affecting our overall profitability.

***Our financial condition and results of operations may be materially affected if our strategy to diversify our brand portfolio and mix of hospitality offerings is not successfully implemented.***

We intend to diversify our brand portfolio and mix of hospitality offerings with existing brands, including GreenTree Eastern, Gem, Gya, Vx, Geli, Deep Sleep, Greentree Inns, GT Alliance, Vatica and Shell to cover market segments from economy to business and mid-to-up-scale.

In addition, the strategy to diversify our mix of hospitality offerings may increase the cash needs of our operations and may distract our management's attention and energy. If such strategies are not successful, our business, financial condition and results of operations may be materially and adversely affected.

***If we fail to maintain our relationships with our individual members and corporate members, our business and growth prospects could be materially and adversely affected.***

Historically, we have derived a portion of our revenues from our individual members and from our cooperation arrangements with certain corporate members such as banks, airlines and other large companies. In 2022, 2023 and 2024, we sold approximately 84.1% of our room nights through our direct sales channels. We expect that these individual members and corporate members will contribute to the growth of our business in the near future.

We cannot assure you that our individual members will remain loyal patrons of our hotels and that our corporate members will agree to renew the relevant cooperation agreements upon their expiration, or enter into new agreements with us on substantially similar terms. Our negotiating position with corporate members also is limited, given the competition in China's hospitality industry. If we fail to enhance or maintain our relationships with our individual members, and the frequency of member stays at our hotels declines as a result, or if our corporate members decline to renew their cooperation agreements or propose new agreements with commercial terms less favorable to us, our business and growth prospects could be materially and adversely affected.

***If our franchisees are unable to maintain the condition and appearance of our hotels and restaurants, their business operations may decline.***

In order to maintain the condition and appearance of hotels and restaurants in our network, our hotels and restaurants require ongoing renovations and other leasehold improvements, including periodic replacement of broken or used furniture, fixtures and equipment. Such investments and expenditures require ongoing funding and, to the extent our franchisees cannot fund these expenditures from existing cash or cash flow generated from operations, our franchisees must borrow or raise capital through financing. Our franchisees may not be able to access capital and our franchisees may be unwilling to spend available capital when necessary, even if required by the terms of our franchise agreements. If our franchisees continue to operate hotels and restaurants while they are under refurbishment or improvement, there may be instances where refurbishment or improvements would seriously disrupt the business operations of the relevant hotels and restaurants and adversely affect their revenues. If our franchisees do not make needed leasehold investments and improvements, our hotels and restaurants could become less attractive to our potential guests, we could lose market share to our competitors and their business operations may decline. Moreover, disruptions and other risks associated with renovation and improvements could have an adverse effect on our business, financial condition and results of operations.

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

Our continued success in maintaining and enhancing our brand portfolio and image depends, to a large extent, on the ability of our franchisees and us to satisfy customer needs by maintaining consistently high-quality services across our network of hotels and restaurants, as well as their and our ability to respond to competitive pressures. If we and our franchisees are unable to do so, our business operations may decline. Our business may also be adversely affected if our brands, public image or reputation were to be diminished by the operations of any of our hotels and restaurants, whether due to our franchisees failing to operate hotels and restaurants according to our requirements, unsatisfactory service, accidents or otherwise. Our brand portfolio is integral to our sales and marketing efforts. In addition, the trademark "GreenTree Inn" in the U.S. was registered by a company owned by Mr. Alex S. Xu, our chairman and chief executive officer and currently used by a chain of 17 hotels in the U.S. owned by a company majority owned by Mr. Alex S. Xu. We cannot exert control over any of these hotels in the United States. If these hotels experience any quality issues or are involved in any incidents, despite the fact that our current operations are primarily in China, our reputation can be negatively affected, and the value and image of our brands can diminish. If the value of our brand image is diminished or if our brands do not continue to be attractive to guests and franchisees, our business and results of operations may be materially and adversely affected.

***Our results of operations may fluctuate significantly due to seasonality and other factors.***

The hospitality and restaurant industry is subject to fluctuations in revenues due to seasonality. The seasonality of our business may cause fluctuations in our quarterly operating results. Generally, the first quarter, in which both the New Year and Spring Festival holidays fall, accounts for a lower percentage of our annual revenues than other quarters of the year for the hospitality industry. Summer is the peak season for both hotels and restaurants. Furthermore, our overall results of operations may fluctuate significantly from period to period because of several factors, including the timing of new hotel openings, revenue loss associated with the temporary closure of existing hotels or restaurants for refurbishment, and any losses incurred by our franchisees or us due to hotel or restaurant closures. As a result, our results of operations may fluctuate significantly from period to period and comparison of different periods, or even the same periods during different years, may not be meaningful. Our results for a given fiscal period are not necessarily indicative of results to be expected for any other fiscal period.

***Substantial defaults or delays in payment by our franchisees and corporate customers or the deterioration of the financial condition of our franchisees or corporate members may have an adverse effect on our cash flows, working capital, financial condition and results of operations.***

Our accounts receivable mainly consist of amounts due from our franchisees and corporate members whose employees are guests in our leased-and-operated hotels and restaurants. Our corporate members may choose to settle with us directly, and we typically require our franchisees to pay various fees pursuant to their franchise agreements with us on a monthly or annual basis. Our franchisees and corporate members may delay their payments beyond the time periods set forth in our agreed credit arrangements. Furthermore, in order to accelerate our expansion, we used our surplus cash to finance the opening of new franchised-and-managed hotels by franchisees who have a proven track record with us. There can be no assurance that our franchisees will always repay us timely once we begin the financing plan. Our liquidity and cash flows from operations may be adversely affected if our accounts receivable cycles or collection periods lengthen or if we encounter a material increase in defaults of payment of our accounts receivable or repayment of the amounts we have lent to our franchisees.

Our operating results are affected by the ability of our franchisees to pay our franchise management fees. An extended period of poor business operations, which may be the result of a variety of factors such as unfavorable economic conditions in China and globally, may adversely affect the operating results and financial condition of our franchisees. These negative operating conditions could result in the financial failure of our franchisees and result in the delayed payment of franchise management fees or other revenues derived from our franchised-and-managed hotels and restaurants or the termination of their franchise agreements. As a result, our business, prospects and results of operations may be adversely affected.

***Failure to retain our senior management could harm our business.***

We place substantial reliance on the hospitality, restaurant and other consumer-service industry experience and the institutional knowledge of members of our senior management team. Mr. Alex S. Xu, our founder, chairman and chief executive officer, is particularly important to our future success due to his substantial experience in the property development, hospitality and other consumer service industries. The loss of the services of one or more of these members of our senior management team due to their departure or otherwise could hinder our ability to effectively manage our business and implement our growth strategies. Finding suitable replacements for Mr. Alex S. Xu or other members of our senior management team could be difficult, and competition for such personnel of similar experience is intense. If we lose their services, our business may be adversely affected.

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

Our managerial and other employees manage our hotels and restaurants and interact with our guests on a daily basis. They are critical to maintaining the quality and consistency of our services as well as our established brand and reputation. It is important for our franchisees and us to attract qualified managerial and other employees who have experience in hospitality, restaurant or other consumer-service industries and are committed to high levels of service. There may be a limited supply of such qualified individuals in the cities in China where we and our franchisees have operations or where we intend to expand. In addition, it is difficult to ascertain and evaluate intangible criteria of candidates, and whether they will share our vision, dedication, passion and culture, during the recruitment process. We and our franchisees must hire and train qualified managerial and other employees on a timely basis to keep pace with our rapid growth while maintaining consistently high-quality services across our hotels and restaurants in various geographic locations. Regular training needs to be provided to our managerial and other employees so that they are equipped with up-to-date knowledge of various aspects of our hotel and restaurant operations and can meet our demand for quality services. We and our franchisees also need to offer opportunities for development and career advancement in order to retain qualified managerial and other hotel and restaurant staff. If we or our franchisees fail to do so, the quality of our services may decrease in one or more of the markets where the hotels and restaurants in our network are located, which in turn, may have a material and adverse effect on our brand and our business.

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

Our ability to provide consistent quality services throughout our network of hotels and restaurants depends on the operation of our proprietary information and operational systems, including our central reservation, management, data analysis and inter-department support systems. Any damage to or failure of our systems could interrupt our service. Our systems are vulnerable to damage or interruption as a result of power loss, telecommunications failures, computer viruses, fires, floods, earthquakes, interruptions in access to our toll-free numbers, hacking or other attempts to harm our systems, and similar events. Our servers, which are maintained in Shanghai, may also be vulnerable to break-ins, sabotage and vandalism. Some of our systems are not fully backed up, and our disaster recovery planning does not account for all possible scenarios. In addition, our systems and technologies may become outdated and we may not be able to replace or introduce upgraded systems as quickly as our competitors or within budgeted costs for such upgrades. If we experience frequent or persistent system failures, our quality of services and our reputation could be harmed. The steps we need to take to increase the reliability and safety of our systems may be costly, which could reduce our operating margins, and may not be successful in reducing the frequency or duration of system failures and service interruptions.

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

Our business involves collecting and retaining a large volume of internal and customer data, including credit card numbers and other personal information as our various information technology systems enter, process, summarize and report such data. We also maintain information about various aspects of our operations as well as our employees. The integrity and protection of our customer, employee and company data are critical to our business. Our customers and employees expect that we will adequately protect their personal information. We are required by applicable laws to keep strictly confidential the personal information that we collect, and to take adequate security measures to safeguard such information. Our security measures and those of our third-party service providers may not be adequate for the protection of our customers, employees or company data.

In addition, computer hackers, foreign governments or cyber terrorists may attempt to penetrate our network security and our website. Unauthorized access to our proprietary internal and customer data may be obtained through break-ins, sabotage, breach of our secure network by an unauthorized party, computer viruses, computer denial-of-service attacks, employee theft or misuse, breach of the security of the networks of our third-party service providers, or other misconduct. Because the techniques used by computer programmers who may attempt to penetrate and sabotage our proprietary internal and customer data change frequently and may not be recognized until launched against a target, we may be unable to anticipate these techniques. Unauthorized access to our proprietary internal and customer data may also be obtained through inadequate use of security controls. The laws and regulations applicable to security and privacy are becoming increasingly important in China. The theft, loss, fraudulent or unlawful use of customer, employee or company data could harm our reputation or result in remedial and other costs, liabilities, fines or lawsuits.

The Regulation (EU) 2016/679 of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC, known as the general data protection regulation, or GDPR, has imposed certain requirements on the processing of personal data relating to natural persons. GDPR requirements will apply both to companies established in the EU and to companies, such as us, that are not established in the EU but process personal data of individuals who are in the EU (and in the European Economic Area subject to the enactment of implementation procedures), where the processing activities relate to: (a) the offering of goods or services, irrespective of whether a payment of the data subject is required, to such data subjects in the EU; or (b) the monitoring of their behavior as far as their behavior takes place within the EU. Compliance with the GDPR will be a rigorous and time-intensive process that may increase our cost of doing business, and the failure to comply with the GDPR could expose us to sanctions from both a financial and business operations perspective. In addition, in case of control, noncompliance with the GDPR may expose us to damage to our reputation.

On February 1, 2013, China's initial personal data protection guidelines, the Guidelines for Personal Information Protection in Information Security Technology Public and Commercial Service Systems, became effective, which guidelines set forth detailed requirements as to the protection of personal information and data collection, data processing, data transfer and data creation. Although these guidelines are voluntary and non-binding, we are advised by our PRC counsel that, going forward, further regulatory oversight of data privacy in China is expected. In addition, Amendment 7 to the PRC Criminal Law prohibits institutions, companies and their employees in the telecommunications and other industries from selling or otherwise illegally disclosing a PRC citizen's personal information obtained during the course of performing their duties or providing services, or obtaining such information through theft or other illegal means. On November 7, 2016, the Standing Committee of the PRC National People's Congress issued the Cybersecurity Law of the PRC, which became effective on June 1, 2017. On August 20, 2021, the Standing Committee of the PRC National People's Congress issued the Personal Information Protection Law of the PRC, which became effective on November 11, 2021. Pursuant to such law, providers of network products and services shall maintain the security of their products and services and shall comply with provisions regarding the protection of personal information as stipulated under relevant laws and regulations. Moreover, the Provisions on Protection of Personal Information of Telecommunication and Internet Users specifically regulates the collection, use, disclosure and security of personal information. Complying with these PRC laws and regulations may cause us to incur substantial costs or require us to change our business practices.

On September 24, 2024, the State Council of the PRC promulgated the Regulations on Network Data Security Management, which took effect on January 1, 2025. According to which, network data processors shall strengthen data security protection based on the cybersecurity multi-level protection system, comply with legal and administrative regulations as well as mandatory national standards, establish and improve network data security management systems, adopt technical measures to safeguard network data, and prevent illegal and criminal activities targeting or exploiting network data. The above-mentioned regulations also stipulate the requirements for data processing activities conducted through networks, including but not limited to: (i) formulating rules for processing personal information, requiring centralized disclosure of processing purposes, methods, and scope in a clear and accessible manner; (ii) general obligations for handling personal information, such as obtaining separate consent for sensitive data (e.g., biometrics, medical records) and parental consent for minors under 14 years old; and (iii) compliance with enhanced obligations for large-scale processors: Network data processors handling personal information of over 10 million individuals must comply with requirements applicable to important data processors under Articles 30 and 32 of such regulations. These include: (x) designating a dedicated data security officer and establishing a data security management department responsible for risk monitoring, incident response, and compliance audits; (y) conducting annual security risk assessments and submitting reports to provincial-level authorities; and (z) implementing security background checks for key personnel and ensuring technical safeguards such as encryption and access controls.

While we take various measures to comply with all applicable data privacy and protection laws and regulations of the PRC, our current security measures and those of our third-party service providers may not be adequate for the protection of our customers, employees or company data. In addition, hackers, foreign governments or cyber terrorists may attempt to penetrate our network security and our website. Unauthorized access to our proprietary internal and customer data may be obtained through break-ins, sabotage, breach of our secure network by an unauthorized party, computer viruses, computer denial-of-service attacks, employee theft or misuse, breach of the secure networks of our third-party service providers, or other misconduct. Because the techniques used in any attempt to penetrate and sabotage our proprietary internal and customer data change frequently and may not be recognized until launched against us, we may be unable to anticipate or protect against these techniques. Unauthorized access to our proprietary internal and customer data may also be obtained through inadequate security measures. Laws and regulations in China relating to security and privacy are becoming increasingly important. Any theft, loss, fraudulent, unlawful use or disclosure of customer, employee or company data could harm our reputation and result in remedial and other costs, liabilities, fines or lawsuits.

***Any failure to protect our trademarks and other intellectual property rights could negatively impact our business.***

Our brand, trade name, trademarks and other intellectual property are critical to our success. The success of our business depends in part upon our continued ability to use our brands, trade names and trademarks to increase brand awareness and to further develop our brands. As of December 31, 2024, we had a total of 732 trademarks, 63 software registration certificates, and 3 copyright registered in China. The expiration dates of our trademarks fall between 2025 and 2034. Once the ten-year term of our registered trademarks has expired, we will be able to renew our trademark registrations for another ten years upon paying a renewal fee. If we are unable to renew one or more trademark registrations, our ability to use such trademarks could be impaired, and our business and results of operations could be materially and adversely affected.

Furthermore, the unauthorized reproduction or infringement of our trade name or trademarks or other intellectual property could diminish the value of our brand and its market acceptance, competitive advantage or goodwill. For example, our proprietary operational IT system, which has not been patented, copyrighted or otherwise registered as our intellectual property, is a key component of our competitive advantage and our growth strategy. As of December 31, 2024, we have received and maintained 63 software registration certificates for certain of our proprietary information and operational systems including our Central Reservation System (CRS), Property Management System (PMS) and certain other quality control systems. Although we have been granted software registration certificates in respect of some of our proprietary information and operational systems, these systems could be infringed upon by third parties, which may adversely affect our business, financial condition and results of operations. Because the protection of a company's intellectual property provided under PRC laws and regulations is less than that afforded under United States laws and regulations, the measures we take to protect our brands, trade names, trademarks and other intellectual property rights may not be adequate to prevent their unauthorized use by third parties. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving, and could involve substantial risks to us. If we are unable to adequately protect our brands, trade names, trademarks and other intellectual property rights, we may lose these rights and our business may suffer materially. For example, in order to protect our brands, in the past we have filed lawsuits against certain hotel operators which had alleged to be our franchised-and-managed hotels but have not entered into any agreements with us.

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

***Our restaurants face risks related to instances of food-borne illnesses and other food safety accidents.***

The restaurant business is susceptible to food-borne illnesses and other food safety accidents. We cannot assure you that our internal controls and training will be fully effective in preventing all food-borne illnesses. Furthermore, our reliance on third-party food suppliers and distributors increases the risk that food-borne illness incidents could be caused by third-party food suppliers and distributors outside of our control and the risk of multiple locations being affected rather than a single restaurant. New illnesses resistant to any precautions may develop in the future, or diseases with long incubation periods could arise that could give rise to claims or allegations on a retroactive basis. Reports in the media of instances of food-borne illnesses could, if highly publicized, negatively impact restaurant sales, forcing the closure of some restaurants and affect our customers' confidence in our hotel business. Furthermore, other illnesses, such as hand, foot and mouth disease or avian influenza, could adversely affect the supply of some of the restaurants' food products and significantly increase such restaurants' costs, which may also adversely affect the results of operations of the relevant restaurants.

***Accidents or injuries in our hotels and restaurants may adversely affect our reputation and subject us to liability.***

There are inherent risks of accidents or injuries in hotels and restaurants. One or more accidents or injuries such as fire accident, slip and fall and accident during property renovation at any of our hotels and restaurants could adversely affect our safety reputation among guests and potential guests, decrease our business operations and increase our costs by requiring us to take additional measures to make our safety precautions even more visible and effective. If accidents or injuries occur at any of our hotels or restaurants, we may be held liable for costs related to the injuries. Our property and liability insurance policies may not provide adequate coverage and we may be unable to renew our insurance policies or obtain new insurance policies without increases in cost or decreases in coverage levels.

In addition, if any incidents, particularly fire accidents, occur in any of the leased-and-operated hotels and restaurants that do not possess the relevant licenses, permits, title certificate or fire safety inspection certificate, or is located on properties where the actual use and the designated land or property use are inconsistent, there could be substantial negative publicity, thereby triggering large-scale government actions that impact our entire network of hotels and restaurants, which in turn will have a material adverse impact on our business, results of operations and financial condition.

***We are subject to risks related to litigation filed by or against us, and adverse litigation results may harm our business and financial condition.***

We have been, and may in the future be, a party to litigation and other proceedings filed by or against us, including actions relating to, among others, property lease, franchise agreements with our franchisees, infringement of our brands, employment-related disputes, personal injury, property damage or other harm resulting from acts or omissions by individuals or entities outside of our control, including franchisees and third-party property owners. Various disputes in connection with the properties we lease or with the franchise agreements may occur from time to time, which may cause our hotel or restaurant operations to be affected or in the worst-case scenario, to be ceased. For example, as of December 31, 2024, we mainly had 6 pending legal proceedings in connection with the leased hotel properties, and pending legal proceedings in connection with franchised-and-managed hotels. Additionally, in the legal proceedings we are involved in, the plaintiffs may apply for asset freezing orders against us. As of December 31, 2024, our funds in several accounts of our hotels had been frozen, with the total frozen amount being approximately RMB 12.4 million. As of December 31, 2024, our funds in several accounts of our restaurants had been frozen, with the total frozen amount being approximately RMB500,000. Furthermore, the research and examinations that we conduct on both the hotel or restaurant properties and the potential franchisees before entering into franchise agreements, may not be sufficient for us to identify all relevant information. As a result, we may be in dispute with our franchisees, which may result in litigation filed by or against us. See “Our Business — Legal Proceedings.”

The outcome of legal proceedings is uncertain. We cannot predict with certainty the cost of defense, the cost of prosecution or the ultimate outcome of thereof, including remedies or damage awards, and adverse results in such litigation and other proceedings may disrupt our business, materially and adversely affect our reputation, results of operations, financial condition and prospects. Moreover, if any claims against us were to prevail, we would be subject to monetary or other liabilities, which could strain our financial resources, consume the time and attention of our management and otherwise have an adverse effect on our business, financial condition and results of operations.

***Our lessors' failure to comply with lease registration and other compliance requirements under PRC law may subject these lessors or us to fines or other penalties that may negatively affect our ability to operate our hotels and restaurants.***

As an operator and manager of our leased hotel and restaurant properties, we are subject to a number of land- and property-related legal requirements. For instance, under PRC law, all lease agreements are required to be registered with the local land and real estate administration bureau. Our standard lease agreement generally requires the lessor to make such registrations. However, as of December 31, 2024, because our lessors failed or were reluctant to provide necessary documents for us to register the leases, 70 lessors of our leased-and-operated hotels and restaurants had not obtained registrations of their leases from the relevant authorities as required despite our repeated requests to these lessors to obtain registrations, as required under our lease agreements with them. In addition, based on the specific land use right certificates and property ownership certificates held by some of our lessors of the leased-and-operated hotels and restaurants, approximately half of the hotel properties we own or lease and operate are restricted to industrial and other uses, rather than qualified for hotel or restaurant operational use. The failure of these 70 lessors to register lease agreements as required by law or to ensure that the hotel or restaurant properties are operated in compliance with their designated use may subject these lessors or us to fines or other penalties in the amount of up to RMB10,000 for each hotel or restaurant property or approximately RMB620,000 in aggregate, which may negatively affect our ability to operate the hotels and restaurants covered under those leases.

Moreover, the failure to use the property in compliance with the intended usage designated by the land use right certificates or the property ownership certificates may subject the lessors or us to fines in the amount of up to RMB30,000 for each property, invalidate the lease agreements, confiscation of relevant gains or subject them or us to temporary suspension or termination of operations.

***We are subject to various claims and disputes in the ordinary course of business, and increases in the amount or severity of these claims and disputes could adversely affect us.***

We are exposed to various claims and disputes related to commercial operations, personal injury, property damage, labor disputes and other matters in the ordinary course of our business. Developments in regulatory, legislative or judicial standards, material changes to dispute resolution trends, or a catastrophic accident or series of accidents, including accidents that affect our franchisees or vendors, involving any or all of commercial operations, property damage, personal injury, and labor disputes could have a material adverse effect on our operating results, financial condition and reputation.

For example, during the past three years, approximately 15.9% of our room nights were booked through OTAs to whom we pay agency fees for such services. If we were to have a dispute with an OTA, the volume of our room inventory booked through such OTA may decline, or the OTA may block reservations of our rooms or remove our hotels from their website entirely, pending resolution of the dispute. As a result, our business and results of operations may be adversely affected.

In addition, our franchisees may suspend or terminate their cooperation with us voluntarily or involuntarily due to various reasons, including disagreement or dispute with us, failure to maintain requisite approvals, licenses or permits or to comply with other governmental regulations, and events beyond our or their control, such as inclement weather, natural disasters, transportation interruptions or labor unrest or shortage. For example, franchisees of our brand may object to or decline to pay franchise fees charged by us. Due to intense competition in China's hospitality and restaurant industries, our existing franchisees may also discontinue their cooperation with us and work with our competitors instead. We may not be able to promptly replace our franchisees on a timely and cost-effective basis, or at all. As a result of any disruptions associated with our franchisees, our guest satisfaction, brands, reputation, operations and financial performance may be materially and adversely affected.

***We may encounter disputes from time to time relating to our use of intellectual property of third parties.***

We may encounter disputes from time to time over rights and obligations concerning intellectual property, and we may not prevail in those disputes. We cannot assure you that personnel in our leased-and-operated hotels will not use intellectual property of third parties without proper authorization. We may incur liability for such unauthorized or infringing use, and be subject to additional claims in the future. Any such claim of infringement or unauthorized use of intellectual property could result in costly litigations and divert the attention and resources of our management.

***The growth of online and other hotel reservation intermediaries and travel consolidators may adversely affect our margins and profitability.***

In 2022, 2023 and 2024, approximately 15.9% of our room nights were booked through OTAs to whom we pay commissions for such services. If these intermediaries and consolidators become the primary channel through which our guests make their bookings, they may be able to negotiate higher commissions, reduced room rates, or other significant concessions from us. The operations of these travel intermediaries and consolidators may adversely affect our ability to control the supply and price of our room inventory, which would in turn adversely affect our margins and profitability.

***We are a "controlled company" within the meaning of the NYSE Listed Company Manual.***

GTI beneficially owns 84.8% of our Class A ordinary shares, 100% of our Class B ordinary shares and 94.1% of the aggregate voting power of our total issued and outstanding share capital. The voting power of our company owned by GTI is indirectly owned by Mr. Alex S. Xu, our founder, chairman and chief executive officer, as he owns 84.5% of voting power of GTI, which entitles Mr. Alex S. Xu to nominate or replace all directors of GTI, and determine how GTI exercises the voting power in our company. As long as GTI or Mr. Alex S. Xu owns at least 50% of the voting power of our company, we will be a "controlled company" as defined under the NYSE Listed Company Manual. For so long as we remain a controlled company under that definition, we are permitted to elect to rely on certain exemptions from corporate governance rules, including an exemption from the rule that a majority of our board of directors must be independent directors, although we have no current intention to rely on the controlled company exemption. As a result, you may not have the same protection afforded to shareholders of companies that are subject to these corporate governance requirements.

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

Our financial and operating performance may be adversely affected by epidemics, natural disasters and other catastrophes, particularly in locations where we operate a large number of hotels and restaurants. China has in the past experienced significant natural disasters, including earthquakes in Western and Southwestern China, extreme weather conditions, as well as health scares related to epidemic diseases, and any similar event that could materially impact our business in the future. If a disaster or other disruption were to occur in the future that affects the regions where we have or are developing franchised-and-managed or leased-and-operated hotels and restaurants, our operations could be materially and adversely affected due to loss of personnel and damages to property. Even if we are not directly affected, such a disaster or disruption could affect our guests, which could harm our results of operations.

In addition, our business could be affected by public health epidemics, such as the outbreak of avian influenza, severe acute respiratory syndrome, or SARS, Zika virus, Ebola virus, COVID-19 or other diseases. If any of our employees is suspected of having contracted a contagious disease, we may be required to apply quarantines or suspend our operations. Furthermore, any future outbreak may restrict economic activities in affected regions, resulting in reduced business volume, temporary closure or quarantine of hotels in operation or otherwise disrupt our operations and adversely affect our results of operations.

Losses caused by epidemics, natural disasters and other catastrophes, including SARS, H1N1, H7N9 influenza, COVID-19, earthquakes or floods, are either uninsurable or too expensive to justify insuring against in China. In the event an uninsured loss or a loss in excess of insured limits occurs, we could lose all or a portion of the capital we have invested in a hotel or restaurant, as well as the anticipated future revenue from the hotel or restaurant. In that event, we might nevertheless remain obligated for any financial obligations related to the hotel or restaurant. Similarly, war (including the potential of war), terrorist activities (including the threat of terrorist activities), social unrest and heightened travel security measures, as well as geopolitical uncertainty and international conflict may affect travel and may in turn affect our business, financial conditions, and results of operations. If our franchised-and-managed hotels and restaurants are affected by these incidents, we might lose our revenue stream from those hotels and restaurants. In addition, we may not be adequately prepared in contingency planning or recovery capability in relation to a major incident or crisis, and as a result, our operational continuity may be adversely affected and our reputation may be harmed.

***We have limited insurance coverage.***

We carry property insurance that covers the assets that we own at our leased-and-operated hotels and restaurants, but such property insurance does not cover the buildings or any other assets owned by our lessors or the assets of the franchised-and-managed hotels and restaurants. Although we generally require our lessors and our franchisees to purchase customary insurance policies, we cannot guarantee that they will adhere to such requirements. We do not have business disruption insurance coverage for our operations to cover losses that may be caused by natural disasters or catastrophic events, such as SARS or avian flu. Any business disruption or natural disaster may result in our incurring substantial costs and diversion of our resources. In addition, there are inherent risks of accidents or injuries in hotels and restaurants. One or more accidents or injuries at any of our hotels and restaurants could adversely affect our safety reputation among customers and potential customers, decrease their business operations and increase our costs by requiring us to take additional measures to make our safety precautions even more visible and effective. In the future, we may be unable to renew our insurance policies or obtain new insurance policies without increases in cost or decreases in coverage levels. We may also encounter disputes with insurance providers regarding payments of claims that we believe are covered under our policies. If we were held liable for amounts and claims exceeding the limits of our insurance coverage or outside the scope of our insurance coverage, our reputation, our business, results of operations and financial condition may be materially and adversely affected.

***We may require additional financing for our business, which may not be available on terms acceptable to us, or at all, or would increase our financial leverage and may be difficult to service.***

We may require additional financial resources to support our growth, future development and any investments, including mergers or acquisitions that we may pursue. The amount and timing of such additional financing needs will vary depending on the timing of our new hotel and restaurant openings, investments in converting new leased-and-operated hotels and restaurants and searching and developing relationships with potential franchisees and the amount of cash flow from our operations. If our internal resources are insufficient to satisfy our financing requirements, we may seek additional financing by selling additional equity or debt securities or obtaining a credit facility. The sale of additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that may, among other things, potentially restrict our operations or our ability to pay dividends. Servicing such debt obligations could also be burdensome to our operations. If we fail to service our debt obligations or are unable to comply with the relevant debt covenants, we could be in default under the relevant debt obligations and our liquidity and financial conditions may be materially and adversely affected.

Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors' perception of, and demand for, securities of businesses in the PRC hospitality and restaurant industries;
- conditions of the U.S. and other capital markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows;
- PRC governmental regulation of foreign investment in the hospitality and restaurant industries in China;
- economic, political and other conditions in China; and
- PRC governmental policies relating to foreign currency borrowings.

We cannot assure you that future financing will be available in amounts or on terms acceptable to us, if at all. If we fail to raise additional funds, we may need to sell debt or additional equity securities, reduce our growth to a level that can be supported by our cash flow or defer planned expenditures.

*We will continue to recognize a substantial amount of share-based compensation expenses, which will have a significant impact on our financial condition and liquidity position.*

We adopted our 2018 share incentive plan in January 2018, pursuant to which we may grant options to purchase up to 9,000,000 of our Class A ordinary shares. Options granted to our employees generally vest either ratably over the following four years starting after the first/second/third anniversary of date of our initial public offering in the U.S., or 50% on the date of our initial public offering in U.S. and another 50% on December 31, 2019, as applicable; options granted to our directors vested 100% on the first anniversary of the date of our initial public offering in the U.S. As of December 31, 2024, we had outstanding options with respect to 940,500 Class A ordinary shares that have been granted to our employees, directors and consultants under the 2018 share incentive plan. As a result of our grants of awards under the 2018 Plan, we incurred share-based compensation expenses of RMB 0.06 million in 2022, RMB 0.06 million in 2023 and nil in 2024. We are required to account for share options granted to our employees, directors and consultants in accordance with Codification of Accounting Standards, or ASC 718, "Compensation — Stock Compensation" and ASC 505-50, "Equity, Equity-Based Payments to Non-Employees." We will continue to incur and recognize additional share-based compensation expenses in the future as we continue to grant share-based incentives. We believe such incentives are necessary for us to be able to attract and retain key personnel and employees, and we will continue to grant share-based compensation to employees in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our financial condition and liquidity position.

*A material weakness in our internal control over financial reporting was previously identified. If we fail to maintain an effective system of internal controls over financial reporting, we may not be able to accurately report our financial results, meet our reporting obligations or prevent fraud.*

We are required to assess the effectiveness of our disclosure controls and procedures and internal control over financial reporting. Our independent registered public accounting firm has not conducted an audit of our internal control over financial reporting. As defined in standards established by the United States Public Company Accounting Oversight Board, or the PCAOB, a "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. In connection with the audit of our consolidated financial statements for the year ended December 31, 2021, we and our independent registered public accounting firm identified a material weakness in accordance with the standards established by the PCAOB, which relates to our material weakness in controls over the completeness of the bad debt provision for our franchisee loans receivable. We implemented certain measures to improve our internal control over financial reporting to address the material weakness that was previously identified. See "Item 15. Controls and Procedures—Internal Control over Financial Reporting" in our annual report on Form 20-F for the fiscal year ended December 31, 2022, filed with the SEC on April 28, 2023.

We are a public company in the United States subject to the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, requires that we include a report of management on our internal control over financial reporting in our annual report on Form 20-F. In addition, as we have ceased to be an “emerging growth company” as such term is defined in the JOBS Act, our independent registered public accounting firm generally must attest to and report on the effectiveness of our internal control over financial reporting. Our independent registered public accounting firm did not undertake a comprehensive assessment of our internal control for purposes of identifying and reporting material weaknesses in our internal control over financial reporting because our company is a non-accelerated filer. In the future our management may again conclude that our internal control over financial reporting is not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. In addition, after we became a public company, our reporting obligations have placed and continue to place a significant strain on our management, operational and financial resources and systems for the foreseeable future. We may be unable to timely complete our evaluation testing and any required remediation. In addition, we may not be able to timely file our periodic reports as a public company under U.S. securities laws, which could limit the amount of information that investors receive about our company in the future and adversely affect the price of our ADSs, our business and our reputation.

In the future in documenting and testing our internal control procedures, in order to satisfy the requirements of Section 404, we may identify new material weaknesses in our internal control over financial reporting. In addition, if we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may identify new material weaknesses in our internal control over financial reporting. If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations, and lead to a decline in the trading price of our ADSs.

Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions. We may also be required to restate our financial statements from prior periods.

***Going forward we expect to generate a significant portion of our revenues from the restaurant business, which involves risks and uncertainties.***

In March 2023, we completed our acquisition of Da Niang Dumplings and Bellagio, two leading restaurant chain businesses in China, from GTL, our controlling shareholder. See “Item 4. Information on the Company—A. History and Development of the Company—Acquisition of Da Niang Dumplings and Bellagio.” Going forward, we expect to generate a significant portion of our revenues from the restaurant business, which involves risks and uncertainties that differ from our hotel business. Risks and uncertainties related to the restaurant business operated by Da Niang Dumplings and Bellagio include, but are not limited to, the following:

- if the quality of our dining experience declines, our restaurants may not continue to be successful;
- we may fail to maintain or enhance recognition and reputation of our brands;
- we may not be able to maintain and increase the sales and profitability of our existing restaurants;
- if we cannot obtain desirable restaurant locations or secure renewal of existing leases on commercially reasonable terms, our business, results of operations and financial condition will be adversely affected;
- food safety and foodborne illness concerns may have an adverse effect on our reputation and business;
- any significant failure to maintain effective quality assurance systems for our restaurants could have a material adverse effect on our business, reputation, results of operations and financial conditions;

- any significant liability claims, food contamination complaints from our customers or reports of incidents of food tampering could adversely affect our business, reputation, results of operations and financial condition;
- increases in the cost of ingredients used in our restaurants may lead to declines in our margins and operating results; and
- we rely on third parties for supplies and services and any shortage or interruption in supply could slow our growth and reduce our profitability.

#### **Risks Related to Our ADSs**

##### *The market price for our ADSs may be volatile.*

The market price for our ADSs may be highly volatile and subject to wide fluctuations in response to factors including the following:

- negative media reports and coverage regarding us or other companies in the hospitality and restaurant industries;
- regulatory developments in our target markets affecting us, our customers or our competitors;
- announcements of studies and reports relating to the quality of our solutions or those of our competitors;
- actual or anticipated fluctuations in our quarterly results of operations and changes or revisions of our expected results;
- changes in financial estimates by securities research analysts;
- conditions in the travel, hospitality and restaurant industries;
- changes in the economic performance or market valuations of other hospitality or restaurant companies;
- announcements by us or our competitors of new brands, acquisitions, strategic relationships, joint ventures or capital commitments;
- addition or departure of our senior management;
- fluctuations of exchange rates between the RMB and U.S. dollar;
- potential litigation or administrative investigations;
- release or expiry of lock-up or other transfer restrictions on our outstanding ADSs or ordinary shares;
- sales or perceived potential sales of additional ordinary shares or ADSs; and
- general economic or political conditions in China.

In addition, the securities market from time to time experiences significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our ADSs.

***We may not pay further dividends to our public shareholders, so you should rely on price appreciation of our ADSs for return on your investment.***

In January 2019, our board of directors declared a cash dividend of US\$0.30 per ordinary share, or US\$0.30 per ADS, and we paid such dividend in full in February 2019. In January 2019, we also announced plans to pay a cash dividend of US\$0.20 per ordinary share per year in the near future if there is no immediate cash need for our growth or merger and acquisition opportunities. However, our board of directors has discretion as to whether to distribute any future dividends, subject to certain requirements of Cayman Islands law. In December 2019, we declared a cash dividend of US\$0.25 per ordinary share, or US\$0.25 per ADS. Holders of our ordinary shares and ADSs as of the close of trading on December 24, 2019 were entitled to such cash dividend, and we paid such dividend in full in January 2020. In December 2021, we declared a cash dividend of US\$0.55 per ordinary share, or US\$0.55 per ADS. Holders of our ordinary shares and ADSs as of the close of trading on December 31, 2021 were entitled to such cash dividend, and we paid such dividend in full in January 2022. In August 2024, we declared a cash dividend of US\$0.10 per ordinary share, or US\$0.10 per ADS. Holders of our ordinary shares and ADSs as of the close of trading on September 30, 2024 were entitled to such cash dividend, and we paid such dividend in full in October 2024. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, may depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our ADSs will likely depend entirely upon any future price appreciation of our ADSs. There is no guarantee that our ADSs will appreciate in value or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs.

***Substantial future sales of our ADSs, or other equity or equity-linked securities in the public market, or the perception that these sales could occur, could cause the price of our ADSs to decline.***

Additional sales of our ADSs, or other equity or equity-linked securities in the public market after our initial public offering, or the perception that these sales could occur, could cause the market price of our ADSs to decline. As of December 31, 2024, we had 101,524,491 ordinary shares outstanding including 34,762,909 Class B ordinary shares and 66,761,582 Class A ordinary shares, of which 10,172,282 Class A ordinary shares are represented by ADSs. All Class A ordinary shares represented by ADSs are freely transferable without restriction or additional registration under the Securities Act. The 34,762,909 Class B ordinary shares and 56,589,300 Class A ordinary shares held by our existing shareholders are available for sale, subject to volume and other restrictions as applicable under Rule 144 and 701 under the Securities Act.

***Our corporate actions are substantially controlled by our officers, directors and principal shareholders.***

Our executive officers and directors beneficially own approximately 90% of our outstanding shares. These shareholders could exert substantial influence over matters requiring approval by our shareholders, including electing directors and approving mergers or other business combination transactions. The concentration of our share ownership may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs. These actions may be taken even if they are opposed by our other shareholders, including holders of our ADSs.

***As a foreign private issuer, we are permitted to adopt certain practices of our home country, the Cayman Islands, in relation to corporate governance matters that differ significantly from the New York Stock Exchange corporate governance listing standards; these practices afford less protection to shareholders than they would enjoy if we complied fully with the New York Stock Exchange corporate governance listing standards.***

Our ADSs are listed on the New York Stock Exchange. The New York Stock Exchange Listed Company Rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the New York Stock Exchange corporate governance listing standards.

For instance, we are not required to: (i) have a majority of the board be independent; (ii) have a compensation committee or a nomination or corporate governance committee consisting entirely of independent directors; (iii) have regularly scheduled executive sessions with only independent directors each year; or (iv) have a minimum of three members on our audit committee. We intend to rely on some or all of these exemptions. As a result, you may not be provided with the benefits of certain corporate governance requirements of the New York Stock Exchange.

***As a foreign private issuer in the U.S., we are exempt from certain disclosure requirements under the Exchange Act, which may afford less protection to holders of our ADSs than they would enjoy if we were a domestic U.S. company.***

As a foreign private issuer in the U.S., we are exempt from, among other things, the rules prescribing the furnishing and content of proxy statements under the Exchange Act and the rules relating to selective disclosure of material nonpublic information under Regulation FD under the Exchange Act. In addition, our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit and recovery provisions contained in Section 16 of the Exchange Act. In addition to annual reports with audited financial statements, such domestic U.S. companies are required to file quarterly reports with the SEC that include interim financial statements reviewed by an independent registered public accounting firm and certified by the company's principal executive and financial officers. By contrast, as a foreign private issuer, we are not required under the Exchange Act to file such reports with the SEC or to provide quarterly certifications by our principal executive and financial officers. As a result, holders of our ADSs may be afforded less protection than they would under the Exchange Act rules applicable to domestic U.S. companies.

***You may not have the same voting rights as the holders of our ordinary shares and may not receive voting materials in time to be able to exercise your right to direct how the ordinary shares underlying your ADSs are voted.***

Except as described in this annual report and in the deposit agreement, holders of our ADSs will not be able to exercise voting rights attaching to the shares evidenced by our ADSs on an individual basis. Holders of our ADSs will appoint the depository or its nominee as their representative to exercise the voting rights attaching to the shares represented by the ADSs. You may not receive voting materials in time to instruct the depository to vote, and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to direct how the ordinary shares underlying your ADSs are voted.

If we ask for your instructions and upon timely notice from us, the depository will notify you of the upcoming vote and arrange to deliver our voting materials to you, which contain, among other things, a statement as to the manner in which your voting instructions may be given, including an express indication that such instructions may be given or deemed given to the depository to give a discretionary proxy to a person designated by us if no instructions are received by the depository from you on or before the response date established by the depository. However, no voting instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter if we inform the depository we do not wish such proxy given, substantial opposition exists or the matter materially and adversely affects the rights of holders of the ordinary shares.

Voting at any meeting of our shareholders will be by poll.

***You may not be able to participate in any future rights offerings which may cause dilution to your holdings and you may not receive cash dividends if it is impractical to make them available to you.***

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register both the rights and securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Under the deposit agreement for the ADSs, the depository will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act, or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. In addition, we may not be able to establish a necessary exemption from registration under the Securities Act. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings as a result.

GTI intends to register and distribute to each of its shareholders not more than 60% of the number of our shares that represented the percentage of such shareholder's ownership in GTI as of March 29, 2018, the closing date of our initial public offering. As a condition to receive our shares, GTI's shareholders were required to enter into lock-up agreements on all of our shares which they own, and the number of our shares subject to such lock-up agreements was reduced by 25% at the end of each six month period following March 26, 2018, the date of our initial public offering prospectus.

The depository of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depository may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depository may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depository may decide not to distribute such property to you.

***You may be subject to limitations on transfer of your ADSs.***

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

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

We are incorporated in the Cayman Islands, and conduct substantially all of our operations in China through our wholly-owned entities. Most of our directors and substantially all of our executive officers reside outside the United States and a substantial portion of their assets are located outside of the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the Cayman Islands or in China in the event that you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind in a U.S. court, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and executive officers. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will, at common law, recognize and enforce a foreign money judgment of a foreign court of competent jurisdiction without any reexamination of the merits of the underlying dispute on the principle that a judgment of a competent court imposes upon the judgment debtor an obligation to pay the liquidated sum for which such judgment has been given, provided such judgment (1) is given by a foreign court of competent jurisdiction, (2) imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been given, (3) is final and conclusive, (4) is not in respect of taxes, a fine or penalty, (5) is not inconsistent with a Cayman Islands judgment in respect of the same matter, and (6) is not impeachable on the grounds of fraud and was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands. However, the Cayman Islands courts are unlikely to enforce a judgment obtained from the United States courts under the civil liability provisions of the securities laws if such judgment is determined by the courts of the Cayman Islands to give rise to obligations to make payments that are penal or punitive in nature. A Cayman Islands court may stay enforcement proceedings if concurrent proceedings are being brought elsewhere.

Our corporate affairs are governed by our memorandum and articles of association, as amended and restated from time to time, and by the Cayman Companies Act (As Revised) and as well as common law of the Cayman Islands. The rights of shareholders to take legal action against us and our directors, actions by minority shareholders and the fiduciary duties of our directors are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which provides persuasive, but not binding, authority in a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States and provides significantly less protection to investors. In addition, shareholders in Cayman Islands companies may not have standing to initiate a shareholder derivative action in U.S. federal courts.

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

***The ability of the SEC, the U.S. Department of Justice, or the DOJ, and other U.S. authorities to bring enforcement actions against us for any violation of U.S. federal securities laws, SEC rules or regulations may be limited in the foreign jurisdictions where we operate.***

The ability of U.S. authorities, such as the SEC and the DOJ, to bring enforcement actions against companies such as ours which operate overseas for any violation of U.S. federal securities laws, SEC rules or regulations may be limited in China, where we operate. Due to jurisdictional limitations, matters of comity and various other factors, the SEC, the DOJ and other U.S. authorities may be limited in their ability to pursue bad actors, including in instances of fraud, in emerging markets such as China. There are significant legal and other obstacles for U.S. authorities to obtain information needed for investigations or litigation against us or our directors, executive officers or other gatekeepers in case we or any of these individuals engage in fraud or other wrongdoing. In addition, local authorities in China may be constrained in their ability to assist U.S. authorities and overseas investors more generally. For example, certain provisions of PRC law prohibit entities and individuals in China from providing documents or information relating to securities business activities to overseas regulators without the approval of the CSRC and various other PRC government authorities. See “Item 3. Key Information — D. Risk Factors— Risks Related to Doing Business in China — Uncertainties with respect to the Chinese legal system could adversely affect us.” As a result, if we have any material disclosure violation or if our directors, executive officers or other gatekeepers commit any fraud or other financial misconduct, the U.S. authorities may not be able to conduct effective investigations or bring and enforce actions against us, our directors, executive officers or other gatekeepers. Therefore, you may not be able to enjoy the same protection provided by various U.S. authorities as it is provided to investors in U.S. domestic companies.

***Our management has considerable discretion as to the use of the net proceeds from our initial public offering.***

Our management has considerable discretion in the application of the net proceeds received by us from our initial public offering. You do not have the opportunity to assess whether proceeds are being used appropriately. You must rely on the judgment of our management regarding the application of the net proceeds of our initial public offering. The net proceeds may be used for corporate purposes that do not improve our efforts to maintain profitability or increase our ADS price. The net proceeds from our initial public offering may be placed in investments, such as short-term investments, that do not produce income or that lose value.

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

Our amended and restated memorandum and articles of association contain provisions which could limit the ability of others to acquire control of our company, including a provision that grants authority to our board directors to establish from time to time one or more series of preferred shares without action by our shareholders and to determine, with respect to any series of preferred shares, the terms and rights of that series. The provisions could deprive our shareholders of the opportunity to sell their shares at a premium over the prevailing market price by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transactions.

***We may become a passive foreign investment company, or PFIC, which could result in adverse U.S. tax consequences to U.S. investors.***

The determination of whether or not we are a PFIC is made on an annual basis and will depend on the nature and composition of our income and assets from time to time. Specifically, for any taxable year, we will be classified as a PFIC for U.S. federal income tax purposes if either (i) 75% or more of our gross income in that taxable year is passive income or (ii) the average percentage of our assets (which includes cash) in that taxable year which produce, or are held for the production of, passive income is at least 50%.

Based on the nature and composition of our income and assets, and the valuation of our assets, including goodwill, we do not believe we were a PFIC for our 2024 taxable year. There is a risk, however, that we may become a PFIC in the current or any future taxable year due to changes in our asset or income composition or in the value of our assets. In particular, the calculation of the value of our assets will be based, in part, on the quarterly market value of our ADSs, which is subject to change and has been volatile. Any decrease in the market value of our ADSs may result in our becoming a PFIC.

If we are a PFIC for any taxable year during which you hold our ADSs or Class A ordinary shares, our PFIC status could result in adverse U.S. federal income tax consequences to you if you are a U.S. Holder, as defined under “Item 10. Additional Information — E. Taxation — Material U.S. Federal Income Tax Considerations.” For example, if we are or become a PFIC, you may become subject to increased tax liabilities under U.S. federal income tax laws and regulations, and will become subject to burdensome reporting requirements. See “Item 10. Additional Information — E. Taxation — Material U.S. Federal Income Tax Considerations — Passive Foreign Investment Company.” There can be no assurance that we will not be a PFIC for our current or any future taxable year.

***Our dual-class ordinary share structure with different voting rights could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.***

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to three (3) votes per share on all matters subject to vote at general meetings of the Company. Our existing shareholder GTI holds 56,589,300 Class A ordinary shares and all 34,762,909 Class B ordinary shares. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, and Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Due to the disparate voting rights attached to shares in these two classes, GTI owns approximately 94.1% of the total voting power of our issued and outstanding ordinary shares. Mr. Alex S. Xu, our founder, chairman and chief executive officer, by virtue of this 84.5% voting power of GTI, which entitles Mr. Alex S. Xu to nominate or replace all directors of GTI, and determine how GTI exercises the voting power in our company, is considered to beneficially own the shares held by GTI. As a result, Mr. Alex S. Xu has significant voting rights over matters requiring shareholders’ approval, including the election and removal of directors and certain corporate transactions, such as mergers, consolidations and other business combinations. This concentrated control could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class A ordinary shares and ADSs may view as beneficial ***Company***.

***Holders of ADSs have fewer rights than shareholders and must act through the depositary to exercise their rights.***

Holders of our ADSs do not have the same rights as our registered shareholders. As a holder of our ADSs, you will not have any direct right to attend general meetings of our shareholders or to cast any votes at such meetings. You will only be able to exercise the voting rights which attach to the underlying Class A ordinary shares represented by your ADSs indirectly by giving voting instructions to the depositary in accordance with the provisions of the deposit agreement. Upon receipt of your voting instructions in a timely manner, the depositary will vote or attempt to vote the underlying Class A ordinary shares represented by your ADSs in accordance with these instructions. You will not be able to directly exercise your right to vote with respect to the underlying Class A ordinary shares represented by your ADSs unless you withdraw such shares and become the registered holder of such shares prior to the record date for the general meeting. Under our amended and restated memorandum and articles of association, the minimum notice period required to be given by our company to our registered shareholders to convene a general meeting will be ten calendar days. When a general meeting is convened, you may not receive sufficient notice of the meeting to enable you to withdraw the underlying Class A ordinary shares represented by your ADSs and become the registered holder of such shares to allow you to attend the general meeting or to cast your vote directly with respect to any specific matter or resolution to be considered and voted upon at the general meeting. In addition, under our amended and restated memorandum and articles of association, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members and/or fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent you from withdrawing the underlying Class A ordinary shares represented by your ADSs and becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the general meeting or to vote directly.

Under the deposit agreement, if we request the depositary to act at a general meeting, we will give the depositary notice of the meeting at least 30 business days in advance of the meeting in order to give you a reasonable opportunity to instruct the depositary as to the exercise of voting rights relating to underlying Class A ordinary shares represented by your ADSs. However, the depositary and its agents may not be able to send voting instructions to you or carry out your voting instructions in a timely manner. Where any matter is to be put to a vote at a general meeting, we will make all reasonable efforts to cause the depositary to notify you of the upcoming vote and to deliver our voting materials to you in a timely manner, but we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the underlying Class A ordinary shares represented by your ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to direct how the underlying Class A ordinary shares represented by your ADSs are voted and you may lack recourse if the underlying Class A ordinary shares represented by your ADSs are not voted as you request. In addition, in your capacity as an ADS holder, you will not be able to call a shareholders’ meeting.

## ITEM 4. INFORMATION ON THE COMPANY

### A. History and Development of the Company

We are a Cayman Islands holding company and conduct our operations in China through our PRC subsidiaries. GreenTree Inns Hotel Management Group, Inc., a company incorporated in Samoa, or GreenTree Samoa, was formed to be a holding company and currently holds most of the PRC Subsidiaries that operate our hotels in the PRC. GreenTree Samoa also owns 100% of the equity interest in Pacific Hotel Investment, Inc. and GreenTree Suites Management Corp., each of which owns 100% of the equity interest in the other two of our PRC subsidiaries.

We began our hotel business in the PRC in September 2004 through GreenTree Inns Hotel (Weihai) Management Group Inc., or GreenTree Weihai, which was incorporated on November 14, 2003 and 100% owned by American Pacific Homes Inc., a company wholly owned by Mr. Alex S. Xu, our founder, chairman and chief executive officer. In September 2010, GreenTree Weihai was merged into GreenTree Samoa as a wholly-owned subsidiary of GreenTree Samoa. In October 2010, upon completion of a share exchange, GreenTree Samoa became a wholly-owned subsidiary of GreenTree Inns Hotel Management Group, Inc., or GTI, a company incorporated in the Cayman Islands.

GreenTree Hospitality Group Ltd., or GreenTree Hospitality, was incorporated in October 2017 as a wholly-owned subsidiary of GTI. In November 2017, GreenTree Hospitality issued 48,635,251 Class A ordinary shares and 42,716,957 Class B ordinary shares to GTI in exchange for the entire share capital of GreenTree Samoa then held by GTI. On March 11, 2018, we redesignated 7,954,048 of our Class B ordinary shares as Class A ordinary shares. As of December 31, 2024, 84.8% of our Class A ordinary shares and 100% of our Class B ordinary shares were owned by GTI, our parent company.

GTI intends to register and distribute to each of its shareholders not more than 60% of the number of our shares that represented the percentage of such shareholder's ownership in GTI as of March 29, 2018, the closing date of our initial public offering. As a condition to receiving our shares, GTI's shareholders were required to enter into lock-up agreements on all of our shares which they own, and the number of our shares subject to such lock-up agreements was reduced by 25% at the end of each six month period following March 26, 2018, the date of our initial public offering prospectus. Following the completion of our initial public offering and as long as GTI or Mr. Alex S. Xu owns at least 50% of the voting power of our company, we are a "controlled company" as defined under the NYSE Listed Company Manual. We have no current intention to rely on the controlled company exemption.

#### Acquisition of Da Niang Dumplings and Bellagio

In May 2022, we entered into a definitive agreement to acquire Da Niang Dumplings and Bellagio, two leading restaurant chain businesses in China, from GTI, our controlling shareholder. In March 2023, we closed and completed the acquisition of Da Niang Dumplings and Bellagio from GTI. GTI and its subsidiaries fully repaid all outstanding loan payables due to us and our subsidiaries through offset against the purchase price paid by us, on a consolidated basis. The final transaction was completed pursuant to the terms of the agreement, and Da Niang Dumplings and Bellagio have been transferred from GTI to us.

#### Principal Offices

Our principal executive offices are located at 1228 Zhongshan North Road, Putuo District, Shanghai 200065, People's Republic of China. Our telephone number at this address is +86-21-3617-4886. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. Our agent for service of process in the United States is Law Debenture Corporate Services Inc., located at 801 2nd Avenue, Suite 403, New York, New York 10017.

## B. Business Overview

### Hotel Business

We have the strong direct sales channels coupled with an established membership program. We achieved more than 95.0% of franchised-and-managed hotels in our hotel network as early as 2013, and currently operate with 98.8% of franchised-and-managed hotels in our network. Our pure play franchised model allows us to expand rapidly in an asset-light manner and have brought us substantial financial performance in terms of profitability, return on investments and success to our franchisees.

As of December 31, 2024, our nationwide hotel network consisted of 4,225 hotels with 321,282 rooms in China, covering all four centrally-administrated municipalities and 352 cities throughout all 31 provinces and autonomous regions in China, as well as an additional 1,214 hotels that were contracted for or under development. We operate one of the fastest growing hotel networks in China – from 2012 to 2024, we grew from 792 to 4,425 hotels at a CAGR of 14.2%. Rooted in China's hospitality market with the largest addressable market, we are well positioned as a market leader to capture the robust momentum in China's economic growth and growing consumer demand for value-for-money options. Our strong presence in China's thriving Tier 3 and lower cities also presents substantial expansion opportunities for a market leader like us to capture the growth opportunities in China's booming hospitality industry and further enhance our profitability.

Brands have paved the way for our continuous success. We have built a strong suite of well-recognized and diversified brands, each with unique attributes and strengths to appeal to different consumer segments and franchisee needs, enabling us to capture a wide spectrum of market opportunities. We started as an operator of mid-scale market brands – our first and flagship brand, GreenTree Inns, caters to the needs of value-conscious business travelers and leisure travelers. Over the past 19 years, GreenTree Inns has grown into a beloved Chinese household name that is synonymous with comfort, high quality and affordability. Through organic development and acquisitions, we have since successfully rolled out a number of brands in the business, mid-to-up-scale and economy to mid-scale market segments to capture the growth opportunities along the industry value chain. Today, our brand portfolio has grown to comprise more than 11 brands, including (i) mid-to-up-scale brands including GreenTree Eastern founded in 2012, Gem, Gya and Vx brands founded in 2017, Deep Sleep Hotel, which was adopted from one of our franchisees in 2018, (ii) mid brands including GreenTree Inns founded in 2004, GT Alliance founded in 2008, Vatica founded in 2013, GreenTree Apartment founded in 2018, Geli founded in 2021; and (iii) economy brands including Shell founded in 2016.

Over the years, we have successfully forged an all-win ecosystem for our franchisees, guests and employees through a highly effective and scalable franchise management system, a set of strong direct sales channels coupled with an established membership program and a suite of state-of-the-art technologies and tools optimizing hotel operations and enhancing guest experiences.

- A highly effective and scalable franchise management system, which empowers our franchisees and enables us to grow rapidly. This system effectively manages the full life cycle of a franchised hotel with a high degree of standardization, and ensures quality service to be consistently delivered to our guests. Through our franchise management system, we guide and hand-hold our franchisees every step of the process, starting from new project initiation and planning, site selection, decoration, procurement, hotel opening preparation, daily operation, quality inspection to hotel closure. Our strong and supportive franchise system enables our franchisees to generate highly attractive investment returns, which we believe is both a strong attraction for potential franchisees and a strong incentive for existing franchisees to open multiple hotels.
- Strong direct sales channels coupled with an established membership program. We have successfully built up a set of strong direct sales channels, and are able to sell a predominant proportion of our room night through our strong direct sales channels comprising our website, mobile apps, WeChat mini-program and reservation functions embedded in a number of popular apps. During the past three years, we sold approximately 84.1% of our room nights through our direct sales channels, while OTAs contributed approximately 15.9% of our room nights. We have also accumulated a vast base of loyal individual members and corporate members. Our loyal individual members increased with a CAGR of approximately 35.4% from approximately 1.8 million members as of December 31, 2010. As of December 31, 2024, we had approximately 2.2 million corporate members and 102.5 million individual members, who have registered with us and enjoy a range of different benefits, including discounts on room rates and priority in making hotel reservations. In 2022, 2023 and 2024, our corporate members and loyal members booked 75.2%, 72.0% and 72.0%, respectively, of room nights in our hotel network. Our strong direct sales channels, coupled with an established membership program, effectively deliver large volumes of guests with reduced sales and marketing expenses and enhance customer loyalty.

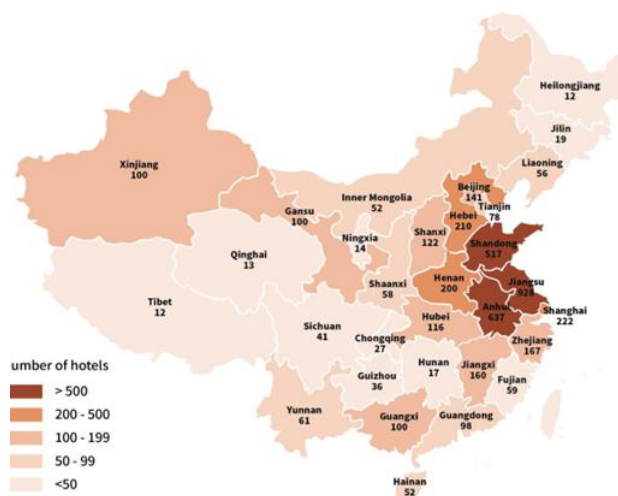
- A suite of state-of-the-art technologies and tools. We have developed an industry-leading, proprietary technology infrastructure that optimizes franchisee operations, enhances customer experience, increases our management efficiency, and supports our fast growth. We have developed a series of tools/technologies to improve the efficiency of our internal operations, to support franchisee/hotel level operations, and to improve guest satisfaction from booking until check-out.

**Our Hotel Network**

We provide guests at each of our different brands of hotels with conveniently-located, clean, comfortable and quality accommodations at competitive prices. We cater primarily to the needs of value- and quality-conscious business travelers and leisure travelers.

As of December 31, 2024, our overall hotel network consisted of 4,425 hotels with 321,282 rooms in operation covering 360 cities in China, and an additional 1,214 hotels with 84,282 rooms that were contracted for or under development. Out of those 1,214 hotels, 861 hotels were contracted for, and the remaining 353 hotels were under development.

The following map depicts the geographic coverage of our hotel network as of December 31, 2024.



We expand into a new city if it meets our selection criteria, especially potential for economic growth, geographic location and affordability of long-term rent. Firstly, as a result of one of our strategies to build a dense network of hotels in the most affluent regions in China with high growth potential, 44.2% of our hotels were located in the Greater Yangtze River Delta region, while 9.7% of our hotels were located in Beijing/Tianjin/Hebei province as of December 31, 2024. Within these regions, we select locations to achieve a balanced rental rate and RevPAR, thereby ensuring attractive returns for our franchisees. Secondly, we continuously penetrated into Tier 3 and lower cities to capture the robust growth and growing consumer demand. As of December 31, 2024, 409 of our 4,425 hotels were located in Tier 1 cities (9.2%), 933 in Tier 2 cities (21.1%) and 2,083 in other cities (69.7%). Furthermore, we will accelerate our expansion into the mid-scale to business and mid-to-up-scale markets in central China, southeast China and southwest China. We will put additional effort and build up flagship hotels in Tier 1 and Tier 2 cities with strategic positions around transportation hubs, central business districts, or government centers.

The following table sets forth a breakdown by geographic locations of our hotels as of December 31, 2024.

City	Franchised-and-managed Hotels	Leased-and-operated Hotels	Contracted for or under Development Franchised-and-managed Hotels	Contracted Leased-and-Operated Hotels	Total
Shanghai Municipality and 61 cities in Jiangsu, Zhejiang and Anhui Provinces	1,924	30	395	1	2,350
Beijing, Tianjin Municipalities and Hebei Province	427	2	108	—	537
Other cities	2,019	23	708	2	2,752
<b>Total</b>	<b>4,370</b>	<b>55</b>	<b>1,211</b>	<b>3</b>	<b>5,639</b>

The following table sets forth a breakdown of locations of our hotels by Tier 1, Tier 2, Tier 3 and lower cities as of December 31, 2024.

City	Franchised-and-managed Hotels	Leased-and-operated Hotels	Contracted for or under Development Franchised-and-managed Hotels	Contracted Leased-and-Operated Hotels	Total
Tier 1 cities	388	21	57	—	466
Tier 2 cities	912	21	270	1	1,204
Tier 3 and lower cities	3,070	13	884	2	3,969
<b>Total</b>	<b>4,370</b>	<b>55</b>	<b>1,211</b>	<b>3</b>	<b>5,639</b>

The following table sets forth a breakdown of the number of our hotels in operation by operational model as of December 31, 2024.

	Total Number of Hotels	Number of Hotels Opened for Over Six Months	Number of Hotels Opened for Less than Six Months	Average Number of Rooms per Hotel	Typical Lease/Franchise Term
<b>Franchised-and-managed hotels</b>					
GreenTree Eastern	247	211	36	99	10 – 20 years
Gem	100	66	34	34	10 – 20 years
Gya	71	66	5	82	10 – 20 years
Vx	99	84	15	84	10 – 20 years
Deep Sleep Hotel	5	4	1	72	10 – 20 years
GreenTree Inn	2,319	2,183	136	80	10 – 20 years
GT Alliance	503	449	54	74	10 – 20 years
GreenTree Apartment	23	19	4	63	10 – 20 years
Vatica	109	106	3	70	10 – 20 years
Shell	894	782	112	44	5 years
<b>Leased-and-operated hotels</b>					
GreenTree Eastern	14	13	1	146	10 – 20 years
Gem	5	5	—	108	10 – 20 years
Gya	3	3	—	106	10 – 20 years
Vx	6	5	1	125	10 – 20 years
Deep Sleep Hotel	3	3	—	83	10 – 20 years
GreenTree Inn	21	21	—	131	10 – 20 years
GT Alliance	2	2	—	80	10 – 20 years
GreenTree Apartment	1	1	—	107	10 – 20 years

**Franchised-and-managed hotels.** As of December 31, 2024, we had 4,370 franchised-and-managed hotels, accounting for 98.8% of all of our hotels in operation. For our franchised-and-managed hotels, we license our relevant brand to property owners, lessors or existing hotel operators who become our franchisees, and we give the franchisees the right to use our brand name, logo, operating manuals and procedures. We generate revenue from collecting an initial franchise fee and a percentage of revenue in each period without franchisees' loss. Hotels under the franchised-and-managed business model will be converted in accordance with our brand standard, including conforming the hotel property to the standard design and layout of the corresponding brand offering under our supervision, becoming integrated into our central reservation system and hotel management IT system, being staffed with well-trained general managers and other managerial personnel and being included in our consumable goods procurement system. This conversion progress ensures our ability to provide services of consistent quality to our hotel guests.

Our franchisees are responsible for the costs of developing and operating their hotels, including the costs of renovating the hotels to meet our standards. We believe that the franchised-and-managed model has enabled us to expand our geographical coverage and market share quickly and effectively with less capital and lower upfront investment. We leverage the local knowledge and relationships of our franchisees in order to achieve success, while dedicating resources to help them achieve good investment returns.

We aim to strengthen our leadership position and gain greater market share by attracting new franchisees while encouraging our existing franchisees to expand their hotel business under our brand and management.

**Franchise Agreements and Cost Structure.** Our franchise agreements typically carry terms of 10 to 20 years. Under our typical franchise agreements, the franchisee is required to pay an initial one-time franchise fee of RMB150,000 to RMB250,000, depending on the size of the property, a one-time system installation fee and a one-time project consultancy fee, and recurring monthly franchise management fees of 3% to 5% of total revenue, which primarily consist of ongoing management and service fees based on a certain percentage of room revenues, as well as system maintenance, reservation fees to use our central reservation system and other support fees, including marketing fees to cover expenses associated with marketing and media advertising. The initial fee and ongoing franchise management fee are intended to cover our operating expenses, such as expenses incurred for purposes of business development, quality assurance, administrative support and other franchise services and to provide us with operating profits. Pursuant to the typical franchise agreement, we are entitled to terminate the franchise under a number of circumstances, including: franchisee insolvency or bankruptcy; falsification of revenue by the franchisee; and unapproved transfer of the property by the franchisee. We may also terminate a franchise agreement where the franchisee fails to cure any of the following conditions within 30 days: failure to make necessary repairs; failure to maintain required insurance; operation of the hotel in violation of applicable laws and regulations; and failure to pass periodic inspections made by us. Franchisees generally have the right to terminate the franchise agreement in the event of our default in performing our obligations under the franchise agreement.

The fee and cost structure of our franchised-and-managed business model afford us opportunities to improve operating results by increasing the number of franchised-and-managed hotel rooms, improving RevPAR performance and increasing the effective franchise management fee rates of our franchise agreements. As a hotel franchisor, we derive our revenue primarily from the various franchise fees described above.

Our revenue stream depends on the number of rooms in our franchise, revenues generated by our franchisees and effective franchise management fee rates under our franchise agreements. We enjoy significant operating leverage by using smart IT systems and effective organizational management structures, since the variable operating costs associated with our franchise growth have historically been less than incremental franchise management fees generated from new franchisees.

**Leased-and-operated Hotels.** As of December 31, 2024, we had 55 leased-and-operated hotels, accounting for 1.2% of all of our hotels then in operation. For all but four of our leased-and-operated hotels, we lease properties from property owners or lessors and we are responsible for all costs of construction, ongoing maintenance and repairs in connection with converting the property to conform to the standards of our brands and all hotel operating expenses. Rent is generally paid on a quarterly or semiannual basis. Our typical lease term ranges from 10 to 20 years with an initial three- to six-month rent-free period. Upon a lease's expiry, we generally have the right to remove and dispose of any removable facilities, equipment and appliances, while leasehold improvements and fixtures will be kept by the real estate owner or lessor. Our leases typically contain a penalty for early termination that is equal to double the daily rent times the number of days remaining on the lease. In addition, our lessors are typically required to notify us in advance if they intend to sell or dispose of the subject property, in which case we have a preemptive right to purchase the property on conditions and terms equivalent to those being offered by the lessor.

**Hotel Performance**

The following table presents certain selected operating data as of and for the dates and periods indicated. Our revenues have been and will continue to be significantly affected by these operating measures which are widely used in the hospitality industry.

	As of December 31,		
	2022	2023	2024
<b>Total hotels in operation:</b>			
<b>Franchised-and-managed hotels</b>	<b>3,998</b>	<b>4,173</b>	<b>4,370</b>
GreenTree Eastern	204	218	247
Gem	48	66	100
Gya	64	68	71
Vx	79	86	99
Deep Sleep Hotel	4	4	5
GreenTree Inns	2,261	2,253	2,319
GT Alliance	529	560	503
GreenTree Apartment	18	19	23
Vatica	111	110	109
Shell	680	789	894
<b>Leased-and-operated hotels</b>	<b>61</b>	<b>65</b>	<b>55</b>
GreenTree Eastern	9	15	14
Gem	5	5	5
Gya	4	3	3
Vx	6	6	6
Deep Sleep Hotel	3	3	3
GreenTree Inns	24	24	21
GT Alliance	9	8	2
GreenTree Apartment	1	1	1
<b>Total</b>	<b>4,059</b>	<b>4,238</b>	<b>4,425</b>
<b>Total rooms:</b>			
<b>Franchised-and-managed hotels</b>	<b>295,932</b>	<b>302,177</b>	<b>315,018</b>
GreenTree Eastern	21,402	22,451	24,359
Gem	4,212	5,751	8,845
Gya	5,413	5,581	5,837
Vx	6,666	7,304	8,343
Deep Sleep Hotel	285	285	361
GreenTree Inns	182,084	178,409	181,345
GT Alliance	37,299	39,483	37,472
GreenTree Apartment	1,155	1,201	1,438
Vatica	8,009	7,805	7,683
Shell	29,407	33,907	39,335
<b>Leased-and-operated hotels</b>	<b>6,565</b>	<b>7,318</b>	<b>6,264</b>
GreenTree Eastern	1,352	2,271	2,046
Gem	541	541	541
Gya	398	318	318
VX	737	737	750
Deep Sleep Hotel	249	249	249
GreenTree Inns	2,449	2,444	2,094
GT Alliance	732	651	159
GreenTree Apartment	107	107	107
City 118 and others*	—	—	—
<b>Total</b>	<b>302,497</b>	<b>309,495</b>	<b>321,282</b>

	For the Year Ended December 31,		
	2022	2023	2024
<b>Occupancy rate (as a percentage)(1)</b>			
<b>Franchised-and-managed hotels</b>	<b>63.8%</b>	<b>75.9%</b>	<b>71.6%</b>
GreenTree Eastern	63.0%	71.8%	67.7%
Gem	59.8%	66.0%	57.2%
Gya	63.2%	72.8%	65.1%
Vx	61.9%	74.8%	65.2%
Deep Sleep Hotel	62.4%	76.1%	72.4%
GreenTree Inns	67.0%	78.1%	74.7%
GT Alliance	62.9%	71.7%	67.1%
GreenTree Apartment	40.6%	33.0%	31.2%
Vatica	65.4%	74.9%	69.7%
Shell	66.9%	71.4%	65.6%
<b>Leased-and-operated hotels</b>	<b>58.4%</b>	<b>70.9%</b>	<b>70.1%</b>
GreenTree Eastern	55.4%	69.6%	69.6%
Gem	58.8%	60.8%	66.3%
Gya	63.9%	65.8%	66.5%
Vx	61.7%	64.9%	67.0%
Deep Sleep Hotel	63.9%	76.3%	71.2%
GreenTree Inns	61.5%	76.7%	72.4%
GT Alliance	51.8%	69.8%	72.7%
GreenTree Apartment	59.4%	68.6%	82.7%
<b>Total hotels in operation</b>	<b>63.7%</b>	<b>75.8%</b>	<b>71.6%</b>
<b>Average daily rate (in RMB)</b>			
<b>Franchised-and-managed hotels</b>	<b>157</b>	<b>178</b>	<b>172</b>
GreenTree Eastern	208	231	219
Gem	191	210	198
Gya	195	215	195
Vx	186	204	191
Deep Sleep Hotel	202	267	205
GreenTree Inns	158	176	171
GT Alliance	151	179	170
GreenTree Apartment	97	135	134
Vatica	147	158	153
Shell	131	144	139
<b>Leased-and-operated hotels</b>	<b>219</b>	<b>250</b>	<b>251</b>
GreenTree Eastern	229	285	284
Gem	250	311	306
Gya	362	284	245
Vx	246	264	250
Deep Sleep Hotel	244	263	261
GreenTree Inns	196	229	225
GT Alliance	161	201	214
GreenTree Apartment	113	73	96
<b>Total hotels in operation</b>	<b>159</b>	<b>180</b>	<b>174</b>
<b>RevPAR (in RMB)</b>			
<b>Franchised-and-managed hotels</b>	<b>100</b>	<b>135</b>	<b>123</b>
GreenTree Eastern	131	166	148
Gem	114	138	114
Gya	123	156	127
Vx	115	153	125
Deep Sleep Hotel	126	203	148
GreenTree Inns	106	138	128
GT Alliance	95	128	114
GreenTree Apartment	39	44	42
Vatica	96	118	107
Shell	88	103	91
<b>Leased-and-operated hotels</b>	<b>128</b>	<b>177</b>	<b>176</b>
GreenTree Eastern	127	198	163
Gem	147	189	203
Gya	231	187	163
Vx	152	171	167
Deep Sleep Hotel	156	201	186
GreenTree Inns	120	175	148
GT Alliance	83	140	156
GreenTree Apartment	67	50	79
<b>Total hotels in operation</b>	<b>101</b>	<b>137</b>	<b>125</b>

(1) Based on number of available rooms.

## Our Brands

	Brands	Number of hotels in operation as of December 31, 2024	Number of hotels contracted for or under development as of December 31, 2024
Business to Mid-to-up-scale	GreenTree Eastern	261	155
	Gem, Gya and Vx	284	144
	Deep Sleep Hotel	8	5
Mid-scale	GreenTree Inns	2,340	396
	GT Alliance	505	149
	GreenTree Apartment	24	29
Economy	Vatica	109	14
	Shell	894	322
<b>Total</b>		<b>4,425</b>	<b>1,214</b>

We launched the current business of operating and managing a multi-brand hotel group in 2004. Our main brand, GreenTree Inns, caters to the needs of value-conscious business travelers and leisure travelers. We also offer GT Alliance hotels that feature distinctive designs and furnishings from our GreenTree Inns brand. We launched our GreenTree Eastern brand as our first hotel offering designed to provide a level of service commensurate with four-star hotels for quality-conscious business travelers at mid-to-up-scale price points. Our mid-scale brand Vatica and economy brand Shell offer vibrant accommodations suited to young professionals and travelers. We have expanded our brand portfolio in the mid-to-up-scale segment, with Gem, Gya and Vx brands launched in 2017 and Deep Sleep brand in 2018, which complement the diversity and style of our hospitality offerings. During the second half year of 2018, we started our GreenTree apartment business.

**GreenTree Eastern.** Founded in 2012, our GreenTree Eastern brand of premium boutique hotels that are designed to provide a level of service commensurate with four-star hotels to quality-conscious business travelers at mid-to-up-scale price points. GreenTree Eastern hotels are generally located in busy commercial centers and urban high-tech zones, and are priced between RMB300 and RMB600 per room night. These hotels feature more customized room layouts, stylish working spaces and healthy dining as well as beauty and health spas.

**Gem.** Founded in 2017, our Gem brand of hotels are mid-to-up-scale business hotels that are designed to be a calm and unique heaven for business travelers. "Go with Me", the Gem brand takes business travelers to a space with rich culture and graceful taste. Our Gem branded hotels are priced between RMB280 and RMB350 per room night.

**Gya.** Founded in 2017, our Gya brand of hotels are mid-to-up-scale smart, fashionable and trendy hotels that are designed to be a chic club that highlights individuality. A rendezvous with Gya hotels take travelers to a spiritual sanctuary in the busy world. Our Gya branded hotels are priced between RMB280 and RMB350 per room night.

**Vx.** Founded in 2017, our Vx brand of hotels are mid-to-up-scale leisure hotels that combine youthful trends with artistic interiors to allow each hotel to make a mark on the local culture scene. The colorful lobbies and artistic designs create a "Very Relaxing" space for travelers at our Vx brand of hotels. Our Vx branded hotels are priced between RMB280 and RMB350 per room night.

**Deep Sleep.** Adopted from one of our franchisees in 2018, our Deep Sleep branded hotel is a mid-to-up-scale hotel that provides comfortable, intimate, simple and stylish spaces to business travelers for "a deep sleep." Our Deep Sleep branded hotel is priced between RMB270 and RMB400 per room night.

**GreenTree Inns.** Founded in 2004 with our first hotel opened in Shanghai, GreenTree Inns is designed to provide a level of service commensurate with three-star hotels and value to business and leisure travelers at mid-scale price points. These hotels are typically located in areas close to major business and commercial districts, and are priced between RMB180 and RMB400 per room night. These hotels feature spacious lobbies and our uniform GreenTree Inns decorative style, and provide free high-speed Internet access, cable television, conference rooms, business centers and exercise facilities. Most of our GreenTree Inns hotels provide food and beverage through onsite restaurants.

**GT Alliance.** Founded in 2008, our GT Alliance brand offers unique hotels in desirable locations to deliver individualized experiences with distinctive decor and furnishings for our guests. GT Alliance hotels are typically designed to provide a level of service commensurate with three-star hotels, and are priced between RMB150 and RMB400 per room night. We provide GT Alliance branded hotels with our standard operating procedures and proprietary Property Management System to help ensure a uniform quality of services for our guests. Most of the GT Alliance hotels provide food and beverage through onsite restaurants.

**GreenTree Apartment.** Founded in 2018, our GreenTree Apartment is committed to providing medium and long term apartment rental service for new urbanites, and expanding into the market with mid-scale economic products.

**Vatica.** Founded in 2013, our Vatica brand of hotels offer oases of natural, environmentally conscious design elements in urban settings to provide vibrant experiences for white-collar professionals and allow them to retreat to nature while in the heart of the city. Vatica hotels are priced between RMB150 and RMB300 per room night. Vatica hotels promote green, environmentally-friendly and low-carbon lifestyles with neat accommodations. These hotels feature modern, well-appointed rooms and amenities with free 24-hour Internet access.

**Shell.** Founded in 2016, our Shell brand of hotels mixes fashionable designs and creative elements to host young professionals, travelers and college students while in major urban centers along their journey. Shell branded hotels are gaining popularity among youths in urban areas, and are priced between RMB99 and RMB260 per room night.

#### **Membership Program**

Our GreenTree Reward Membership Program is a key element of our marketing efforts. We invite our guests to participate in this customer loyalty program.

We have four tiers of membership — e-membership, regular membership, gold membership and platinum membership. Other than basic-tier e-membership, a one-time membership fee is charged to join one of our three premium tiers of regular, gold or platinum membership, for which we charge a fee of RMB36, RMB198 and RMB398, respectively. Each membership must be used at least once during the period of two years following its last use, or the membership will expire.

Different tiers of membership offer different benefits. Individual members and corporate members enjoy a range of different benefits, including discounts on room rates, priority in making hotel reservations, and they accumulate membership points for their paid stays. Membership points can be redeemed for membership upgrades, room night awards and other gifts and products. The estimated incremental costs to provide gifts, membership upgrades and room night awards are accrued and recorded as selling and marketing expenses in our financial statements.

As individual members and corporate members redeem awards or their entitlements expire, the provision is reduced correspondingly. We record estimated liabilities for points that are expected to be redeemed in the future, by estimating points that will be forfeited based on historical data.

We have accumulated a strong base of loyal hotel guests, including over 2.2 million corporate members and approximately 102.5 million individual members as of December 31, 2024. In 2022, 2023 and 2024, our corporate members and individual members booked approximately 75.2%, 72.0% and 72.0%, respectively, of room nights in our hotel network. In addition, approximately 61.0% of our individual members are between the ages of 20 and 40, which represents the youthful core of our loyal guest community whose spending power is expected to grow in years to come. The following table shows the breakdown of our membership by age:

<b>Age Group</b>	
Age 21 to 30	20%
Age 31 to 40	41%
Age 41 to 50	24%
Others	15%

Our loyal membership program increases membership retention rate, enhances members' loyalty and commitment to our services and encourages individual members and corporate members to repeatedly use our central reservation system as well as other membership services, substantially keeping our low dependence on third party reservation channels. During the past three years, we sold approximately 84.1% of our room nights through our direct sales channels, while OTAs contributed approximately 15.9% of our room nights. The extensive network of individual members and corporate members provides us with a stable base of repeat guests, which is in turn an attractive marketing message to potential franchisees.

#### **Hotel Development**

We have adopted a systematic process with respect to the planning and execution of new development projects for our franchised-and-managed and leased-and-operated hotels. When assessing potential franchising opportunities, we consider and evaluate factors such as the quality of the prospective franchisee and consistency with our standards. The franchise agreement must be based on our standard form and is processed through the same internal review procedure as our lease agreements.

#### **Market and Hotel Selection Criteria**

We seek franchised-and-managed or leased-and-operated properties that meet the following general market and specific hotel criteria:

*General Market Criteria.* We follow a return-driven approach in selecting hotel locations. We focus on cities that are approaching, or have already entered into, periods of significant economic growth. Such cities generally show growth in certain business segments as measured by employment opportunities, population growth rates, tourism and convention activities, air traffic volume, local commercial real estate occupancy, and retail sales volume. Cities that exhibit growth in these areas typically have strong demand for hotel facilities and services. Cities which we target include provincial capitals, national economic centers, special economic zones, urban tourist destinations and regional transportation hubs. As a result of one of our strategies to build a dense network of hotels in the most affluent region in China with high growth potential, 44.2% of our hotels were located in the Greater Yangtze River Delta region, while 9.7% of our hotels were located in Beijing/Tianjin/Hebei region as of December 31, 2024. Meanwhile, as China continues to develop its high-speed rail networks and more enterprises move from coastal cities to inland cities, we are placing greater emphasis on expanding our operations in Tier 3 and lower cities. We select locations that will help us achieve a balanced rental rate and RevPAR, many of which are located in Tier 3 and lower cities, thereby ensuring more attractive returns for our franchisees. Furthermore, we will accelerate our expansion into the mid-scale to business and mid-to-up-scale markets in Tier 1 and Tier 2 cities, where we also follow this return-driven approach.

*Specific Hotel Criteria.* We seek to invest in hotels that are conveniently located near entertainment, shopping, commercial, conference or tourist centers, universities, and mid-to-high-end residential areas. We also consider a hotel's proximity to local businesses, such as restaurants, banks, convenience stores, supermarkets and malls. Transportation is another factor we consider, and we actively seek properties situated near major public transit, major thoroughfares or intersections and airports. We believe that having our hotels located near both business and leisure centers enables us to attract both weekday business travelers and weekend leisure travelers. We prefer certain building features including stand-alone structures having a gross floor area of between 3,000 and 8,000 square meters, elevators, standard water, electricity and telecommunications connections, and sufficient surrounding space to provide one parking space for every three to five hotel rooms. We seek to develop and operate a full range of hotels, most of which have 80 to 120 guest rooms, which include amenities such as a cafe, self-service laundry facilities, business center and conference rooms that are attractive to key demand segments such as individual business and leisure travelers. We balance location, demand, property pricing and rent to ensure low operating leverage ratio that enables attractive and sustainable returns to be achieved by the hotels.

For our leased-and-operated hotels, we require our development team and operations team to assess the potential financial return of every proposed new hotel. In addition, in new areas where we have no existing hotels we also develop leased-and-operated hotels which may help to expand our local franchised-and-managed hotel network.

*Hotel Development Team.* Our hotel development team consisted of 246 members as of December 31, 2024, many of whom have over two years of experience in real estate development and construction. As of the same date, our hotel development team was led by 26 managers. Each regional manager has in-depth knowledge of the target markets in the specific region, and draws on local knowledge to supervise the identification, evaluation and selection of suitable hotel properties by our business development employees.

**Franchised-and-Managed Hotel Development.** For our franchised-and-managed hotels, we conduct research and evaluation both on the hotel properties and on the qualifications of the potential franchisees. The hotel property research criteria and procedures are the same for our franchised-and-managed model and our leased-and-operated model. When evaluating a prospective franchisee, we review the franchisee's financial records, credit history, indebtedness and capitalization in order to ensure that the franchisee has sufficient resources to complete the property conversion and develop the hotel to a fully operational status. We provide franchisees with our detailed design and construction manual. We generally supervise the construction process and offer cost-savings suggestions. These measures assist franchisees in refurbishing, renovating or constructing their properties after they join our brands and help them meet our brand specifications. Before construction is completed, we carry out a series of pre-opening activities, such as inspecting the quality of the converted property, identifying and appointing the general manager and other members of the hotel management team, and training hotel staff in anticipation of the hotel's opening. After a franchise agreement is executed, it typically takes between five and 12 months to open the subject hotel for business. Our business development team actively participates in local hotel associations and industry conferences to expand our network, to become more familiar with local markets and explore cooperation opportunities with potential franchisees. We also attract potential franchisees through word-of-mouth referrals made by our existing franchisees, our marketing efforts, and the experience of guests satisfied with our quality service.

**Leased-and-Operated Hotel Development.** While we focus on operating hotels under our franchised-and-managed model, when we identify appropriate opportunities, we also directly operate selected hotels under our leased-and-operated model. Our development team follows a structured and systematic process to evaluate, select and renovate properties for our branded hotels. This process begins with a study of the suitability of a prospective new market, as applicable, in terms of economic conditions, demographics, transportation infrastructure, city planning and development, and the availability of existing hotel accommodations. After deciding to pursue opportunities in a particular city, our regional development team commences a search of attractive properties within that market, taking into consideration a variety of factors, including convenience of location and proximity to major business and leisure centers. In evaluating a potential site, our business development team conducts an interview with the property owner, gathers information about the property, conducts a site visit, takes pictures and prepares a preliminary report for the regional manager to assess the suitability of the location. If a site passes this initial review process, our engineering department then carefully reviews blueprints, the layout and design of the property, and prepares a conversion plan. Our legal department reviews any permits, authorizations, certificates, title documents, lease agreements, mortgages or other legal documentation, as applicable, and assesses any legal risk. Our operations department conducts further site visits to further assess the commercial viability of the location. Our business development team then presents a final report to the regional manager which includes a financial forecast and construction budget. If the final report is approved by the regional manager, our chief executive officer will review the report and make a final decision. If our chief executive officer decides to proceed, then we enter into a memorandum of understanding with the prospective property owner and proceed to negotiate the details of the final lease agreement, which also is subject to comments and approval by our engineering, legal and operations departments.

#### **Hotel Management**

Our management team has accumulated significant experience with respect to the operation of economy hotels, mid-scale hotels as well as mid-to-up-scale hotels. Building on this experience, our management team has developed a robust operational platform for our domestic operations in China, implemented a rigorous budgeting process, and utilized our information systems to monitor the performance of our hotels. Our hotels are managed by general managers trained by us. General managers report to regional managers and are responsible primarily for the day-to-day operation of our hotels. The regional managers oversee the operation of each hotel in the relevant regions and they also regularly visit the hotels and supervise the marketing and promotion programs implemented by the general manager of the hotel. General managers are involved early on in the process of constructing or converting a new property through the opening of the new hotel. General managers, along with our quality inspection team, construction team and regional managers, are responsible for implementing our standards for brand quality, handling personnel matters of hotel staff, maintaining proper financial reports and records, overseeing procurement of hotel supplies to be purchased locally, and implementing marketing and promotional programs. Each general manager serves as the primary contact point between our headquarters and every hotel, and works closely with our corporate level departments in managing the performance of the hotels for which the general manager is responsible.

Key features of our hotel management include the following:

**Pricing.** We set the room rates of our hotels based on a number of factors, including local market conditions with reference to room rates set by our competitors, historical levels, recent occupancy levels and seasonal occupancy fluctuations. As we primarily target individual business travelers and leisure travelers, the month in which the Chinese New Year falls generally accounts for a lower portion of our annual revenues than other months, due to generally lower occupancy rates. Our headquarters in Shanghai reviews and establishes standard room rates. Thanks to our updated revenue management system, room rate changes can be approved automatically when the system is able to identify a rationale for a room rate adjustment by studying big data in the market. Otherwise, an individual hotel will conduct a market study, and then send its proposed price change to our operation department and marketing department for approval, generally within 24 hours. We regularly review room rates at each of our hotels under both franchised-and-managed and leased-and-operated models and adjust rates based on occupancy levels, neighborhood market performance, historical levels, seasonality, and reports from our general managers. We also negotiate contract rates with corporate members whose employees regularly stay at our hotels.

**Budgeting and Monitoring.** Our finance and accounting personnel work with each hotel's general manager to prepare a detailed annual budget. Based on financial and operating data gathered by the Central Reservation System, or CRS, and Property Management System, or PMS, for each given hotel, we make projections as to expected revenue, hotel operating costs, expenditures on marketing, renovations or other property improvements. Our centralized monitoring function also tracks trends in operating or financial performance, in particular with respect to occupancy rates, average daily rates and RevPAR, and shares this information and analyses with the hotel's general manager so that appropriate strategies may be formulated in response to the data.

**Quality Assurance.** The quality and consistency of our hotels and accommodations are the keys to maintaining the integrity and attractiveness of our brands. Our management plays a central role in assuring that the quality standards of our brands are implemented uniformly across our hotel network. Regional managers and the general managers are responsible for supervising various aspects of the operation of our hotels, including hotel maintenance and renovation, restaurant service, housekeeping and customer service, to help ensure that our rigorous quality standards are maintained. Our quality inspection department dispatches teams to conduct both scheduled and unannounced evaluations of each of our hotels, and notifies the hotel's general manager of any repairs, maintenance work or upgrades that need to be conducted. Our quality inspection department also regularly reviews and updates our quality standards and oversees their implementation in each of our hotels.

**Flexible and Cost-effective Procurement.** We have a flexible procurement system that enables us to obtain the best pricing available for the quality of goods sourced for our hotels and to minimize operating expenses. We maintain a list of approved suppliers for goods used in our hotels which display any of our logos or brands. As a leading hotel network in China, we have significant leverage in price negotiations with our suppliers and enjoy cost savings by purchasing in bulk, which cost savings we pass on to franchisees directly. Franchisees are encouraged to negotiate favorable delivery prices directly with these suppliers. Franchisees are also encouraged to recommend quality suppliers to us that meet our stringent standards, including as to quality, price, delivery and maintenance services, and that can be approved by our central purchasing department. For other goods that do not display our logos or brands, franchisees can opt to use either one of our approved suppliers or other suppliers as long as they can meet our standards. Franchisees can procure the high-quality amenities and hotel consumables at favorable prices and terms and settle directly with the vendors via 168 Mall, which partially serves as a procurement facilitation platform, where a group of qualified vendors we have screened and selected over the years are able to list their products and market to franchisees directly. We believe this approach helps distinguish our brands, defines the style of our hotels and ensures quality and consistent experience for our guests.

**Franchisee Services.** We provide dedicated support to our franchisees to assist them in addressing any issues that may require the expertise of our various departments. We coordinate with our construction, engineering, procurement, information technology and other departments to help answer questions or troubleshoot problems which a franchisee brings to us. Our franchisee services department provides an alternative channel, in addition to the hotel general manager, for our franchisees to seek assistance. We believe that this service underscores our commitment to our service-oriented culture and strengthens the relationships we have with our franchisees.

**GreenTree Academy and e-Learning Program.** GreenTree Academy formed in 2006, is our internal hotel management school. Each of our general manager candidates is required to complete a one-month training program through the GreenTree Academy. The first stage of this training program is classroom study, and the second stage is on-site training conducted at one of our hotels. The classroom study features live lectures covering hotel operation and management skills. The on-site training provides our general manager candidates with an opportunity to apply all of the skills they have learned and to gain a better understanding of our GreenTree Inns standards, our guest-focused and our service-oriented philosophy. Trainers and professors for our GreenTree Academy are invited from our own senior management team and outside professionals in the hospitality industry. In addition to cultivating our general manager candidates, our GreenTree Academy also is responsible for delivering training to our new hotel employees and regional general managers, each course program with different focuses. Our GreenTree Academy supervises and assists the general manager of each hotel to conduct weekly training for hotel employees at various levels. The GreenTree Academy coordinates to compile and disseminate training materials, monitors progress and assesses training results. We currently have 28 dedicated staff to organize and coordinate the training activities delivered by the GreenTree Academy. In addition, we also have an e-Learning Program in place through which all training materials are organized and uploaded to our internal website. Through our e-Learning Program, all valuable knowledge and experience are preserved and accumulated and can be broadly shared and conveniently referred to by our employees. In order to be granted a promotion, hotel employees either on our payroll or the payrolls of our franchisees need to complete certain GreenTree Academy and/or e-Learning Program modules and pass exams relevant to their desired job role.

#### **Hotel Information and Operational Systems**

Our proprietary information and operational systems, which compiles information from all of our hotels with our operational systems, is a key tool that allows us to track occupancy levels, average daily rate, RevPAR, net operating income and other important operational data and performance indicators for each of our hotels and operating divisions. These systems facilitate the storage, processing and analysis of large amounts of data, which we use to improve our cost-efficiency, to allocate managerial and marketing resources more effectively, to analyze the impact of our marketing and promotional campaigns and set prices levels to maximize RevPAR. By centralizing and organizing our operations and financial data, our information and operational systems enable us to respond promptly and effectively to business trends in specific hotels or localities. We believe that centralizing our information and operational systems and providing our franchisees with ongoing access to these systems and information also helps our franchisees to operate more profitably, enhancing our ability to retain existing franchisees and attract new franchisees with operation efficiency and cost-efficiency.

Our principal hotel information and operational systems comprise the following:

**Technologies for internal operations.** We consistently look into how our employees interact with technologies and have adapted to the needs of the modern workforce. As early as 2014, we developed and launched a suite of innovative tools that digitize every key aspect of our frontline employees' daily routines. This set of tools modernizes the traditional handwritten logs for frontline employees, and thereby increases the speed and efficiency of our entire business process, from the moment when a new hotel project is signed, to our construction or conversion, daily operations and quality assurance.

#### **"GreenTree Aide"**

"GreenTree Aide" is a dedicated app that assists with and digitizes a hotel's daily operations as well as links hotels' operation data to our franchisees. We are a pioneer in the hospitality industry in China to realize the real-time interaction between operating activities and our franchisees. The app is self-developed by us to ensure the efficiency, safety and stability of our daily operation, and has a number of functions, including monitoring the regional managers' work, managing the hotel managers' work and providing real-time information to our franchisees. GreenTree Aide creates, assigns, prioritizes and monitors individual and group tasks and keeps track of all aspects of a hotel's daily operations in the following respects.

For the hotel's daily operations and sales tasks, hotel regional manager teams use this app to record their patrol plans, highlight the hotel's problems inspected by them in each hotel and track the solving process of each problem. A hotel manager uses this app in its daily management operations, including reporting assigned work, conducting hotel procurement, proposing digital contracts, adjusting room rates and other revenue management measures. In 2017, we further upgraded the function as a dashboard for the housekeeping team to mark clean and dirty rooms. The housekeeping team uses this app to identify and manage daily room maintenance needs and increase housekeeping efficiency with instant updates on housekeeping mobile devices when customers check out, freeing up rooms for cleaning. In addition, our franchisees are able to use this app to monitor the key hotel operating data, compare the performance of our adjacent peers and ensure guest satisfaction. The franchisees also use this app to receive notifications and alerts from us, including hotel promotions and advertisements.

#### **DPMS**

DPMS, or development process management system, streamlines and digitizes the franchise sales process, including prospecting, e-proposals, digital contracts, workflows and reporting. Linked directly to the management information system (which is further elaborated below), the DPMS is designed to increase conversion rates and improve sales performance.

#### **PPMS**

PPMS, or project process management system, is designed to assist our maintenance and engineering department to maintain a clear overview of the construction/conversion progress of hotels and all routine inspections and repairs.

#### **QPMS**

QPMS, or quality process management system, is dedicated to our quality inspection activities. The quality control personnel through QPMS have access to our quality standards and a set of check forms when conducting inspections. After inspections are completed, QPMS automatically generates an inspection report and notifies the hotel managers of any repairs, maintenance work or upgrades that need to be conducted.

**Financial and Accounting System.** Our financial and accounting system is used by employees in our financial and accounting department at our headquarters. Our financial and accounting system manages our accounts receivable, accounts payable, expenses tracking, bookkeeping, taxation and other services.

We vigilantly protect our information and operational systems. We use redundant power systems and Internet access to ensure that our guests can continually access our website, even in the event of a power outage at our main data center or a disruption in the connection between our PMS and our hotels. All of our servers are equipped with uninterrupted power supplies, and are supported by backup power generators as well as redundant file systems to help ensure the continuous availability of our data. We also regularly back up our data to minimize any potential impact of data loss due to system failure.

We have upgraded the infrastructure of our information and operational systems. These upgrades enable us to rapidly develop our business by increasing the number of hotels in our network. Our data center can support a large number of guests simultaneously accessing our mobile applications and website hotel reservations systems.

We also are improving the security of our IT systems, which includes developing the security of our office networks, our internal virtual private network and our guests' access to our networks.

In addition, we have enabled greater accessibility to our internal systems by our employees through the addition of e-Meetings as well as e-Human Resources, or e-HR, and e-Learning systems.

**i-HR system.** Our i-HR system enables comprehensive tracking of the organizational and personnel information of our company. Through this system, our HR department is able to dynamically manage information about our employees and more efficiently administer standard programs as to wages, welfare benefits, work attendance, vacations and performance. Such data are securely stored on the system and allow our HR department to supervise the training and development of our personnel.

**e-Learning system.** Our e-Learning system offers modular, video-based programs to all employees of our company. This system enables personnel to acquire professional knowledge and complete courses in which they are interested at their own pace in order to develop skills and advance their careers. The content and materials for each course module are developed and produced by our internal hotel management school, GreenTree Academy team. Each course module is only 5-10 minutes in length for condensed, convenient learning. Additionally, the GreenTree Academy formulates learning plans for different job positions on a regular basis to help clarify and assist staff with planning their vocational development so they can enhance their existing skills. Recognizing that hospitality is a career choice for professionals, we train most of our key hotel employees, including hotel managers and the “GreenTree Quintet”- front office managers, sales managers, financial managers, guest services managers and hotel manager assistants.

**e-Meeting system.** Our e-Meeting system supports routine management and training activities of our company by increasing efficiency of inter-departmental meetings and by facilitating remote working arrangements outside normal business hours. This system also enables the operations department to provide remote online management training to hotel managers, staff and franchisees on a weekly basis, helping to make our operations and management practices more efficient and consistent.

#### **Technologies for franchisee support**

We have developed our proprietary and scalable technology infrastructure with modules covering every key aspect of hotel operation to assist and empower our franchisees, improve their efficiency and maximize their value.

#### **Central Reservation System (CRS)**

Our central reservation system, or CRS, is our primary information collection and distribution platform, which is operated by our team of IT specialists based in Shanghai. Our hotel rooms may be reserved through multiple channels, including our reservation mobile applications and website, our 24-hour toll-free call center, our WeChat mini-program, each hotel’s front desk, as well as third-party hotel reservation agents and OTAs such as Meituan, eLong, Qunar, Alitrip, Booking, Expedia and Agoda. A predominant proportion of our room night sales was generated from our strong direct sales channels comprising our website and mobile app. In 2022, 2023 and 2024, approximately 84.1% of the room nights in our hotel network were sold through our direct sales channels, while OTAs contributed approximately 15.9% of our room nights.

Information about reservation at our hotels is gathered and processed by the CRS and connected and distributed back to each of the multiple reservation channels in real-time. Through our CRS, we can monitor, on a real-time basis, the availability of each hotel room. Real-time and detailed hotel room reservation information enables us to maximize the efficient use of our rooms. In addition, the CRS is responsible for managing the information of our strong membership program, where it records and analyzes members’ personal information, membership points, visit history and feedback, based on which we and our franchisees are able to effectively gather, analyze and make use of such proprietary customer behavior and transaction data to generate actionable insights to perform precision marketing, improve service quality and enhance overall customer lifecycle management.

To maximize convenience and further enhance our customers’ satisfaction, we are committed to improving the functionality of our mobile app on an ongoing basis so that customers can make advance bookings for rooms based on their desired room style, conferences, check-in and check-out, as well as place orders for food and beverages.

#### **Property Management System (PMS)**

We have launched a cloud-based property management system, or PMS. Unlike onsite-PMSs, which require significant upfront hardware investment and are costly and time-consuming to upgrade, our cloud-based PMS is highly scalable and enables the simultaneous launch of new services across all hotels, which helps us further expand and grow our franchisee network rapidly.

Our PMS houses all administrative tools that a franchisee’s hotel managers and front desk staff need to manage every hotel’s daily business operations, including hotel room management, budget management and membership management. Each franchisee hotel is equipped with the PMS server and, based on financial and operating data collected by the PMS, our franchisees can make projections for each given hotel as to expected revenue, hotel operating costs, expenditures on marketing, renovations or other property improvements. The PMS is further synchronized with the CRS to facilitate access to our members’ information. The PMS enables us to monitor the operations of each hotel in our network and to regularly obtain fundamental business data for analysis by our management.

### ***Management information system (MIS)***

We have launched a proprietary management information system, or MIS system, which serves as the backbone of our technology and IT infrastructure and is applied in all aspects of our business operations. MIS effectively manages the full cycle of our franchisee hotels, starting from new project initiation and planning, construction or conversion of a new property, hotel opening, procurement, daily operations, quality control to hotel closure. Throughout the process, the MIS collects, monitors and analyzes various key operational and financial data and provides a series of data-driven optimization strategies and recommendations. The MIS compiles information from the CRS and PMS to establish a database and extracts data based on the needs of our management. The MIS system enables us and our franchisees to generate useful insights from and conduct in-depth analyses of the vast amount of data gleaned from our daily operations, and assists the management in formulating and optimizing hotel operations with agility and confidence in the face of increasing business and time pressure, as well as increasing complexity of guest services. These operational reports, in turn, enable our regional managers to monitor the performance of hotels in a given region, and nationwide hotel data compilations, statistical reports and comparison analyses facilitate strategic and tactical decision-making by its management.

In addition, the MIS helps our hotel management ascertain certain factors contributing to our operational statistics, helps provide advance warning of potential problems and aids with their correction. Hotel general managers and regional managers use data provided by the MIS to refine and improve hotel performance and respond to market changes at the local level in a timely manner. The MIS also helps evaluate the performance of each of our hotel general managers and regional managers.

### ***Technologies for guest services***

We have developed a full suite of hotel-level digital transformation initiatives to improve guest satisfaction in every step of customer interactions, from check-in to check-out.

#### ***Self-serve initiatives***

We have launched our user-friendly, self-check-in/out services in our app to shorten both customers and front-desk staff's time. We also launched a self-serve room selection function on our apps, where guests are able to access a hotel's floor plan and room layout and choose a room with their preferred floor level, view, proximity to elevators, and potential nearby noise sources. In September 2018, we launched a self-serve stay extension function on our apps and website, which effectively reduces our staff-to-room ratio.

#### ***Robot assistants***

The use of robot assistants in our hotels is intended to attract guests, especially young professionals and travelers. These AI-powered smart robots can move around the entire hotel to make deliveries of snacks, toiletries and other hotel amenities, greet guests and lead them to their rooms, improving both the hotel's operating efficiency and guest experience.

#### ***One-click Wi-Fi access***

One-click Wi-Fi access has been rolled out to our customers for convenience purposes, where guests can authenticate their identity and easily access a hotel's Wi-Fi network without the need of inputting passwords.

#### ***IoT enabled guest rooms***

IoT technologies to our hotel rooms can enhance quality of guests' stays. Our IoT enabled guest rooms to allow guests to control the room temperature, lights, window shades and provide room cleaning service, wake-up call service and hotel check-out appointment as well as requesting electronic invoices through their mobile phones or other room facilities.

## **Internet Service System**

Our Internet Service System consists of our website (www.998.com), our mobile apps for smartphones running iOS, Android or other operating systems, and our WeChat mini-program for the purpose of reserving rooms. The system provides our members and the general public with convenient, friendly and updated services, including information and search services for our hotels, such as location, amenities and pricing, reservation services, online payment and online room selection functions, membership registration and management and corporate member services.

## **Sales and Marketing**

### *Franchisees*

We intend to continue expanding our hotel network primarily through our franchised-and-managed model. Our business development team utilizes our brand names and our national presence to engage with potential franchisees and to compete with other economy and mid-scale hotel as well as mid-to-up-scale networks. We aim to share our business philosophy with potential franchisees and emphasize the consistency of our services. We emphasize the benefits of affiliating with our brands, our commitment to improving hotel profitability, our proprietary operations system, our training and support program and our extensive network of corporate members and individual members. Our objective is to grow our franchise base by continuing to promote our brands. We also encourage franchisees to operate multiple hotels under our brand by offering volume discounts on franchise management fees to franchisees who open multiple hotels under our brand within a certain period of time. We do not, however, encourage franchisees to open too many hotels simultaneously to ensure that their existing hotel operations receive due attention and that our guests enjoy the consistent quality services they deserve. As of December 31, 2024, we had 516 franchisees who repeatedly opened hotels with a total number of 1,147 hotels under our brands. When we spot new hotel development opportunities, we offer these prime opportunities to existing franchisees, developers of hotels, owners of independent hotels and motels, and owners of hotels affiliated with other economy and mid-scale hotel as well as mid-to-up-scale chains on a priority basis. We believe that this practice will enhance trust between us and existing and potential franchisees and may effectively increase our ability to convert such development opportunities into hotels under our franchised-and-managed model.

### *Guests*

Our guest sales and marketing efforts target individual business and leisure travelers. Despite our growing number of international guests, our guests are primarily PRC citizens. As of December 31, 2024, approximately 96.1 % of our guests were intra-Asia travelers. Our marketing and advertising efforts also include outdoor advertisements such as billboards and signs, advertisements and materials at our hotels, promotional materials sent to our members, television, Internet and radio advertising, advertising on high-speed rail networks, print advertising in consumer media and at promotional events, special holiday promotions, co-marketing activities, and cooperation with popular Internet social platforms. The focus of our marketing and advertising programs is to promote the core characteristics of our brands — comfort, quality, value and convenience. Our advertising campaigns encourage consumers to “just experience” our hotels and to contact us directly. Furthermore, by integrating with food and beverage’s joint customer loyalty programs, we benefited from the attraction of these chain restaurants, and providing our individual members with more options to redeem their membership points for food. We continued to roll out our food and beverage concept by branding food and beverage services into our hotels to turn them into profit centers and attract additional guests to our hotels. Regarding marketing, we are formulating joint marketing programs with several banks to attract local corporate clients and high-value business travelers.

## **Our Investments**

### *Yibon*

In April 2017, we purchased 30% of the equity interest in Yibon Hotel Group Co., Ltd., or Yibon, together with a group of investors that are not related to us. Yibon is a hotel operator focusing on the economy hotel segment in China. As of December 31, 2024, Yibon had 764 hotels with 43,085 rooms and 304 hotels in the pipeline with 18,784 rooms planned. In 2024, Yibon recorded a net loss, mainly due to decreases in both leased-and-operated hotels and franchised-and-managed hotels. Furthermore, holders of 70% of equity interest in Yibon have the right to exchange their equity interest in Yibon into our shares within a certain period after Yibon delivered a consolidated financial report for the year of 2019 audited by “big four” accounting firm in accordance with a formula using Yibon’s net profit achieved in the year of 2019 as calculation basis. Yibon recorded a net loss in 2019, and such holders were unable to exchange for our shares based on Yibon’s financial results of 2019. Besides, we have an option to require the original shareholder to redeem the 30% investment.

## **Employees**

We had 2,063, 2,523 and 2,339 employees as of December 31, 2022, 2023 and 2024, respectively. None of our employees is represented by a labor union. As of December 31, 2024, out of our 2,339 employees, 550 were leased-and-operated hotel-based staff, 1,182 were franchised-and-managed hotel-based staff, 246 were investment and development staff, 77 were regional manager/operations staff, three was quality control staff, 19 were central reservation center staff, 28 were GreenTree Academy training staff and 234 were working at our headquarters offices. We believe that our employees are our company's greatest resource and that developing and retaining a team of capable and motivated staff is critical to our success. We aim to hire managerial employees who possess backgrounds and experience in the hospitality industry and other services industries having an emphasis on addressing customers' needs. We also recruit top graduates from highly-ranked universities that offer courses of study in hotel management. We require our employees to have at least a two-year associate's degree. We aim to recruit, train and retain the best talent through a disciplined recruiting and training process while offering competitive performance-linked and KPI-driven career advancement and development opportunities.

### *General Managers*

To help ensure that our franchised-and-managed hotels provide high-quality service on a consistent basis, our general managers and certain other managerial employees of our franchised-and-managed hotels are trained and dispatched by us. Pursuant to the franchise-and-management agreements, the Group charges the franchisees fixed hotel manager fees to compensate the Group for the franchised-and-managed hotel managers' salaries, social welfare benefits and certain other out-of-pocket expenses as incurred. The hotel manager fee is recognized as revenue on a monthly basis. In addition to the standard compensation, our franchisees also are permitted to offer performance-based compensation to managers of their locations. Several factors are considered in evaluating our general managers such as financial performance of the hotel for which the general manager is responsible, guest satisfaction, employee satisfaction, results of the hotel's periodic quality inspections and results of the general manager's training programs and annual examinations.

### *Employees of Franchised-and-Managed Hotels*

At our franchised-and-managed hotels, aside from our general managers, we do not employ hotel employees and we therefore are not responsible for compensating local employees, which functions are undertaken by the franchisee. However, to help ensure that our franchised-and-managed hotels provide high-quality service on a consistent basis, we have in place both mandatory and optional training programs designed for employees of our franchised-and-managed hotels. These training programs provide quality monitoring assistance and comprehensive training on various aspects of hotel operations. With our franchisees' permission, we also offer promotions to hotel employees, opportunities to join our company and transition to other roles within our network, based on demonstrated job performance as well as satisfactory completion of mandatory training programs and passing examinations. We also encourage our franchisees to follow our employment practices since we believe that these practices will help employees of our franchised-and-managed hotels improve productivity, increase job satisfaction, and feel a similar sense of ownership loyalty to us and our brands.

### *Employees of Leased-and-Operated Hotels*

As of December 31, 2024, we had 550 employees working for our leased-and-operated hotels. Two to three months in advance of a hotel's opening, all of the hotel's employees are required to complete formal training under the supervision of the hotel's general manager and our human resources department. GreenTree Academy staff and our regional managers will conduct an inspection of the hotel's quality after the conclusion of the training. For general managers, we have an additional two-month program to give them experience in each of our departments on a rotating basis to get further training. Some of these new hires will be selected and promoted to the position of duty manager, and outstanding trainees will quickly be promoted to the position of general manager. We have found this training program to be effective in initiating and motivating our new hires.

### **Competition**

China's hospitality industry is fragmented, highly competitive and ripe for consolidation, especially among branded hotel chains. We compete with other branded and stand-alone hotels for guests in each of the markets where we operate. Different brands in the hospitality industry compete primarily on the basis of room rates, quality of accommodations, brand name recognition, convenience of location, geographic coverage, quality and range of services provided, guest amenities and membership benefits. We compete mainly with other hotel groups as well as various stand-alone lodging facilities in each of the markets in which we operate, including brands such as Jinjiang, Ji Hotel, Home Inns, Atour Hotel and other international hotel brands. We also face competition from serviced apartments.

### **Intellectual Property**

Our brand, trade names, trademarks, trade secrets and other intellectual property rights distinguish our technology platforms, services and products from those of our competitors. Our intellectual property contributes to our competitive advantage in the economy, mid-scale hotel and mid-to-up-scale segments of China's hospitality industry. To protect our brand and other of our intellectual property rights, we rely on a combination of trademark, trade secret and copyright laws. We also impose confidentiality obligations on our employees, contractors and other persons who provide services to our company. As of December 31, 2024, we had a total of 732 trademarks, 63 software registration certificates and 3 copyright registered in China. The expiration dates of our trademarks fall between 2024 and 2034, including "GreenTree Inn." Once the ten-year term of our registered trademarks has expired, we will be able to renew our trademark registrations for another ten years upon paying a renewal fee. We have registered our domain names, including 998.com, greentree.cn, greentree.com.cn and others, with the Internet Corporation for Assigned Names and Numbers, or ICANN.

Our efforts to protect our intellectual property rights may not be adequate, and third parties may infringe on or misappropriate our rights. If others are able to copy and use our proprietary information and operational systems and other proprietary technology platforms of ours without spending time and resources to develop their own, we may not be able to maintain or improve our competitive position. Furthermore, the application and interpretation of laws governing intellectual property rights in China is uncertain and evolving and could involve substantial risks to us. If litigation is necessary to enforce our intellectual property rights, or to determine the scope of the proprietary rights of others, we may have to incur substantial costs or divert other resources which could harm our business and prospects. See "Item 3. Key Information — D. Risk Factors — Risks Related to Our Business — Any failure to protect our trademarks and other intellectual property rights could negatively impact our business."

### **Insurance**

We believe that our hotels are covered by adequate property, equipment liability and money insurance policies with coverage features and insured limits that we believe are customary for similar companies in China. We also require our franchisees to carry adequate property, equipment liability and money insurance policies. We carry property insurance that covers the assets that we own at our hotels. Although we require our franchisees to carry customary insurance policies, we cannot guarantee that they will adhere to this requirement and actually purchase such policies. If we were held liable for amounts and claims exceeding the limits of our insurance coverage, or outside the scope of such coverage, our business, financial condition and results of operations may be materially and adversely affected. See "Item 3. Key Information — D. Risk Factors — Risks Related to Our Business — We have limited insurance coverage."

### **Properties and Facilities**

Our headquarters are located in Shanghai, China, where we lease approximately 4,027 square meters of office space.

### **Owned Properties**

As of December 31, 2024, we owned 15 hotel properties having an aggregate gross floor area of 68,499 square meters. For more detailed information about the locations of our hotels, see "— Our Hotel Network."

**Leased Properties**

As of December 31, 2024, we had leased a total of 52 properties, with 49 properties for hotel operations and three properties for other uses, such as headquarters and office premises. The gross floor area of our leased properties ranges from approximately 20 square meters to 66,000 square meters.

**Legal Proceedings**

We have been subject to legal proceedings, investigations and claims incidental to the conduct of our business from time to time, including actions relating to, among others, property lease, franchise agreements with our franchisees, infringement of our brand, employment-related disputes, personal injury, property damage or other harm resulting from acts or omissions by individuals or entities outside of our control, including franchisees and third-party property owners. Various disputes in connection with the properties we lease or with the franchise agreements may occur from time to time, which may cause our hotel operations to be affected or terminated in the worst-case scenario. As of December 31, 2024, we mainly had 14 pending legal proceedings in connection with the franchised-and-managed hotels. We are the plaintiff in most of these cases. See “Item 3. Key Information — D. Risk Factors — Risks Related to Our Business — We are subject to risks related to litigation filed by or against us, and adverse litigation results may harm our business and financial condition.”

Except as otherwise disclosed in this annual report, we are not currently a party to, nor are we aware of, any legal proceeding, investigation or claim which, in the opinion of our management, is, individually or in the aggregate, likely to have a material adverse effect on our business, financial condition or results of operations.

We have not set aside a reserve fund for litigation in which we are the defendant, because we believe that we are not likely to lose such litigation, or that if we were to lose such litigation, such loss would not have a material effect on our financial condition and results of operations.

**Restaurant Business**

In 2023, GreenTree completed its acquisition of Da Niang Dumplings and Bellagio, two leading restaurant chain businesses in China. Da Niang Dumplings is a leading quick service restaurant chain in China; Bellagio is a leading casual dining restaurant chain focusing on the Chinese market. Both restaurant brands focus on offering healthy and affordable fast food and casual dining services to mass consumers. Our restaurant business generated a combined revenue of about RMB278.6 million (US\$38.2 million) in 2024.

**Business operational data**

Our restaurant business had 182 locations in 53 cities as of December 31, 2024. As of the same date, we had 18 self-operated restaurants and 164 franchised restaurants. Our restaurants’ average daily sales per store decreased by 16.8% from 2023 to 2024.

We are committed to food quality and safety. We have implemented quality control measures that standardize food quality and safety in its supply chain and its restaurants. We conduct comprehensive food safety, quality and hygiene inspections. We devote significant staff resources to food quality and control, with over 5 designated staff directly responsible for food quality and safety.

## **Employees**

Our restaurant business had 1,167, 738 and 518 employees as of December 31, 2022, 2023 and 2024, respectively. None of our restaurants' employees is represented by a labor union. As of December 31, 2024, out of our restaurants' 518 employees, 411 were self-operated restaurant-based staff. We believe that our employees are our company's greatest resource and that developing and retaining a team of capable and motivated staff is critical to our success. We require employees in our restaurants to have at least a two-year associate's degree. We aim to recruit, train and retain the best talent through a disciplined recruiting and training process while offering competitive performance-linked and KPI-driven career advancement and development opportunities.

## **Strategic positioning**

After the restaurant business was merged into our company, we took some measures to control costs, including combining personnel in common functional departments, including the finance department and human resources department. We arranged a series of training for franchised-and-managed store staff delivered by experts of training academies. We closed unprofitable leased-and-operated stores while increasing the development of franchised-and-managed stores. Noting that more customers choose restaurants in their communities and streetside restaurants with convenient locations, in addition to considering prices, we are focusing on increasing the proportion of community stores and street-side stores, and reducing the number of stores in shopping malls.

## **Corporate Social Responsibility: Environmental Impact**

We have established a comprehensive digital human resources management system, and strive to create a platform that is conducive to the learning, development and growth of our employees. We have implemented a digital transformation from talent management, performance-based compensation, learning and training, to help build a sound foundation for our company's further rapid development.

We are committed to building a green supply chain. We support the use of more energy-efficient appliances and recyclable single-use items for hotels. Our hotel designs strive to reduce costs while extending service life by using environmentally-friendly and durable materials such as bamboo, rock and wood fiber in lieu of non-renewable materials. These designs are modern and aesthetically pleasing, in addition to being sustainable over the longer term. Our hotel designs and materials used also enable faster installation and shorter construction timeframes, thereby reducing consumption and conserving energy to help protect the environment.

To support and give back to society, we have preferential procurement arrangements with amenity producers that employ persons with disabilities. Each year when China's college entrance examinations are held, we call on our hotel brands to be the "preferential leisure room for college entrance examinations" to provide places of respite for students to relax and recharge in between examinations.

## **Regulatory Matters**

This following is a summary of the material laws and regulations or requirements that affect our business activities in China or the rights of our shareholders to receive dividends and other distributions from us.

The hotel industry in China is subject to a number of laws and regulations, including laws and regulations relating specifically to hotel operation and management and commercial franchising, as well as those relating to environmental and consumer protection. As with other industries in China, regulations governing the hotel industry in China are still developing and evolving and might be amended, upgraded or re-enacted from time to time. As a result, when any prevailing regulations are amended or upgraded, the hotel industry may be required to meet new or stricter standards, criteria or requirements. This section summarizes the principal PRC regulations currently relevant to our business and operations.

## Regulations on Foreign Ownership

The Foreign Investment Law of the PRC enacted by the National People's Congress, or the NPC, on March 15, 2019, and the Regulations for Implementation of the Foreign Investment Law of the People's Republic of China, or the Implementation Regulations, promulgated by the State Council, both of which became effective on January 1, 2020 replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The organization form, organization and activities of foreign-invested enterprises shall be governed, among others, by the Company Law of PRC and the Partnership Enterprise Law of PRC. Foreign-invested enterprises established before the implementation of the Foreign Investment Law may retain the original business organization and so on within five years after the implementation of this Law.

According to the Foreign Investment Law, foreign investments are entitled to pre-entry national treatment and are subject to negative list management system. The pre-entry national treatment means that the treatment given to foreign investors and their investments at the stage of investment access is not lower than that of domestic investors and their investments. The negative list management system means that the state implements special administrative measures for access of foreign investment in specific fields. Foreign investors shall not invest in any forbidden fields stipulated in the negative list and shall meet the conditions stipulated in the negative list before investing in any restricted fields. Foreign investors' investment, earnings and other legitimate rights and interests within the territory of China shall be protected in accordance with the law, and all national policies on supporting the development of enterprises shall equally apply to foreign-invested enterprises.

Investment activities in the PRC by foreign investors are principally governed by the *Catalog of Industries for Encouraging Foreign Investment*, or the *Encouraging Catalogue*, and the *Special Management Measures (Negative List) for the Access of Foreign Investment*, or the *Negative List* which were promulgated and are amended from time to time by the PRC Ministry of Commerce, or MOC, and the National Development and Reform Commission, or NDRC, and together with the *Foreign Investment Law* and their respective implementation rules and ancillary regulations. MOC and the NDRC promulgated the *Catalogue of Industries for Encouraging Foreign Investment (2022 Version)*, on October 26, 2022, and the *Special Management Measures (Negative List) for the Access of Foreign Investment (2021)*, or the 2021 Negative List, on December 27, 2021, to replace the previous encouraging catalogue and negative list thereunder.

Under the *Measures on Reporting of Foreign Investment Information* approved by MOC and the State Administration for Market Regulation, or SAMR, which came to effect on January 1, 2020, Foreign investors or foreign investment enterprises shall submit investment information through submission of initial reports, change reports, deregistration reports and annual reports to the commerce administrative authorities through the Enterprise Registration System and the National Enterprise Credit Information Publicity System. Where a foreign investor or foreign-funded enterprise, in violation of the provisions of the present Law, fails to report the investment information as required to the foreign investment information report system, the competent department for commerce concerned shall order it to make corrections within a time limit; if it fails to do so within the prescribed time limit, a fine of not less than 100,000 yuan but not more than 500,000 yuan shall be imposed.

According to the *Measures for the Security Review of Foreign Investment* promulgated by the NDRC and the MOC on December 19, 2020 and became effective on January 18, 2021, the NDRC and the MOC will establish a working mechanism office in charge of the security review of foreign investment. Such measures define foreign investment as direct or indirect investment by foreign investors in the PRC, which includes (i) investment in new onshore projects or establishment of wholly foreign owned onshore companies or joint ventures with foreign investors; (ii) acquiring equity or asset of onshore companies by merger and acquisition; and (iii) onshore investment by and through any other means. Investment in certain key areas with bearing on national security, such as important cultural products and services, important information technology and internet services and products, key technologies and other important areas with bearing on national security, and in the acquisition of de facto control of investee companies, shall be filed with the specifically established office before such investment is carried out. What may constitute "onshore investment by and through any other means" or "de facto control" could be broadly interpreted under such measures. It is likely that control through contractual arrangement be regarded as de facto control based on provisions applied to security review of foreign investment. Failure to make such filing may subject such foreign investor to rectification within prescribed period, and will be recorded as negative credit information of such foreign investor in the relevant national credit information system, which would then subject such investors to joint punishment as provided by relevant rules. If such investor fails to or refuses to undertake such rectification, it would be ordered to dispose of the equity or asset and to take any other necessary measures so as to return to the status quo and to erase the impact to national security.

### **Regulations on Mergers and Acquisitions**

Under the Measures on Reporting of Foreign Investment Information, foreign investors undertaking a merger and acquisition of a non- foreign investment enterprise in China shall submit an initial report through the Enterprise Registration System at the time of completion of change registration for the target enterprise.

A foreign investor acquiring shares, equities, property shares or any other similar rights and interests of an enterprise within the territory of China shall be subject to the Foreign Investment Law, which means if the investors do not follow the present law during the transaction of mergers and acquisition, the party may be subject to the penalties and fines under the newly promulgated Foreign Investment Law.

### **Regulations on Hotel Operation**

In November 1987, the Ministry of Public Security issued the Measures for the Control of Security in the Hotel Industry, and in June 2004, the State Council promulgated the Decision of the State Council on Establishing Administrative License for the Administrative Examination and Approval Items Really Necessary To Be Retained, which was amended on August 25, 2016. On March 29, 2022, the State Council promulgated the Measures for the Control of Security in the Hotel Industry (2022 Revision), which later came into effect on May 1, 2022. Under these three regulations, anyone who applies to operate a hotel is subject to examination and approval by the State Administration for Market Regulation and must obtain a special industry permit from the local public security authority. The Measures for the Control of Security in the Hotel Industry impose certain security control obligations on the operators. For example, the hotel must examine the identification card of any guest to whom accommodation is provided and make an accurate registration. The hotel must also report to the local public security authority if it discovers anyone violating the law or behaving suspiciously or an offender wanted by the public security authority. The Law of the PRC on Penalties for the Violation of Public Security Administration was promulgated on October 26, 2012 and entered into force on January 1, 2013. Pursuant to the Measures for the Control of Security in the Hotel Industry, the Law of the PRC on Penalties for the Violation of Public Security Administration and relevant local regulations, operating a hotel business without having obtained a special industry license may subject the operator to warnings, detention of between 10 and 15 days as well as fines of RMB500 to RMB1,000. Operators of hotel businesses who failed to obtain the special industry license, or who obtained the special industry license but have violated applicable administrative regulations, may also be subject to orders to suspend or cease their operations. According to the regulations of certain cities/provinces, such as Jiangsu, operating a hotel business without having obtained a special industry license may be banned by relevant public security departments, confiscated illegal gains, illegally operated items, and tools and equipment directly used for illegal operations, and a fine ranging from RMB5,000 to RMB20,000 shall be imposed; if the circumstances are serious, they shall also be fined between RMB20,000 to RMB200,000. See “Item 3. Key Information — D. Risk Factors — Risks Related to Our Business — Failure to comply with government regulations relating to the leased-and-operated and franchised-and-managed business models, hospitality and restaurant industries, construction, fire prevention, food hygiene, safety and environmental protection could materially and adversely affect our business and results of operations.”

In April 1987, the State Council promulgated the Public Area Hygiene Administration Regulation and subsequently amended the same on February 6, 2016 and April 23, 2019, and on March 10, 2011, the Ministry of Health promulgated the Implementing Measures for the Public Area Hygiene Administration Regulation and the National Health and Family Planning Commission amended this regulation on January 19, 2016 and on December 26, 2017. According to these regulations, a hotel must obtain a public area hygiene license before opening for business. Pursuant to these regulations, hotels failing to obtain a public area hygiene license or comply with other requirements set forth in such regulations may be subject to the following administrative penalties depending on the seriousness of their respective activities: (i) warnings; (ii) fines between RMB500 and RMB30,000; or (iii) orders to suspend operations for rectification, or to revoke the public hygiene license. See “Item 3. Key Information — D. Risk Factors — Risks Related to Our Business — Failure to comply with government regulations relating to the franchise business model, hospitality and restaurant industries, construction, fire prevention, food hygiene, safety and environmental protection could materially and adversely affect our business and results of operations.”

Since 2018, management for waste sorting and recycling has been implemented across the country, and corresponding management regulations and administrative penalties have been formulated for companies/persons who violate the waste sorting and recycling management regulations, such as the Article 57 of Regulations on the Management of Domestic Waste in Shanghai. On January 31, 2019, the Standing Committee of the Shanghai Municipal People's Congress issued the "Regulations on the Management of Domestic Waste in Shanghai", which were officially implemented on July 1, 2019. Article 57 of the regulations stipulates that if a company violates the provisions of paragraph 1 of Article 24 of these regulations and fails to put household garbage into corresponding collection containers, the urban management law enforcement department shall order it to make corrections immediately; if it refuses to make corrections, it shall be fined not less than RMB5,000 but not more than RMB50,000.

On June 10, 2021, the Standing Committee of the National People's Congress promulgated the Production Safety Law of the People's Republic of China, which will be officially implemented on September 1, 2021. The law stipulates that production and business entities shall educate and train employees on work safety to ensure that employees have the necessary knowledge of work safety, are familiar with relevant work safety rules and regulations and safety operation procedures, master the safety operation skills of their posts, and understand accidents emergency measures, and know their rights and obligations in safety production. In addition, employees who are not qualified for work safety education and training should not allowed to work.

For production and operation companies that fail to provide safety production education and training to employees, dispatched workers and interns in accordance with regulations, or fail to truthfully inform relevant production safety issues as required, they shall be ordered to make corrections within a time limit and may be fined RMB50,000; If the correction is not made within the time limit, it shall be ordered to suspend production and business for rectification, and a fine of not less than RMB50,000 but not more than RMB100,000 shall be imposed; the person in charge directly responsible and other directly responsible personnel shall be fined not less than RMB10,000 but not more than RMB20,000.

In order to protect and improve the environment and prevent and control air pollution, the Standing Committee of the National Congress formulated the Law of the People's Republic of China on the Prevention and Control of Air Pollution, which was promulgated and took effect on October 26, 2018. The operator shall install oil fume purification facilities and keep them in normal use, or take other oil fume purification measures to discharge oil fume up to the standard and prevent pollution to the normal living environment of nearby residents. It is also prohibited to build, rebuild or expand catering service projects that generate oily smoke, odor and exhaust gas in residential buildings, commercial and residential complex buildings without special flues, and commercial floors adjacent to residential floors in commercial and residential complex buildings.

Article 118 stipulates food and beverage business operators which emit fume and violate the provisions of this Law in failing to install and use fume purification facilities properly or failing to adopt other fume purification measures and emit fume beyond the emission standards shall be ordered by the supervision and administration authorities determined by the local People's Governments of county level and above to make correction, and be subject to a fine ranging from RMB5,000 to RMB50,000; offenders who refuse to make correction shall be ordered to suspend production and rectify; Offenders who violate the provisions of this Law in undertaking new establishment, alteration and expansion of food and beverage business operations which emit fume, odor and waste gases within residential buildings, commercial cum residential buildings which have not installed complementary dedicated flue, and commercial floors of commercial cum residential buildings adjacent to residential floors, shall be ordered by the supervision and administration authorities determined by the local People's Governments of county level and above to make correction; offenders who refuse to make correction shall be ordered to close down, and be subject to a fine ranging from RMB10,000 to RMB100,000.

With the purpose of guaranteeing food safety and the safeguarding the health and life safety of the public, the SCNPC enacted the *PRC Law on Food Safety* in February 2009 and amended the same on April 24, 2015, on December 29, 2018 and on April 29, 2021. Also, the SCNPC adopted the *Implementation Rules of the Food Safety Law* which became effective on July 20, 2009 and amended on February 6, 2016 and on October 11, 2019. On March 4, 2010, the Ministry of Health promulgated the *Administrative Measures on Food and Beverage Service Licensing and Administrative Measures on Food Safety Supervision in Food and Beverage Services*. And on July 30, 2009, the SAIC promulgated the *Administrative Measures for the Food Circulation License*. These three measures were subsequently repealed in 2015 to comply with the newly amended *PRC Law on Food Safety*. Under this Law, providers of consumer food services are required to obtain a food service license and are responsible for safety in food and beverage service. Moreover, providers for food circulation service shall obtain a food circulation license. In August 2015, the China Food and Drug Administration, or the CFDA promulgated the *Administrative Measures for Food Operation Licensing* and subsequently amended the same on November 17, 2017. In March 2018, China formed the State Administration of Market Regulation (“SAMR”), after which the CFDA was no longer retained. On June 15, 2023, the SAMR promulgated the *Measures for the Administration of Food Business Licensing and Record-keeping*, and this paper subsequently came into effect on December 1, 2023. Under the above measure, a food operation permit shall be obtained in accordance with the law to engage in food selling and catering services within the territory of the People’s Republic of China. The date of issuance of the food operation permit is the date of the licensing decision, and the validity period is five years. Food operators need to continue the validity of food operation permit obtained in accordance with the law, should be in the food operation permit expires ninety working days to fifteen working days before the expiration of the license period, to the original issuance of market supervision and management departments to apply. In the food business license expires within fifteen working days before the application for renewal of the license, the original food business license expires, the food business operators should suspend food business activities, the original license issued by the market supervision and management department to make a decision to grant the continuation of the decision to continue to carry out food business activities. Currently, each of the restaurants run in our hotels is required to obtain a food operation license in order to offer food sales and catering services. Pursuant to the *PRC Law on Food Safety*, hotels failing to obtain a food operation license (or formerly food hygiene license) may be subject to: (i) confiscation of illegal gains, food illegally produced for sale and tools, facilities and raw materials used for illegal production; or (ii) fines between RMB50,000 and RMB100,000 if the value of food illegally produced is less than RMB10,000 or fines equal to 10 to 20 times of the value of food if such value is equal to or more than RMB10,000. See “Item 3. Key Information — D. Risk Factors — Risks Related to Our Business — Failure to comply with government regulations relating to the leased-and-operated and franchised-and-managed business models, hospitality and restaurant industries, construction, fire prevention, food hygiene, safety and environmental protection could materially and adversely affect our business and results of operations.”

The PRC legal framework governing fire prevention is set forth in the Fire Prevention Law which was adopted on April 29, 1998 and amended on April 29, 2021. According to the Fire Prevention Law and other relevant laws and regulations of the PRC, the Ministry of Emergency Management and its local counterparts at or above county level shall monitor and administer the fire prevention affairs. The Fire Prevention Law provides that the fire prevention design or construction of a construction project must conform to the national fire prevention technical standards. Before construction and decoration of a hotel, the construction entity shall submit the fire prevention design documents to the housing and urban-rural development authority for examination and approval. Upon completion, the construction entity must go through the fire prevention acceptance check with the housing and urban-rural development authority and no construction may be put into use before it is accepted by the relevant authorities. For each public assembly venue such as a hotel, the construction entity or entity using such venue shall, prior to use and operation of any business thereof, apply for a safety check on fire prevention with the relevant fire prevention department under the public security authority at or above the county level where the venue is located, and such place could not be put into use and operation if it fails to pass the safety check on fire prevention or fails to conform to the safety requirements for fire prevention after such check. According to our consultation responses with fire and rescue departments in different provinces and cities, there are differences in the requirements for fire safety inspections of food and beverage establishments prior to opening in different cities. In cities such as Xiamen and Ningbo, food and beverage establishments with a floor area of more than 300 square meters are required to complete a fire safety inspection prior to their official opening. In addition, for the cities of Shanghai, Wuxi, Suzhou and Nanjing, regardless of the size of the food and beverage outlets, all of them are required to pass the fire safety inspection before opening. Pursuant to these regulations, hotels failing to obtain approval of fire prevention design plans or failing fire prevention safety inspections (including acceptance check and safety check on fire prevention) may be subject to: (i) orders to suspend the construction of projects, use or operation of business; and (ii) fines between RMB30,000 and RMB300,000. On July 28, 2019, the General Office of the CPC Central Committee and the General Office of the State Council promulgated the Notice of the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council on Promulgation of the Opinions on Deepening the Reform of Fire Control Law Enforcement, or the Opinions. Under the Opinions, public gathering premises (including hotels) may be put into use or commence business after obtaining a business license or satisfying the conditions for putting into use pursuant to the applicable law, and upon submission of an application through the online government services platform or onsite to the fire control departments and undertaking that the premises comply with fire safety standards. Each hotel passing the fire safety inspection on public assembly venues will obtain a certificate for fire safety inspection on public assembly venues. See “Item 3. Key Information — D. Risk Factors — Risks Related to Our Business — Failure to comply with government regulations relating to the leased-and-operated and franchised-and-managed business models, hospitality and restaurant industries, construction, fire prevention, food hygiene, safety and environmental protection could materially and adversely affect our business and results of operations.”

In January 2006, the State Council promulgated the *Regulations for Administration of Entertainment Places* and amended them on February 6, 2016 and on November 29, 2020. Under these regulations, hotels that provide entertainment facilities, such as discos or ballrooms, are required to obtain a license for entertainment business operations.

On October 18, 2010, the General Administration of Quality Supervision, Inspection and Quarantine and Standardization Administration approved and issued the Classification and Accreditation for Star-rated Tourist Hotels (GB/T14308-2010), which became effective on January 1, 2011. On November 19, 2010, the National Tourist Administration promulgated the Implementation Measures of Classification and Accreditation for Star-rated Tourist Hotels, which also became effective on January 1, 2011. Under these regulations, all hotels which have been in operation for over one year are eligible to apply for a star rating assessment. There are five ratings for tourist hotels from one star to five stars, which ratings are assessed based on facilities, management standards and quality of service. A star rating, once granted, is valid for three years.

On April 25, 2013, the SCNPC issued the Tourism Law of the People's Republic of China, which became effective on October 1, 2013 and was most recently amended on October 26, 2018. According to this law, accommodation providers must fulfill the obligations under their agreements with customers.

All of the foregoing regulations on hotel operation apply to our company both as the operator of our leased-and-operated hotels, and as the franchisor of our franchised-and-managed hotels.

#### **Regulations on Leasing**

Under the *Law on Urban Real Estate Administration* promulgated by the SCNPC, which took effect as of January 1995 with the latest amendment in August 2019, lessors and lessees are required to enter into a written lease contract, containing such provisions as the term of the lease, the use of the premises, liability for rent and repair, and other rights and obligations of both parties. Both lessor and lessee are also required to register the lease with the real estate administration department. Pursuant to implementing rules stipulated by certain provinces or cities, such as Tianjin, if the lessor and lessee fail to go through the registration procedures, both lessor and lessee may be subject to warnings, rectifications and/or other penalties. See "Item 3. Key Information — D. Risk Factors — Risks Related to Our Business — Our lessors' failure to comply with lease registration and other compliance requirements under PRC law may subject these lessors or us to fines or other penalties that may negatively affect our ability to operate our hotels."

According to the *PRC Civil Code* (which took effect on January 1, 2021 and replaced, among others, the *PRC Contract Law* and the *PRC Property Law*), subject to consent of the lessor, the lessee may sublease the leased item to a third party. Where the lessee subleases the lease item, the leasing contract between the lessee and the lessor remains valid. The lessor is entitled to terminate the contract if the lessee subleases the lease item without the consent of the lessor. See "Item 3. Key Information — D. Risk Factors — Risks Related to Our Business — The legal rights of our franchisees and us to use certain leased properties could be challenged by property owners or other third parties, which could prevent our franchisees or us from operating the affected hotels or increase the costs associated with operating these hotels."

On December 1, 2010, the Ministry of Housing and Urban-Rural Development promulgated the *Administrative Measures for Commodity Housing Tenancy*, which took effect on February 1, 2011. Under this regulation, a property may not be leased in some circumstances, including if the designated use of the property is changed in violation of applicable regulations. This regulation further provides that the competent real estate departments of the people's governments of the municipalities directly under the central government, cities and counties shall urge those who violate above provisions to make corrections within a specified time limit, and impose a fine below RMB5,000 on those who have not obtained illegal income. A fine between three and five times the amount of illegal income up to RMB30,000 may be imposed on those who have obtained illegal gains.

Pursuant to the *PRC Civil Code*, if the mortgaged property has been leased and transferred for occupation prior to the establishment of the mortgage right, the original tenancy shall not be affected by such mortgage right. According to the *Interpretation of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Cases about Disputes Over Lease Contracts on Urban Buildings (2020 version)*, which took effect on January 1, 2021, if the ownership of the leased premises changes during lessee's possession in accordance with the terms of the lease contract, and the lessee requests the assignee to continue to perform the original lease contract, the PRC court shall support it, except that the mortgage right has been established before the lease of the leased premises and the ownership changes due to the mortgagee's realization of the mortgage right. See "Item 3. Key Information — D. Risk Factors — Risks Related to Our Business — The legal rights of our franchisees and us to use certain leased properties could be challenged by property owners or other third parties, which could prevent our franchisees or us from operating the affected hotels or increase the costs associated with operating these hotels."

#### **Regulations on Usage of Land or Property**

The regulations governing the land or property usage mainly include the *Land Administration Law of the People's Republic of China* adopted by the Standing Committee of the National People's Congress on June 25, 1986, and most recently amended on August 26, 2019, and the *Regulations on the Implementation of the Land Administration Law of the People's Republic of China* promulgated according to the Order of the State Council No. 256 on December 27, 1998 and further revised in accordance with the Decision of the State Council on Revising Certain Administrative Regulations on July 29, 2014 and September 1, 2021.

According to the above regulations, as to state-owned land and land collectively-owned by farmers, construction entities shall use such land, construction according to the stipulations of the land use right lease contract or according to the provisions of the approval documents relevant to the allocation of land use rights. As for state-owned land, the conversion of the land to land used for construction purposes shall receive the consent of the competent natural resources administrative departments of relevant people's governments and be submitted to the people's governments that originally granted land use approval. When changing the purpose of land within urban planning areas, consent shall be obtained from the relevant urban planning administration departments before submission; without such approvals, the use of land specified in the relevant overall land utilization plan shall not be changed. Under these regulations, failure to comply with the approved usage may subject the owners of such properties and/or the tenants to fines or other penalties, including potentially being required to cease such non-compliant operations and being requested by the relevant land administrative authority to return the land. If the land is not used in accordance with the approved land use purpose, the rural collective economic organization may take back the land use rights upon approval by the People's Government which has approved the land use previously.

#### **Regulations on Consumer Protection**

In October 1993, the SCNPC promulgated the *Law on the Protection of the Rights and Interests of Consumers* which has been amended on October 25, 2013, or the *Consumer Protection Law*. Under the *Consumer Protection Law*, a business operator providing a commodity or service to a consumer is subject to a number of requirements, including the following:

- to ensure that commodities and services meet certain safety requirements;
- to disclose serious defects of a commodity or a service and to adopt preventive measures against damage occurrence;
- to provide consumers with accurate information and to refrain from conducting false advertising;
- not to set unreasonable or unfair terms for consumers or alleviate or release itself from civil liability for harming the legal rights and interests of consumers by means of standard contracts, circulars, announcements, shop notices or other means; and
- not to insult or slander consumers or to search the person of, or articles carried by, a consumer or to infringe upon the personal freedom of a consumer.

Business operators may be subject to civil liabilities for failing to fulfill the obligations discussed above. These liabilities include restoring the consumer's reputation, eliminating the adverse effects suffered by the consumer, and offering an apology and compensation for any losses incurred. The following penalties may also be imposed upon business operators for the infraction of these obligations: issuance of a warning, confiscation of any illegal income, imposition of a fine, an order to cease business operation, revocation of its business license or imposition of criminal liabilities under circumstances that are specified in laws and statutory regulations.

On December 26, 2003, the PRC Supreme People's Court published the *Interpretation of Some Issues Concerning the Application of Law for the Trial of Cases on Compensation for Personal Injury* which took effect on May 1, 2004, was amended on December 29, 2020, and was most recently revised on February 15, 2022. On May 8, 2020, the National People's Congress of the PRC enacted the *PRC Civil Code*, which became effective on July 1, 2021. The above interpretation and law further increase the liabilities of business operators engaged in the operation of hotels, restaurants, or entertainment facilities and subject such operators to compensatory liabilities for failing to fulfill their statutory obligations or to guarantee the personal safety of others.

On February 25, 2023, the State Administration of Market Supervision promulgated the Measures for the Administration of Internet Advertisements, and these Measures came into effect on May 01, 2023. Under these measures, Internet advertisements should be truthful and lawful, adhere to the correct orientation, express the advertisement content in a healthy form of expression, and conform to the requirements of the construction of socialist spiritual civilization and the promotion of Chinese excellent traditional culture.

#### **Regulations on Protection of Information on Networks**

On December 28, 2012, SCNPC issued the Decision of the Standing Committee of the National People's Congress on Strengthening Information Protection on Networks, pursuant to which network service providers and other enterprises and institutions shall, when gathering and using electronic personal information of citizens in business activities, publish their collection and use rules and adhere to the principles of legality, rationality and necessarily, explicitly state the purposes, manners and scopes of collecting and using information, and obtain the consent of those from whom information is collected, and shall not collect and use information in violation of laws and regulations and the agreement between both sides; and the network service providers and other enterprises and institutions and their personnel must strictly keep such information confidential and may not divulge, alter, damage, sell, or illegally provide others with such information.

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

On June 1, 2017, the Cybersecurity Law of the People's Republic of China promulgated in November, 2016 by SCNPC became effective. This law also absorbed and restated the principles and requirements mentioned in the aforesaid decision and order, and further provides that, where an individual finds any network operator collects or uses his or her personal information in violation of the provisions of any law, regulation or the agreement of both parties, the individual shall be entitled to request the network operator to delete his or her personal information; if the individual finds that his or her personal information collected or stored by the network operator has any error, he or she shall be entitled to request the network operator to make corrections, and the network operator shall take measures to do so. Pursuant to this law, the violators may be subject to: (i) warning; (ii) confiscation of illegal gains and fines equal to 100% to 1,000% of the illegal gains; or if without illegal gains, fines up to RMB1,000,000; or (iii) an order to shut down the website, suspend the business operation for rectification, or revoke business license. Besides, responsible persons may be subject to fines between RMB10,000 and RMB100,000.

On November 28, 2019, the Secretary Bureau of the Cyberspace Administration of China, or CAC the General Office of the Ministry of Industry and Information Technology, the General Office of the Ministry of Public Security and the General Office of the SAMR promulgated the *Identification Method of Illegal Collection and Use of Personal Information Through App*, which provides guidance for the regulatory authorities to identify the illegal collection and use of personal information through mobile apps, and for the app operators to conduct self-examination and self-correction and for other participants to voluntarily monitor compliance. The *Personal Information Protection Law* promulgated by the SCNPC on August 20, 2021 further strengthened the protection of personal information and provides that no organization or individual may illegally collect, use, process or transmit the personal information of others, illegally buy or sell, provide or make public the personal information of others, or engage in the handling of personal information that endangers the national security or public interests. We have required our users to consent to our collecting and using their personal information, and established information security systems to protect user's privacy. Furthermore, pursuant to the PRC Civil Code, any organization or individual shall legally obtain personal information of others when necessary and ensure the safety of such information, and shall not illegally collect, use, process or transmit personal information of others, or illegally purchase or sell, provide or make public personal information of others.

On February 22, 2023, the Cyberspace Administration of China promulgated the Measures for Standard Contracts for the Exit of Personal Information, which subsequently came into force on June 01, 2023. This measure sets out more specific requirements and norms for the cross - border transfer of personal information, including the necessity of signing contracts and clarifying responsibilities and obligations. This initiative aims to strengthen the protection of personal information, regulate the behavior of personal information leaving the country, and prevent the illegal acquisition and misuse of personal information. On September 28, 2023, the Cyberspace Administration of China issued the Provisions on Regulating and Facilitating Cross - border Flow of Data (Draft for Public Comments).

## Regulations Relating to Internet Content and Information Security

The Administrative Measures on Internet Information Services specifies that internet information services regarding news, publications, education, medical and health care, pharmacy and medical devices, among other things, are to be examined, approved and regulated by the relevant authorities. Internet information providers are prohibited from providing services beyond those included in the scope of their ICP licenses or filings. Furthermore, these measures clearly specify a list of prohibited content. Internet information providers are prohibited from producing, copying, publishing or distributing information that is humiliating or defamatory to others or that infringes the lawful rights and interests of others. Internet information providers that violate the prohibition may face criminal charges or administrative sanctions by the PRC authorities. Internet information providers must monitor and control the information posted on their websites. If any prohibited content is found, they must remove the offending content immediately, keep a record of it and report to the relevant authorities. Furthermore, in 2019, the CAC issued the Provisions on the Management of Network Information Content Ecology, or the CAC Order No. 5, which became effective on March 1, 2020, to further strengthen the regulation and management of network information content. Pursuant to the CAC Order No. 5, each network information content service platform is required, among others, (i) not to disseminate any information prohibited by laws and regulations, such as information jeopardizing national security; (ii) to strengthen the examination of advertisements published on such network information content service platform; (iii) to promulgate management rules and platform convention and improve user agreement, such that such network information content service platform could clarify users' rights and obligations and perform management responsibilities required by laws, regulations, rules and convention; (iv) to establish convenient means for complaints and reports; and (v) to prepare annual work report regarding its management of network information content ecology. In addition, a network information content service platform must not, among others, (i) utilize new technologies such as deep learning and virtual reality to engage in activities prohibited by laws and regulations; (ii) engage in online traffic fraud, malicious traffic rerouting and other activities related to fraudulent account, illegal transaction account or maneuver of users' account; or (iii) infringe a third party's legitimate rights or seek illegal interests by way of interfering with information display. Internet information in China is also regulated and restricted from a national security standpoint. The SCNPC enacted the Decisions on Maintaining Internet Security, which may subject violators to criminal punishment in China for any effort to: (1) gain improper entry into a computer or system of strategic importance; (2) disseminate politically disruptive information; (3) leak state secrets; (4) spread false commercial information; or (5) infringe intellectual property rights. The Ministry of Public Security has promulgated measures that prohibit use of the internet in ways which, among other things, result in a leakage of state secrets or a spread of socially destabilizing content. In addition, the Standing Committee of the National People's Congress promulgated the Cyber Security Law of the People's Republic of China, or the Cyber Security Law, effective on June 1, 2017, to protect cyberspace security and order. Pursuant to the Cyber Security Law, any individual or organization using the network must comply with the constitution and the applicable laws, follow the public order and respect social moralities, and must not endanger cyber security, or engage in activities by making use of the network that endanger the national security, honor and interests, or infringe on the fame, privacy, intellectual property and other legitimate rights and interests of others. The Cyber Security Law sets forth various security protection obligations for network operators, which are defined as "owners and administrators of networks and network service providers", including, among others, complying with a series of requirements of tiered cyber protection systems; verifying users' real identity; localizing the personal information and important data gathered and produced by key information infrastructure operators during operations within the PRC (where such information and data have to be provided abroad for business purpose, subject to applicable laws and regulations, security assessment shall be conducted); and providing assistance and support to government authorities where necessary for protecting national security and investigating crimes.

## Regulations on Environmental Protection

On February 29, 2012, the SCNPC issued the amended *Law on Promoting Clean Production*, which regulates service enterprises such as restaurants, entertainment establishments and hotels and requires them to use technologies and equipment that conserve energy and water, serve other environmental protection purposes, and reduce or stop the use of consumer goods that waste resources or pollute the environment.

According to the *Environmental Protection Law of the People's Republic of China* promulgated by the SCNPC on December 26, 1989 and amended on April 24, 2014 and the *Environmental Impact Assessment Law of the People's Republic of China* promulgated by the SCNPC on October 28, 2002 and most recently amended on December 29, 2018, respectively, the *Regulations Governing Environmental Protection in Construction Projects* promulgated by the State Council on November 29, 1998 and amended on July 16, 2017, hotels shall submit a Report on Environmental Impact Assessment and an Application Letter for Acceptance of Environmental Protection Facilities in Construction Projects to competent environmental protection authorities for approvals before commencing the operation. Pursuant to the *Environmental Impact Assessment Law of the People's Republic of China*, any hotel failing to obtain the approval of an Environmental Impact Assessment may be ordered to cease construction, pay a fine of not less than 1% but not more than 5% of the total investment of the construction project on it, and be ordered restore to the original state, and the person directly responsible for the project may be subject to certain administrative penalties.

The Law of the People's Republic of China on the *Prevention and Control of Water Pollution* first became effective on November 1, 1984 and was most recently amended on June 27, 2017. The law applies to the prevention and control of pollution of rivers, lakes, canals, irrigation channels, reservoirs and other surface water bodies and groundwater within the PRC. According to the provisions of this Law and other relevant laws and regulations of the PRC, the Ministry of Environmental Protection and its local counterparts at or above county level shall take charge of the administration and supervision on the matters of prevention and control of water pollution.

The Law of the People's Republic of China on the *Prevention and Control of Water Pollution* provides that environmental impact assessment should be conducted in accordance with the relevant laws and regulations for new construction projects and expansion or reconstruction projects and other facilities on water that directly or indirectly discharge pollutants to water bodies. Facilities for the prevention and control of water pollution at a construction project shall be designed, built and put into use along with the main structure of the construction project. The construction project shall only be used after facilities for the prevention and control of water pollution pass the inspection and acceptance by the Ministry of Environmental Protection and its competent local counterparts. Dismantling or putting off operation of such installations shall be subject to prior approval of the local counterpart of the Ministry of Environmental Protection at or above the county level.

#### **Regulations on Commercial Franchising**

Franchise operations are subject to the supervision and administration of the MOC, and its regional counterparts. Such activities are currently regulated by the *Regulations on the Administration of Commercial Franchising* promulgated by the State Council on February 6, 2007, effective as of May 1, 2007. The *Regulations on the Administration of Commercial Franchising* were supplemented by the new *Administrative Measures for Archival Filing of Commercial Franchises* which were issued by the MOC on December 12, 2011 and took effect on February 1, 2012 and it has been amended and put into effect on December 29, 2023. The new *Administrative Measures for Information Disclosure of Commercial Franchises* which were issued by the MOC on February 23, 2012 and took effect on April 1, 2012.

Under the above applicable regulations, a franchisor must have certain prerequisites including a mature business model, the capability to provide long-term business guidance, technical support and training services to franchisees and ownership of at least two directly-managed storefronts that have been in operation for at least one year within China. Franchisors engaged in franchising activities without satisfying the above requirements may be subject to penalties such as forfeit of illegal income and imposition of fines between RMB100,000 and RMB500,000 and may be bulletined by the MOC or its local counterparts. Franchise contracts shall include certain required provisions, such as terms, termination rights and payments.

A franchisor is required to file its business license, sample franchise agreement and other documents to the provincial commerce authority where it is registered for record within fifteen days following the execution of its first franchise agreement with a franchisee inside the PRC. If the franchisor conducts franchise business in two or more municipalities, provinces or autonomous regions, it is required to file with the Ministry of Commerce. Franchisors who comply with the provisions of the above applicable regulations shall, in accordance with the law, make filing through commercial franchise information management system established by the Ministry of Commerce. Moreover, the franchisor shall file information regarding the execution, withdrawal, renewal of and amendment to franchise agreements to the commerce authority for record before March 31 of each year.

Certain changes in the recorded information of the franchisor should also be filed with the relevant commerce authority within thirty days following the occurrence of these changes. For a franchisor failing to file in accordance with these regulations, the relevant commerce authority may order it to comply within a designated time frame and impose a fine ranging from RMB10,000 to RMB50,000. If the franchisor fails to comply as ordered, the relevant commerce authority may impose another fine ranging from RMB50,000 to RMB100,000 and publicly announce the franchisor's violation.

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

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

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

In the event of failure to disclose or misrepresentation, the franchisee may terminate the franchise contract and the franchisor may be fined up to RMB300,000. In addition, such non-compliance may be bulletined.

According to the *2008 Handbook of Market Access of Foreign Investment* promulgated by the MOC in December 2008, if an existing foreign-invested company wishes to operate a franchise in China, it must apply to its original examination and approval authority to expand its business scope to include "engaging in commercial activities by way of franchise."

#### ***Regulations on Intellectual Property Rights***

The PRC has adopted comprehensive legislation governing intellectual property rights, including copyrights, patents, trademarks and domain names.

**Copyright.** Copyright in the PRC, including copyrighted software, is principally protected under the Copyright Law and related rules and regulations. Under the Copyright Law, the term of protection for copyrighted software is 50 years.

**Trademark.** The PRC Trademark Law and its implementation rules protect registered trademarks. The PRC Trademark Law has adopted a “first-to-file” principle with respect to trademark registration. The National Intellectual Property Administration, or the Trademark Office, is responsible for the registration and administration of trademarks throughout the PRC and grants a term of ten years to registered trademarks and another ten years if requested upon expiry of the initial or extended term. Trademark license agreements must be filed with the Trademark Office for record.

**Patent.** Pursuant to the PRC Patent Law and its implementation rules, once a patent for an invention, utility model has been granted, unless otherwise provided by the Patent Law, no entity or individual may use the patent, patented product or patented process for production or business purposes without the authorization of the patent owner. Once a patent has been granted for a design, no entity or individual may manufacture, sell or import any product containing the patented design without the permission of the patent owner. If a patent is found to have been infringed, the infringer must, in accordance with relevant regulations, cease such infringement, take remedial action and pay damages.

**Domain Name.** Domain names are protected under the *Administrative Measures on the China Internet Domain Names* promulgated by the MIIT in 2004, which will be replaced by the *Administrative Measures on the Internet Domain Names* effective on November 1, 2017. The MIIT is the major regulatory authority responsible for the administration of the PRC Internet domain names. The registration of domain names in PRC is on a “first-apply-first-registration” basis. A domain name applicant will become the domain name holder upon the completion of the application procedure.

#### **Regulations on Internet Information Services**

The Telecommunications Regulations of the People’s Republic of China (Revised in 2016) which took effect on February 6, 2016 and the Administrative Measures for Internet Information Services (Revised in 2011) which took effect on January 8, 2011 provide that anyone wishing to engage in the provision of commercial internet information services shall apply to the telecommunications administration authority of the province, autonomous region or municipality directly under the Central Government or the State Council’s department in charge of the information industry for an operating permit for value-added telecommunications services of internet information services.

In July 2006, the Ministry of Information Industry, the predecessor of the Ministry of Industry and Information Technology, or the MIIT, issued the Circular on Strengthening the Administration of Foreign Investment in the Operation of Value-added Telecommunications Business, pursuant to which a PRC domestic company that holds an operating license for value-added telecommunications business, which we refer to as an ICP License, is prohibited from leasing, transferring or selling the ICP License to foreign investors in any form and from providing any assistance, including resources, sites or facilities, to foreign investors that conduct a value-added telecommunications business illegally in the PRC. Further, the domain names and registered trademarks used by an operating company providing value-added telecommunications services must be legally owned by that company or its shareholders. In addition, the company’s operational premises and equipment must comply with the approved coverage region on its ICP License, and the company must establish and improve its internal internet and information security policies and standards and emergency management procedures. If an ICP License holder fails to comply with the requirements and also fails to remedy such non-compliance within a specified period of time, the MIIT or its local counterparts have the discretion to take administrative measures against the license holder, including revoking its ICP license. If anyone operates telecommunications business without authorization or beyond its scope of business, the State Council’s department in charge of the information industry or the telecommunications administration authority of the province, autonomous region or municipality directly under the central government shall, ex officio, order rectification of the matter, confiscate the illegal income and impose a fine of up to five times the amount illegal income; if there is no illegal income or if the illegal income is less than RMB50,000, a fine of not less than RMB100,000 and not more than RMB1 million shall be imposed; if the case is serious, the perpetrator shall be ordered to suspend operations and undergo rectification.

On June 10, 2021, National People's Congress of the People's Republic of China adopted the Data Security Law of the PRC, is hereby promulgated, effective September 1, 2021. The Data Security Act requires data processing in a lawful and appropriate manner, including the collection, storage, use, processing, transmission, provision and disclosure of data. The Data Security Act sets out data security and privacy obligations for entities and individuals conducting data processing activities. Moreover, data classification and grading protection system has been introduced. Under the Act of Data Security, processors of important data need to conduct risk assessments for their data processing activities, and submit risk assessment reports to relevant authorities. National core data (that is, data related to national security, the lifeline of the national economy, important people's livelihood and major public interests) should be subject to a stricter management system. In addition, the Data Security Act provides for national security review procedures for data processing activities that affect or may affect national security and imposes export controls on certain data and information. Furthermore, the Data Security Act stipulates that without the approval of the competent authorities of the Chinese government, any organization or individual in China shall not provide any data stored in China to any foreign judicial and law enforcement agencies. On February 22, 2023, the Cyberspace Administration of China promulgated the Measures for Standard Contracts for the Exit of Personal Information, which subsequently came into force on June 01, 2023. On September 28, 2023, the Cyberspace Administration of China issued the Provisions on Regulating and Facilitating Cross-border Flow of Data (Draft for Public Comments). These two regulations stipulate that the outbound activities of personal information through the conclusion of standardized contracts shall adhere to the combination of autonomous contracting and record management, the protection of rights and interests and the prevention of risks, so as to safeguard the safe and free flow of personal information across borders.

On August 20, 2021, the SCNPC of the People's Republic of China promulgated the Personal Information Protection Law, which stipulates personal information rights and privacy protection, and takes effect on November 1, 2021. The Personal Information Protection Law stipulates protection requirements for handling personal information, including but not limited to the collection, storage, use, processing, transmission, provision, disclosure, and deletion of personal information. On November 18, 2022, the Cyberspace Administration of China promulgated the *Implementation Rules for Personal Information Protection Certification*, which stipulates that the certification model for personal information protection certification is: technical verification + on-site audit + post-certification supervision. We may need to further adjust our business practices to comply with personal information protection laws and regulations (including the Personal Information Protection Act).

On December 28, 2021, the Cyberspace Administration of China promulgated the "Measures for Cybersecurity Review", which became effective on February 15, 2022. According to the Cybersecurity Review Measures and other Chinese cybersecurity laws and regulations and draft measures, critical information infrastructure operators planning to purchase network products and services that affect or may affect national security must undergo cybersecurity review by the Cyberspace Administration of China. In addition, the measures stipulate that data processors that carry out data processing activities that affect or may affect national security are also subject to cybersecurity review. The measure further stipulates that if an operator has the personal information of more than 1 million users and plans to list it abroad, it must undergo a cybersecurity review.

On July 7, 2022, the Cyberspace Administration of China promulgated the *Measures for Security Assessment of Data Exports*, which became effective on September 1, 2022, and which stipulates that important data collected and generated during operations in China to be provided overseas and security assessments should be conducted in accordance with the law. Data processors of personal information should conduct security assessments. The *Measures* approach further specifies the procedures and requirements for safety assessment. The *Measures* have clarified four situations in which data export security assessment should be declared: (i) data processors provide important data abroad; (ii) key information infrastructure operators and data processors that process personal information of more than 1 million individual provide personal information overseas; (iii) since January 1, 2021, data processors who have provided personal information of 100,000 individual or sensitive personal information of 10,000 individual overseas have provided personal information overseas; (iv) other situations that require declaration of data export security assessment as stipulated by the Cyberspace Administration of China. The *Measures* clarify that data processors who violate the provisions of these *Measures* shall be dealt with in accordance with the provisions of the Cyber Security Law of the PRC, the Data Security Law of the PRC, the Personal Information Protection Law of the PRC and other laws and regulations; if a crime is constituted, criminal responsibility shall be investigated according to law.

On November 14, 2021, the Cyberspace Administration of China promulgated the Regulations on the Administration of Network Data Security (Draft for Comment), which further regulates Internet data processing activities, emphasizes the supervision and management of network data security, and further stipulates the obligations of Internet platform operators, such as establishing data-related platform rules, privacy policies and algorithm policy disclosure systems. Specifically, the *Regulations (Draft for Comment)* require data processors, including, (1) to take immediate remedial measures when they discover that the network products and services they use or provide have security deficiencies and vulnerabilities, or threaten national security or endanger the public interest; and (2) to follow a series of detailed requirements in processing personal information, managing important data and intending to provide data overseas. In addition, the *Regulations (Draft for Comment)* require that data processors that process important data or data processors that go public overseas complete an annual data security assessment and submit a data security assessment report to the relevant regulatory authority. As required by the *Regulations (Draft for Comment)*, such annual assessments include, but are not limited to, the processing of important data, the findings of Data security risks and disposal measures, effectiveness of data protection measures, implementation of national data security laws and regulations, data security incidents that have occurred and their disposal, and security assessments related to sharing and providing important data overseas. As of December 31, 2022 the *Regulations (Draft for Comment)* are for public comment only and have not been formally adopted. Final terms and the timeline for their adoption are subject to change and uncertainty.

On September 24, 2024, the State Council of the PRC promulgated the Regulations on Network Data Security Management, which took effect on January 1, 2025. According to which, network data processors shall strengthen data security protection based on the cybersecurity multi-level protection system, comply with legal and administrative regulations as well as mandatory national standards, establish and improve network data security management systems, adopt technical measures to safeguard network data, and prevent illegal and criminal activities targeting or exploiting network data. The above-mentioned regulations also stipulate the requirements for data processing activities conducted through networks, including but not limited to: (i) formulating rules for processing personal information, requiring centralized disclosure of processing purposes, methods, and scope in a clear and accessible manner; (ii) general obligations for handling personal information, such as obtaining separate consent for sensitive data (e.g., biometrics, medical records) and parental consent for minors under 14 years old; and (iii) compliance with enhanced obligations for large-scale processors: Network data processors handling personal information of over 10 million individuals must comply with requirements applicable to important data processors under Articles 30 and 32 of such regulations. These include: (x) designating a dedicated data security officer and establishing a data security management department responsible for risk monitoring, incident response, and compliance audits; (y) conducting annual security risk assessments and submitting reports to provincial-level authorities; and (z) implementing security background checks for key personnel and ensuring technical safeguards such as encryption and access controls.

#### ***Regulations on Foreign Currency Exchange***

The principal regulations governing foreign currency exchange in China are the *Foreign Exchange Administration Regulations* promulgated by the State Council, as amended on August 5, 2008, or the Foreign Exchange Regulations. Under the Foreign Exchange Regulations, the payments of current account items, such as profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. By contrast, approval from or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital account items, such as direct investments, repayment of foreign currency-denominated loans, repatriation of investments and investments in securities outside of China.

On February 13, 2015, the SAFE promulgated the *Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment*, or SAFE Notice 13. After SAFE Notice 13 became effective on June 1, 2015, instead of applying for approvals regarding foreign exchange registrations of foreign direct investment and overseas direct investment from SAFE, entities and individuals will be required to apply for such foreign exchange registrations from qualified banks. The qualified banks, under the supervision of the SAFE, will directly examine the applications and conduct the registration.

On March 30, 2015, the SAFE promulgated Notice of the State Administration of Foreign Exchange on Reforming the Mode of Management of Settlement of Foreign Exchange Capital of Foreign-Funded Enterprises, or SAFE Circular 19, to expand the reform nationwide. Circular 19 allows foreign-invested enterprises to make equity investments by using RMB fund converted from foreign exchange capital. Under Circular 19, the foreign exchange capital in the capital account of foreign-invested enterprises upon the confirmation of rights and interests of monetary contribution by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) can be settled at the banks based on the actual operation needs of the enterprises. The proportion of discretionary settlement of foreign exchange capital of foreign-invested enterprises is currently 100%. SAFE can adjust such proportion in due time based on the circumstances of international balance of payments. However, Circular 19 and another circular promulgated by SAFE in June 2016, Notice of the State Administration of Foreign Exchange on Reforming and Regulating the Policies for the Administration of Foreign Exchange Settlement under the Capital Account, or SAFE Circular 16, continues to, prohibit foreign-invested enterprises from, among other things, using RMB fund converted from its foreign exchange capitals for expenditure beyond its business scope, investment and financing (except for security investment or guarantee products issued by bank), providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use. See “Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in China — PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of our offerings to make loans or additional capital contributions to our PRC subsidiaries which would materially and adversely affect our liquidity and our ability to fund and expand our business.”

In October 2019, the SAFE promulgated the *Notice for Further Advancing the Facilitation of Cross-border Trade and Investment*, or the SAFE Circular 28, which, among other things, allows all foreign invested enterprises to use Renminbi converted from foreign currency denominated capital for equity investments in China, as long as the equity investment is genuine, does not violate applicable laws, and complies with the negative list on foreign investment. The *Circular Regarding Further Optimizing the Cross-border RMB Policy to Support the Stabilization of Foreign Trade and Foreign Investment* jointly promulgated by the People's Bank of China, NDRC, MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the China Banking and Insurance Regulatory Commission and SAFE on December 31, 2020 and effective on February 4, 2021 allows the noninvestment foreign-invested enterprises to make domestic reinvestment with RMB capital in accordance with the law on the premise that they comply with prevailing regulations and the invested projects in China are authentic and compliant. In addition, if a foreign-invested enterprise uses RMB income under capital accounts to conduct domestic reinvestment, the invested enterprise is not required to open a special deposit account for RMB capital. According to the *Circular of the State Administration for Foreign Exchange on Optimizing Foreign Exchange Administration to Support the Development of Foreign-related Business*, or the SAFE Circular 8 promulgated and effective on April 10, 2020 by the SAFE, the reform of facilitating the payments of incomes under the capital accounts shall be promoted nationwide. Under the prerequisite of ensuring true and compliant use of funds and compliance and complying with the prevailing administrative provisions on use of income from capital projects, enterprises which satisfy the criteria are allowed to use income under the capital account, such as capital funds, foreign debt and overseas listing, etc., for domestic payment, without the need to provide proof materials for veracity to the bank beforehand for each transaction.

Under the Foreign Investment Law, foreign investors may freely remit into or out of China, in Renminbi or any other foreign currency, their capital contributions, profits, capital gains, income from asset disposal, intellectual property royalties, lawfully acquired compensation, indemnity or liquidation income and so on within the territory of China.

#### ***Regulations on Employee Stock Incentive Plans of Overseas Publicly-Listed Company***

In December 2006, the People's Bank of China promulgated the Administrative Measures of Foreign Exchange Matters for Individuals, which set forth the respective requirements for foreign exchange transactions by individuals (both PRC or non-PRC citizens) under either the current account or the capital account. The State Administration of Foreign Exchange issued implementing rules for the Administrative Measures of Foreign Exchange Matters for Individuals in January 2007 and amended on May 29, 2016, which, among other things, specified approval requirements for certain capital account transactions such as a PRC citizen's participation in the employee stock ownership plans or stock option plans of an overseas publicly listed company.

On February 25, 2012, the State Administration of Foreign Exchange promulgated the Circulars on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Equity Incentive Plans of Overseas-Listed Company, or the Stock Option Rules. Under this rule, PRC citizens or non-PRC citizens who reside in China for a continuous period of not less than one year, who participate in an equity incentive plan of an overseas publicly listed company are required to register, through our PRC Subsidiary, collectively entrust a domestic agency, or the "Domestic Agency", to handle issues like foreign exchange registration, account establishment, funds transfer and remittance, and entrust an overseas institution, or the "Overseas Trustee" to handle issues like exercise of options, purchase and sale of corresponding stocks or equity and transfer of corresponding funds. A "Domestic Agency" shall be a domestic company participating in the equity incentive plan or a domestic institution which is qualified for asset custody business as chosen by us according to PRC law. We and our executive officers and other employees who are PRC citizens or non-PRC citizens who reside in China for a continuous period of not less than one year and have been granted options have been subject to these regulations since the completion of our initial public offering. Failure by these individuals to complete their SAFE registrations may subject us and them to fines and other legal sanctions. See "Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in China — Failure to comply with PRC regulations regarding the registration requirements for employee stock ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions."

The STA has issued certain circulars concerning employee share options and restricted shares. Under these circulars, our employees working in China who exercise share options will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee share options with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or we fail to withhold their income taxes according to relevant laws and regulations, we may face sanctions imposed by the tax authorities or other PRC governmental authorities.

Further, a notice concerning the individual income tax on earnings from employee share options jointly issued by the Ministry of Finance, or the MOF, and SAT, on March 28, 2005, and its implementing rules, provide that domestic companies that implement employee share option programs shall (a) file the employee share option plans and other relevant documents to the local tax authorities having jurisdiction over them before implementing such employee share option plans; (b) file share option exercise notices and other relevant documents with the local tax authorities having jurisdiction over them before exercising by the employees of the share options, and clarify whether the shares issuable under the employee share options mentioned in the notice are the shares of publicly listed companies; and (c) withhold taxes from the PRC employees in connection with the PRC individual income tax.

#### **Regulations on Share Capital**

The *Foreign Investment Law* was enacted on March 15, 2019 and came into effect on January 1, 2020. And on December 26, 2019, the Interpretation of the Supreme People's Court on Several Issues Concerning the Application of the Law of the People's Republic of China on Foreign Investments was enacted and then come into effect on January 1, 2020. Under the Foreign Investment Law and its judicial interpretations, a foreign-invested company is treated as a domestic company. Another key law is *the Corporate Law*, which was amended on December 29, 2023 and will be implemented on July 1, 2024. According to the forthcoming Corporate Law, the shareholders of the company will be required to make contribution to the registered capital within five years of incorporation. The shareholders can make their capital contributions in cash or in kind, including in the forms of contributions of intellectual property rights or land use rights that can be valued and is transferable.

#### **Regulations on Dividend Distribution**

The principal regulation governing distribution of dividends of foreign-invested enterprises is *the Corporate Law*, as most recently amended on December 29, 2023, and will be implemented on July 1, 2024.

Under the Corporate Law, foreign-invested enterprises in China may pay dividends only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, foreign-invested enterprises in China are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the registered capital of the enterprises. Furthermore, foreign-owned companies may, at their discretion, allocate a portion of their after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserves are not distributable as cash dividends.

#### **Regulations on Prepaid Cards**

On August 18, 2016, the MOC promulgated Administrative Measures on Single-purpose Commercial Prepaid Cards (Trial Implementation). According to these administrative measures, corporate legal entities engaged in the retail, accommodation and catering, or residential services industries issuing prepaid cards shall complete filing formalities within 30 days from the date on which they engage in the single-purpose card businesses. The administrative measures classify different types of issuers of single-purpose cards, including issuers of group cards, branded cards and issuers of cards on a large scale. Each company engaging in the single-purpose card business shall be classified as one of the foregoing types of prepaid card business in which they are engaged. In addition, these administrative measures also stipulate rules for the card purchase agreement, patterns of cards, limits of each registered and nonregistered card, use of prepaid monies, a minimum ratio of balances of prepaid monies to the company's main business income in the preceding accounting year, the company's depository system and the designated proportion of deposited funds or guarantee insurance amounts to the balance of prepaid monies in the previous quarter, prepaid money management system and policies and so on. Companies may be subject to administrative punishments, orders to correct any instances of non-compliance within a stipulated period, as well as a fine ranging from RMB10,000 to RMB30,000 for any violation of these administrative measures.

### **Regulations on Offshore Financing**

SAFE promulgated the *Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles*, or SAFE Circular 37, on July 4, 2014, which replaced the former circular commonly known as "SAFE Circular 75" promulgated by SAFE on October 21, 2005. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle." SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment released on February 13, 2015 by SAFE, from June 1, 2015 local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 from.

The Company has confirmed that none of the holders or beneficiary owners of the Company is PRC residents. Nevertheless, we may not be aware of the identities of all of our beneficial owners.

### **Regulations on Overseas Listing**

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

On December 14, 2006, the CSRC published on its official website procedures regarding its approval of overseas listings by SPVs. The CSRC approval procedures require the filing of a number of documents with the CSRC and the approval process takes several months to complete.

### **Regulations on Securities**

The *PRC Securities Law*, which became effective on March 1, 2020, stipulates that overseas securities regulatory authorities shall not carry out investigation and evidence collection directly in the People's Republic of China. Without the consent of the securities regulatory authority of the State Council and the relevant State Council department(s), no organization or individual may provide the documents and materials relating to securities business activities to overseas parties arbitrarily.

On February 17, 2023, the CSRC issued the *Trial Measures for the Administration of Overseas Securities Offerings and Listings by Domestic Companies* and the *Guidelines for the Application of Supervisory Rules for Overseas Offerings and Listings*, which subsequently came into effect on March 31, 2023. It imposes stricter supervision and control over offshore issuances and/or foreign investments in domestic issuers with substantial business activities in the PRC. Domestic enterprises with offshore issuance and listing shall file with the CSRC in accordance with these Measures, submit filing reports, legal opinions and other relevant materials, and give a true, accurate and complete account of shareholders' information and other circumstances. If the issuer meets the following circumstances at the same time, it is recognized as a domestic enterprise indirectly issuing and listing abroad: (i) The operating revenue, total profit, total assets or net assets of the domestic enterprise in the most recent fiscal year, any one of which accounts for more than 50% of the relevant data in the issuer's audited consolidated financial statements for the same period; (ii) The major parts of the business activities are carried out in the territory or the main premises are located in the territory, or the majority of the senior management responsible for business management are Chinese citizens or have their usual place of residence in the territory.

## **Regulations Relating to Employment**

The PRC National People's Congress promulgated the Labor Contract Law which became effective on January 1, 2008 and was amended on December 28, 2012, and the State Council promulgated implementing rules for the labor contract law on September 18, 2008. The labor contract law and the implementing rules impose requirements concerning, among others, the execution of written contracts between employers and employees, the time limits for probationary periods, and the length of employment contracts. Also, under the labor contract law an employer is not permitted to establish staffing companies to place workers with themselves or their subsidiaries, and no enterprises is permitted to provide work placement business without obtaining a work placement license, for an enterprise that acts in violation of such provisions, the labor administrative department shall order it to stop the illegal act, confiscate all illegal gains, if there is no illegal gain, a fine of not more than RMB50,000 shall be imposed.

On July 5, 1994, the SCNPC promulgated the Labor Law of the People's Republic of China, or the Labor Law, which became effective on January 1, 1995, and amended them on August 27, 2009 and December 29, 2018. In accordance with the Labor Law, a labor contract shall be concluded for establishment of work relationships. On August 4, 1995, the Ministry of Labor (currently known as Ministry of Human Resources and Social Security), promulgated the Opinions on Several Issues concerning the Implementation of the Labor Law of the People's Republic of China, or the Opinions. Under the Opinions, employers shall sign labor contracts with their personnel who are borrowed by other employers for a long time, or personnel who receive education with wages or other off-the-job personnel who still maintain labor relations with them. However, during the period of borrowing or going to school, certain relevant clauses in the labor contract may be modified upon negotiation by both parties; and if the employees dispatched to equity joint ventures and shareholding entities still maintain labor relations with their original employer, they shall conclude labor contracts with their original employer. When the original employer concludes service contracts with the equity joint ventures and shareholding entities in regard to the relevant contents of labor contracts, it may clarify the wage, insurances, welfare, holidays and other relevant treatment to the employees.

On October 28, 2010, the National People's Congress of China promulgated the PRC Social Insurance Law, which became effective on July 1, 2011 and was amended on December 29, 2018. In accordance with the PRC Social Insurance Law and other relevant laws and regulations, enterprises in China are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, namely a pension plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan, a maternity insurance plan, a housing provident fund, and a handicapped employment security fund, and contribute to the plans or funds in amounts equal to certain percentages of salaries, including bonuses and allowances, of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located. According to the Social Insurance Law, an employer that fails to make social insurance contributions may be ordered to rectify the non-compliance and pay the required contributions within a stipulated deadline and be subject to a late fee of up to 0.05% per day. If the employer still fails to rectify the failure to make social insurance contributions within the stipulated deadline, it may be subject to a fine ranging from one to three times the amount overdue. In addition, the *PRC Individual Income Tax Law* requires companies operating in China to withhold individual income tax on employees' salaries based on the actual salary of each employee upon payment.

Under the Foreign Investment Law, foreign-funded enterprise engaging in production or operation activities shall comply with the provisions on labor protection and social insurance in laws and administrative regulations, handle the tax, accounting, foreign exchange and other matters according to the relevant laws, administrative regulations and relevant provisions of the State, and accept supervision and inspection by relevant competent departments.

## Regulations Relating to Tax

### Income Tax and Withholding Tax

The EIT Law applies a uniform 25% enterprise income tax rate to PRC resident enterprises, including both foreign-invested enterprises and domestic enterprises. The EIT Law imposes an enterprise income tax of 10% on dividends distributed by a foreign-invested enterprise to its immediate holding company outside of China, if such immediate holding company is considered a “non-resident enterprise” without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding tax rate. Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the withholding tax rate in respect to the payment of dividends by a PRC enterprise to a Hong Kong company which directly holds at least 25% equity interest in the PRC enterprise is reduced to 5% from a standard rate of 10%. Pursuant to the Notice of the State Taxation Administration on the Issues concerning the Application of the Dividend Clauses of Tax Agreements, or Circular 81, if the relevant PRC tax authorities determine, in their sole discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. As such, holding companies in Hong Kong, for example, are subject to a 5% withholding tax rate if the holding companies directly hold no less than 25% equity interest in the PRC enterprise and are the beneficial owners of the dividends. The Cayman Islands, where we are incorporated, does not have such a tax treaty with China. Thus, dividends paid to us by our subsidiaries in China may be subject to the 10% withholding tax if we are considered a “non-resident enterprise” under the EIT Law.

The EIT Law provides that enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises.” The “de facto management body” is defined as the organizational body that effectively exercises overall management and control over production and business operations, personnel, finance and accounting, and properties of the enterprise. Currently, there are no detailed rules or precedents governing the procedures and specific criteria for determining “de facto management body”. STA issued the *Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies*, or Circular 82, on April 22, 2009. According to STA Circular 82, a Chinese-controlled offshore incorporated enterprise will be regarded as a PRC tax resident by virtue of having a “de facto management body” in China and will be subject to PRC enterprise income tax on its worldwide income only if all of the following criteria are met: (a) the primary location of the day-to-day operational management is in China; (b) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in China; (c) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders meeting minutes are located or maintained in China; and (d) 50% or more of voting board members or senior executives habitually reside in China. In addition, the STA issued the *Administrative Measures on Income Taxes of Chinese-controlled Offshore Incorporated Resident Enterprises* (Trial Implementation), or Tax Trial Measures, on July 27, 2011, and effective on September 1, 2011 and amended in 2017, providing more guidance on the implementation of Circular 82. Both Circular 82 and the Tax Trial Measures apply only to offshore enterprises controlled by PRC enterprises or PRC enterprise groups and are not applicable to our case. But determining criteria set forth in Circular 82 and the Tax Trial Measures may reflect the STA’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or PRC enterprise groups or by PRC or foreign individuals.

The STA issued a *Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Nonresident Enterprises*, or STA Public Notice 7, on February 3, 2015, which replaced or supplemented certain previous rules under the Circular on Strengthening Administration of Enterprise Income Tax for Share Transfers by Nonresident Enterprises, or STA Circular 698.

Under STA Public Notice 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to STA Public Notice 7, “PRC taxable assets” include assets attributed to an establishment in China, immovable properties in China, and equity investments in PRC resident enterprises. In respect of an indirect offshore transfer of assets of a PRC establishment, the relevant gain is to be regarded as effectively connected with the PRC establishment and therefore included in its enterprise income tax filing, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to the immovable properties in China or to equity investments in a PRC resident enterprise, which is not effectively connected to a PRC establishment of a non-resident enterprise, a PRC enterprise income tax at 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. There is uncertainty as to the implementation details of STA Public Notice 7. If STA Public Notice 7 was determined by the tax authorities to be applicable to some of our transactions involving PRC taxable assets, our offshore subsidiaries conducting the relevant transactions might be required to spend valuable resources to comply with STA Public Notice 7 or to establish that the relevant transactions should not be taxed under STA Public Notice 7. See “Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in China — It is unclear whether we will be considered as a PRC “resident enterprise” under the Enterprise Income Tax Law of the PRC, and depending on the determination of our PRC “resident enterprise” status, dividends paid to us by our PRC subsidiaries may be subject to PRC withholding tax, we may be subject to 25% PRC income tax on our worldwide income, and holders of our ADSs may be subject to PRC withholding tax on dividends on, and gains realized on their transfer of, our ADSs.”

Under the EIT Law, enterprises qualified as “High New Technology Enterprises,” or HNTEs, enjoy a preferential income tax rate of 15%, rather than the uniform income tax rate of 25% which otherwise would apply. Shanghai Evergreen Technology Co., Ltd. has qualified as an HNTE for the period of 2017 until now under the EIT Law, and has been subject to the preferential income tax rate of 15% during such period.

On October 17, 2017, the STA issued a *Public Notice of the State Administration of Taxation on Matters Concerning Withholding of Income Tax of Non-resident Enterprises at Source*, or STA Public Notice 37. This STA Public Notice 37 has entered into force as of December 1, 2017, according to which, STA Circular 698 has been abolished from December 1, 2017.

Under the STA Public Notice 37 and other applicable PRC laws, the withholding agent (for example, payers of PRC-sourced income to non-PRC residents) is obligated to withhold PRC income taxes from the payment. The withholding agent shall, within seven days of the day on which the withholding obligation occurs, declare and remit the withholding tax to the competent tax authority at its locality. The withholding agent shall establish account books for all tax it has withheld and remitted on a commission basis and archive relevant contractual documents, so as to record the exact information about the enterprise income withheld and remitted for the non-resident enterprise.

Although the withholding agents have the obligation to withhold relevant PRC taxes, in the event of a failure to withhold, the non-PRC residents are still required to pay such taxes on their own. Failure to comply with the tax payment obligations by the non-PRC residents will result in penalties, including full payment of taxes owed, fines and default interest on those taxes.

The STA issued the Announcement of State Taxation Administration on Promulgation of the Administrative Measures on Non-resident Taxpayers Enjoying Treaty Benefits (“STA Circular 35”) on October 14, 2019, which became effective on January 1, 2020. The STA Circular 35 further simplified the procedures for enjoying treaty benefits. According to the STA Circular 35, no approvals from the tax authorities are required for a non-resident taxpayer to enjoy treaty benefits, and where a non-resident taxpayer self-assesses and concludes that it satisfies the criteria for claiming treaty benefits, it may enjoy treaty benefits at the time of tax declaration or at the time of withholding through the withholding agent, but it shall gather and retain the relevant materials as required for future inspection, and accept follow-up administration by the tax authorities. There are also other conditions for enjoying the reduced withholding tax rate according to other relevant tax rules and regulations. According to the Circular on Several Issues regarding the “Beneficial Owner” in Tax Treaties, or Circular 9, which was issued on February 3, 2018 by the STA, effective as of April 1, 2018, when determining the applicant’s status of the “beneficial owner” regarding tax treatments in connection with dividends, interest or royalties in the tax treaties, several factors, including without limitation, whether the applicant is obligated to pay more than 50% of its income in twelve months to residents in a third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grants tax exemption on relevant income or levies tax at an extremely low rate, will be taken into account, and they will be analyzed according to the actual circumstances of the specific cases. This circular further provides that applicants who intend to prove his or her status of the “beneficial owner” shall submit the relevant documents to the relevant tax bureau according to the Administrative Measures for Nonresident Enterprises to Enjoy Treatments under Tax Treaties. Accordingly, GreenTree Hotel (Hong Kong), Limited may be able to enjoy the 5% withholding tax rate for the dividends they receive from our PRC subsidiaries, respectively, if they satisfy the conditions prescribed under Circular 81 and other relevant tax rules and regulations, and obtain the approvals as required. However, if the relevant tax authorities consider the transactions or arrangements we have are for the primary purpose of enjoying a favorable tax treatment, the relevant tax authorities may adjust the favorable withholding tax in the future.

#### **PRC Value-Added Tax**

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

According to Circular 36, the entities and individuals providing the services within the PRC shall be subject to VAT. The services are treated as being provided within the PRC where either the service provider or the service recipient is located in the PRC. The services subject to VAT include the provision of financial services such as transferring financial instruments. Based on the definition of “transfer of financial instruments” under Circular 36, the ADSs and shares are likely to be treated as financial instruments. As such, where a holder of the ADSs and shares who is an entity or individual located outside of the PRC re-sells the ADSs and shares to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply and the buyer does not have the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of ADSs and shares is located within the PRC.

On April 4, 2018, the MOF and STA jointly promulgated the Circular of the Ministry of Finance and the STA on Adjustment of Value-Added Tax Rates, or Circular 32. Circular 32 became effective on May 1, 2018 and shall supersede any previously existing provisions in the case of any inconsistency. Further, On March 20, 2019, the MOF, the STA and the General Administration of Customs jointly issued the Announcement on Policies for Deepening the VAT Reform, or Announcement 39, to further slash value-added tax rates. According to Announcement 39, (i) for general VAT payers’ sales activities or imports that are subject to VAT at an existing applicable rate of 16% or 10%, the applicable VAT rate is adjusted to 13% or 9% respectively; (ii) for the agricultural products purchased by taxpayers to which an existing 10% deduction rate is applicable, the deduction rate is adjusted to 9%; (iii) for the agricultural products purchased by taxpayers for production or commissioned processing, which are subject to VAT at 13%, the input VAT will be calculated at a 10% deduction rate; (iv) for the exportation of goods or labor services that are subject to VAT at 16%, with the applicable export refund at the same rate, the export refund rate is adjusted to 13%; and (v) for the exportation of goods or cross-border taxable activities that are subject to VAT at 10%, with the export refund at the same rate, the export refund rate is adjusted to 9%. Announcement 39 came into effect on April 1, 2019 and shall prevail in case of any conflict with existing provisions.

#### **Regulations Relating to Lending**

According to the General Lending Provisions promulgated by the PBOC in 1996, only financial institutions may legally engage in the business of extending loans, and loans between companies that are not financial institutions are prohibited. According to the General Lending Provisions, a company which is not a financial institution and offers loans may be imposed penalties in the amount equivalent to one to five times of the income generated (being interests charged) from the loan advancing activities. However, according to the Provisions of the Supreme People’s Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (the “**Private Lending Provisions**”), which became effective on 1 September 2015 and was latest revised on 29 December 2020, borrowing agreements between companies which are not financial institutions shall be classified as private lending and should be valid if such lending is for business operation purposes and do not fall into certain situations stipulated in the abolished Contract Law or the newly promulgated Civil Code (as applicable) of the PRC and Private Lending Provisions. PRC courts will support a company’s claim for interest in respect of such lending as long as the annual interest rate does not exceed four times of the applicable one-year loan prime rate (“**LPR**”).



#### D. Property, Plants and Equipment

Please refer to “B. Business Overview—Facilities” for a discussion of our property, plants and equipment.

#### ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

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

Unless otherwise stated, the discussion and analysis of our financial condition and results of operation in this section apply to our financial information as prepared according to U.S. GAAP. You should read the following discussion and analysis of our financial condition and operating results in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report. The following discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results and the timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Item 3. Key Information—D. Risk Factors.”

##### Overview

We are the leading pure play franchised hotel operator in China. We achieved more than 95.0% of franchised-and-managed hotels in our hotel network as early as 2013, and currently operated 98.8% of franchised-and-managed hotels in our network. Our pure play franchised model allows us to expand rapidly in an asset-light manner and have brought us substantial financial performance in terms of profitability, return on investments and success to its franchisees.

As of December 31, 2024, our nationwide hotel network consisted of 4,425 hotels with 321,282 rooms in China, covering all four centrally-administrated municipalities and 352 cities throughout all 31 provinces and autonomous regions in China, as well as an additional 1,214 hotels that were contracted for or under development. We were the fourth largest hotel group in China in terms of number of hotels and rooms, according to China Hotel Association. We operate a rapidly-growing hotel networks in China – from 2012 to 2024, we grew from 792 to 4,425 hotels at a CAGR of 14.2% and from 70,934 to 321,282 rooms at a CAGR of 12.3%.

We have built a strong suite of well-recognized and diversified brands, each with unique attributes and strengths to appeal to different consumer segments and franchisee needs, covering economy hotels, mid-scale hotels, as well as business and mid-to-up-scale hotels. Over the years, we have successfully forged an all-win ecosystem for our franchisees, guests and employees through a highly effective and scalable franchise management system, a set of strong direct sales channels coupled with an established membership program and a suite of state-of-the-art technologies and tools optimizing hotel operations and enhancing guest experiences.

As of December 31, 2024, our restaurant network consisted of 182 stores in China, which focus on offering healthy and affordable fast food and casual dining services to mass consumers. In our restaurant business we are focusing on growing our network of franchisees as we expand the number of street stores while reducing our footprint in shopping malls and supermarkets

##### Factors Affecting Our Results of Hotel Operations

While our business is affected by factors relating to general economic conditions and the hospitality and restaurant industries 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 are affected to a significant extent by the number of hotels and hotel rooms we have in operation. We generate substantially all of our revenues from room nights sold at our leased-and-operated hotels and the franchise management fees we charge to each of our franchised-and-managed hotels. Furthermore, we believe expanding geographic coverage of our hotel network through increasing the number of hotels will enhance our brand recognition. Our ability to expand our hotel network depends on whether we can provide consistent quality services to our guests and franchisees and whether we can enhance our brand recognition in the market and win the competition for suitable property sites and quality franchisee candidates.
- *The proportion of mature hotels in our hotel portfolio.* We define mature hotels as those that have been in operation for more than six months. It typically takes six months for our newly opened franchised-and-managed hotels to ramp up before such hotels can generate normal and stable franchise management fees and for our new leased-and-operated hotels’ income to exceed the hotel operating costs which are generally fixed in nature.

The operation of each leased-and-operated hotel goes through three stages: development, ramp up and mature operations. During the ramp up stage, when the occupancy rate is relatively low, revenues generated by these new leased-and-operated hotels may be insufficient to cover their operating costs. The lower franchise management fees generated by our franchised-and-operated hotels during the ramp up stage and the pre-opening expenses incurred during the development stage and the lower profitability during the ramp-up stage for our leased-and-operated hotels may have a significant negative impact on our financial performance.

The table below illustrates the net increases of our hotels during 2022, 2023 and 2024.

	Year Ended December 31,		
	2022	2023	2024
Hotels opened	295	420	405
Hotels closed	95	241	218
Net increase in total hotels	200	179	187

We track the performance of our hotels by comparing hotel revenue of our hotels during ramp up stage and mature hotels, calculated on a monthly rolling basis, taking into account the total number of hotels during ramp up stage and mature hotels in any particular period of time.

The table below illustrates the comparison of performance between mature hotels and hotels during ramp up stage.

	Year Ended December 31,		
	2022	2023	2024
Mature franchised-and-managed hotels(1)	3,865	3,939	3,970
RevPAR (in RMB)	100	136	124
Franchised-and-managed hotels during ramp up stage	133	234	249
RevPAR (in RMB)	69	92	93

(1) As of end of the year.

	Year Ended December 31,		
	2022	2023	2024
Mature leased-and-operated hotels(1)	58	64	53
RevPAR (in RMB)	128	177	179
Revenue (in RMB thousands)	338,506	485,656	427,886

(1) As of end of the year.

- *The fixed nature of our hotel operating costs.* For our leased-and-operated hotels, a significant portion of our operating costs and expenses, including rental and base salary, is generally fixed. As a result, an increase in our revenues achieved through higher RevPAR will generally result in higher profitability, whereas a decrease in our revenues could result in a disproportionately large decrease in our earnings. For franchised-and-managed hotels, the fixed cost components are relatively limited, and the incremental costs associated with each additional franchisee are minimal, which helps us achieve economies of scale as we attract more franchisees over time.
- *Seasonality and special events.* The hospitality industry is subject to fluctuations in revenues due to seasonality. Generally, the first quarter, in which both the New Year and Spring Festival holidays fall, accounts for a lower percentage of our annual revenues than the other quarters of the year. In addition, certain special events, such as large-scale exhibitions, concerts or sports events, may increase the demand for our hotels significantly as such special events may attract travelers into and within the regions in China where we operate hotels.

## Factors Affecting Our Results of Restaurant Operations

Our restaurant business may be affected by factors including the following (i) total number of restaurants in operations, by which our revenues are affected in the sales growth; (ii) profitability of restaurants in operations, including the dependence on ingredient quality, the control of the rental costs and other uncertain factors, for example, the customer taste or the popularity of location could be changed which results in the revenue decrease with the unchanged costs as the profit will decrease; (iii) seasonality and special events, which is entitled in "Risk Related to Our Business-Our results of operations may fluctuate significantly due to seasonality and other factors".

## 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.

Our non-financial key performance for our hotel business indicators consist of increase in the total number of hotels and hotel rooms in our hotel network, as well as RevPAR achieved by our leased-and-operated hotels and franchised-and-managed hotels. RevPAR is a commonly used operating measure in the hospitality 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. We set the room rates of our hotels primarily based on the location of hotels, room rates charged by our competitors within the same locality, and our relative brand and product strength in the city or city cluster.

Our non-financial key performance indicators for our restaurant business consist of increase in the total number of stores in our restaurant network, as well as ADS achieved by our leased-and-operated restaurants and franchised-and-managed restaurants. ADS is a commonly used operating measure in the restaurant industry and is defined as the product of average check and average daily ticket achieved. Average check depends on the location of our restaurants, product and food flavor offering, the quality of service, the effectiveness of our sales and brand promotion efforts, as well as our ability to respond to competitive pressure. We set the price of our products primarily based on the location of restaurants, price charged by our competitors.

Our financial key performance indicators consist of revenues, operating costs and expenses, which are discussed in greater detail in the following paragraphs. The consolidated statements of comprehensive income/(loss) include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control. In the following, the comparative financial data have been restated to reflect the business combinations.

## Revenues

### Consolidated results

	Year Ended December 31, 2022				
	RMB Hotel	RMB Restaurant	RMB Elimination (in thousands, except for percentage)	RMB Total	% Total
Revenues:					
Leased-and-operated business	338,506	362,807	(1,290)	700,023	47.7
Franchised-and-managed business	582,441	6,022	—	588,463	40.1
Wholesales and others	15,854	164,958	(224)	180,588	12.2
<b>Total revenues</b>	<b>936,801</b>	<b>533,787</b>	<b>(1,514)</b>	<b>1,469,074</b>	<b>100.0</b>

	Year Ended December 31, 2023				
	RMB	RMB	RMB	RMB	%
	Hotel	Restaurant	Elimination	Total	Total
	(in thousands, except for percentage)				
Revenues:					
Leased-and-operated business	490,924	296,890	—	787,814	48.4
Franchised-and-managed business	696,321	8,924	—	705,245	43.3
Wholesales and others	4,661	135,822	(6,284)	134,199	8.3
<b>Total revenues</b>	<b>1,191,906</b>	<b>441,636</b>	<b>(6,284)</b>	<b>1,627,258</b>	<b>100.0</b>

	Year Ended December 31, 2024					
	RMB	RMB	RMB	RMB	US\$	
	Hotel	Restaurant	Elimination	Total	Total	
	(in thousands, except for percentage)					
Revenues:					%	
Leased-and-operated business	437,522	159,326	(207)	596,641	81,739	44.4
Franchised-and-managed business	625,073	10,287	—	635,360	87,044	47.3
Wholesales and others	3,908	109,032	(1,500)	113,439	15,267	8.3
<b>Total revenues</b>	<b>1,066,503</b>	<b>278,645</b>	<b>(1,708)</b>	<b>1,343,440</b>	<b>184,051</b>	<b>100.0</b>

**Hotel business.** We primarily derive our revenues from operation of our leased-and-operated hotels and various types of fees we charge our franchisees in relation to our franchised-and-managed hotels. We also generate revenue from the one-time membership fees charged to our hotel guests. Our revenues are net of a value-added tax of 6% and other related taxes. The following table sets forth our revenues generated by our franchised-and-managed hotels and leased-and-operated hotels, both in absolute amount and as a percentage of total revenues for the years indicated.

	2022		2023		2024		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentage)						
Revenues:						%	
Leased-and-operated hotels(1)	338,506	36.1	490,924	41.2	437,522	59,940	41.0
Franchised-and-managed hotels	582,441	62.2	696,321	58.4	625,073	85,635	58.6
Wholesales and others	15,854	1.7	4,661	0.4	3,908	535	0.4
<b>Total revenues</b>	<b>936,801</b>	<b>100.0</b>	<b>1,191,906</b>	<b>100.0</b>	<b>1,066,503</b>	<b>146,110</b>	<b>100.0</b>

- Franchised-and-managed Hotels. In 2022, 2023 and 2024, we generated revenues of RMB582.4 million, RMB696.3 million and RMB625.1 million (US\$85.6 million) from our franchised-and-managed hotels, which accounted for 62.2%, 58.4% and 58.6% of our revenues for the respective years, which include revenues from membership fees of franchised-and-managed hotels.

We select franchisees who are property owners, existing hotel operators or hotel investors. We train and manage general managers for our franchised-and-managed hotels and impose the same standards on all franchised-and-managed hotels to ensure product quality and consistency across our hotel network. Pursuant to the franchise-and-management agreements, we charge the franchisees fixed hotel manager fees to compensate us for the franchised-and-managed hotel managers' salaries, social welfare benefits and certain other out-of-pocket expenses as incurred. The hotel manager fee is recognized as revenue on a monthly basis. Management services we provide to our franchisees generally include appointing and training hotel managers, obtaining access to and integrating into our central reservation system and our proprietary IT system, providing sales and marketing support, conducting quality assurance inspections, and providing other operational support and information. Our franchisees are responsible for operating expenses and the costs of developing and operating the hotels, including renovating the hotels according to our standards. We believe that our franchised-and-managed model has enabled us to quickly and effectively expand our geographical coverage and increase our market share in an asset-light manner by utilizing the local knowledge and relationships of our franchisees and the properties that they may own or have access to which are suitable for future hotel business cooperation with us. Sometimes, there may be a certain degree of reduction in initial franchise fees due to sales strategies in different regions.

Our revenues from franchised-and-managed hotels are primarily affected by the number of hotels and the revenues generated by the franchised-and-managed hotels. Our franchise agreements typically run for an initial term of 10 to 20 years. We collect franchise management fees from our franchisees and do not bear loss, if any, incurred by our franchisees. Our franchisees are generally required to pay us an initial franchise fee ranging between RMB150,000 and RMB250,000, depending on the number of rooms in the hotel. Sometimes, initial franchise fees will be waived due to sales strategies in different regions. They are also responsible for all costs and expenses related to hotel construction and renovation. In addition, our franchise agreements typically provide for a monthly franchise management fee of 3% to 5% of the total revenues generated by each franchised-and-managed hotel. In general, we charge franchisees who open multiple hotels under our franchised-and-managed model a lower fee to reward their loyalty. On average, we charged our franchisees a monthly franchise management fee of 4.4%, 4.7% and 4.5% of the total revenues generated by each franchised-and-managed hotel in 2022, 2023 and 2024. We also collect from franchisees a reservation fee on a per room night basis for using our central reservation system, an annual IT system maintenance fee and a part of the membership registration fee to service customers who join our membership program at franchised-and-managed hotels. A number of these hotel general managers are our direct employees and the franchisees will reimburse us the general managers' salary which is recognized as part of our revenues.

The table below sets forth the revenues from initial franchise fee and recurring franchise management fee and others, both in absolute amount and as a percentage of our revenues generated from franchised-and-managed hotels for the years indicated:

	2022		2023		2024		
	RMB	%	RMB	%	RMB	US\$	%
Initial franchise fee	42,424	7.3	46,847	6.7	34,905	4,782	5.6
Recurring franchise management fee	540,017	92.7	649,474	93.3	590,168	80,853	94.4
<b>Revenues from franchised-and- managed hotels</b>	<b>582,441</b>	<b>100.0</b>	<b>696,321</b>	<b>100.0</b>	<b>625,073</b>	<b>85,635</b>	<b>100.0</b>

Revenues from recurring franchise management fee and others as a percentage of our revenues from franchised-and-managed hotels were 92.7% in 2022, 93.3% in 2023 and 94.4% in 2024.

- *Leased-and-operated Hotels.* In 2022, 2023 and 2024, we generated revenues of RMB338.5 million, RMB490.9 million and RMB437.2 million (US\$59.9 million) (including RMB61.6 million, RMB102.2 million and RMB90.7 million (US\$12.4 million) sublease rental revenue for 2022, 2023 and 2024, respectively) from our leased-and-operated hotels, which accounted for 36.1%, 41.2% and 41.0% of our revenues for the respective years.

For our leased-and-operated hotels, we own or lease properties from property owners or lessors and we are responsible for hotel conversion 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 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 5 to 20 years with an initial three to six-month rent-free period. We generally pay rent on a quarterly or semi-annual basis.

Our revenues generated from leased-and-operated hotels are significantly affected by the following:

- the total number of leased-and-operated hotels in our hotel network;
- the total number of leased-and-operated hotel rooms in our hotel network; and
- RevPAR achieved by our leased-and-operated hotels, which represents the product of average daily rates and occupancy rates.

The growth of revenues generated from our leased-and-operated hotels depends significantly upon our ability to expand our hotel network into new locations in China and maintain competitive rates.

**Restaurant business.** We primarily derive our revenues from operation of our leased-and-operated restaurants and various types of fees we charge our franchisees in relation to our franchised-and-managed restaurant, as well as from wholesales. Our revenues are net of a value-added tax of 6% and 13% and other related taxes. The following table sets forth our revenues generated by our franchised-and-managed stores and leased-and-operated stores, both in absolute amount and as a percentage of total revenues for the years indicated.

	2022		2023		2024	
	RMB	%	RMB	%	RMB	US\$
(in thousands, except for percentage)						
Revenues:						
Leased-and-operated restaurants	362,807	68.0	296,890	67.2	159,326	21,828
Franchised-and-managed restaurants	6,022	1.1	8,924	2.0	10,287	1,409
Wholesales and others	164,958	30.9	135,822	30.8	109,032	14,937
<b>Total revenues</b>	<b>533,787</b>	<b>100.0</b>	<b>441,636</b>	<b>100.0</b>	<b>278,645</b>	<b>38,174</b>

*Operating Costs and Expenses.*

Our operating costs and expenses consist of hotel and restaurant operating costs, selling and marketing expense, general and administrative expenses, other operating expenses, impairment loss of goodwill, impairment of intangible assets with indefinite life and other general expenses.

The following table sets forth the components of our operations and expenses, both in absolute amount and as a percentage of total revenues for the year indicated

*Consolidated results*

	Year Ended December 31, 2022				
	RMB	RMB	RMB	RMB	%
	Hotel	Restaurant	Elimination	Total	Total
(in thousands, except for percentage)					
<b>Operating costs and expenses:</b>					
Operating costs:					
Rental	224,536	93,026	—	317,562	21.6
Utilities	27,877	16,987	—	44,864	3.1
Personnel costs	74,281	93,519	—	167,800	11.4
Depreciation and amortization	92,798	11,784	—	104,582	7.1
Consumables, food and beverage	28,610	9,908	—	38,518	2.6
Costs of managers of franchised-and-managed business	107,852	—	—	107,852	7.3
Material cost	—	220,272	—	220,272	15.0
Other costs of franchised-and-managed business	14,340	—	—	14,340	1.0
Others	23,725	26,793	204	50,722	3.5
<b>Total operating costs</b>	<b>594,019</b>	<b>472,289</b>	<b>204</b>	<b>1,066,513</b>	<b>72.6</b>
Selling and marketing expenses	38,534	29,976	(20)	68,490	4.7
General and administrative expenses	210,760	48,754	—	259,514	17.7
Other operating expenses	3,245	5,172	—	8,416	0.6
Impairment loss of goodwill	91,236	—	—	91,236	6.2
Impairment of Intangible asset with indefinite life	—	18,892	—	18,892	1.3
Other general expenses	461,597	4,938	—	466,535	31.8
<b>Total operating costs and expenses</b>	<b>1,399,392</b>	<b>580,021</b>	<b>184</b>	<b>1,979,597</b>	<b>134.8</b>

## Year Ended December 31, 2023

	RMB	RMB	RMB	RMB	%
	Hotel	Restaurant	Elimination	Total	Total
(in thousands, except for percentage)					
<b>Operating costs and expenses:</b>					
Operating costs:					
Rental	211,952	65,701	—	277,653	17.1
Utilities	31,270	11,595	—	42,865	2.6
Personnel costs	71,916	73,646	—	145,562	8.9
Depreciation and amortization	84,538	8,450	—	92,988	5.7
Consumables, food and beverage	49,910	7,356	—	57,266	3.5
Costs of managers of franchised-and-managed business	114,328	—	—	114,328	7.0
Material cost	—	179,349	—	179,349	11.0
Other costs of franchised-and-managed business	17,519	—	—	17,519	1.1
Others	17,409	12,922	(10,422)	19,909	1.3
<b>Total operating costs</b>	<b>598,842</b>	<b>359,019</b>	<b>(10,422)</b>	<b>947,439</b>	<b>58.2</b>
Selling and marketing expenses	47,435	24,233	(50)	71,618	4.4
General and administrative expenses	166,861	41,572	—	208,434	12.8
Other operating expenses	4,453	7,251	—	11,705	0.7
Impairment loss of goodwill	—	—	—	—	—
Impairment of Intangible asset with indefinite life	—	16,027	—	16,027	1.0
Other general expenses	63,557	—	—	63,557	3.9
<b>Total operating costs and expenses</b>	<b>881,148</b>	<b>448,102</b>	<b>(10,472)</b>	<b>1,318,779</b>	<b>81.0</b>

## Year Ended December 31, 2024

	RMB	RMB	RMB	RMB	US\$	%
	Hotel	Restaurant	Elimination	Total	Total	Total
(in thousands, except for percentage)						
<b>Operating costs and expenses:</b>						
Operating costs:						
Rental	218,020	40,234	(207)	258,046	35,352	19.2
Utilities	36,835	9,420	—	46,255	6,337	3.4
Personnel costs	98,351	55,328	—	153,679	21,054	11.4
Depreciation and amortization	93,491	9,047	—	102,538	14,048	7.6
Consumables, food and beverage	36,073	4,315	—	40,388	5,533	3.0
Costs of managers of franchised-and-managed business	95,368	—	—	95,368	13,065	7.1
Material cost	—	105,122	(1,500)	103,622	14,196	7.7
Other costs of franchised-and-managed business	9,086	—	—	9,086	1,245	0.7
Others	6,575	7,030	—	13,605	1,864	1.0
<b>Total operating costs</b>	<b>593,799</b>	<b>230,496</b>	<b>(1,708)</b>	<b>822,587</b>	<b>112,695</b>	<b>61.2</b>
Selling and marketing expenses	55,028	12,557	—	67,585	9,259	5.0
General and administrative expenses	156,402	26,149	—	182,551	25,009	13.6
Other operating expenses	4,937	2,153	—	7,090	971	0.5
Impairment loss of goodwill	—	81,008	—	81,008	11,098	6.0
Impairment of Intangible asset with indefinite life	—	39,072	—	39,072	5,353	2.9
Other general expenses	41,769	—	—	41,769	5,722	3.1
<b>Total operating costs and expenses</b>	<b>851,935</b>	<b>391,435</b>	<b>(1,708)</b>	<b>1,241,662</b>	<b>170,107</b>	<b>92.2</b>

- *Operating costs.* Our hotel and restaurant operating costs consist of costs and expenses directly attributable to the operations of our franchised-and-managed and leased-and-operated hotels and restaurants. Operating costs primarily include costs related to our leased-and-operated hotels, including rental payments and utility costs, compensation and benefits for our hotel-based employees, costs of hotel room consumable products, such as bedding accessories, towel and sanitary amenities, depreciation and amortization of leasehold improvements and others including maintenance expenses, telecommunication expenses and public service charges, as well as costs related to our franchised-and-managed hotels, including (i) compensation and benefits for franchised-and-managed hotel general managers appointed and trained by us, the regional managers of the operating department and other headquarter personnel that serve the franchise and managed hotels, and (ii) related travel and telecommunication expenses. Restaurant operating costs primarily include costs related to our leased-and-operated stores, whose composition is similar to hotel operating costs, and besides, among which material costs are the main factor.
- *Selling and marketing expenses.* Our selling and marketing expenses consist primarily of commissions to travel or catering intermediaries, expenses for marketing programs and materials, expenses in relation to our membership program, compensation and benefits for our sales and marketing personnel, and others including meals and travel expenses for our sales and marketing personnel.
- *General and administrative expenses.* Our general and administrative expenses consist primarily of compensation and benefits, including costs for our corporate and regional office employees and other employees who are not sales and marketing or hotel-based or store-based employees, costs of third-party professional services, travel and accommodation expenses, bad debt provision and other expenses which include bank charges and stamp duty.
- *Impairment loss of goodwill.* Our impairment loss of goodwill is related to the restaurant business in 2024.
- *Impairment of Intangible asset with indefinite life.* Our impairment of intangible asset with indefinite life is related to the impairment of trademarks due to Da Niang business.
- *Other general expenses.* Our other general expenses include provisions for loan receivables related to franchisee loans, and impairment of assets.

## A. Results of Operations

The following table sets forth a summary of our consolidated results of operations, both in absolute amount and as a percentage of total revenues for the year indicated. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. We believe that the year-to-year comparison of operating results should not be relied upon as being indicative of future performance.

### Consolidated results

	Year Ended December 31, 2022				
	RMB Hotel	RMB Restaurant	RMB Elimination	RMB Total	% Total
(in thousands, except for percentage)					
<b>Consolidated Statement of Comprehensive Income Data:</b>					
<b>Revenues:</b>					
Leased-and-operated business	338,506	362,807	(1,290)	700,023	47.7
Franchised-and-managed business	582,441	6,022	—	588,463	40.1
Wholesales and others	15,854	164,958	(224)	180,588	12.2
<b>Total revenues</b>	<b>936,801</b>	<b>533,787</b>	<b>(1,514)</b>	<b>1,469,074</b>	<b>100.0</b>
<b>Operating costs and expenses:</b>					
Operating costs	(594,019)	(472,289)	(204)	(1,066,513)	(72.6)
Selling and marketing expenses	(38,534)	(29,976)	20	(68,490)	(4.7)
General and administrative expenses	(210,760)	(48,754)	—	(259,514)	(17.7)
Other operating expense	(3,245)	(5,172)	—	(8,416)	(0.6)
Impairment loss of goodwill	(91,236)	—	—	(91,236)	(6.2)
Impairment of Intangible asset with indefinite life	—	(18,892)	—	(18,892)	(1.3)
Other general expenses	(461,597)	(4,938)	—	(466,535)	(31.8)
<b>Total operating costs and expenses</b>	<b>(1,399,392)</b>	<b>(580,021)</b>	<b>(184)</b>	<b>(1,979,597)</b>	<b>(134.8)</b>
Other operating income	19,449	4,544	—	23,993	1.6
<b>Income from operations</b>	<b>(443,142)</b>	<b>(41,689)</b>	<b>(1,699)</b>	<b>(486,530)</b>	<b>(33.1)</b>
Interest income and other, net	47,384	721	—	48,105	3.3
Interest expenses	(25,376)	(2,612)	—	(27,988)	(1.9)
Gains (losses) from investments in equity securities	(62,156)	—	—	(62,156)	(4.2)
Other income/expense, net	24,230	175	—	24,405	1.7
<b>Income before income taxes</b>	<b>(459,061)</b>	<b>(43,405)</b>	<b>(1,699)</b>	<b>(504,164)</b>	<b>(34.3)</b>
Income tax expense	45,592	(1,944)	425	44,073	3.0
<b>Income before share of losses in equity investees</b>	<b>(413,468)</b>	<b>(45,349)</b>	<b>(1,274)</b>	<b>(460,091)</b>	<b>(31.3)</b>
Share of losses (gains) in equity investees, net of tax	(1,598)	—	—	(1,598)	(0.1)
<b>Net income</b>	<b>(415,067)</b>	<b>(45,349)</b>	<b>(1,274)</b>	<b>(461,689)</b>	<b>(31.4)</b>
Net loss attributable to noncontrolling interests	32,850	3,687	—	36,536	2.5
<b>Net income attributable to ordinary shareholders</b>	<b>(382,217)</b>	<b>(41,662)</b>	<b>(1,274)</b>	<b>(425,153)</b>	<b>(28.9)</b>

## Year Ended December 31, 2023

	RMB	RMB	RMB	RMB	%
	Hotel	Restaurant	Elimination	Total	Total
(in thousands, except for percentage)					
<b>Consolidated Statement of Comprehensive Income Data:</b>					
<b>Revenues:</b>					
Leased-and-operated business	490,924	296,890	—	787,814	48.4
Franchised-and-managed business	696,321	8,924	—	705,245	43.3
Wholesales and others	4,661	135,822	(6,284)	134,198	8.3
<b>Total revenues</b>	<b>1,191,906</b>	<b>441,636</b>	<b>(6,284)</b>	<b>1,627,258</b>	<b>100.0</b>
<b>Operating costs and expenses:</b>					
Operating costs	(598,842)	(359,019)	10,422	(947,439)	(58.2)
Selling and marketing expenses	(47,435)	(24,233)	50	(71,618)	(4.4)
General and administrative expenses	(166,861)	(41,572)	—	(208,434)	(12.8)
Other operating expense	(4,453)	(7,251)	—	(11,705)	(0.7)
Impairment loss of goodwill	—	—	—	—	—
Impairment of Intangible asset with indefinite life	—	(16,027)	—	(16,027)	(1.0)
Other general expenses	(63,557)	—	—	(63,557)	(3.9)
<b>Total operating costs and expenses</b>	<b>(881,148)</b>	<b>(448,102)</b>	<b>10,472</b>	<b>(1,318,779)</b>	<b>(81.0)</b>
Other operating income	24,525	2,645	—	27,170	1.7
<b>Income from operations</b>	<b>335,283</b>	<b>(3,822)</b>	<b>4,187</b>	<b>335,649</b>	<b>20.6</b>
Interest income and other, net	41,241	131	—	41,371	2.5
Interest expenses	(13,706)	(348)	—	(14,054)	(0.9)
Gains (losses) from investments in equity securities	(5,378)	—	—	(5,378)	(0.3)
Other income/expense, net	22,676	108	—	22,784	1.4
<b>Income before income taxes</b>	<b>380,116</b>	<b>(3,931)</b>	<b>4,187</b>	<b>380,372</b>	<b>23.4</b>
Income tax expense	(113,126)	(4,280)	(1,047)	(118,452)	(7.3)
<b>Income before share of losses in equity investees</b>	<b>266,990</b>	<b>(8,211)</b>	<b>3,140</b>	<b>261,920</b>	<b>16.1</b>
Share of losses (gains) in equity investees, net of tax	(1,392)	—	—	(1,392)	(0.1)
<b>Net income</b>	<b>265,598</b>	<b>(8,211)</b>	<b>3,140</b>	<b>260,528</b>	<b>16.0</b>
Net loss attributable to noncontrolling interests	9,554	(765)	—	8,789	0.5
<b>Net income attributable to ordinary shareholders</b>	<b>275,152</b>	<b>(8,976)</b>	<b>3,140</b>	<b>269,316</b>	<b>16.6</b>

## Year Ended December 31, 2024

	RMB	RMB	RMB	RMB	US\$	%
	Hotel	Restaurant	Elimination	Total	Total	Total
	(in thousands, except for percentage)					
<b>Consolidated Statement of Comprehensive Income Data:</b>						
<b>Revenues:</b>						
Leased-and-operated business	437,522	159,326	(207)	596,641	81,739	44.4
Franchised-and-managed business	625,073	10,287	—	635,360	87,044	47.3
Wholesales and others	3,908	109,032	(1,500)	111,439	15,267	8.3
<b>Total revenues</b>	<b>1,066,503</b>	<b>278,645</b>	<b>(1,708)</b>	<b>1,343,440</b>	<b>184,051</b>	<b>100.0</b>
<b>Operating costs and expenses:</b>						
Operating costs	(593,799)	(230,496)	10,422	(822,587)	(112,694)	(61.2)
Selling and marketing expenses	(55,028)	(12,557)	50	(67,585)	(9,259)	(5.0)
General and administrative expenses	(156,402)	(26,149)	—	(182,551)	(25,009)	(13.6)
Other operating expense	(4,937)	(2,153)	—	(7,090)	(971)	(0.5)
Impairment loss of goodwill	—	(81,008)	—	(81,008)	(11,098)	(6.0)
Impairment of Intangible asset with indefinite life	—	(39,072)	—	(39,072)	(5,353)	(2.9)
Other general expenses	(41,769)	—	—	(41,769)	(5,722)	(3.1)
<b>Total operating costs and expenses</b>	<b>(851,935)</b>	<b>(391,436)</b>	<b>1,708</b>	<b>(1,241,663)</b>	<b>(17,011)</b>	<b>(92.4)</b>
Other operating income	56,818	3,329	—	60,148	8,240	4.5
<b>Income from operations</b>	<b>271,386</b>	<b>(109,461)</b>	<b>4,187</b>	<b>161,924</b>	<b>22,184</b>	<b>12.1</b>
Interest income and other, net	39,982	90	—	40,072	5,490	3.0
Interest expenses	(6,310)	—	—	(6,310)	(864)	(0.5)
Gains (losses) from investments in equity securities	(10,314)	—	(4,640)	(14,954)	(2,049)	(1.1)
Other income/expense, net	16,384	(19)	109	16,474	2,257	1.2
<b>Income before income taxes</b>	<b>311,127</b>	<b>(109,390)</b>	<b>(4,531)</b>	<b>197,207</b>	<b>27,017</b>	<b>14.7</b>
Income tax expense	(107,223)	18,496	—	(88,727)	(12,156)	(6.6)
<b>Income before share of losses in equity investees</b>	<b>203,904</b>	<b>(90,894)</b>	<b>(4,531)</b>	<b>108,480</b>	<b>14,862</b>	<b>8.1</b>
Share of losses (gains) in equity investees, net of tax	(1,165)	—	—	(1,165)	(160)	(0.1)
<b>Net income</b>	<b>202,738</b>	<b>(90,894)</b>	<b>(4,531)</b>	<b>107,314</b>	<b>14,702</b>	<b>8.0</b>
Net loss attributable to noncontrolling interests	4,600	(1,912)	—	2,688	368	0.2
<b>Net income attributable to ordinary shareholders</b>	<b>207,339</b>	<b>(92,806)</b>	<b>(4,531)</b>	<b>110,002</b>	<b>15,070</b>	<b>8.2</b>

The following tables present certain unaudited financial data and selected operating data as of and for the years ended December 31, 2022, 2023 and 2024:

	As of December 31,		
	2022	2023	2024
<b>Selected Operating Data:</b>			
Total hotels in operation	4,059	4,238	4,425
Franchised-and-managed hotels	3,998	4,173	4,370
Leased-and-operated hotels	61	65	55
Total hotel rooms in operation	302,497	309,495	321,282
Franchised-and-managed hotels	295,932	302,177	315,018
Leased-and-operated hotels	6,565	7,318	6,264
Number of cities	355	360	352
	Year Ended December 31,		
	2022	2023	2024
<b>Occupancy rate (as a percentage)</b>			
Total hotels in operation	63.7%	75.8%	71.6%
Franchised-and-managed hotels	63.8%	75.9%	71.6%
Leased-and-operated hotels	58.4%	70.9%	70.1%
<b>Average daily rate (in RMB)</b>			
Total hotels in operation	159	180	174
Franchised-and-managed hotels	157	178	172
Leased-and-operated hotels	219	250	251
<b>RevPAR (in RMB)</b>			
Total hotels in operation	101	137	125
Franchised-and-managed hotels	100	135	123
Leased-and-operated hotels	128	177	176

(1) Based on the number of available rooms.

**Year Ended December 31, 2024 Compared to Year Ended December 31, 2023**

**Revenues.** Our total revenues decreased by 17.4% from RMB1,627.3 million in 2023 to RMB1,343.4 million (US\$184.1 million) in 2024. The decrease was primarily due to the decrease in hotel RevPAR and restaurant ADS, the closure of lease-and-operated hotels and stores. Hotel revenues decreased by 10.5% from RMB1,191.9 million in 2023 to RMB1,066.5 million (US\$146.1 million) in 2024. The decrease was primarily due to the decrease in RevPAR and the closure of lease-and-operated hotels, but offset by the expansion of franchised-and-managed hotels. For the full year 2024, we opened 405 hotels and closed 218 hotels. The RevPAR was RMB125 in the full year 2024, representing a 8.6% year-over-year decrease. Restaurant revenues decreased by 36.9% from RMB441.6 million in 2023 to RMB278.6 million (US\$38.2 million) in 2024. The decrease was primarily attributable to the closure of lease-and-operated stores, and a year-over-year decrease in ADS.

**Franchised-and-managed business.** Revenues from our franchised-and-managed business decreased by 9.9% from RMB705.2 million in 2023 to RMB635.4 million (US\$87.0 million) in 2024. For hotel business, revenues from our franchised-and-managed hotels decreased by 10.2% from RMB696.3 million in 2023 to RMB625.1 million (US\$85.6 million) in 2024. The initial franchise fees for hotel business decreased by 25.5% year-over-year, mainly attributable to the decrease in the gross opening number of F&M hotels. The recurring franchise management fees for hotel business decreased from RMB658.4 million in 2023 to RMB600.5 million (US\$82.3 million) in 2024, primarily due to a 8.8% year-over-year decrease in F&M hotels' RevPAR. For restaurant business, revenues from our franchised-and-managed restaurants increased by 15.3% from RMB8.9 million in 2023 to RMB10.3 million (US\$1.4 million) in 2024, mainly due to the increased number of F&M stores.

**Leased-and-operated business.** Revenues from our leased-and-operated business decreased by 24.3% from RMB787.8 million in 2023 to RMB596.6 million (US\$81.7 million) in 2024. For hotel business, revenues from our leased-and-operated hotels decreased by 10.9% from RMB490.9 million in 2023 to RMB437.5 million (US\$59.9 million) in 2024, mainly due to a 0.9% year-over-year decrease in L&O hotel's RevPAR and a closure of 12 L&O hotels over the same period. For restaurant business, revenues from our leased-and-operated restaurants decreased by 46.3% from RMB296.9 million in 2023 to RMB159.3 million (US\$21.8 million) in 2024. The decrease was primarily due to the closure of L&O restaurants and partially offset by an increase in ADS.

**Operating costs.** Our total operating costs decreased by 13.2% from RMB947.4 million in 2023 to RMB822.6 million (US\$112.7 million) in 2024. Our hotel operating costs decreased by 0.8% from RMB598.8 million in 2023 to RMB593.8 million (US\$81.4 million) in 2024. The decrease was mainly attributable to the closure of 12 L&O stores in 2024, which resulted in lower rental, consumable, food and beverage.

**Selling and marketing expenses.** Our selling and marketing expenses decreased by 5.6% from RMB71.6 million in 2023 to RMB67.6 million (US\$9.3 million) in 2024. The decrease was mainly attributable to lower selling commissions.

**General and administrative expenses.** Our general and administrative expenses decreased by 12.4% from RMB208.4 million in 2023 to RMB182.6 million (US\$25.0 million) in 2024. The decrease was primarily attributable to the reduction in staff related cost.

**Other operating expenses.** Our other operating expenses decreased by 39.4% from RMB11.7 million in 2023 to RMB7.1 million (US\$1.0 million) in 2024, primarily due to the decrease in one-off loss incurred from the disposal of self-operated restaurants for restaurant business.

**Impairment loss of goodwill.** Our impairment loss of goodwill were RMB81.0 million (US\$11.1 million) in 2024, These expenses were impairment for goodwill related to the restaurant business.

**Impairment of Intangible asset with indefinite life.** Our impairment of intangible asset with indefinite life increased by 143.8% from RMB16.0 million in 2023 to RMB39.1 million (US\$5.4 million) in 2024. These expenses were the provisions for trademarks due to Da Niang business.

**Other general expenses.** Our other general expenses significantly decreased by 34.3% from RMB63.6 million in 2023 to RMB41.8 million (US\$5.7 million) in 2024, which included the impairments of long lived assets, and provision for loan receivables related to franchisee loans.

**Other operating income.** Our other operating income increased by 121.4% from RMB27.2 million in 2023 to RMB60.1 million (US\$8.2 million) in 2024, mainly attributable to the one-off income from the disposal of property for hotel business.

**Income from operations.** As a result of the foregoing, our income from operations significantly decreased from RMB335.6 million in 2023 to RMB161.9 million (US\$22.2 million) in 2024. As a percentage of our revenues, our income from operations decreased from 20.6% in 2023 to 12.1% in 2024. Excluding impairment loss of goodwill, impairment of intangible asset with indefinite life and other general expenses, income from operations from purely operating activities increased from RMB415.2 million, with a margin of 25.5% in 2023, to RMB323.8 million (US\$44.4 million), with a margin of 24.1% in 2024.

**Interest income and other, net.** Our net interest income decreased by 3.1% from RMB41.4 million in 2023 to RMB40.1 million (US\$5.5 million) in 2024, due to a decrease in interest income from franchisee loans as franchisees' repayment increases, as well as a deduction in deposit rates, impacted by the deduction of benchmark rates of the people's bank of China in 2023.

**Gains (losses) from investments in equity securities.** Our losses from investments in equity securities significantly increased by 178.0% from RMB5.4 million in 2023 to RMB15.0 million (US\$2.0 million) in 2024. Any realized or unrealized gains or losses resulting from the fluctuations of the market value of these securities will be recognized in earnings in the period which they occur.

**Income tax expense.** Our income tax expense decreased from RMB118.5 million in 2023 to RMB88.7 million (US\$12.2 million) in 2024, primarily due to the decrease of income from operations.

**Share of (losses) gains in equity investees, net of tax.** We recognized losses of RMB1.4 million in 2023. We recognized losses of RMB1.2 million (US\$0.2 million) in 2024, mainly attributable to losses from Yueyuanbaili.

**Net loss attributable to non-controlling interests.** The loss in 2024 mainly consisted of RMB2.7 million (US\$0.4 million) attributable to the non-controlling shareholders of GHG subsidiaries.

**Net income attributable to our ordinary shareholders.** As a result of the foregoing, our net income attributable to our ordinary shareholders significantly increased from RMB269.3 million in 2023 to RMB110.0 million (US\$15.1 million) in 2024. Our net margin, defined as our net income attributable to our ordinary shareholders as a percentage of our revenues, decreased from 16.6% in 2023 to 8.2% in 2024.

**Year Ended December 31, 2023 Compared to Year Ended December 31, 2022**

**Revenues.** Our total revenues increased by 10.8% from RMB1,469.1 million in 2022 to RMB1,627.3 million in 2023. The increase was primarily due to the increased revenues of hotel business. Hotel revenues increased by 27.2% from RMB936.8 million in 2022 to RMB1,191.9 million in 2023. The increase was primarily due to the recovery in RevPAR and the increase in the number of hotels. For the full year 2023, we opened 420 hotels and closed 241 hotels. The RevPAR was RMB137 in the full year 2023, representing a 35.6% year-over-year increase. Restaurant revenues decreased by 17.3% from RMB533.8 million in 2022 to RMB441.6 in 2023. The decrease was primarily attributable to the closure of lease-and-operated restaurants, and partially offset by an increase in ADS.

**Franchised-and-managed business.** Revenues from our franchised-and-managed business increased by 19.9% from RMB588.5 million in 2022 to RMB705.2 million in 2023. For hotel business, revenues from our franchised-and-managed hotels increased by 19.6% from RMB582.4 million in 2022 to RMB696.3 million in 2023. The initial franchise fees for hotel business increased by 10.4% year-over-year, mainly attributable to the increase in the gross opening number of F&M hotels. The recurring franchise management fees for hotel business increased from RMB540.0 million in 2022 to RMB649.5 million in 2023, primarily due to a 35.0% year-over-year increase in F&M hotels' RevPAR and offset by a waving of franchised management fees for refurbished hotels. For restaurant business, revenues from our franchised-and-managed restaurants increased by 48.3% from RMB6.0 million in 2022 to RMB8.9 million in 2023, mainly due to the increased number of F&M stores as well as the increase in ADS.

**Leased-and-operated business.** Revenues from our leased-and-operated business increased by 12.5% from RMB700.0 million in 2022 to RMB787.8 million in 2023. For hotel business, revenues from our leased-and-operated hotels increased by 45.0% from RMB338.5 million in 2022 to RMB490.9 million in 2023. A 38.3% year-over-year increase in L&O hotel's RevPAR and a net increase of 4 L&O hotels over the same period. For restaurant business, revenues from our leased-and-operated restaurants decreased by 18.2% from RMB362.8 million in 2022 to RMB296.9 million in 2023. The decrease was primarily due to the closure of L&O restaurants and partially offset by an increase in ADS.

**Operating costs.** Our total operating costs decreased by 11.2% from RMB1,066.5 million in 2022 to RMB947.4 million in 2023. Our hotel operating costs increased by 0.8% from RMB594.0 million in 2022 to RMB598.8 million in 2023. The increase was mainly attributable to higher consumables and higher related franchise costs as business rebounded, partially offset by the deconsolidation of Argyle Hotel Management Group (Australia) Pty Ltd., or Argyle, and the disposal of our interest in Urban Hotel Group. Our restaurant operating costs decreased by 24.0% from RMB472.3 million in 2022 to RMB359.0 million in 2023. The decrease was mainly attributable to the closing of L&O stores.

**Selling and marketing expenses.** Our selling and marketing expenses increased by 4.6% from RMB68.5 million in 2022 to RMB71.6 million in 2023. The increase was mainly attributable to higher sales-channel commissions. Our selling and marketing expenses decreased as a percentage of our revenues from 4.7% in 2022 to 4.4% in 2023. For hotel business, our selling and marketing expenses increased by 23.1% from RMB38.5 million in 2022 to RMB47.4 million in 2023, mainly due to higher sales-channel commissions. For restaurant business, our selling and marketing expenses decreased by 19.2% from RMB30.0 million in 2022 to RMB24.2 million in 2023, mainly due to lower staff related expenses resulted from the closure of L&O stores.

**General and administrative expenses.** Our general and administrative expenses decreased by 19.7% from RMB259.5 million in 2022 to RMB208.4 million in 2023. The decrease was primarily attributable to lower staff related expenses and lower bad debts for both hotel business and restaurant business.

**Other operating expenses.** Our other operating expenses increased by 39.1% from RMB8.4 million in 2022 to RMB11.7 million in 2023, primarily due to the loss incurred from the disposal of assets and equipment for hotel business.

**Impairment loss of goodwill.** The loss in 2022 mainly consisted of RMB91.2 million attributable to Argyle and Urban.

**Impairment of Intangible asset with indefinite life.** Our impairment of intangible asset with indefinite life decreased by 15.2% from RMB19.0 million in 2022 to RMB16.0 million in 2023. These expenses were the provisions for trademarks resulted from the acquisition of restaurant business.

**Other general expenses.** Our other general expenses significantly decreased by 86.4% from RMB466.5 million in 2022 to RMB63.6 million in 2023. These expenses include provisions for trademarks especially due to the acquisition of the restaurant business, loan receivables related to long-lived loans, and impairment of assets. For hotel business, our other general expenses decreased by 86.2% from RMB461.6 million in 2022 to RMB63.6 million in 2023 due to lower provisions for loans receivable related to franchisee loans. For restaurant business, our other general expenses were RMB5.0 million in 2022 and nil in 2023.

**Other operating income.** Our other operating income increased by 13.2% from RMB24.0 million in 2022 to RMB27.2 million in 2023, mainly attributable to the financial subsidies for hotel business and offset by tax rebates for restaurant business.

**Income from operations.** As a result of the foregoing, our income from operations significantly increased from RMB-486.5 million in 2022 to RMB335.6 million in 2023. As a percentage of our revenues, our income from operations increased from -33.1% in 2022 to 20.6% in 2023. Excluding impairment loss of goodwill and other general expenses, income from operations from purely operating activities increased from RMB90.1 million, with a margin of 6.1% in 2022, to RMB415.2 million, with a margin of 25.5% in 2023.

**Interest income and other, net.** Our net interest income decreased by 14.0% from RMB48.1 million in 2022 to RMB41.4 million in 2023, due to a decrease in interest income from franchisee loans as franchisees' repayment increases, as well as a deduction in deposit rates, impacted by the deduction of benchmark rates of the people's bank of China in 2023.

**Gains (losses) from investments in equity securities.** Our losses from investments in equity securities significantly narrowed by 91.4% from RMB62.2 million in 2022 to RMB5.4 million in 2023. Any realized or unrealized gains or losses resulting from the fluctuations of the market value of these securities will be recognized in earnings in the period which they occur.

**Income tax expense.** Our income tax expense increased from RMB-44.1 million in 2022 to RMB118.5 million in 2023, primarily due to the increase of income from operations.

**Share of (losses) gains in equity investees, net of tax.** We recognized losses of RMB1.6 million in 2022, mainly attributable to gains from Yueyuanbaili and losses from Zhilong. We recognized losses of RMB1.4 million in 2023, mainly attributable to losses from Yueyuanbaili.

**Net loss attributable to non-controlling interests.** The loss in 2023 mainly consisted of RMB8.8 million attributable to the non-controlling shareholders of GHG subsidiaries.

**Net income attributable to our ordinary shareholders.** As a result of the foregoing, our net income attributable to our ordinary shareholders significantly increased from RMB-425.2 million in 2022 to RMB269.3 million in 2023. Our net margin, defined as our net income attributable to our ordinary shareholders as a percentage of our revenues, increased from -28.9% in 2022 to 16.6% in 2023.

## **B. Liquidity and Capital Resources**

Our principal sources of liquidity have been cash generated from operating activities. Our cash and cash equivalents, restricted cash and short term investment balance as of December 31, 2024 was RMB920.0 million (US\$209.0 million), compared to RMB1,209.3 million in 2023, and compared to RMB920.0 million in 2022. Our cash and cash equivalents consist of cash on hand and liquid investments and short term investment which have maturities of three months or less when acquired. Furthermore, we continue to evaluate and pursue investment opportunities in both domestic and international markets. While these investments are intended to support long-term growth, they may cause fluctuation in our available cash flows.

We have been able to meet our working capital and capital expenditure needs, and we believe that we will be able to meet our working capital needs in at least the next twelve months with our operating cash flow and existing cash and cash equivalents. The following table sets forth a summary of our cash flows for the years indicated:

	Year Ended December 31,			
	2022	2023	2024	
	RMB	RMB	RMB	US\$
	(in thousands)			
Net cash provided by operating activities	294,541	455,050	373,378	51,153
Net cash provided by (used in) investing activities	420,446	(93,708)	345,392	47,318
Net cash (used in) provided by financing activities	(335,396)	(303,734)	10,532	1,443
Effect of exchange rate changes on cash and cash equivalents and restricted cash	1,248	32	4,299	589
Net increase in cash and cash equivalents and restricted cash	380,839	57,639	733,601	100,503
Cash and cash equivalents and restricted cash at the beginning of the year	353,123	733,962	791,601	108,449
Cash and cash equivalents and restricted cash at the end of the year	733,962	791,601	1,525,202	208,952

#### Operating Activities

Net cash provided by operating activities was RMB373.4 million (US\$51.2 million) in 2024, compared to RMB455.0 million in 2023, and compared to RMB294.5 million in 2022.

Net cash provided by operating activities in 2024 was RMB373.4 million (US\$51.2 million), which was primarily attributable to our net income of RMB107.3 million, adjusted to deduct (i) losses on disposal of property and equipment of RMB25.3 million, (ii) foreign exchange loss of RMB27.5 million, and to add back (i) non-cash lease expense to reduce operating lease right-of-use assets of RMB263.9 million, (ii) depreciation and amortization of RMB115.7 million, (iii) impairment of goodwill confirm, intangible assets with indefinite life and long-lived assets of RMB132.7 million, and (iv) bad debt expense of RMB56.2 million. The amount was further adjusted by changes in itemized balances of operating assets and liabilities that have a negative effect on cashflow, including primarily (i) a decrease in operating lease liabilities of RMB247.7 million, (ii) an increase in accounts payable of RMB3.0 million, (iii) an increase in other current assets of RMB3.1 million, (iv) a decrease in deferred revenue of RMB42.8 million, (v) an increase in income tax payable of RMB23.2 million, as well as certain changes in itemized balances of operating assets and liabilities that have a positive effect on cashflow, including primarily (i) an increase in unrecognized tax benefits of RMB57.9 million, (ii) an increase in accrued expenses and other current liabilities of RMB3.2 million, (iii) a decrease in other assets of RMB3.7 million, and (iv) a decrease in inventories of RMB14.6 million.

Net cash provided by operating activities in 2023 was RMB455.0 million, which was primarily attributable to our net income of RMB260.5 million, adjusted to deduct (i) interest income of RMB6.0 million, (ii) foreign exchange loss of RMB0.4 million, and to add back (i) non-cash lease expense to reduce operating lease right-of-use assets of RMB271.2 million, (ii) depreciation and amortization of RMB116.9 million, (iii) impairment of intangible assets with indefinite life and long lived assets of RMB56.6 million, and (iv) bad debt expense of RMB38.9 million. The amount was further adjusted by changes in itemized balances of operating assets and liabilities that have a negative effect on cashflow, including primarily (i) a decrease in operating lease liabilities, current portion, of RMB256.0 million, (ii) a decrease in accounts payable of RMB50.5 million, (iii) an increase in other current assets of RMB47.9 million, (iv) a decrease in deferred revenue of RMB33.5 million, as well as certain changes in itemized balances of operating assets and liabilities that have a positive effect on cashflow, including primarily (i) a decrease in income tax payable of RMB32.9 million, (ii) a decrease in unrecognized tax benefits of RMB28.6 million, (iii) a decrease in accrued expenses and other current liabilities of RMB2.6 million, (iv) a decrease in other assets of RMB17.3 million, and (v) an increase in amounts due from related parties of RMB8.4 million.

Net cash provided by operating activities in 2022 was RMB294.5 million, which was primarily attributable to our net income of RMB461.7 million, adjusted to deduct (i) foreign exchange gains of RMB17.8 million, (ii) interest income of RMB1.4 million, and to add back (i) bad debt expense of RMB431.2 million, (ii) non-cash lease expense of RMB310.8 million, (iii) depreciation and amortization of RMB125.3 million, (iv) impairment of goodwill of RMB91.2 million, (v) losses and impairment (gains) on equity securities held of RMB62.2 million, and (vi) impairment of long lived assets of RMB53.2 million. The amount was further adjusted by changes in itemized balances of operating assets and liabilities that have a negative effect on cashflow, including primarily (i) a decrease in operating lease liabilities of RMB233.9 million, (ii) an increase in deferred taxes of RMB127.0 million, (iii) a decrease in deferred revenue of RMB77.8 million mainly attributable to a decrease in our membership fees received and initial franchisee fees received, (iv) an increase in our accounts receivable of RMB53.6 million mainly attributable to an increase of receivables from franchisees and hotel guests, as well as certain changes in itemized balances of operating assets and liabilities that have a positive effect on cashflow, including primarily (i) an increase in accrued expenses and other current liabilities of RMB69.0 million, (ii) a decrease in other current assets of RMB63.9 million, (iii) an increase in unrecognized tax benefits of RMB21.1 million, and (iv) a decrease in inventories of RMB10.6 million.

#### **Investing Activities**

Net cash provided by investing activities was RMB345.4 million (US\$47.3 million) in 2024, compared to RMB-93.7 million in 2023, and compared to RMB-420.4 million in 2022.

Net cash provided by investing activities in 2024 was RMB345.4 million (US\$47.3 million), primarily attributable to (i) proceeds from short-term investments of RMB417.7 million, (ii) proceeds from disposal of property and equipment of RMB139.9 million, (iii) repayment from franchisees of RMB84.3 million, partially offset by (i) increase of long-term time deposits of RMB222.2 million, (ii) purchases of property and equipment of RMB79.6 million, (iii) loan to franchisees of RMB14.3 million, and (iv) purchases of a long-term investment of RMB10.4 million.

Net cash used in investing activities in 2023 was RMB93.7 million, primarily attributable to (i) purchases of short-term investments of RMB262.7 million, (ii) purchases of property, plant and equipment of RMB87.8 million, (iii) increase of long-term time deposits of RMB63.3 million, partially offset by (i) proceeds from maturities of short-term investments of RMB167.0 million, (ii) repayment from franchisees net of RMB98.5 million, (iii) proceeds from disposal of subsidiaries of RMB37.8 million, and (iv) repayment of loan from third parties of RMB14.6 million.

Net cash provided by investing activities in 2022 was RMB420.4 million, primarily attributable to (i) proceeds from maturities of short-term investments of RMB550.7 million, (ii) proceeds from disposal of equity securities of RMB116.6 million, (iii) proceeds from disposal of subsidiaries of RMB79.7 million, and (iv) repayment of loan from franchisees net of RMB48.1 million, partially offset by (i) purchase of short-term investments of RMB161.8 million, (ii) loan to related parties net of RMB125.1 million, (iii) purchases of property, plant and equipment of RMB83.7 million, and (iv) loan to third parties net of RMB13.0 million.

#### **Financing Activities**

Net cash provided by financing activities was RMB10.5 million (US\$1.4 million) in 2024, compared to net cash used in financing activities of RMB303.7 million in 2023, and net cash used in financing activities of RMB335.4 million in 2022.

Net cash provided by financing activities in 2024 was RMB10.5 million (US\$1.4 million), primarily attributable to proceeds from bank borrowings of RMB200.0 million, partially offset by repayment of short-term borrowings of RMB117.2 million.

Net cash used in financing activities in 2023 was RMB303.7 million, primarily attributable to (i) repayment of bank loans net of RMB284.3 million, and (ii) repurchase of ordinary shares of RMB19.7 million.

Net cash used in financing activities in 2022 was RMB335.4 million, primarily attributable to (i) repayment of bank loans net of RMB299.9 million, and (ii) distribution to the shareholders of RMB41.0 million, partially offset by loan from non-controlling interest of RMB5.1 million.

## Statutory Reserves

As a holding company, we rely upon dividends paid to us by our subsidiaries in the PRC to pay dividends and to finance any debt we may incur. If our subsidiaries or any newly formed subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our subsidiaries are permitted to pay dividends to us only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. Pursuant to laws applicable to entities incorporated in the PRC, each of our subsidiaries in the PRC must make appropriations from after tax profit to a statutory surplus reserve fund. The reserve fund requires annual appropriation of 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end) after offsetting accumulated losses from prior years, until such reserve reaches 50% of the subsidiary's registered capital. The reserve fund can only be used to increase the registered capital and eliminate further losses of the respective companies under PRC regulations. As of December 31, 2022, 2023 and 2024, total statutory reserves of our PRC subsidiaries were RMB150.2 million, RMB152.4 million and RMB155.3 million (US\$21.3 million). These reserves are not distributable as cash dividends, loans or advances. In addition, due to restrictions under PRC laws and regulations, our PRC subsidiaries are restricted in their ability to transfer their net assets to the company in the form of dividend payments, loans or advances. Amounts of net assets restricted include paid up capital and statutory reserve funds of our PRC subsidiaries amounted to RMB898.6 million, RMB901.5 million and RMB834.7 million (US\$117.6 million) as of December 31, 2022, 2023 and 2024, respectively.

## Treasury Policy

As a result of practical difficulties in remitting cash by our PRC subsidiaries outside of China, we have established a treasury policy to better utilize our financial resources and manage our cash that we generate from our operations in China. Under this policy, when our internal cash flow and liquidity forecast indicate that we have sufficient capital resources for our operating activities and our capital expenditure, we make liquid investments with a portion of our excess cash to achieve a better return on our assets than generating interest on bank deposits.

As of December 31, 2022, 2023 and 2024, we had short-term investments of RMB186.0 million, RMB417.7 million and RMB0.01 million (US\$0.001 million) and investments in equity securities of RMB41.4 million, RMB26.1 million and nil. From disposals of the short-term investments and investments in equity securities, we recorded gains of nil and RMB11.3 million, respectively, in 2022, and we have not disposed of the short-term investments and investments in equity securities in 2023, and recorded loss of nil and RMB1.25 million (US\$0.17 million) respectively, in 2024. Mark-to-market losses from these equity securities we recorded amounted to RMB13.9 million, RMB15.3 million and RMB2.5 million (US\$0.4 million) in 2022, 2023 and 2024, respectively.

In January 2019, we declared a cash dividend of US\$30.6 million, US\$0.30 per ordinary share, or US\$0.30 per ADS. Holders of our ordinary shares and ADSs as of the close of trading on February 6, 2019 were entitled to such cash dividend, and we paid such dividend in full in February 2019. In December 2019, we declared a cash dividend of US\$25.5 million, US\$0.25 per ordinary share, or US\$0.25 per ADS. Holders of our ordinary shares and ADSs as of the close of trading on December 24, 2019 were entitled to such cash dividend, and we paid such dividend in full in January 2020. In December 2021, we declared a cash dividend of US\$0.55 per ordinary share, or US\$0.55 per ADS. Holders of our ordinary shares and ADSs as of the close of trading on December 31, 2021 were entitled to such cash dividend, and we paid such dividend in full in January 2022. In August 2024, we declared a cash dividend of US\$0.10 per ordinary share, or US\$0.10 per ADS. Holders of our ordinary shares and ADSs as of the close of trading on September 30, 2024 were entitled to such cash dividend, and we paid such dividend in full in October 2024.

In addition, we plan to implement a more prudent treasury policy that involves board level discussion, approval and oversight, as well as third party professional securities trading advice. In particular, we plan to gradually liquidate our holding of our investments in equity securities, subject to market conditions, and will put the unutilized cash in interest-bearing accounts or pursue less volatile investment options.

## Cash Flows through our Organization

GreenTree Hospitality Group Ltd., or our company, is a holding company that relies principally on its operating subsidiaries in China for its cash requirements. For the year ended December 31, 2022, our company received RMB241.3 million from our operating subsidiaries in China. For the year ended December 31, 2023, our company received payments of RMB492.5 million (US\$69.4 million) from, and made payments of RMB162.5 million (USD22.9 million) to our operating subsidiaries in China. For the year ended December 31, 2024, our company received RMB102.1 million (US\$14.0 million), the dividends from our operating subsidiaries in China. And paid US\$10.2 million (RMB74.2 million) to the company's shareholders.

For the year ended December 31, 2023, our company did not make any payments to, or receive any payments from, our operating subsidiaries in China. For the year ended December 31, 2024, our company received RMB74.1 million (US\$10.2 million) from our operating subsidiaries in China.

For the years ended December 31, 2022, 2023 and 2024, no assets other than cash were transferred between our company and our operating subsidiaries in China.

#### **Recently Issued Accounting Standards**

Please see Note 2 to our consolidated financial statements included elsewhere in this annual report.

#### **C. Research and Development, Patents and Licenses, etc.**

##### **Hotel Development**

See “Item 4. Information on the Company—B. Business Overview—Our Technology Infrastructure” and “Item 4. Information on the Company—B. Business Overview—Hotel Development.”

##### **Intellectual Property**

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

#### **D. Trend Information**

Please refer to “—A. Results of Operations” for a discussion of the most recent trends in our services, sales and marketing by the end of 2024. In addition, please refer to discussions included in such Item for a discussion of known trends, uncertainties, demands, commitments or events that we believe are reasonably likely to have a material effect on our net sales and operating revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information to be not necessarily indicative of our future operating results or financial condition.

#### **E. Critical Accounting Estimates**

We prepare financial statements in accordance with accounting principles generally accepted in the United States, or U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect the reported amounts of our assets and liabilities and the disclosure of our contingent assets and liabilities at the end of each fiscal period and the reported amounts of revenues and expenses during each fiscal period. We evaluate these judgments and estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and assumptions that we believe to be reasonable, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

The selection of critical accounting policies and estimates, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors that should be considered when reviewing our financial statements. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

##### ***Impairment of indefinite-life intangible assets***

Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired in accordance with ASC 350-30, Intangibles-Goodwill and Other: General Intangibles Other than Goodwill. The Group at the end of each reporting period evaluates whether events and circumstances continue to support the indefinite useful life of relevant intangible assets. If the assets are determined to be impaired, they are written down to their fair values. We evaluated the fair value of the indefinite-lived trademarks using the relief from royalty method based on assumptions including projected revenue, royalty rate and discount rate, that involve considerable management judgements. Accordingly, actual results may vary significantly from our estimates as they are forward-looking and include assumptions about economic and market conditions with uncertain future outcome.

##### ***Impairment of goodwill***

We test goodwill for impairment at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (component level) as determined by the availability of discrete financial information that is regularly reviewed by operating segment management or an aggregate of component levels of an operating segment having similar economic characteristics. If the carrying value of a reporting unit (including the value of goodwill) is greater than its estimated fair value, an impairment charge would be recorded for the amount that the carrying amount of the reporting unit exceeded its fair value.

We evaluate the fair value of the Da Niang business reporting unit using discounted cash flow method based on assumptions including projected revenue and discount rate, that involve considerable management judgements. Accordingly, actual results may vary significantly from our estimates as they are forward-looking and include assumptions about economic and market conditions with uncertain future outcome.

### **Revenue recognition**

Our revenues from leased-and-operated hotels are primarily derived from hotel operations, including the rental of rooms and food and beverage sales. Each of these products and services represents an individual performance obligation and, in exchange for these services, we receive fixed amounts based on fixed rates or fixed standalone selling price. Revenue is recognized when rooms are occupied, and food and beverages are sold. Sublease rental revenues as the respective performance obligations are derived from the subleasing of partial space of leased-and-operated hotels and is recorded in leased-and-operated hotel revenue in the consolidated statements of comprehensive income on a straight-line basis over the contractual lease term satisfied.

Our revenues from leased-and-operated restaurants are primarily derived from restaurant operations, including the dine-in orders in restaurants and take-out orders sold through third-party platforms. Revenues are recognized when a customer takes possession of the food, which is when our obligation to perform is satisfied. Payment terms with respect to these sales are short-term in nature.

Our revenues from franchised-and-managed hotels are derived from franchise agreements where the franchisees are required to pay (i) an initial one-time non-refundable franchise fee, and (ii) continuing franchise fees, which mainly consist of on-going management and service fees based on a certain percentage of the room revenues of the franchised-and-managed hotels and central reservation system (“CRS”) usage fee based on a fixed rate per transaction. For franchised-and-managed hotels, we have a performance obligation to provide franchisees a license to our hotel system intellectual property for use of certain of our brand names. The one-time franchise fees are fixed consideration payable upon submission of a franchise application or renewal and are recognized on a straight-line basis over the initial or renewal term of the franchise agreements. We do not consider this advance consideration to include a significant financing component, since it is used to protect us from the franchisees failing to adequately complete some or all obligations under the contract. The continuing fees represent variable consideration, as the transaction price is based on a percentage of underlying service revenue is recognized by the franchisees’ operations. We recognize continuing franchise fees on a monthly basis over the term of the agreement as those amounts become payable.

Our revenues from franchised-and-managed restaurants consist of initial one-time non-refundable franchise fees and continuing franchise fees. The one-time franchise fees are fixed consideration payable upon submission of a franchise application or renewal and are recognized on a straight-line basis over the initial or renewal term of the franchise agreements. Such revenues have been insignificant during the presented periods. The Group does not consider this advance consideration to include a significant financing component, since it is used to protect the Group from the franchisees failing to adequately complete some or all of its obligations under the contract. Continuing franchise fees are based upon a percentage of franchisee sales, as those sales occur. The continuing fees represent variable consideration, as the transaction price is based on a percentage of underlying service revenue is recognized by the franchisees’ operations. The Group recognizes continuing franchise fees monthly over the term of the agreement as those amounts become payable.

In addition, we designate hotel managers to certain hotels and accounts for hotel manager fees related to the hotels under the franchise program as revenues. Pursuant to the franchise-and-management agreements, we charge the franchisees fixed hotel manager fees to compensate us for the franchised-and-managed hotel managers’ salaries, social welfare benefits and certain other out-of-pocket expenses as incurred. The hotel manager fee is recognized as revenue on a monthly basis.

We invite our customers to participate in a membership program with four tiers of membership – E-membership, R-membership, gold membership and platinum membership. A one-time membership fee is charged for new members except for the E-membership. The membership automatically expires after two years in the event of non-usage and is automatically renewed if used at least once within a two-year period. Members enjoy discounts on room rates, priority in hotel reservation, and accumulate membership points for their paid stays, which can be redeemed for membership upgrades, room night awards and other gifts within two years after the points are earned.

Membership fees from our membership 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 our experience and is adjusted on a periodic basis to reflect changes in membership retention. The membership duration is estimated to be three to five years depending on membership level.

Membership points earned by members represent a material right to free or discounted goods or services in the future. The membership program has one performance obligation that consists of marketing and managing the program and arranging for award redemptions by members. The amount of revenue we recognize upon point redemption is impacted by the estimate of the "breakage" for points that members will never redeem. We estimate breakage based on our historical experience and expectations of future member behavior and will true up the estimated breakage at the end of each period. We recognize revenue net of reimbursement paid to franchisees as our performance obligation is to facilitate the transaction between the member and the franchised and managed hotels.

#### ***Income taxes***

We account for income taxes using the liability method, where deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some or all of the deferred tax assets will not be realized.

We recognize the benefit of a tax position if the tax position is more likely than not to prevail based on the technical merits of the tax position. Tax positions that meet the "more likely than not" threshold are measured at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement. We re-assessed our liability for unrecognized tax benefits that may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statute of limitations. Changes in recognition and measurement estimates are recognized in the period in which the changes occur. We account for interest and penalties related to an uncertain tax position as a component of income taxes.

#### ***Loans receivable***

Loans receivable are carried at the original loan principal and accrued interest based on the contract rate, less an allowance for uncollectible accounts, as appropriate. We classified loans receivable as long-term or short-term investments according to their contractual maturity. The allowance for uncollectible accounts is estimated based on an assessment of the payment history, the existence of collateral, current information and events, and the facts and circumstances around the credit risk of the debtors.

## Business combinations

The Group accounts for business combinations, except for acquisitions of entities under common control, under the purchase method in accordance with ASC 805, Business Combinations. The cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any noncontrolling interests. The excess of (i) the total of the cost of the acquisition, fair value of the noncontrolling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets of the acquiree, the difference is recognized directly in earnings. The determination and allocation of fair values to the identifiable net assets acquired, liabilities assumed and noncontrolling interest is based on various assumptions and valuation methodologies requiring considerable judgment. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. The Group determines discount rates to be used based on the risk inherent in the acquiree's current business model and industry comparisons. Although the Group believes that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from forecasted amounts and the differences could be material.

Acquisitions of entities under common control requires retrospective combination of entities for all periods presented, as if the combination had been in effect since the inception of common control. Assets and liabilities transferred are recorded at their historical carrying amounts on the date of the transfer. The difference between purchase consideration and historical value of the net assets on the date of the transfer are recognized in total stockholders' equity on the consolidated balance sheets.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. Directors and Senior Management

The following table sets forth certain information relating to our current directors, executive officers and senior management.

Name	Age	Position/Title
Alex S. Xu (徐曙光)	61	Chairman and chief executive officer
Gregory James Karns	69	Director, general counsel
Bingwu Xie (谢西武)	55	Independent director
Dong Li (李东)	49	Independent director
Yanjie Zhu (祝燕洁)	42	Independent director
Yiping Yang (杨怡萍)	42	Chief financial officer

**Mr. Alex S. Xu (徐曙光)** is our founder and has served as our chairman of the board of directors and chief executive officer since 2004. Mr. Xu is the founder of American Pacific Homes, Inc., a leading home builder in California and transformed now to a hotel franchisor and operator in the Western US, and has served as its chairman since 1997. He also has served as a managing director of Foothill Medical Centers since 1997. Prior to founding our company, Mr. Xu served as the chief operating officer of U.S. Uni-President Investment and Development from 1995 to 1997. From 1994 to 1996, Mr. Xu served as the director of finance with Santa Anita Realty Enterprises, Inc. From 1990 to 1994, Mr. Xu worked as the accounting and corporate data service manager for Broadway Stores Inc. Mr. Xu received a bachelor's degree in engineering from Beijing Institute of Technology in 1984 and two master's degrees in computer engineering and in applied mathematics from the University of Southern California in 1990.

**Mr. Gregory James Karns** has served as a director and general counsel of our company since 2005. Mr. Karns is a partner with the U.S. law firm of Cox, Castle & Nicholson LLP, where he has worked since 1989. From 1985 to 1989, Mr. Karns worked as an associate with the law firm of Jones, Day, Reavis & Pogue, and Mr. Karns began his legal career in 1983 as an associate with the law firm of Kindel & Anderson. Mr. Karns received a bachelor's degree in political science from the University of California in 1980, and his juris doctor degree from Loyola Law School in 1983.

**Mr. Bingwu Xie (谢西武)** has served as an independent director of our company since 2011. Mr. Xie is the founder and owner and has served as a director of Global Standard Investment Management Co., Ltd. since 2009 and as a director of ValueAlert Co, Ltd. since 2005. From 2014 to 2016, Mr. Xie served as a partner of Gopher Asset Management Limited and as the deputy chief investment officer of Noah Holdings (Hong Kong) Limited. From 2009 to 2014, Mr. Xie served as a managing director in the mergers and acquisitions department of ZEG Capital Management Co., Ltd. with Zhongzhi Enterprise Group, and as corporate vice president in charge of the real estate finance division of Zhongrong International Trust Co., Limited. From 2000 to 2009, Mr. Xie held various positions with Lehman Brothers in Japan and Hong Kong as a vice president and senior vice president of the investment management division, as a vice president in the fixed income division, and served as China country head of the real estate private equity division since December 2006. Mr. Xie received a bachelor's degree in English for science and technology from Harbin Institute of Technology in 1993 and a master's degree in international development (economics) from the International University of Japan in 1998.

**Mr. Dong Li (李东)** has served as an independent director of our company since March 2018. Mr. Li has served as the chief financial officer of TH International Limited (Nasdaq, ticker symbol: THCH), the parent company of the exclusive master franchisees of Tim Hortons coffee shops in China since September 2021. Mr. Li also served, as an independent non-executive director of Helens International Holdings Company Limited (China's largest bar chain network listed on the Hong Kong Stock Exchange, ticker symbol: 09869 and on the Singapore Exchange, ticker symbol: HLS) since August 2021, as an independent non-executive director of Logory Logistics Technology Co., Ltd (a leading end-to-end digital freight transportation services provider in China listed on the Hong Kong Stock Exchange, ticker symbol: 02482) since March 2023 and as an independent non-executive director of ZJLD Group Inc (a leading baijiu company in China devoted to offering premium baijiu products featuring sauce aroma profile and listed on the Hong Kong Stock Exchange, ticker symbol: 06979) since April 2023. Prior to joining TH International Limited, Mr. Li served as the chief financial officer for several companies, including Ximalaya Inc., one of China's largest online audio platforms from September 2019 to September 2021; OneSmart International Education Group Limited, a diversified premium K-12 education company in China listed on the New York Stock Exchange (ticker symbol: ONE) from July 2017 to June 2019; Pegasus Media Group Limited, a company focuses on movie and TV show production, investment, licensing, marketing and derivatives from April 2016 to April 2017; and Ecovacs Robotics Holdings Limited, a consumer robotics company in China listed on the Shanghai Stock Exchange (ticker symbol: 603486) from March 2015 to February 2016. From September 2008 to February 2015, Mr. Li worked as an associate and later vice president in investment banking at Bank of America Merrill Lynch and ICBC International in Hong Kong. Prior to that, Mr. Li worked in KPMG's auditing practice group from August 1999 to April 2006 in its Beijing and Silicon Valley offices, respectively. Mr. Li received a bachelor's degree in accounting from School of Economics and Management, Tsinghua University in July 1999, as well as a master's degree in business administration in finance from Kellogg School of Management, Northwestern University in June 2008. Mr. Li is a member of the Chinese Institute of Certified Public Accountants and the Certified General Accountants Association of Canada.

**Ms. Yanjie (Catherine) Zhu (祝燕洁)** has served as an independent director of our company since December 2021. Ms. Zhu has served as the chief financial officer of Baozun Inc. (Nasdaq: BZUN and HKEX: 9991) ("Baozun") since April 2024. Before joining Baozun, Catherine held key roles in various organizations from 2013 to 2020, including IBR Ltd., Cue & Co., Xperience Communications (Shanghai) Co., Ltd., Porsche Centre Shanghai Waigaoqiao Limited and Lend Lease Project Management & Construction (Shanghai) Co., Ltd. Prior to that, Ms. Zhu worked as an audit manager with KPMG in its Shanghai office from August 2005 to February 2013. Ms. Zhu holds a bachelor's degree in Business Administration from Shanghai International Studies University and is certified by the Chinese Institute of Certified Public Accountants (CICPA) and holds a Certified Internal Auditor (CIA) certificate.

**Dr. Yiping Yang (杨怡萍)** has served as our chief financial officer since January 2019, a director of our company from January 2018 to March 2018, as our vice president for operations since 2017, and as our vice president for sales and marketing since 2016. Dr. Yang has worked at our company as a secretary of general managers and a group marketing director since 2016, with responsibility for sales channels, customer reservation services, online promotion, public relations, and graphic design. She initially joined our company as executive assistant to the chairman. From 2011 to 2015, Dr. Yang held various roles as a marketing director, sales manager, and assistant general manager with Jingfeng Industry Co., Ltd., Jiangxi, a chain manufacturing company. Dr. Yang received a bachelor's degree in applied mathematics from Shanghai Jiao Tong University in 2004 and passed the qualifying exam for the doctoral program in 2006. She received a doctoral degree in financial engineering from the Chinese University of Hong Kong in 2010.

## **B. Compensation**

For the year ended December 31, 2024, we paid an aggregate of approximately US\$0.5 million in cash to our executive officers and directors.

### **Employment Agreements**

We have entered into employment agreements with all of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate his or her employment for cause at any time, with prior written notice, for certain acts of the employee, including but not limited to a conviction to a felony, or willful gross misconduct by the employee in connection with his employment, and in each case if such acts have resulted in material and demonstrable financial harm to us. An executive officer may, with prior written notice, terminate his or her employment at any time for any material breach of the employment agreement by us that is not remedied promptly after receiving the remedy request from the employee. Furthermore, either party may terminate the employment agreement at any time without cause upon advance written notice to the other party. Upon termination, the employee is generally entitled to a severance pay of at least one month's salary.

Each executive officer has agreed to hold, both during and subsequent to the terms of his or her agreement, in confidence and not to use, except in pursuance of his or her duties in connection with the employment, any of our confidential information, technological secrets, commercial secrets and know-how. Our executive officers have also agreed to disclose to us all inventions, designs and techniques resulted from work performed by them, and to assign us all right, title and interest of such inventions, designs and techniques. Moreover, each of our executive officers has agreed that during the term of his or her employment with us and three years thereafter: (i) not to serve, invest or assist in any business that competes with our business; and (ii) not to solicit any of our officers, directors, employees or agents.

### **Share Incentive Plan**

#### **2018 Share Incentive Plan**

In January 2018, our board of directors adopted our 2018 share incentive plan to attract and retain personnel, provide additional incentives to our employees, directors and consultants, and promote the success of our business. The 2018 share incentive plan provides for the grant of options, restricted shares and restricted share units, collectively referred to as awards. Our board of directors has authorized the issuance of up to 9,000,000 Class A ordinary shares upon exercise of awards granted under our 2018 share incentive plan.

#### *Plan Administration*

The compensation committee of our board of directors, or before the compensation committee is established, the chairman of our board of directors, will administer the 2018 share incentive plan. The compensation committee or the chairman of the board of directors, as appropriate, will determine the participants to receive awards, the type and number of awards to be granted and the terms and conditions of each award grant.

#### Award Agreements

Awards granted under our 2018 share incentive plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each grant, which may include the term of the award, the provisions applicable in the event of the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

#### Transfer Restrictions

The right of a grantee in an award granted under our 2018 share incentive plan may not be transferred in any manner by the grantee other than by will or the laws of succession and, with limited exceptions, may be exercised during the lifetime of the grantee only by the grantee.

#### Option Exercise

The term of options granted under the 2018 share incentive plan may not exceed six years from the date of grant. The consideration to be paid for our ordinary shares upon exercise of an option or purchase of shares underlying the option may include cash, check or other cash-equivalent, ordinary shares, consideration received by us in a cashless exercise, or any combination of the foregoing methods of payment.

#### Acceleration upon a Change of Control

If a change of control of our company occurs, the award agreement may provide for acceleration of the vesting of the awards pursuant to the agreement. Our compensation committee or our board of directors may (i) cancel the awards for fair market value, (ii) provide for issuance of substitute awards or (iii) provide that for at least 15 days prior to the change of control the awards shall be exercisable as to all shares subject thereto and such awards shall terminate after the change of control.

#### Termination and Amendment

Unless terminated earlier, our 2018 share incentive plan will expire after ten years. Our board of directors has the authority to amend or terminate our 2018 share incentive plan, subject to shareholder approval to the extent necessary to comply with applicable law. Shareholders' approval is required for any amendment to the 2018 share incentive plan that (i) increases the number of ordinary shares available under the 2018 share incentive plan or changes the maximum number of shares for which awards may be granted to any participant or, (ii) diminish any of the rights of the participant under any award previously granted to such participant under the plan without such participant's consent.

#### Granted Options

Our board of directors has only granted options to participants in our 2018 share incentive plan. In January 2018, we granted 1,703,000 options to purchase our Class A ordinary shares to certain of our employees and directors. All of these options were subject to applicable vesting schedules. As of 31st December, 2024, excluding the options expired, there were (i) 80,000 Class A ordinary shares issuable upon the exercise of outstanding options and (ii) 7,978,000 Class A ordinary shares reserved for future issuance. The table below summarizes, as of the date of this annual report, the options we have granted to our directors and executive officers under our 2018 share incentive plan.

Name	Number of shares underlying options granted	Exercise price (US\$ per share)	Grant date	Expiration date
Alex S. Xu	*	14.00(1)	January 15, 2018	January 15, 2024
Bingwu Xie	*	14.00(1)	January 15, 2018	January 15, 2024
Dong Li	*	14.00(1)	March 13, 2018	March 13, 2024
Yanjie Zhu	*	14.00(1)	December 31, 2021	December 31, 2027
Yiping Yang	*	12.00	January 15, 2018	January 15, 2024

\* Less than 1% of our total shares outstanding.

(1) Equals to the public offering price. For services as directors of our Company.

## C Board Practices

### Board of Directors

A company of which more than 50% of the voting power is held by a single person or entity is considered a “controlled company” under the NYSE Listed Company Manual. A controlled company need not comply with the NYSE corporate governance rules requiring a board of directors to have a majority of independent directors, to have an independent compensation committee, and to have independent nomination/corporate governance committees. As long as GTI or Mr. Alex S. Xu owns at least 50% of the voting power of our company, we will be a “controlled company” as defined under the NYSE Listed Company Manual. We have no current intention to rely on the controlled company exemption.

Our board of directors has established an audit committee, a compensation committee, and a nominating and corporate governance committee. As a foreign private issuer, we are permitted to follow home country corporate governance practices under the Corporate Governance Rules of the New York Stock Exchange.

### Committees of the Board of Directors

#### *Audit Committee*

Our audit committee consists of Bingwu Xie, Dong Li and Yanjie Zhu. Bingwu Xie is the chairman of our audit committee. Dong Li satisfies the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC. Each of Bingwu Xie, Dong Li and Yanjie Zhu satisfies the requirements for an “independent director” within the meaning of Section 303A of the Corporate Governance Rules of the New York Stock Exchange, or the NYSE, and to meet the criteria for independence set forth in Rule 10A-3 of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act. Our audit committee consists solely of independent directors.

The audit committee oversees our accounting and financial reporting processes and the audits of our financial statements. Our audit committee is responsible for, among other things:

- selecting, and evaluating the qualifications, performance and independence of, the independent auditor;
- pre-approving or, as permitted, approving auditing and non-auditing services permitted to be performed by the independent auditor;
- considering the adequacy of our internal accounting controls and audit procedures;
- reviewing with the independent auditor any audit problems or difficulties and management’s response;
- reviewing and approving related party transactions between us and our directors, senior management and other persons specified in Item 6B of Form 20-F;
- reviewing and discussing the quarterly financial statements and annual audited financial statements with management and the independent auditor;
- establishing procedures for the receipt, retention and treatment of complaints received from our employees regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- meeting separately, periodically, with management, internal auditors and the independent auditor; and
- reporting regularly to the full board of directors.

### ***Compensation Committee***

Our compensation committee consists of Gregory James Karns, Alex S. Xu and Bingwu Xie. Gregory James Karns is the chairman of our compensation committee. Bingwu Xie satisfies the requirements for an “independent director” within the meaning of Section 303A of the New York Stock Exchange Corporate Governance Rules.

Our compensation committee will be responsible for, among other things:

- reviewing, evaluating and, if necessary, revising our overall compensation policies;
- reviewing and evaluating the performance of our directors and executive officers and determining the compensation of our directors and executive officers;
- reviewing and approving our executive officers’ employment agreements with us;
- determining performance targets for our executive officers with respect to our incentive compensation plan and share incentive plan;
- administering our share incentive plan in accordance with the terms thereof; and
- carrying out such other matters that are specifically delegated to the compensation committee by our board of directors from time to time.

### ***Nominating and Corporate Governance Committee***

Our nominating and corporate governance committee consists of Alex S. Xu, Gregory James Karns and Yanjie (Catherine) Zhu. Alex S. Xu is the chairman of our nominating and corporate governance committee. Yanjie (Catherine) Zhu satisfies the requirements for an “independent director” within the meaning of Section 303A of the New York Stock Exchange Corporate Governance Rules.

Our nominating and corporate governance committee will be responsible for, among other things:

- selecting the board nominees for election by the shareholders or appointment by the board;
- periodically reviewing with the board the current composition of the board with regards to characteristics such as independence, knowledge, skills, experience and diversity;
- making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board; and
- advising the board periodically with regards to significant developments in corporate governance law and practices as well as our compliance with applicable laws and regulations, and making recommendations to the board on corporate governance matters.

### ***Duties of Directors***

Under Cayman Islands law, all of our directors owe fiduciary duties to our company, including a duty of loyalty, a duty to act honestly and a duty to act in good faith and in a manner they believe to be in our best interests. Our directors must also exercise their powers only for a proper purpose. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time. Our company has the right to seek damages if a duty owed by any of our directors is breached. In limited exceptional circumstances, a shareholder may have the right to seek damages in our name if a duty owed by our directors is breached. You should refer to “Description of Share Capital — Differences in Corporate Law” for additional information on our standard of corporate governance under Cayman Islands law.

A director who is in any way, whether directly or indirectly, interested in a contract or proposed contract or arrangement with our company is required to declare the nature of his interest at a meeting of our directors. A director may vote in respect of any contract, proposed contract, or arrangement notwithstanding that he may be interested therein, and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of our directors at which any such contract or proposed contract or arrangement is considered. Our directors may exercise all the powers of our company to borrow money, and to mortgage or charge its undertaking, property and uncalled capital, and issue debentures, debenture stock or other securities whenever money is borrowed or as security for any debt, liability or obligation of the company or of any third party.

#### **Terms of Directors and Officers**

Our directors may be elected by a resolution of our board of directors, or by an ordinary resolution of our shareholders, pursuant to our amended and restated memorandum and articles of association. Each of our directors will hold office until his or her successor takes office or until his or her earlier death, resignation or removal. A director will cease to be a director if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors, (ii) dies, or is found to be or becomes of unsound mind, (iii) resigns his office by notice in writing to the company, (iv) without special leave of absence from our board, is absent from three consecutive board meetings and our directors resolve that his office be vacated, (v) is prohibited by any applicable law from being a director, or (vi) is removed from office pursuant to any other provision of our amended and restated memorandum and articles of association. Our officers are elected by and serve at the discretion of the board of directors.

Members of our board of directors will be nominated by the nominating and corporate governance committee of the board. Director nominees will be elected by a simple majority vote of shareholders at our annual general meeting.

#### **D. Employees**

See “Item 4. Information on the Company—B. Business Overview—Employees.”

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

The following table sets forth information with respect to beneficial ownership of our ordinary shares as of December 31, 2024 by:

- each of our directors and executive officers;
- our directors and executive officers as a group; and
- each person known to us to own beneficially 5.0% or more of our ordinary shares.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to, or the power to receive the economic benefit of ownership of, the securities. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option or other right or the conversion of any other security.

The calculations in the table below are based on (i) 66,761,582 Class A ordinary shares and (ii) 34,762,909 Class B ordinary shares outstanding as of December 31, 2024.

	Beneficially Owned Class A Ordinary Shares		Beneficially Owned Class B Ordinary Shares		Percentage of Votes Held
	Number	%	Number	%	%
<b>Directors and Executive Officers:</b>					
Alex S. Xu <sup>(1)</sup>	56,589,300	84.8	34,762,909	100	94.1
Gregory James Karns	—	—	—	—	—
Bingwu Xie	—	—	—	—	—
Dong Li	—	—	—	—	—
Yanjie (Catherine) Zhu	—	—	—	—	—
Yiping Yang	—	—	—	—	—
All directors and executive officers as a group	56,589,300	84.8	34,762,909	100	94.1
<b>Principal Shareholders:</b>					
GreenTree Inns Hotel Management Group, Inc. <sup>(2)(3)</sup>	56,589,300	84.8	34,762,909	100	94.1
Allspring Global Investments Holdings, LLC <sup>(4)</sup>	5,155,443	7.7	—	—	3.0

Notes:

- Represents (i) 56,589,300 Class A ordinary shares and (ii) 34,762,909 Class B ordinary shares held by GTI. Mr. Alex S. Xu is considered to beneficially own all the shares held by GTI by virtue of (i) his director position on GTI's three-member board of directors; and (ii) his 84.5% voting power in GTI. As a result, Mr. Alex S. Xu has the power to (i) vote, or to direct the voting of, and (ii) dispose, or to direct the disposition of, all the shares held by GTI.
- GTI's ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to three (3) votes per share. Currently, GTI has 31,782,381 Class A ordinary shares and 57,938,182 Class B ordinary shares issued and outstanding.
- Mr. Alex S. Xu, directly or indirectly through entities controlled by him, holds 57,938,182 Class B ordinary shares of GTI, including (a) 36,340,682 Class B ordinary shares of GTI held by Mr. Xu's family trust, for which Mr. Xu and his wife are settlors and trustees and accordingly, Mr. Xu has voting and dispositive control, (b) 17,047,500 Class B ordinary shares of GTI held by GreenTree Hotel Management, Inc., a company incorporated in Samoa and to which Mr. Xu is the sole shareholder and exercises sole voting and dispositive control, and (c) 4,550,000 Class B ordinary shares of GTI held by Keystone Pacific, LLC, a California limited liability company whose sole members are Mr. Xu, individually, and Mr. Xu's family trust, and accordingly to which Mr. Xu exercises voting and dispositive control, which in the aggregate result in Mr. Xu's 84.5% voting power in GTI. Mr. Kent Chien Te Wu directly or indirectly through entities controlled by him, holds 9,900,000 Class A ordinary shares of GTI, including (a) 9,300,000 Class A ordinary shares of GTI through Wu Green Tree Limited Partnership, a California limited partnership ("Wu Green Tree"), and (b) 600,000 Class A ordinary shares of GTI individually. The business office of Mr. Wu and Wu Green Tree is 260 Newport Center Drive, Newport Beach, CA 92660. The voting and dispositive power over the Class A ordinary shares of GTI held by Wu Green Tree are controlled by the two general partners of Wu Green Tree, Kent Chien Te Wu, and Maggie Tzu Chiang Wu, his wife, and accordingly Mr. Wu has the power to (i) vote, or direct the voting of, and (ii) dispose, or direct the disposition of, all GTI shares held by Wu Green Tree. Other than Mr. Xu and Mr. Wu, no other shareholder is known to us to own beneficially 5.0% or more of the shares of GTI.
- The number of ordinary shares beneficially owned is as of December 31, 2024, as reported in Form 13F filed on January 29, 2025 by Allspring Global Investments Holdings, LLC, a Delaware limited liability company ("AGIH"), and consists of 5,155,433 Class A ordinary shares. The principal business office of AGIH is 1415 Vantage Park Drive, 3rd Floor, Charlotte, NC 28203.

To our knowledge, as of December 31, 2024, 10,172,282 Class A ordinary shares or 10.0% of our outstanding ordinary shares were held by record holders in the United States, including Deutsche Bank Trust Company Americas, the depositary bank for our ADR program. Because many of these shares are held by brokers or other nominees, we cannot ascertain the exact number of beneficial shareholders with addresses in the United States.

GTI acquired its shares in offerings that were exempted from registration under the Securities Act, because such offerings involved either private placements or offshore sales to non-U.S. persons.

We are not aware of any arrangement that may at a subsequent date, result in a change of control of our company.

**F. Disclosure of a Registrant's Action to Recover Erroneously Awarded Compensation**

None.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

**A. Major Shareholders**

See "Item 6. Directors, Senior Management and Employees—E. Share Ownership"

**B. Related Party Transactions**

**Employment Agreements**

See "Item 6. Directors, Senior Management and Employees—B. Compensation—Employment Agreements."

**Share Incentive Plan**

See "Item 6. Directors, Senior Management and Employees—B. Compensation—Share Incentive Plan."

**Other Transactions with Related Parties**

*Transactions with GTI*

In 2022, we made a bridge loan, with an interest rate of 4.35% per annum, to GTI for repayment of an Euro denominated loan from Pudong Development Bank, which was initially used for the acquisition of Da Niang Dumplings from a third party. The outstanding amount of loans, including those incurred in 2021, as of December 31, 2022 was RMB326.4 million. In March 2023, the outstanding amount of loans payable was offset against a portion of the purchase price paid by us for the acquisition of Da Niang Dumplings and Bellagio. In 2024, except for dividends to GTI, there was no other transaction with GTI.

*Transactions with Aotao and its subsidiaries*

Shanghai Aotao Industrial Co., Ltd., or Aotao, is a catering management holding company controlled by GTI.

As of December 31, 2022, the outstanding amount of the loan was still RMB65.1 million. In 2022, Aotao provided advertising promotion services to us in the aggregate amount of RMB5.6 million.

In March 2023, the outstanding amount of loans payable was offset against a portion of the purchase price paid by us for the acquisition of Da Niang Dumplings and Bellagio.

*Transactions with Da Niang Group*

Da Niang Dumpling Catering Group Co., Ltd., together with its subsidiaries, or Da Niang Group, is a catering management company that was formerly controlled by GTI.

In March, 2023, we acquired Da Niang Group, and therefore Da Niang Group ceased to be our related party.

**Transactions with Shanghai JYHM Restaurant Management Co., Ltd. (“JYHM”)**

Shanghai JYHM Restaurant Management Co., Ltd., or JYHM, is a catering management company controlled by GTI.

In 2022, sublease revenue generated from JYHM was RMB48 thousand. We also purchased service from JYHM of RMB832 thousand in 2022.

**Transactions with Napa Infinity Winery (Shanghai) Inc.**

Napa Infinity Winery (Shanghai) Inc., or Napa, is a wine distributor controlled by the brother of Mr. Alex S. Xu. In 2021, we purchased wine from Napa in the aggregate amount of RMB2.5 million. In 2022, we purchased wine from Napa in the aggregate amount of RMB3.7 million. In 2023, we purchased wine from Napa in the aggregate amount of RMB1.3 million (US\$0.2 million). In 2024, we purchased wine from Napa in the aggregate amount of RMB0.8 million (US\$0.1 million).

**Transactions with Yibon**

In 2021, we generated franchise revenue from Yibon of RMB1.3 million. In 2022, we generated franchise revenue from Yibon of RMB1.3 million. In 2023, we generated franchise revenue from Yibon of RMB0.8 million (US\$0.1 million). In 2024, we generated franchise revenue from Yibon of RMB0.4 million (US\$0.05 million).

**Transactions with Beifu Hong Kong Industrial Co.,**

Beifu Hong Kong Industrial Co., or Beifu HK, is a catering management holding company controlled by GTI. In 2021, we made a bridge loan of RMB169.5 million to Beifu HK, for the renewal of a loan in the catering sector with an interest rate of 4.35% per annum. The outstanding amount of the loan as of December 31, 2021 was RMB26.2 million with an interest rate of 4.35% per annum. The outstanding amount of the loan as of December 31, 2022 was RMB26.2 million. The has been fully repaid as of December 31, 2023.

**C. Interests of Experts and Counsel**

Not applicable.

**ITEM 8. FINANCIAL INFORMATION**

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

Please refer to Item 19 for a list of our annual consolidated financial statements filed as part of this annual report on Form 20-F.

**Legal Proceedings**

See “Item 4. Information on the Company—B. Business Overview—Legal Proceedings.”

**Dividend Policy and Distributions**

In January 2019, we declared a cash dividend of US\$0.30 per ordinary share, or US\$0.30 per ADS. Holders of our ordinary shares and ADSs as of the close of trading on February 6, 2019 were entitled to such cash dividend, and we paid such dividend in full in February 2019. In December 2019, we declared a cash dividend of US\$0.25 per ordinary share, or US\$0.25 per ADS. Holders of our ordinary shares and ADSs as of the close of trading on December 24, 2019 were entitled to such cash dividend, and we paid such dividend in full in January 2020. In December 2021, we declared a cash dividend of US\$0.55 per ordinary share, or US\$0.55 per ADS. Holders of our ordinary shares and ADSs as of the close of trading on December 31, 2021 were entitled to such cash dividend, and we paid such dividend in full in January 2022. In August 2024, we declared a cash dividend of US\$0.10 per ordinary share, or US\$0.10 per ADS. Holders of our ordinary shares and ADSs as of the close of trading on September 30, 2024 were entitled to such cash dividend, and we paid such dividend in full in October 2024.

We intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business. Our board of directors has discretion as to whether to distribute any future dividends, subject to certain requirements of Cayman Islands law. See “Item 3. Key Information — D. Risk Factors — Risks Related to Our ADSs — We may not pay further dividends to our public shareholders in the foreseeable future, so you should rely on price appreciation of our ADSs for return on your investment.”

Subject to any rights and restrictions for the time being attached to any shares, our directors may from time to time declare dividends and other distributions on shares in issue and authorize payment of the same out of the funds of our company lawfully available therefor. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our directors decide to pay dividends, the form, frequency and amount of dividends will be based on a number of factors, including our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. If we pay any dividends on our shares, we will pay those dividends which are payable in respect of the underlying Class A ordinary shares represented by our ADSs to the depository, as the registered holder of such Class A ordinary shares, and the depository then will pay such amounts to our ADS holders in proportion to the underlying Class A ordinary shares represented by the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our Class A ordinary shares will be paid in U.S. dollars.

We are a holding company incorporated in the Cayman Islands. In order for us to distribute dividends to our shareholders and ADS holders, we may need to rely on dividends distributed by our subsidiaries in China. Distributions from our subsidiaries in China to us may be subject to various local taxes, such as withholding tax. In addition, regulations in China currently permit payment of dividends of a Chinese company only out of accumulated distributable after-tax profits as determined in accordance with its articles of association and the accounting standards and regulations in China.

#### **B. Significant Changes**

We have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

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

#### **A. Offer and Listing Details**

Our ADSs, each representing one of our Class A ordinary shares, have been listed on the New York Stock Exchange since March 27, 2018 under the symbol “GHG.”

#### **B. Plan of Distribution**

Not applicable.

#### **C. Markets**

Our ADSs, each representing one of our Class A ordinary shares, have been trading on the New York Stock Exchange since March 27, 2018 under the symbol “GHG.”

#### **D. Selling Shareholders**

Not applicable.

#### **E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

We incorporate by reference into this annual report the description of our amended and restated memorandum and articles of association contained in our Form F-1 registration statement (File No. 333-223261), as amended, initially filed with the Securities and Exchange Commission on February 27, 2018. Our shareholders adopted our amended and restated memorandum and articles of association on March 11, 2018.

**C. Material Contracts**

In the past three fiscal years, we have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company” or elsewhere in this annual report.

**D. Exchange Controls**

See “Item 4. Information on the Company—B. Business Overview—Regulatory Matters—Regulations Relating to Foreign Currency Exchange.”

**E. Taxation**

**Cayman Islands Taxation**

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within, the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties which are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Payments of dividends and capital in respect of our shares and ADSs will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of dividends or capital to any holder of our shares or ADSs, nor will gains derived from the disposal of our shares or ADSs be subject to Cayman Islands income or corporation tax. No stamp duty is payable in respect of the issue of our shares or on an instrument of transfer in respect of our shares.

Pursuant to Section 6 of the Tax Concessions Act (As Revised) of the Cayman Islands, we have obtained an undertaking from the Financial Secretary of the Cayman Islands:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to us or our operations; and
- (2) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
  - (i) on or in respect of the shares, debentures or other obligations of our company; or
  - (ii) by way of the withholding in whole or in part of any relevant payment as defined in the Tax Concessions Act (As Revised).

The undertaking is for a period of twenty years from November 3, 2017.

## People's Republic of China Taxation

### Income Tax and Withholding Tax

In March 2007, the National People's Congress of China enacted the PRC Enterprise Income Tax Law, or the EIT Law, which became effective on January 1, 2008 and was amended on December 29, 2018.

The EIT Law applies a uniform 25% enterprise income tax rate to PRC resident enterprises, including both foreign-invested enterprises and domestic enterprises. The EIT Law imposes an enterprise income tax of 10% on dividends distributed by a foreign-invested enterprise to its immediate holding company outside of China, if such immediate holding company is considered a "nonresident enterprise" without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding tax rate. The Cayman Islands, where we are incorporated, does not have such a tax treaty with China. Thus, dividends paid to us by our subsidiaries in China may be subject to the 10% withholding tax if we are considered a "non-resident enterprise" under the EIT Law.

The EIT Law provides that enterprises established outside of China whose "de facto management bodies" are located in China are considered "resident enterprises." The "de facto management body" is defined as the organizational body that effectively exercises overall management and control over production and business operations, personnel, finance and accounting, and properties of the enterprise. Currently, there are no detailed rules or precedents governing the procedures and specific criteria for determining "de facto management body". STA issued the *Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies*, or Circular 82, on April 22, 2009. According to STA Circular 82, a Chinese-controlled offshore incorporated enterprise will be regarded as a PRC tax resident by virtue of having a "de facto management body" in China and will be subject to PRC enterprise income tax on its worldwide income only if all of the following criteria are met: (a) the primary location of the day-to-day operational management is in China; (b) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval by organizations or personnel in China; (c) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders meeting minutes are located or maintained in China; and (d) 50% or more of voting board members or senior executives habitually reside in China. In addition, the STA issued the *Administrative Measures on Income Taxes of Chinese-controlled Offshore Incorporated Resident Enterprises (Trial Implementation)*, or Tax Trial Measures, on July 27, 2011, and effective on September 1, 2011 and amended in 2015, providing more guidance on the implementation of Circular 82. Both Circular 82 and the Tax Trial Measures apply only to offshore enterprises controlled by PRC enterprises or PRC enterprise groups and are not applicable to our case. But determining criteria set forth in Circular 82 and the Tax Trial Measures may reflect the STA's general position on how the "de facto management body" test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or PRC enterprise groups or by PRC or foreign individuals. As such, it is still unclear if the PRC tax authorities would determine that, notwithstanding our status as the Cayman Islands holding company of our operating business in China, we should be classified as a PRC "resident enterprise."

While we do not currently consider our company or any of our overseas subsidiaries to be a China resident enterprise, there is a risk that the PRC tax authorities may deem our company as a PRC resident enterprise since a substantial majority of the members of our management team are located in China, in which case we would be subject to the PRC enterprise income tax at the rate of 25% on worldwide income. If the PRC tax authorities determine that we are a resident enterprise, non-PRC shareholders and ADS holders may be subject to PRC withholding tax upon dividends payable by us and gains on the sale of ordinary shares or ADSs may be subject to a PRC income tax. Any such PRC tax would generally be imposed at a rate of 10% in the case of a non-PRC enterprise holder and at a rate of 20% in the case of a non-PRC individual holder unless such holder is eligible for the benefits of a tax treaty that provides for a reduced rate. It is unclear whether, if we are considered a PRC resident enterprise, holders of our shares or ADSs would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

Under the EIT Law, enterprises qualified as "High New Technology Enterprises," or HNTEs, enjoy a preferential income tax rate of 15%, rather than the uniform income tax rate of 25% which otherwise would apply. Shanghai Evergreen Technology Co., Ltd. has qualified as an HNTE for the period of 2017 until now under the EIT Law, and has been subject to the preferential income tax rate of 15% during such period.

On October 17, 2017, the STA issued a *Public Notice of the State Administration of Taxation on Matters Concerning Withholding of Income Tax of Non-resident Enterprises at Source*, or STA Public Notice 37. This STA Public Notice 37 has entered into force as of December 1, 2017, according to which, STA Circular 698 has been abolished from December 1, 2017.

Under the STA Public Notice 37 and other applicable PRC laws, the withholding agent (for example, payers of PRC-sourced income to non-PRC residents) is obligated to withhold PRC income taxes from the payment. The withholding agent shall, within seven days of the day on which the withholding obligation occurs, declare and remit the withholding tax to the competent tax authority at its locality. The withholding agent shall establish account books for all tax it has withheld and remitted on a commission basis and archive relevant contractual documents, so as to record the exact information about the enterprise income withheld and remitted for the non-resident enterprise.

Although the withholding agents have the obligation to withhold relevant PRC taxes, in the event of a failure to withhold, the non-PRC residents are still required to pay such taxes on their own. Failure to comply with the tax payment obligations by the non-PRC residents will result in penalties, including full payment of taxes owed, fines and default interest on those taxes.

The STA issued the Announcement of State Taxation Administration on Promulgation of the Administrative Measures on Non-resident Taxpayers Enjoying Treaty Benefits (“STA Circular 35”) on October 14, 2019, which became effective on January 1, 2020. The STA Circular 35 further simplified the procedures for enjoying treaty benefits. According to the STA Circular 35, no approvals from the tax authorities are required for a non-resident taxpayer to enjoy treaty benefits, and where a non-resident taxpayer self-assesses and concludes that it satisfies the criteria for claiming treaty benefits, it may enjoy treaty benefits at the time of tax declaration or at the time of withholding through the withholding agent, but it shall gather and retain the relevant materials as required for future inspection, and accept follow-up administration by the tax authorities. There are also other conditions for enjoying the reduced withholding tax rate according to other relevant tax rules and regulations. According to the Circular on Several Issues regarding the “Beneficial Owner” in Tax Treaties, or Circular 9, which was issued on February 3, 2018 by the STA, effective as of April 1, 2018, when determining the applicant’s status of the “beneficial owner” regarding tax treatments in connection with dividends, interest or royalties in the tax treaties, several factors, including without limitation, whether the applicant is obligated to pay more than 50% of its income in twelve months to residents in a third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grants tax exemption on relevant income or levies tax at an extremely low rate, will be taken into account, and they will be analyzed according to the actual circumstances of the specific cases. This circular further provides that applicants who intend to prove his or her status of the “beneficial owner” shall submit the relevant documents to the relevant tax bureau according to the Administrative Measures for Non-Resident Enterprises to Enjoy Treatments under Tax Treaties. Accordingly, GreenTree Hotel (Hong Kong), Limited may be able to enjoy the 5% withholding tax rate for the dividends they receive from our PRC subsidiaries, respectively, if they satisfy the conditions prescribed under Circular 81 and other relevant tax rules and regulations, and obtain the approvals as required. However, if the relevant tax authorities consider the transactions or arrangements we have are for the primary purpose of enjoying a favorable tax treatment, the relevant tax authorities may adjust the favorable withholding tax in the future.

#### ***Value-added Tax***

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

According to Circular 36, the entities and individuals providing the services within the PRC shall be subject to VAT. The services are treated as being provided within the PRC where either the service provider or the service recipient is located in the PRC. The services subject to VAT include the provision of financial services such as transferring financial instruments. Based on the definition of “financial instruments” under Circular 36, the ADSs and/or shares are likely to be treated as financial instruments. As such, where a holder of the ADSs and/or shares who is an entity or individual located outside of the PRC re-sells the ADSs and/or shares to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply and the buyer does not have the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of ADSs and/or shares is located within the PRC.

On April 4, 2018, the MOF and STA jointly promulgated the Circular of the Ministry of Finance and the STA on Adjustment of Value-Added Tax Rates, or Circular 32. Circular 32 became effective on May 1, 2018 and shall supersede any previously existing provisions in the case of any inconsistency. Further, On March 20, 2019, the MOF, the STA and the General Administration of Customs jointly issued the Announcement on Policies for Deepening the VAT Reform, or Announcement 39, to further slash value-added tax rates. According to the Announcement 39, (i) for general VAT payers' sales activities or imports that are subject to VAT at an existing applicable rate of 16% or 10%, the applicable VAT rate is adjusted to 13% or 9%, respectively; (ii) for the agricultural products purchased by taxpayers to which an existing 10% deduction rate is applicable, the deduction rate is adjusted to 9%; (iii) for the agricultural products purchased by taxpayers for production or commissioned processing, which are subject to VAT at 13%, the input VAT will be calculated at a 10% deduction rate; (iv) for the exportation of goods or labor services that are subject to VAT at 16%, with the applicable export refund at the same rate, the export refund rate is adjusted to 13%; and (v) for the exportation of goods or cross-border taxable activities that are subject to VAT at 10%, with the export refund at the same rate, the export refund rate is adjusted to 9%. The Announcement 39 came into effect on April 1, 2019 and shall prevail in case of any conflict with existing provisions.

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

The following summary describes the material U.S. federal income tax consequences of the ownership and disposition of our ADSs and Class A ordinary shares. This summary is only applicable to ADSs and Class A ordinary shares that are held as capital assets by a U.S. Holder (as defined below).

As used herein, the term "U.S. Holder" means a beneficial owner of our ADSs or Class A ordinary shares that is for U.S. federal income tax purposes:

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

The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, and regulations, rulings and judicial decisions thereunder as of the date hereof, as well as the current income tax treaty between the United States and the PRC, or the Treaty. Such authorities may be replaced, revoked or modified, perhaps retroactively, so as to result in U.S. federal income tax consequences different from those discussed below. In addition, this summary assumes that the deposit agreement, and all other related agreements, will be performed in accordance with their terms.

This summary does not represent a detailed description of the U.S. federal income tax consequences applicable to you if you are subject to special treatment under the U.S. federal income tax laws, including if you are:

- a dealer in securities or currencies;
- a financial institution;
- a regulated investment company;
- a real estate investment trust;
- an insurance company;
- a tax-exempt organization;

- a person holding our ADSs or Class A ordinary shares as part of a hedging, integrated or conversion transaction, a constructive sale or a straddle;
- a person required to accelerate the recognition of any item of gross income with respect to our ADSs or Class A ordinary shares as a result of such income being recognized on an applicable financial statement;
- a trader in securities that has elected the mark-to-market method of accounting for your securities;
- a person liable for alternative minimum tax;
- a person who owns or is deemed to own 10% or more of our stock by vote or value;
- a partnership or other pass-through entity for U.S. federal income tax purposes; or
- a person whose “functional currency” is not the U.S. dollar.

If a partnership (or other entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds our ADSs or Class A ordinary shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partnership or a partner of a partnership holding our ADSs or Class A ordinary shares, you should consult your tax advisors.

**This summary does not contain a detailed description of all the U.S. federal income tax consequences to you in light of your particular circumstances and does not address the Medicare tax on net investment income, U.S. federal estate and gift taxes or the effects of any state, local or non-U.S. tax laws. If you are considering the purchase of our ADSs or Class A ordinary shares, you should consult your tax advisors concerning the U.S. federal income tax consequences to you in light of your particular situation as well as any consequences arising under other U.S. federal tax laws and the laws of any other taxing jurisdiction.**

#### *ADSs*

If you hold ADSs, for U.S. federal income tax purposes, you generally will be treated as the owner of the underlying Class A ordinary shares that are represented by such ADSs. Accordingly, deposits or withdrawals of Class A ordinary shares for ADSs will not be subject to U.S. federal income tax.

#### *Taxation of Dividends*

Subject to the discussion under “— Passive Foreign Investment Company” below, the gross amount of any distributions (other than certain pro rata distributions of our shares) on the ADSs or Class A ordinary shares (including any amounts withheld to reflect PRC withholding taxes) will be taxable as dividends, to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Such income (including withheld taxes) will be includable in your gross income as ordinary income on the day actually or constructively received by you, in the case of the Class A ordinary shares, or by the depository, in the case of ADSs. Such dividends will not be eligible for the dividends received deduction generally allowed to corporations under the Code.

Subject to applicable limitations (including a minimum holding period requirement), certain dividends received by non-corporate U.S. Holders from a qualified foreign corporation may be treated as “qualified dividend income” that is subject to reduced rates of taxation. A foreign corporation is generally treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. U.S. Treasury Department guidance indicates that our ADSs, which are listed on the New York Stock Exchange, are readily tradable on an established securities market in the United States. Thus, subject to the discussion under “— Passive Foreign Investment Company” below, we believe that dividends we pay on our ADSs will be eligible for the reduced tax rates. Since we do not expect that our Class A ordinary shares will be listed on an established securities market in the United States, we do not believe that dividends that we pay on our Class A ordinary shares that are not represented by ADSs currently meet the conditions required for the reduced tax rates. There also can be no assurance that our ADSs will continue to be readily tradable on an established securities market in the United States in later years. Consequently, there can be no assurance that dividends paid on our ADSs will continue to be eligible for the reduced tax rates. A qualified foreign corporation also generally includes a foreign corporation that is eligible for the benefits of certain income tax treaties with the United States. In the event that we are deemed to be a PRC resident enterprise under the PRC tax law (see “Item 10. Additional Information—E. Taxation — People’s Republic of China Taxation” above), we may be eligible for the benefits of the Treaty. In that case, dividends we pay on our Class A ordinary shares would be potentially eligible for the reduced rates of taxation regardless of whether such shares are represented by ADSs, and whether or not our Class A ordinary shares are readily tradable on an established securities market in the United States. You should consult your tax advisors regarding the application of these rules given your particular circumstances.

In addition, notwithstanding the foregoing, we will not be treated as a qualified foreign corporation, and non-corporate U.S. Holders will not be eligible for reduced rates of taxation, for any dividends that we pay if we are a passive foreign investment company, or PFIC, in the taxable year in which such dividends are paid or in the preceding taxable year (see “— Passive Foreign Investment Company” below).

In the event that we are deemed to be a PRC resident enterprise under the PRC tax law, you may be subject to PRC withholding taxes on dividends paid to you with respect to the ADSs or Class A ordinary shares. See “Item 10. Additional Information—E. Taxation — People’s Republic of China Taxation.” In that case, subject to certain conditions and limitations (including a minimum holding period requirement), PRC withholding taxes on dividends may be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on the ADSs or Class A ordinary shares will be treated as foreign source income and will generally constitute passive category income. However, if you are eligible for the benefits of the Treaty, any PRC withholding taxes on dividends will not be creditable against your U.S. federal income tax liability to the extent withheld at a rate exceeding the applicable rate under the Treaty. In addition, U.S. Treasury regulations that address foreign tax credits, or the Foreign Tax Credit Regulations, impose additional requirements for foreign taxes to be eligible for a foreign tax credit, and unless you are eligible for and elect to claim the benefits of the Treaty, there can be no assurance that those requirements will be satisfied. The Department of the Treasury and the Internal Revenue Service, or the IRS, are considering proposing amendments to the Foreign Tax Credit Regulations. In addition, recent notices from the IRS provide temporary relief by allowing taxpayers that comply with applicable requirements to apply many aspects of the foreign tax credit regulations as they previously existed (before the release of the current Foreign Tax Credit Regulations) for taxable years ending before the date that a notice or other guidance withdrawing or modifying the temporary relief is issued (or any later date specified in such notice or other guidance). Alternatively, instead of claiming a foreign tax credit, you may be able to deduct PRC withholding taxes on dividends in computing your taxable income, subject to generally applicable limitations under U.S. law (including that a U.S. Holder is not eligible for a deduction for otherwise creditable foreign income taxes paid or accrued in a taxable year if such U.S. Holder claims a foreign tax credit for any foreign income taxes paid or accrued in the same taxable year). The rules governing the foreign tax credit and deductions for foreign taxes are complex. You are urged to consult your tax advisor regarding the Foreign Tax Credit Regulations (and the related temporary relief in the IRS notices) and the availability of the foreign tax credit or a deduction under your particular circumstances.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits, as determined under U.S. federal income tax principles, the distribution ordinarily would be treated, first, as a tax-free return of capital, causing a reduction in the adjusted basis of the ADSs or Class A ordinary shares (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by you on a subsequent disposition of the ADSs or Class A ordinary shares), and, second, the balance in excess of adjusted basis generally would be taxed as capital gain recognized on a sale or exchange. However, we do not expect to determine our earnings and profits in accordance with U.S. federal income tax principles. Therefore, you should expect that distributions will generally be reported to the IRS and taxed to you as dividends (as discussed above), even if they might ordinarily be treated as a tax-free return of capital or as capital gain.

### *Passive Foreign Investment Company*

In general, we will be a PFIC for any taxable year in which:

- at least 75% of our gross income is passive income, or
- at least 50% of the value (generally determined based on a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income.

For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person), as well as gains from the sale of assets (such as stock) that produce passive income, foreign currency gains, and certain other categories of income. In addition, cash and other assets readily convertible into cash are generally considered passive assets. If we own at least 25% (by value) of the stock of another corporation, we will be treated, for purposes of determining whether we are a PFIC, as owning our proportionate share of the other corporation's assets and receiving our proportionate share of the other corporation's income.

Based on the nature and composition of our income and assets, and the valuation of our assets, including goodwill, we do not believe we were a PFIC for our 2024 taxable year. The determination of whether or not we are a PFIC is made annually. Accordingly, there is a risk that we may become a PFIC in the current or any future taxable year due to changes in our asset or income composition or in the value of our assets. In particular, the calculation of the value of our assets will be based, in part, on the quarterly market value of our ADSs, which is subject to change and has been volatile. Any decrease in the market value of our ADSs may result in our becoming a PFIC.

If we are a PFIC for any taxable year during which you hold our ADSs or Class A ordinary shares, and you do not make a timely mark-to-market election, as described below, you will be subject to special tax rules with respect to any "excess distribution" received and any gain realized from a sale or other disposition, including a pledge, of ADSs or Class A ordinary shares. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or your holding period for the ADSs or Class A ordinary shares will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ADSs or Class A ordinary shares,
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year for individuals or corporations, as applicable, and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

Although the determination of whether we are a PFIC is made annually, if we are a PFIC for any taxable year in which you hold our ADSs or Class A ordinary shares, you will generally be subject to the special tax rules described above for that year and for each subsequent year in which you hold the ADSs or Class A ordinary shares (even if we do not qualify as a PFIC in any subsequent years). However, if we cease to be a PFIC, you can avoid the continuing impact of the PFIC rules by making a special election to recognize gain as if your ADSs or Class A ordinary shares had been sold on the last day of the last taxable year during which we were a PFIC. You are urged to consult your tax advisor about this election.

In certain circumstances, in lieu of being subject to the special tax rules discussed above, you may make a mark-to-market election with respect to your ADSs or Class A ordinary shares provided such ADSs or Class A ordinary shares are treated as "marketable stock." The ADSs or Class A ordinary shares generally will be treated as marketable stock if the ADSs or Class A ordinary shares, as applicable, are "regularly traded" on a "qualified exchange or other market" (each within the meaning of the applicable U.S. Treasury regulations). Under current law, the mark-to-market election may be available to holders of ADSs because the ADSs are listed on the New York Stock Exchange, which constitutes a qualified exchange, although there can be no assurance that the ADSs will be "regularly traded" for purposes of the mark-to-market election. It should also be noted that only the ADSs and not the Class A ordinary shares are listed on the New York Stock Exchange. Consequently, if you are a holder of Class A ordinary shares that are not represented by ADSs, you generally will not be eligible to make a mark-to-market election.

If you make an effective mark-to-market election, for each taxable year that we are a PFIC, you will include as ordinary income the excess of the fair market value of your ADSs at the end of the year over your adjusted basis in the ADSs. You will be entitled to deduct as an ordinary loss in each such year the excess of your adjusted basis in the ADSs over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If you make an effective mark-to-market election, any gain you recognize upon the sale or other disposition of your ADSs in a year that we are a PFIC will be treated as ordinary income and any loss will be treated as ordinary loss, but such loss will only be treated as ordinary loss to the extent of the net amount previously included in income as a result of the mark-to-market election, and thereafter will be capital loss.

Your adjusted basis in the ADSs will be increased by the amount of any income inclusions and decreased by the amount of any deductions under the mark-to-market rules. If you make a mark-to-market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ADSs are no longer regularly traded on a qualified exchange or other market, or the IRS consents to the revocation of the election. You are urged to consult your tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable in your particular circumstances.

A different election, known as the “qualified electing fund” or “QEF” election, is generally available to holders of PFIC stock, but requires that the corporation provide the holders with a “PFIC Annual Information Statement” containing certain information necessary for the election, including the holder’s pro rata share of the corporation’s earnings and profits and net capital gain for each taxable year, computed according to U.S. federal income tax principles. We do not intend, however, to determine our earnings and profits or net capital gain under U.S. federal income tax principles, nor do we intend to provide U.S. Holders with a PFIC Annual Information Statement. Therefore, you should not expect to be eligible to make this election.

If we are a PFIC for any taxable year during which you hold our ADSs or Class A ordinary shares and any of our non-U.S. subsidiaries is also a PFIC, you will be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. However, you will not be able to make the mark-to-market election described above in respect of any lower-tier PFIC. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

You will generally be required to file IRS Form 8621 if you hold our ADSs or Class A ordinary shares in any year in which we are classified as a PFIC. You are urged to consult your tax advisors concerning the U.S. federal income tax consequences of holding ADSs or Class A ordinary shares if we are considered a PFIC in any taxable year.

#### ***Taxation of Capital Gains***

For U.S. federal income tax purposes, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of ADSs or Class A ordinary shares in an amount equal to the difference between the amount realized for the ADSs or Class A ordinary shares and your adjusted basis in the ADSs or Class A ordinary shares, both determined in U.S. dollars. Subject to the discussion under “—Passive Foreign Investment Company” above, such gain or loss will generally be capital gain or loss and will generally be long-term capital gain or loss if you have held the ADSs or Class A ordinary shares for more than one year. Long-term capital gains of non-corporate U.S. Holders (including individuals) are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Any gain or loss recognized by you will generally be treated as U.S. source gain or loss. However, if we are treated as a PRC resident enterprise for PRC tax purposes and PRC tax is imposed on any gain, and if you are eligible for the benefits of the Treaty, you may elect to treat such gain as PRC source gain under the Treaty. If you are not eligible for the benefits of the Treaty or you fail to make the election to treat any gain as PRC source, then you generally would not be able to use a foreign tax credit for any PRC tax imposed on the disposition of our ADSs or Class A ordinary shares unless such credit can be applied (subject to applicable limitations) against U.S. federal income tax due on other income derived from foreign sources in the same income category (generally, the passive category). However, pursuant to the Foreign Tax Credit Regulations, if you do not elect to claim the benefits of the Treaty, any such PRC tax imposed on gain would generally not be a foreign income tax eligible for a foreign tax credit (regardless of any other income that you may have that is derived from foreign sources). In such case, the non-creditable PRC tax may reduce the amount realized on the disposition of our ADSs or Class A ordinary shares. As discussed above, however, recent notices from the IRS provide temporary relief by allowing taxpayers that comply with applicable requirements to apply many aspects of the foreign tax credit regulations as they previously existed (before the release of the current Foreign Tax Credit Regulations) for taxable years ending before the date that a notice or other guidance withdrawing or modifying the temporary relief is issued (or any later date specified in such notice or other guidance). If any PRC tax is imposed on the disposition of our ADSs or Class A ordinary shares and you apply such temporary relief, such PRC tax may be eligible for a foreign tax credit or deduction, subject to the applicable conditions and limitations. You are urged to consult your tax advisors regarding the tax consequences if any PRC tax is imposed on gain on a disposition of our ADSs or Class A ordinary shares, including the effect of the Foreign Tax Credit Regulations (and the related temporary relief in the IRS notices) and the availability of the foreign tax credit or a deduction and the election to treat any gain as PRC source, under your particular circumstances.

#### ***Information Reporting and Backup Withholding***

In general, information reporting will apply to dividends in respect of our ADSs or Class A ordinary shares and the proceeds from the sale, exchange or other disposition of our ADSs or Class A ordinary shares that are paid to you within the United States (and in certain cases, outside the United States), unless you establish that you are an exempt recipient such as a corporation. A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number and a certification that you are not subject to backup withholding or if you fail to report in full dividend and interest income.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is furnished to the IRS in a timely manner.

#### **F. Dividends and Paying Agents**

Not applicable.

#### **G. Statement by Experts**

Not applicable.

#### **H. Documents on Display**

We have filed this annual report on Form 20-F, including exhibits, with the SEC. As allowed by the SEC, in Item 19 of this annual report, we incorporate by reference certain information we filed with the SEC. This means that we disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report.

You may read and copy this annual report, including the exhibits incorporated by reference in this annual report, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 and at the SEC's regional offices in New York, New York, and Chicago, Illinois. You can also request copies of this annual report, including the exhibits incorporated by reference in this annual report, upon payment of a duplicating fee, by writing to the SEC's Public Reference Room for information.

The SEC also maintains a website that contains reports, proxy statements and other information about issuers, such as us, who file electronically with the SEC. The address of that website is <http://www.sec.gov>. The information on that website is not a part of this annual report.

**I. Subsidiary Information**

Not applicable.

**J. Annual Report to Security Holders**

Not applicable.

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

***Interest Rate Risk***

Our exposure to interest rate risk primarily relates to interest income generated by excess cash which is mostly held in interest bearing bank deposits. As of December 31, 2024, the majority of our cash and cash equivalents were held in major financial institutions located in China. Interest earning instruments carry a degree of interest rate risk. We have not used derivative financial instruments to hedge interest rate risk. We have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in market interest rates. However, our future interest income may fall short of expectations due to changes in market interest rates.

We have not been exposed to material risks due to changes in interest rates. However, our future interest income may be lower than expected due to changes in market interest rates.

***Equity Price Risk***

We are exposed to equity price risk on our common stock holdings. As of December 31, 2023, we had investments in equity securities in Hong Kong stock market. If we continue to hold stocks, the common stock holdings are exposed to equity price risk.

***Foreign Exchange Risk***

Substantially all of our revenues and most of our expenses are denominated in RMB. Our exposure to foreign exchange risk primarily relates to cash and cash equivalents denominated in U.S. dollars as a result of our past issuances of ordinary shares and proceeds from our initial public offering.

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

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China, or the PBOC. The PRC government allowed the Renminbi to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, the exchange rate between the Renminbi and the U.S. dollar had been stable and traded within a narrow band. Since June 2010, the PRC government has allowed the RMB to appreciate slowly against the U.S. dollar, though there have been periods when the Renminbi has depreciated against the U.S. dollar. In particular, on August 11, 2015, the PBOC allowed the Renminbi to depreciate by approximately 2% against the U.S. dollar. Since then and until the end of 2016, the Renminbi has depreciated against the U.S. dollar by approximately 10%. The RMB depreciated approximately 8.2%, 2.9% and 2.8% against the U.S. dollar in 2022, 2023 and 2024, respectively. It is difficult to predict how long the current situation may last and when and how the relationship between the Renminbi and the U.S. dollar may change again.

To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amounts available to us.

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

**A. Debt Securities**

Not applicable.

**B. Warrants and Rights**

Not applicable.

**C. Other Securities**

Not applicable.

**D. American Depositary Shares**

In March 2018, we appointed Deutsche Bank Trust Company Americas, or Deutsche Bank, as the depositary bank for our ADR program. We entered into a deposit agreement with Deutsche Bank, as depositary, and all holders from time to time of our ADRs on March 26, 2018.

**Fees and Charges**

An ADS holder will be required to pay the following service fees to the depositary bank and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of your ADSs):

Service	Fees
• To any person to which ADSs are issued or to any person to which a distribution is made in respect of ADS distributions pursuant to stock dividends or other free distributions of stock, bonus distributions, stock splits or other distributions (except where converted to cash)	Up to US\$0.05 per ADS issued
• Cancellation of ADSs, including the case of termination of the deposit agreement	Up to US\$0.05 per ADS cancelled
• Distribution of cash dividends	Up to US\$0.02 per ADS held
• Distribution of cash entitlements (other than cash dividends) and/or cash proceeds from the sale of rights, securities and other entitlements	Up to US\$0.05 per ADS held
• Distribution of ADSs pursuant to exercise of rights.	Up to US\$0.05 per ADS issued
• Depositary services	Up to US\$0.02 per ADS held per annum on the applicable record date(s) established by the depositary bank

An ADS holder, will also be responsible to pay certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of your ADSs) such as:

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

- Expenses for cable, telex and fax transmissions and for delivery of securities.
- Taxes and duties upon the transfer of securities, including any applicable stamp duties, any stock transfer charges or withholding taxes (i.e., when ordinary shares are deposited or withdrawn from deposit).
- Fees and expenses incurred in connection with the delivery or servicing of ordinary shares on deposit.
- Fees and expenses incurred in connection with complying with exchange control regulations and other regulatory requirements applicable to ordinary shares, deposited securities, ADSs and ADRs.
- Any applicable fees and penalties thereon.

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

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

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

Deutsche Bank Trust Company Americas, as depositary may make payments to us or reimburse us for certain costs and expenses upon such terms and conditions as we and the depositary bank agree from time to time

#### **Payments by Depositary**

During the year ended December 31, 2024, we did not receive any payment from Deutsche Bank Trust Company Americas, the depositary bank for our ADR program.

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

None of these events occurred in any of the years ended December 31, 2022, 2023 and 2024.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS****A. Modifications of Rights**

See "Item 10. Additional Information—B. Memorandum and Articles of Association" for a description of the rights of securities holders, which remain unchanged.

**E. Use of Proceeds**

The following "Use of Proceeds" information relates to the registration statement on Form F-1, as amended (File No. 333-223261) in relation to our initial public offering, which was declared effective by the SEC on March 26, 2018. In March 2018, we completed our initial public offering in which we issued and sold 10,200,000 ADSs, representing 10,200,000 Class A ordinary shares, resulting in net proceeds to us of approximately US\$133.5 million, which net of underwriting discounts and commissions. Morgan Stanley & Co. International plc, Merrill Lynch, Pierce, Fenner & Smith Incorporated and UBS Securities LLC were the representatives of the underwriters for our initial public offering.

For the period from March 26, 2018, the date that the F-1 Registration Statement was declared effective by the SEC, to December 31, 2024, we used approximately US\$128.2 million of the net proceeds from our initial public offering for general corporate purposes in line with our strategies, (i) the organic expansion of our hotel chain and the improvement of existing hotel properties, including conversion of existing leased-and-operated hotels to new brands, including Gem, Gya and Vx, (ii) potential acquisitions of domestic and overseas operators that will complement our operations and accelerate our expansion plan, and (iii) working capital and other general corporate purposes, including marketing and upgrading our IT system.

**ITEM 15. CONTROLS AND PROCEDURES****Disclosure Controls and Procedures**

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within the specified time periods and accumulated and communicated to our management, including our Group Chief Executive Officer and Group Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our Group Chief Executive Officer and Group Chief Financial Officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Exchange Act) as of December 31, 2024. Based upon that evaluation, as of December 31, 2024, our management has concluded that our disclosure controls and procedures were effective.

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act.

As required by Rule 13a-15(c) of the Exchange Act, our management, under the supervision and with the participation of our Group Chief Executive Officer and Group Chief Financial Officer, conducted an evaluation of our internal control over financial reporting as of December 31, 2024 based on the framework in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that that, as of December 31, 2024, our internal control over financial reporting was effective.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of our internal control over financial reporting to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Because our company is a non-accelerated filer, this annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting.

**Changes in Internal Control over Financial Reporting**

There were no significant changes in our internal control over financial reporting during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 16. RESERVED****ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our Board of Directors has determined that Dong Li, who is an independent director, qualifies as an audit committee financial expert as defined in Item 16A of the instruction to Form 20-F.

**ITEM 16B. CODE OF ETHICS**

We have adopted a code of ethics, which is applicable to all of our directors, executive officers and employees, including our Chief Executive Officer and Chief Financial Officer. No changes have been made to the code of business conduct and ethics since its adoption and no waivers have been granted therefrom to our directors or employees. We have filed our code of business conduct as an exhibit to our F-1 registration statement (File No. 333-223261), as amended, initially filed with the Securities and Exchange Commission on February 27, 2018, and a copy is available to any shareholder upon request. This code of business conduct and ethics is also available on our website at <http://ir.998.com>.

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

Ernst & Young Hua Ming LLP has served as our independent registered public accounting firm for each of the fiscal years in the three-year period ended December 31, 2024, for which audited financial statements appear in this annual report.

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Ernst & Young Hua Ming LLP, for the years indicated.

	For the Years Ended December 31,		
	2022	2023	2024
	(In thousands of US dollars)		
Audit Fees	979	1,085	712
All Other Fees	—	—	—
Total	<u>979</u>	<u>1,085</u>	<u>712</u>

**Pre-Approval Policies and Procedures**

Our audit committee is responsible for the oversight of our independent accountants' work. The policy of our audit committee is to pre-approve all audit and non-audit services provided by Ernst & Young Hua Ming LLP, including audit services, audit-related services, tax services and other services, as described above.

All audit and non-audit services performed by Ernst & Young Hua Ming LLP must be pre-approved by the Audit Committee.

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

None.

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

In October 2023, we announced the authorization of a share repurchase program in an aggregate amount of up to US\$10 million worth of our outstanding Class A ordinary shares of a par value of US\$0.50 each and/or ADSs from time to time over the next two years. During the year ended December 31, 2024, we repurchased an aggregate of 654,464 ADSs, representing 654,464 Class A ordinary shares.

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

Not applicable.

#### ITEM 16G. CORPORATE GOVERNANCE

We are a “foreign private issuer” (as such term is defined in Rule 3b-4 under the Exchange Act), and our ADSs, each representing eight ordinary shares, are listed on the New York Stock Exchange. Under Section 303A of the New York Stock Exchange Listed Company Manual, New York Stock Exchange listed companies that are foreign private issuers are permitted to follow home country practice in lieu of the corporate governance provisions specified by the New York Stock Exchange with limited exceptions. The following summarizes some significant ways in which our corporate governance practices differ from those followed by domestic companies under the listing standards of the New York Stock Exchange.

- In respect of independent directors on our Board of Directors: Only three of our five directors are independent directors: As our home country practice does not require a majority of our Board of Directors to be independent, three of our five directors are independent.
- In respect of the oversight of our executive officer compensation and director nominations matters: As our home country practice does not require independent director oversight of executive officer compensation and director nomination matters, our compensation and nominating and corporate governance committees are not comprised solely of independent directors.

#### ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

#### ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

#### ITEM 16J. INSIDER TRADING POLICIES

(a) We have adopted insider trading policies and procedures governing the purchase, sale, and other dispositions of our securities by directors, senior management, and employees that are reasonably designed to promote compliance with applicable insider trading laws, rules and regulations, and listing standards applicable to us.

(b) Please see our Statement of Policies Governing Material, Non-Public Information and the Prevention of Insider Trading, which has been filed as Exhibit 11.2 to this annual report.

#### ITEM 16K. CYBERSECURITY

At GreenTree, our cybersecurity risk management program is an important component of our overall enterprise risk management program. Our cybersecurity risk management program is designed to be consistent with industry practices and provides a framework for addressing cybersecurity threats and incidents, including those related to the use of applications and services provided by third-party service providers. The program also facilitates coordination between different departments in our company. Our cybersecurity risk management program includes the following processes: (i) assessing the severity of cybersecurity threats, (ii) identifying the sources of cybersecurity threats (including whether they are associated with third-party service providers), (iii) implementing cybersecurity countermeasures and mitigation policies and (iv) notifying management of significant cybersecurity threats and incidents. Our cybersecurity team also works with third-party security experts to perform risk assessments and system enhancements. In addition, our cybersecurity team provides annual training.

Our management is responsible for identifying, considering and evaluating cybersecurity risks, establishing ongoing monitoring processes to ensure that potential cybersecurity risk exposures are monitored, and implementing appropriate mitigation measures and maintaining cybersecurity procedures. In particular, we have established a cybersecurity management group, or Cybersecurity Management Group, composed of professionals from our internal audit department, information technology center, and public affairs department to improve data security. The Cybersecurity Management Group is responsible for formulating data security and personal information protection strategies, plans, systems and specifications, providing necessary support, coordinating and making decisions on major data security incidents. Our cybersecurity procedures are conducted under the direction of our Cybersecurity Management Group, which oversees, mitigates and remediates cybersecurity incidents.

As of the date of this annual report, we have not experienced any significant cybersecurity incidents and have not identified any cybersecurity threats that could have a material impact on us, our business strategies, results of operations or financial condition.

We are subject to evolving government regulations and other legal obligations related to privacy, cybersecurity, information security and data protection, which are subject to change and subject to uncertainty in interpretation. Failure to comply with these governmental regulations and legal obligations could subject us, our employees and our business partners to significant reputational, financial, legal and operational consequences.

PART III

ITEM 17. FINANCIAL STATEMENTS

The Registrant has elected to provide the financial statements and related information specified in Item 18.

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements of GreenTree Hospitality Group Ltd. are included at the end of this annual report.

ITEM 19. EXHIBIT INDEX

Exhibit Number	Description of Exhibits
1.1	<a href="#">Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated by reference to Exhibit 3.1 to our Registration Statement on Form F-1 (File No. 333-223261), initially filed with the Securities and Exchange Commission on February 27, 2018).</a>
2.1	<a href="#">Registrant's Form of American Depositary Receipt evidencing American Depositary Shares (incorporated by reference to Exhibit (a) to our Registration Statement on Form F-6 (File No. 333-223659), initially filed with the Securities and Exchange Commission on March 14, 2018 with respect to American depositary shares representing our Class A ordinary shares).</a>
2.2	<a href="#">Registrant's Specimen of Ordinary Share Certificate (incorporated by reference Exhibit 4.1 to our Registration Statement on Form F-1 (File No. 333-223261), initially filed with the Securities and Exchange Commission on February 27, 2018).</a>
2.3	<a href="#">Form of Deposit Agreement between the Registrant and Deutsche Bank Trust Company Americas, as depositary (incorporated by reference to Exhibit (a) to our Registration Statement on Form F-6 (File No. 333-223659), initially filed with the Securities and Exchange Commission on March 14, 2018 with respect to American depositary shares representing our Class A ordinary shares).</a>
*2.4	<a href="#">Description of Securities Registered under Section 12 of the Securities Exchange Act of 1934</a>
4.1	<a href="#">Form of Indemnification Agreement between the Registrant and its directors and executive officers (incorporated by reference to Exhibit 10.1 to our Registration Statement on Form F-1 (File No. 333-223261), initially filed with the Securities and Exchange Commission on February 27, 2018).</a>
4.2	<a href="#">Investment Agreement concerning Yibon Hotel Group Co., Ltd., among Yibon Hotel Group Co., Ltd., Shanghai Beifu Industrial Co., Ltd., KIP Growth Capital Fund No. 17, Korea Investment Global Frontier Fund No. 20, Rushi Co., Ltd. and the original shareholder of Yibon Group, dated April 5, 2017 (English Translation) (incorporated by reference to Exhibit 10.2 to our Registration Statement on Form F-1 (File No. 333-223261), initially filed with the Securities and Exchange Commission on February 27, 2018).</a>
4.3	<a href="#">Sale and Purchase Agreement dated May 16, 2022 by and among Beifu Fortune Industrial Co., Ltd., GreenTree Inns Hotel Management Group, Inc. and the Registrant (incorporated by reference to Exhibit 99.2 to our Current Report on Form 6-K (File No. 001-38425), initially filed with the Securities and Exchange Commission on May 17, 2022).</a>
4.4	<a href="#">Letter Agreement dated May 16, 2022 by and among Beifu Fortune Industrial Co., Ltd., GreenTree Inns Hotel Management Group, Inc. and the Registrant (incorporated by reference to Exhibit 99.3 to our Current Report on Form 6-K (File No. 001-38425), initially filed with the Securities and Exchange Commission on May 17, 2022).</a>
*8.1	<a href="#">List of Significant Subsidiaries of the Registrant</a>

11.1	<a href="#">Code of Business Conduct of the Registrant (incorporated by reference to Exhibit 99.1 to our Registration Statement on Form F-1 (File No. 333-223261), initially filed with the Securities and Exchange Commission on February 27, 2018).</a>
11.2	<a href="#">Registrant's Statement of Policies Governing Material, Non-Public Information and the Prevention of Insider Trading (incorporated by reference to Exhibit 11.2 to our Annual Report on Form 20-F for the fiscal year ended December 31, 2023 (File No. 001-38425), filed with the Securities and Exchange Commission on April 30, 2024).</a>
*12.1	<a href="#">Certification of our Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
*12.2	<a href="#">Certification of our Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
**13.1	<a href="#">Certification of our Principal Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
**13.2	<a href="#">Certification of our Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
*15.1	<a href="#">Consent of Shanghai Qiaowen Law Firm</a>
97.1	<a href="#">Incentive Compensation Clawback Policy of the Registrant (incorporated by reference to Exhibit 97.1 to our Annual Report on Form 20-F for the fiscal year ended December 31, 2023 (File No. 001-38425), filed with the Securities and Exchange Commission on April 30, 2024).</a>
*101.INS	Inline XBRL Instance Document.
*101.SCH	Inline XBRL Taxonomy Extension Schema Document.
*101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
*101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
*101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document.
*101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document. Cover Page Interactive Data
*104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

\* Filed herewith

\*\* Furnished herewith

**SIGNATURES**

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

**GREENTREE HOSPITALITY GROUP LTD.**

By: /s/ Alex S. Xu  
Name: Alex S. Xu  
Title: Chairman and Chief Executive Officer

Date: April 30, 2025

GREENTREE HOSPITALITY GROUP LTD.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2022, 2023 and 2024

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**Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of GreenTree Hospitality Group Ltd.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of GreenTree Hospitality Group Ltd. (the Company) as of December 31, 2024 and 2023, the related consolidated statements of comprehensive (loss) income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2024, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2024 and 2023, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2024, in conformity with U.S. generally accepted accounting principles.

**Adoption of New Accounting Standard**

As discussed in Note 2 to the consolidated financial statements, the Company changed its measurement of credit losses on financial instruments using a modified retrospective transition method in the year ended December 31, 2023.

**Basis for Opinion**

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

## Critical Audit Matter

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

### *Valuation of Goodwill and Trademark of Da Niang Business*

#### *Description of the Matter*

As disclosed in Notes 2, 10 and 12 to the consolidated financial statements, goodwill and indefinite-lived intangible assets are assessed for impairment on an annual basis or more frequently if events or changes in circumstances indicate that they might be impaired. During the year ended December 31, 2024, the Company recorded impairment losses of RMB81 million on goodwill associated with Da Niang business reporting unit and RMB39 million on Da Niang Trademark.

Auditing the Company's goodwill and indefinite-lived intangible asset impairment assessments was complex and highly judgmental due to the significant estimation required in determining the fair values of the Da Niang business reporting unit and Da Niang Trademark. Significant assumptions used to estimate the fair value of the reporting unit included projected revenue and discount rate. Significant assumptions used to determine the fair value of trademark included projected revenue, royalty rate, and discount rate. These assumptions are affected by management's expectations about future market and economic conditions.

#### *How We Addressed the Matter in Our Audit*

To test the estimated fair value of the Da Niang business reporting unit and Da Niang Trademark, our audit procedures included, among others, assessing the methodology used to develop the estimate of fair value, evaluating the significant assumptions described above, and testing the completeness and accuracy of the underlying data used. We compared the projected revenue to historical results of the business and considered market and economic trends. We involved our valuation specialist to assist in evaluating the royalty rate and discount rates used in the assessments. We also performed sensitivity analyses on the significant assumptions described above to evaluate the potential changes in the fair value of the reporting unit and trademark and that would result from changes in these assumptions.

/s/ Ernst & Young Hua Ming LLP

We have served as the Company's auditor since 2012.

Shanghai, the People's Republic of China

April 30, 2025

GREENTREE HOSPITALITY GROUP LTD.

CONSOLIDATED BALANCE SHEETS

	Notes	As of December 31,		
		2023	2024	2024
		RMB	RMB	USD
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents		765,547,547	1,490,235,562	204,161,435
Restricted cash		6,576,906	16,096,476	2,205,208
Short-term investments	13	417,711,617	10,475	1,435
Investments in equity securities		26,076,169	—	—
Accounts receivable, net of allowance for credit losses of RMB3,532,016 and RMB5,645,777 (USD773,468) as of December 31, 2023 and 2024, respectively	6	123,887,879	99,688,034	13,657,205
Amounts due from related parties	25	19,928,781	21,839,929	2,992,058
Inventories, net	7	20,462,490	6,881,470	942,758
Other current assets	14	117,047,122	114,898,590	15,741,042
Loans receivable, net	8	129,521,094	85,463,467	11,708,447
<b>Total current assets</b>		<b>1,626,759,605</b>	<b>1,835,114,003</b>	<b>251,409,588</b>
Amounts due from related parties	25	110,000,000	110,000,000	15,069,938
Restricted cash		19,476,259	18,869,900	2,585,166
Long-term time deposits		63,340,000	285,570,000	39,122,930
Loans receivable, net	8	70,690,305	15,372,238	2,105,988
Property, plant and equipment, net	9	814,949,026	649,528,210	88,985,000
Intangible assets, net	10	117,720,693	75,677,551	10,367,782
Operating lease right-of-use assets	11	1,535,330,762	1,328,582,419	182,015,045
Goodwill	12	177,082,468	96,074,468	13,162,148
Long-term investments	13	184,758,800	184,024,217	25,211,214
Other assets	14	104,725,600	102,545,847	14,048,723
Deferred tax assets	22	241,965,360	245,760,095	33,668,995
<b>TOTAL ASSETS</b>		<b>5,066,798,878</b>	<b>4,947,118,948</b>	<b>677,752,517</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities:</b>				
Short-term bank loans	15	116,800,000	—	—
Long-term bank loans, current portion	15	200,000	400,000	54,800
Accounts payable		73,126,677	56,488,405	7,738,880
Advance from customers	5	22,393,097	25,684,437	3,518,753
Amounts due to related parties	25	16,310,293	17,462,176	2,392,308
Salary and welfare payable		86,332,096	78,234,582	10,718,093
Deferred revenue	5	186,281,838	175,046,178	23,981,228
Operating lease liabilities, current	11	267,536,846	241,363,244	33,066,629
Accrued expenses and other current liabilities	16	459,832,717	481,910,291	66,021,439
Income tax payable		112,782,712	88,876,497	12,176,030
<b>Total current liabilities</b>		<b>1,341,596,276</b>	<b>1,165,465,810</b>	<b>159,668,160</b>
Operating lease liabilities, non-current	11	1,391,909,308	1,215,776,075	166,560,639
Deferred revenue, non-current	5	207,905,769	176,353,919	24,160,388
Long-term bank loans, non-current portion	15	56,800,000	256,200,000	35,099,256
Other long-term liabilities	17	111,711,750	120,975,955	16,573,638
Deferred tax liabilities	22	94,716,495	79,670,908	10,914,870
Unrecognized tax benefits	22	382,125,785	440,072,214	60,289,646
<b>Total liabilities</b>		<b>3,586,765,383</b>	<b>3,454,514,881</b>	<b>473,266,597</b>
<b>Commitments and contingencies</b>	26			

**GREENTREE HOSPITALITY GROUP LTD.**  
**CONSOLIDATED BALANCE SHEETS — (Continued)**

	Notes	As of December 31,		
		2023 RMB	2024 RMB	2024 USD
<b>Shareholders' equity:</b>				
Class A ordinary shares (USD0.50 par value per share; 400,000,000 and 400,000,000 shares authorized as of December 31, 2023 and 2024; 66,780,612 and 66,761,582 shares issued and outstanding as of December 31, 2023 and 2024, respectively)	18	222,587,070	222,587,070	30,494,304
Class B ordinary shares (USD0.50 par value per share; 100,000,000 and 100,000,000 shares authorized as of December 31, 2023 and 2024; 34,762,909 and 34,762,909 shares issued and outstanding as of December 31, 2023 and 2024, respectively)	18	115,534,210	115,534,210	15,828,122
Treasury stock		(36,677,832)	(37,043,116)	(5,074,886)
Additional paid-in capital		1,680,713,349	1,609,972,272	220,565,297
Accumulated losses		(568,339,799)	(458,337,569)	(62,791,989)
Accumulated other comprehensive income	19	28,401,282	6,033,263	826,554
Total GreenTree Hospitality Group Ltd.'s shareholders' equity		1,442,218,280	1,458,746,130	199,847,402
Noncontrolling interests		37,815,215	33,857,937	4,638,518
<b>Total shareholders' equity</b>		<b>1,480,033,495</b>	<b>1,492,604,067</b>	<b>204,485,920</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>5,066,798,878</b>	<b>4,947,118,948</b>	<b>677,752,517</b>

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

GREENTREE HOSPITALITY GROUP LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	Notes	Year Ended December 31,			
		2022 RMB	2023 RMB	2024 RMB	2024 USD
<b>Revenues:</b>					
Leased-and-operated revenue (including revenue from related parties of RMB112,847, RMB82,396 and RMB46,978 (USD6,436) for the years ended December 31, 2022, 2023 and 2024, respectively)	5, 25	700,022,649	787,814,342	596,640,639	81,739,432
Franchised-and-managed revenue (including revenue from related parties of RMB1,285,068, RMB788,179 and RMB44,478 (USD6,093) for the years ended December 31, 2022, 2023 and 2024, respectively)	5, 25	588,463,368	705,244,948	635,360,312	87,044,006
Wholesales and others (including revenue from related parties of nil, RMB 1,757,629 and RMB 649,928 (USD89,040) for the years ended December 31, 2022, 2023 and 2024, respectively)	5, 25	180,588,258	134,198,399	111,439,245	15,267,114
Total revenues		1,469,074,275	1,627,257,689	1,343,440,196	184,050,552
<b>Operating costs and expenses:</b>					
Operating costs (including purchases from related parties of RMB299,861, RMB1,574,642 and RMB1,185,014 (USD162,346) for the years ended December 31, 2022, 2023 and 2024, respectively)	20, 25	(1,066,512,951)	(947,438,814)	(822,587,314)	(112,694,000)
Selling and marketing expenses (including services from related parties of RMB6,163,675, RMB1,276,474 and RMB802,606 (USD109,957) for the years ended December 31, 2022, 2023 and 2024, respectively)	25	(68,490,439)	(71,618,033)	(67,585,059)	(9,259,115)
General and administrative expenses		(259,513,862)	(208,433,678)	(182,551,094)	(25,009,397)
Other operating expenses		(8,416,358)	(11,704,553)	(7,090,463)	(971,389)
Impairment of goodwill		(91,236,480)	—	(81,008,000)	(11,098,050)
Impairment of indefinite-lived intangible asset		(18,892,000)	(16,027,000)	(39,072,000)	(5,352,842)
Other general expenses		(466,535,163)	(63,556,586)	(41,769,330)	(5,722,375)
Total operating costs and expenses		(1,979,597,253)	(1,318,778,664)	(1,241,663,260)	(170,107,168)
Other operating income		23,993,148	27,169,901	60,147,558	8,240,182
(Loss) income from operations		(486,529,830)	335,648,926	161,924,494	22,183,566
Interest income (including interest income from related parties of RMB12,333, RMB465,500 and RMB395,694 (USD54,210) for the years ended December 31, 2022, 2023 and 2024, respectively)	25	48,105,125	41,371,162	40,072,068	5,489,851
Interest expenses		(27,987,842)	(14,053,841)	(6,310,152)	(864,487)
Losses and impairment on equity securities held		(62,156,235)	(5,378,104)	(14,953,679)	(2,048,646)
Other income, net		24,404,728	22,783,715	16,474,064	2,256,938
(Loss) income before income taxes and share of losses in equity method investments		(504,164,054)	380,371,858	197,206,795	27,017,222
Income tax benefit (expense)	22	44,072,902	(118,452,255)	(88,726,969)	(12,155,545)
(Loss) income before share of losses in equity method investments		(460,091,152)	261,919,603	108,479,826	14,861,677
Share of loss in equity method investments, net of tax		(1,598,301)	(1,392,002)	(1,165,474)	(159,669)
Net (loss) income		(461,689,453)	260,527,601	107,314,352	14,702,008
Net loss attributable to noncontrolling interests		36,536,272	8,788,707	2,687,878	368,238
Net (loss) income attributable to ordinary shareholders		(425,153,181)	269,316,308	110,002,230	15,070,246
<b>(Losses) earnings per share</b>					
Class A ordinary shares-basic and diluted	27	(4.13)	2.64	1.08	0.15
Class B ordinary shares-basic and diluted	27	(4.13)	2.64	1.08	0.15
<b>Weighted average shares outstanding</b>					
Class A ordinary shares-basic and diluted	27	68,201,056	67,321,003	66,776,243	66,776,243
Class B ordinary shares-basic and diluted	27	34,762,909	34,762,909	34,762,909	34,762,909
<b>Other comprehensive (loss) income, net of tax</b>					
-Foreign currency translation adjustments		(11,361,872)	672,112	(22,374,019)	(3,065,228)
-Unrealized (losses) income on available-for-sale investments		(2,786,931)	(2,934)	6,000	822
Other comprehensive (loss) income, net of tax		(14,148,803)	669,178	(22,368,019)	(3,064,406)
Comprehensive (loss) income, net of tax		(475,838,256)	261,196,779	84,946,333	11,637,602
Comprehensive loss attributable to noncontrolling interests		36,536,272	8,788,707	2,687,878	368,238
Comprehensive (loss) income attributable to ordinary shareholders		(439,301,984)	269,985,486	87,634,211	12,005,840

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

GREENTREE HOSPITALITY GROUP LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(Amounts in Renminbi, except for number of shares, unless otherwise stated)

	Class A Ordinary Shares		Class A Treasury stock		Class B Ordinary Shares		Additional Paid-in Capital	Retained Earnings (accumulated losses)	Accumulated Other Comprehensive Income	Total Green Tree Hospitality Group Ltd. Shareholders' Equity	Noncontrolling interests	Total Equity
	Shares	Amount	Shares	Amount	Shares	Amount						
<b>Balance at January 1, 2022</b>	68,286,954	222,587,070	—	—	34,762,909	115,534,210	2,080,513,055	(392,390,875)	41,880,907	2,068,124,367	190,930,675	2,259,055,042
Capital contribution from noncontrolling interest holders	—	—	—	—	—	—	—	—	—	—	400,000	400,000
Net loss	—	—	—	—	—	—	—	(425,153,181)	—	(425,153,181)	(36,536,272)	(461,689,453)
Shares repurchase of Urban Group	—	—	(870,908)	(16,971,057)	—	—	—	—	—	(16,971,057)	—	(16,971,057)
Deconsolidation or disposal of subsidiaries	—	—	—	—	—	—	—	—	—	—	(108,190,481)	(108,190,481)
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	(11,361,872)	(11,361,872)	—	(11,361,872)
Unrealized losses on available-for-sale investments	—	—	—	—	—	—	—	—	(2,786,931)	(2,786,931)	—	(2,786,931)
Share-based compensation (Note 21)	—	—	—	—	—	—	(62,356)	—	—	(62,356)	—	(62,356)
<b>Balance at December 31, 2022</b>	68,286,954	222,587,070	(870,908)	(16,971,057)	34,762,909	115,534,210	2,080,450,699	(817,544,056)	27,732,104	1,611,788,970	46,603,922	1,658,392,892
Effect of adoption of ASU 2016-03	—	—	—	—	—	—	—	(20,112,051)	—	(20,112,051)	—	(20,112,051)
Net income (loss)	—	—	—	—	—	—	—	269,316,308	—	269,316,308	(8,788,707)	260,527,601
Repurchase of ordinary shares	—	—	(635,434)	(19,706,775)	—	—	—	—	—	(19,706,775)	—	(19,706,775)
Business combinations under common control	—	—	—	—	—	—	(399,800,000)	—	—	(399,800,000)	—	(399,800,000)
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	672,112	672,112	—	672,112
Unrealized gains on available-for-sale investments	—	—	—	—	—	—	—	—	(2,934)	(2,934)	—	(2,934)
Share-based compensation (Note 21)	—	—	—	—	—	—	62,650	—	—	62,650	—	62,650
<b>Balance at December 31, 2023</b>	68,286,954	222,587,070	(1,506,342)	(36,677,832)	34,762,909	115,534,210	1,680,713,349	(568,339,799)	28,401,282	1,442,218,280	37,815,215	1,480,033,495
Distribution to the shareholders	—	—	—	—	—	—	(70,176,000)	—	—	(70,176,000)	(869,400)	(71,045,400)
Purchase of noncontrolling interests	—	—	—	—	—	—	—	(566,000)	—	(566,000)	(400,000)	(966,000)
Net income (loss)	—	—	—	—	—	—	—	110,002,230	—	110,002,230	(2,687,878)	107,314,352
Repurchase of ordinary shares	—	—	(19,030)	(365,284)	—	—	—	—	—	(365,284)	—	(365,284)
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	(22,374,019)	(22,374,019)	—	(22,374,019)
Unrealized gains on available-for-sale investments	—	—	—	—	—	—	—	—	6,000	6,000	—	6,000
Share-based compensation (Note 21)	—	—	—	—	—	—	923	—	—	923	—	923
<b>Balance at December 31, 2024</b>	68,286,954	222,587,070	(1,525,372)	(37,043,116)	34,762,909	115,534,210	1,609,972,272	(458,337,569)	6,033,263	1,458,746,130	33,857,937	1,492,604,067
Balance at December 31, 2024 (USD)		30,494,304		(5,074,886)		15,828,122	220,565,297	(62,791,989)	826,554	199,847,402	4,638,518	204,485,920

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

**GREENTREE HOSPITALITY GROUP LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,			
	2022	2023	2024	2024
	RMB	RMB	RMB	USD
Operating activities:				
Net (loss) income	(461,689,453)	260,527,601	107,314,352	14,702,008
Adjustments to reconcile net (loss) income to net cash provided by operating activities:				
Depreciation and amortization	125,338,901	116,870,237	115,746,538	15,857,211
Impairment of goodwill	91,236,480	—	81,008,000	11,098,050
Impairment of indefinite-lived intangible assets	30,892,345	16,027,000	39,072,000	5,352,842
Impairment of long-lived assets	53,244,063	40,559,449	12,600,000	1,726,193
Noncash lease expense	310,802,786	271,156,173	263,911,503	36,155,728
Losses (gain) from disposal of subsidiaries	16,117,056	1,223,952	(488,227)	(66,887)
Allowances for credit losses	431,180,588	38,858,275	56,241,392	7,705,039
Losses and impairment on equity securities held	62,156,235	6,998,104	14,953,679	2,048,646
Losses (gain) on disposal of property, plant and equipment	4,518,601	2,166,990	(25,338,789)	(3,471,400)
Foreign exchange gains	(17,843,559)	(372,186)	(27,497,303)	(3,767,118)
Deferred taxes	(127,047,022)	(2,423,339)	(18,840,322)	(2,581,114)
Other non-cash expense (income)	124,283	(4,554,719)	2,644,112	362,242
Changes in operating assets and liabilities:				
Accounts receivable	(53,611,693)	(5,359,275)	(4,015,520)	(550,124)
Inventories	10,626,796	4,764,959	14,618,912	2,002,783
Amounts due from related parties	(8,425,000)	8,372,296	(1,416,495)	(194,059)
Other current assets	63,924,588	(47,920,887)	(3,067,256)	(420,212)
Other assets	9,253,744	17,250,340	3,725,971	510,456
Accounts payable	(15,933,692)	(50,451,092)	(3,021,869)	(413,994)
Amounts due to related parties	3,561,244	(5,406,910)	1,151,882	157,807
Salary and welfare payable	10,348,812	(3,010,962)	(7,916,485)	(1,084,554)
Deferred revenue	(77,754,052)	(33,539,045)	(42,787,510)	(5,861,865)
Advance from customers	(18,834,737)	(3,211,266)	3,305,355	452,832
Accrued expenses and other current liabilities	69,046,891	26,174,961	3,161,614	433,139
Income tax payable	6,664,115	32,861,850	(23,195,720)	(3,177,801)
Unrecognized tax benefits	21,146,549	28,569,943	57,946,428	7,938,628
Operating lease liabilities	(233,948,343)	(256,017,527)	(247,702,691)	(33,935,130)
Other long-term liabilities	(10,555,063)	(5,065,347)	1,264,213	173,196
Net cash provided by operating activities	294,541,463	455,049,575	373,377,764	51,152,542
Investing activities:				
Purchases of property, plant and equipment	(83,723,370)	(87,764,045)	(79,582,039)	(10,902,695)
Purchases of intangible assets	(108,028)	(740,406)	(37,057)	(5,077)
Proceeds from disposal of property, plant and equipment	5,951,096	2,951,611	139,900,865	19,166,340
Repayments from advances for purchases of property, plant and equipment	3,247,390	—	—	—
Purchases of short-term investments	(161,760,000)	(262,680,045)	—	—
Proceeds from maturities of short-term investments	550,663,022	167,009,370	417,701,142	57,224,822
Purchases of long-term time deposits	—	(63,340,000)	(222,230,000)	(30,445,385)
Purchases of Long-term investments	—	—	(10,400,000)	(1,424,794)
Proceeds from disposal of equity securities	116,555,911	—	21,812,329	2,988,277
Proceeds from disposal of subsidiaries	79,666,586	37,800,000	2,807,500	384,626
Loans to related parties	(168,695,802)	—	(858,000)	(117,546)
Repayment of loans from related parties	43,555,000	—	363,347	49,778

GREENTREE HOSPITALITY GROUP LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

	Year Ended December 31,			
	2022	2023	2024	2024
	RMB	RMB	RMB	USD
Investing activities (continued):				
Loans to third parties	(14,628,629)	—	—	—
Repayment of loans from third parties	1,638,833	14,553,007	5,900,000	808,297
Loans to franchisees	(47,760,740)	(22,643,066)	(14,323,813)	(1,962,354)
Repayment of loans from franchisees	95,844,426	121,145,169	84,337,321	11,554,166
Net cash generated from (used in) investing activities	420,445,695	(93,708,405)	345,391,595	47,318,455
Financing activities:				
Distribution to the shareholders (Note 1)	(40,999,458)	—	(70,936,321)	(9,718,236)
Repurchase of ordinary shares	—	(19,706,775)	(365,284)	(50,044)
Proceeds from bank loans	305,600,000	174,000,000	200,000,000	27,399,888
Repayment of bank loans	(605,500,000)	(458,300,000)	(117,200,000)	(16,056,334)
Loan from non-controlling interest	5,103,299	272,500	—	—
Capital contribution from noncontrolling interest holders	400,000	—	—	—
Purchase of noncontrolling interests	—	—	(966,000)	(132,341)
Net cash (used in) generated from financing activities	(335,396,159)	(303,734,275)	10,532,395	1,442,933
Effect of exchange rate changes on cash and cash equivalents and restricted cash	1,248,139	32,086	4,299,472	589,026
Net increase in cash and cash equivalents and restricted cash	380,839,138	57,638,981	733,601,226	100,502,956
Cash and cash equivalents and restricted cash at the beginning of the year	353,122,593	733,961,731	791,600,712	108,448,853
Cash and cash equivalents and restricted cash at the end of the year	733,961,731	791,600,712	1,525,201,938	208,951,809
Supplemental disclosure of cash flow information:				
Interest paid	(27,987,842)	(14,053,841)	(7,880,777)	(1,079,662)
Income taxes paid	(59,441,030)	(61,735,423)	(82,576,531)	(11,312,938)
Supplemental disclosure of non-cash investing and financing activities:				
Share consideration of disposal of Urban Group	16,971,057	—	—	—
Reconciliation of cash, cash and equivalents and restricted cash				
Cash and cash equivalents	699,244,375	765,547,547	1,490,235,562	204,161,435
Restricted cash, current	7,937,683	6,576,906	16,096,476	2,205,208
Restricted cash, non-current	26,779,673	19,476,259	18,869,900	2,585,166
Total cash, cash and equivalents and restricted cash shown in the statements of cash flows	733,961,731	791,600,712	1,525,201,938	208,951,809

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

**GREENTREE HOSPITALITY GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**I. ORGANIZATION AND PRINCIPAL ACTIVITIES**

GreenTree Hospitality Group Ltd. (the “Company”) was incorporated in the Cayman Islands on October 18, 2017. Alex S. Xu is the founder, Chief Executive Officer (“CEO”) and controlling shareholder of the Company. The Company and its subsidiaries are hereinafter referred to as the “Group.”

On December 20, 2021, the Company announced that its board of directors approved the payment of a cash dividend of USD 0.55 per ordinary share and the total amount of cash distributed for the dividend was USD56,667,425, among which USD50,243,715 (equivalent to RMB320,253,160) was paid in 2021 and the rest USD6,423,710 (equivalent to RMB40,999,458) was paid in January 2022. On August 15, 2024, the Company announced that its board of directors approved the payment of a cash dividend of USD0.10 per ordinary share, and the total amount of cash distributed for the dividend was USD 10,154,352 (equivalent to RMB 70,176,000), which was paid in October 2024.

In October and December 2023, the Company repurchased 554,158 and 81,276 Class A ordinary shares, respectively, and the total amount of cash paid to repurchase these shares were RMB19,706,775 (USD2,775,641).

In 2024, the Company repurchased 19,030 Class A ordinary shares and the total amount of cash paid to repurchase these shares were RMB365,284 (USD50,044).

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

I. ORGANIZATION AND PRINCIPAL ACTIVITIES (CONTINUED)

The principal business activities of the Group are to develop leased-and-operated and franchised-and-managed economy hotels and restaurants under the “GreenTree”, “Da Niang” and “Lu Gang” (or “Bellagio”) brands in the People’s Republic of China (“PRC”). The Group’s major direct and indirect invested subsidiaries consist of the following as of December 31, 2024:

Major subsidiaries	Percentage of Ownership	Date of Incorporation, Merger or Acquisition	Place of Incorporation	Major Operation
GreenTree Inns Hotel (Shanghai) Management, Inc.	100%	November 30, 2004	PRC	Hotel management
GreenTree Inns Hotel (China) Management, Inc.	100%	June 30, 2005	PRC	Hotel management
Shiruide Hotel Management (Shanghai) Co., Ltd.	100%	February 16, 2009	PRC	Hotel management
GreenTree Suites Management Corp (“GreenTree Suites”)	100%	June 30, 2009	Cayman Islands	Investment holding
Pacific Hotel Investment, Inc. (“PHI”)	100%	June 30, 2009	Samoa	Investment holding
GreenTree Inns Hotel Management Group, Inc. (“GreenTree Samoa”)	100%	October 28, 2010	Samoa	Investment holding
GreenTree Hotels (Hong Kong), Limited.	100%	February 17, 2011	Hong Kong	Investment holding
Shanghai Evergreen Technology Co., Ltd. (“Shanghai Evergreen”)	100%	October 20, 2011	PRC	Information technology services
Shanghai Jingjia Hotel Co., Ltd.	100%	February 15, 2017	PRC	Hotel management
Shanghai Sipei Technology Co., Ltd. (“Shanghai Sipei”)	100%	October 20, 2011	PRC	Information technology services
Da Niang Dumpling Catering Group Co., Ltd.	100%	April 30, 2017	PRC	Restaurant management
Huge Cyber Ltd.	83.9%	August 21, 2020	Hong Kong	Restaurant management
Bellagio (Shanghai) Catering Management Co., Ltd.	83.9%	August 21, 2020	PRC	Restaurant management
Bellagio (Beijing) Catering Management Co., Ltd.	83.9%	August 21, 2020	PRC	Restaurant management

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES (CONTINUED)*****Leased-and-operated hotels***

The Group owns hotel properties or leases hotel properties from property owners 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 “GreenTree” brand, as well as repairs and maintenance, operating expenses and management of properties over the term of the lease, most initial terms of which ranges from 5 to 20 years.

***Leased-and-operated restaurants***

The Group leases properties from property owners and is responsible for restaurant operations and management. The Group offers uniform products in the restaurants in order to conform to the standards of the brands of Da Niang and Bellagio.

***Franchised-and-managed hotels***

The Group enters into franchise arrangements with property owners or franchisees who lease hotel properties from property owners for which the Group is not responsible for employee recruiting and compensation, except for the general manager of most franchised-and-managed hotels. Under a typical franchise agreement, the franchisee is required to pay an initial franchise fee and recurring franchise management fees equal to a certain percentage of the revenues of the hotel. The franchisee is responsible for the costs of hotel development and customization and the costs of its operations. The term of the franchise agreement is usually 5 to 20 years and is renewable only upon a mutual agreement between the Group and the franchisee.

***Franchised-and-managed restaurants***

Under a typical franchise agreement, the franchisee is required to pay an initial franchise fee and recurring franchise management fees equal to a certain percentage of the revenues of the restaurant. The franchisee is responsible for the costs of restaurant decoration and improvement, as well as the costs of its operations.

***Wholesales***

Revenues from wholesales are primarily derived from agreements signed with supermarkets, distributors and restaurant franchisees for sales of prepared meals and frozen foods manufactured by the Group.

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES*****Basis of presentation***

The consolidated financial statements of the Group have been prepared in conformity with United States generally accepted accounting principle (“US GAAP”). Certain reclassifications have been made to the amounts for prior years to conform to the current year’s presentation.

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)*****Basis of consolidation***

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries. All intercompany transactions and balances are eliminated upon consolidation.

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

***Use of estimates***

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

The Group bases its estimates on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Significant accounting estimates reflected in the Group's consolidated financial statements include allowance for credit losses of financial instruments, fair value measurement and impairment of investments, the useful lives and impairment of property, plant and equipment and intangible assets, valuation allowance for deferred tax assets, impairment of goodwill and indefinite-lived intangible asset, average life of memberships, estimates involved in the accounting for its membership program, share-based compensation arrangements and discount rate used to measure lease liabilities.

***Cash and cash equivalents***

Cash and cash equivalents include cash on hand and demand deposits placed with commercial banks or other financial institutions and highly liquid investments that are readily convertible to known amounts of cash and with original maturities from the date of purchase of three months or less. All cash and cash equivalents are unrestricted as to withdrawal and use.

***Restricted cash***

Restricted cash comprise of deposits pledged with banks as security in relation to the guarantees for prepaid cards and deposits restricted due to lawsuit.

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)*****Investments*****Short-term investments**

Short-term investments include time deposits with maturities of less than one year and investments in wealth management products, where certain deposits with variable interest rates or where principal amounts are not guaranteed, placed with certain financial institutions. The Group accounts for short-term investments in debt in accordance with ASC topic 320, *Investments—Debt Securities* (“ASC 320”). The Group classifies the short-term investments in debt as “held-to-maturity”, “trading” or “available-for-sale”, whose classification determines the respective accounting methods stipulated by ASC 320. Dividend and interest income, including amortization of the premium and discount arising at acquisition, for all categories of investments in securities, are included in earnings. Any realized gains or losses on the sale of the short-term investments, are determined on a specific identification method, and such gains and losses are reflected in earnings during the period in which gains or losses are realized. The securities that the Group has the positive intent and the ability to hold to maturity are classified as held-to-maturity securities and stated at amortized cost.

**Investments in equity securities**

The Group accounts for its investments in equity securities in accordance with ASC Subtopic 321, *Investments – Equity Securities* (“ASC 321”). These securities have readily determinable fair values and are generally held for resale in anticipation of short-term market movements and therefore the Group classifies them as investment in equity securities in current assets which are carried at fair value at each balance sheet date. Gains and losses, both realized and unrealized, are included in “Gains (losses and impairment) on equity securities held” in the consolidated statements of comprehensive (loss) income.

**Long-term time deposits**

Long-term time deposits comprise of deposits placed with certain bank with a maturity of one to three years. Unrealized gains from long-term time deposit of RMB4,534,833, RMB4,485,000 and RMB6,411,249 (USD878,338) were recognized for the years ended December 31, 2022, 2023 and 2024, respectively. As of December 31, 2023 and 2024, RMB63,340,000 and RMB285,570,000 (USD39,122,930), respectively, was pledged with banks as security in relation to the guarantee for the long-term bank loans and restricted to use (Note 15).

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)***Investments (continued)*Long-term investments

The Group's long-term investments consist of equity-method investments, equity investments with and without readily determinable fair values and an available-for-sale debt investment.

Investments in entities in which the Group can exercise significant influence but does not own a majority equity interest or control are accounted for using the equity method of accounting in accordance with ASC Topic 323, *Investments-Equity Method and Joint Ventures* ("ASC 323"). The share of earnings or losses of the investee are recognized in the consolidated statements of comprehensive (loss) income. Equity method adjustments include the Group's proportionate share of investee income or loss, adjustments to recognize certain differences between the Group's carrying value and its equity in net assets of the investee at the date of investment, impairments, and other adjustments required by the equity method. The Group assesses its equity investment for other-than-temporary impairment by considering factors as well as all relevant and available information including, but not limited to, current economic and market conditions, the operating performance of the investees including current earnings trends, the general market conditions in the investee's industry or geographic area, factors related to the investee's ability to remain in business, such as the investee's liquidity, debt ratios, and cash burn rate and other company-specific information.

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

For equity securities without readily determinable fair value and do not qualify for the existing practical expedient in ASC Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820") to estimate fair value using the net asset value per share (or its equivalent) of the investment, the Group elected to use the measurement alternative under ASC 321 to measure those investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any. These investments are measured at fair value on a nonrecurring basis when an orderly transaction for identical or similar investments of the same issuer was identified or when there are events or changes in circumstances that may have a significant adverse effect. An impairment loss is recognized in the consolidated statements of comprehensive (loss) income equal to the amount by which the carrying value exceeds the fair value of the investment. The non-recurring fair value measurements to the carrying amount of an investment usually requires management to estimate a price adjustment for the different rights and obligations between a similar instrument of the same issuer with an observable price change in an orderly transaction and the investment held by the Group. The valuation methodologies involved require management to use the observable transaction price at the transaction date and other unobservable inputs (level 3).

The available-for-sale debt investment is redeemable shares issued by a private company that is redeemable any time at the Group's option, which are remeasured at fair value. All changes in the carrying amount of these debt investments are recognized in other comprehensive (loss) income. An impairment loss on the available-for-sale debt investments, if any, is recognized in earnings when the decline in value is determined to be other-than-temporary. The amount of the total other-than-temporary impairment related to the credit loss shall be recognized in earnings. The amount of the total other-than-temporary impairment related to other factors shall be recognized in other comprehensive income (loss), net of applicable taxes.

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)****Adoption of ASU 2016-13**

On January 1, 2023, the Group adopted Accounting Standards Update (“ASU”) No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), using the modified retrospective transition method. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. Upon adoption, the Group changed the impairment model to utilize a forward-looking current expected credit losses (“CECL”) model in place of the incurred loss methodology for financial instruments measured at amortized cost and receivables resulting from the application of ASC 606, including contract assets. The adoption of the guidance resulted in a cumulative-effect adjustment to increase the opening balance of accumulated losses on January 1, 2023, by RMB20,112,051, primarily with respect to the allowance for credit losses for loans receivable and accounts receivable.

**Accounts receivable, net**

Accounts receivable are carried at the original invoice amounts less allowances for credit losses and the charges to the allowances are recorded as “General and administrative expenses” in the consolidated statements of comprehensive (loss) income. Prior to the Group’s adoption of ASU 2016-13, the Group establishes an allowance for doubtful accounts primarily based on the age of the receivables and factors surrounding the credit risk of specific franchisees, customers, and merchandisers. The Group establishes a provision for doubtful receivables when there is objective evidence that the Group may not be able to collect amounts due. The allowance is based on management’s best estimates of specific losses on individual exposure, as well as the historical trends of collections. After the adoption of ASU 2016-13, the allowance for credit losses for accounts receivable is based upon the CECL model. The CECL model requires an estimate of the credit losses expected over the life of accounts receivable since initial recognition, and accounts receivable with similar risk characteristics are grouped together when estimating CECL. In assessing the CECL, the Group applies a roll rate-based method that considers historical collectability based on past due status, the age of the balances, credit quality of the Group’s customers based on ongoing credit evaluations, current economic conditions, reasonable and supportable forecasts of future economic conditions, and other factors that may affect the Group’s ability to collect from customers.

Accounts receivable balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

**Loans receivable, net**

Loans receivable are carried at the original loan principal balances less allowance for uncollectible accounts. The accrued interests, gross and net of allowances, are insignificant for all the periods presented. The Group classified loans receivable as long-term or short-term investments according to their contractual maturity. The estimated credit losses charged to the allowance is classified as “Other general expenses” in the consolidated statements of comprehensive (loss) income. Prior to the adoption of ASU 2016-13, the allowance for uncollectible accounts is estimated based on an assessment of the payment history, the existence of collateral, current information and events, and the facts and circumstances around the credit risk of the debtors. After the adoption of ASU 2016-13, the Group assesses collectability of its loans receivable individually or on a collective basis where similar characteristics exist. In determining the amount of the allowance for credit losses, the Group applies a roll rate-based method and adjusted for various qualitative factors that reflect current conditions and reasonable and supportable forecasts of future economic conditions.

**Property, plant and equipment, net**

Land is not amortized and are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired. Property, plant and equipment with finite lives are stated at cost less accumulated depreciation and any recorded impairment. Depreciation of property, plant and equipment is provided using the straight-line method over the following expected useful lives:

Leasehold improvements	Over the shorter of the lease term or estimated useful lives
Buildings and plants	20 years
Furniture, fixtures and equipment	3-5 years
Motor vehicles	5 years

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

Expenditures for repairs and maintenance are expensed as incurred, whereas the costs of betterments that extend the useful life of property, plant and equipment are capitalized as additions to the related assets. Gain or loss on disposal of property, plant and equipment, if any, is recognized in the consolidated statements of comprehensive (loss) income as the difference between the net sales proceeds and the carrying amount of the underlying asset.

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

**Intangible assets**

Intangible assets with finite lives are carried at cost less accumulated amortization and any recorded impairment. Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired in accordance with ASC Subtopic 350-30, *Intangibles-Goodwill and Other*: General Intangibles Other than Goodwill. The Group at the end of each reporting period evaluates whether events and circumstances continue to support the indefinite useful life of relevant intangible assets. If the assets are determined to be impaired, they are written down to their fair values.

Intangible assets acquired through business combinations are recognized as assets separate from goodwill if they satisfy either the “contractual-legal” or “separability” criterion and are measured at fair value upon acquisition. Reacquired rights represent the franchise right the Group previously granted to the acquiree through franchise agreements and are amortized over the next renewal date in the applicable agreement.

Amortization is computed using the straight-line method over the following estimated useful lives:

Finite-lived trademarks	10 years
Technology	10 years
Network rights	10 years
Purchased software	5-10 years
Reacquired rights	the remaining franchise term

**Business combinations**

The Group accounts for business combinations, except for acquisitions of entities under common control, under the purchase method in accordance with ASC 805, *Business Combinations*. The cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any noncontrolling interests. The excess of (i) the total of the cost of the acquisition, fair value of the noncontrolling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets of the acquiree, the difference is recognized directly in earnings. The determination and allocation of fair values to the identifiable net assets acquired, liabilities assumed and noncontrolling interest is based on various assumptions and valuation methodologies requiring considerable judgment. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. The Group determines discount rates to be used based on the risk inherent in the acquiree’s current business model and industry comparisons. Although the Group believes that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from forecasted amounts and the differences could be material.

Acquisitions of entities under common control requires retrospective combination of entities for all periods presented, as if the combination had been in effect since the inception of common control. Assets and liabilities transferred are recorded at their historical carrying amounts on the date of the transfer. The difference between purchase consideration and historical value of the net assets on the date of the transfer are recognized in total stockholders’ equity on the consolidated balance sheets.

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)*****Goodwill***

Goodwill represents the excess of the purchase price over the fair values of the identifiable assets acquired less liabilities assumed of an acquired business. Goodwill arose from business combinations is not amortized but instead tested for impairment at the reporting unit level at least annually, or more frequently if certain circumstances indicate a possible impairment may exist. A reporting unit is an operating segment or one level below the operating segment. As of December 31, 2023 and 2024, the Group has three reporting units, consisting of hotel business, Da Niang business and Bellagio business.

The Group has the option to first assess qualitative factors to determine whether it is necessary to perform the two-step test in accordance with ASC Subtopic 350-20, Testing Goodwill for Impairment. In the qualitative assessment, the Group considers primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations. If the Group believes, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is conducted. The quantitative impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess.

On disposal of a portion of reporting unit that constitutes a business, the attributable amount of goodwill is included in the determination of the amount of gain or loss recognized upon disposal. When the Group disposes of a business within the reporting unit, the amount of goodwill disposed is measured on the basis of the relative fair value of the business disposed and the portion of the reporting unit retained.

***Impairment of long-lived assets***

The Group evaluates the recoverability of its long-lived assets for impairment individually or as a group at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of the other assets and liabilities. Whenever events or changes in circumstances indicate that their carrying amount may not be recoverable, the Group compares the carrying amount of the asset (or group of assets) to the sum of future undiscounted net cash flows expected to result from the use of the asset (or group of assets) and its eventual disposition. If the carrying amount is higher than the sum of undiscounted future cash flows, an impairment loss is measured based on the excess of the carrying amount of the asset (or group of assets) over its fair value and recorded in "Other general expenses" in the consolidated statements of comprehensive (loss) income. The carrying amount of the asset (or the long-lived assets in the asset group on a pro rata basis using the relative carrying amounts) is reduced to the extent not lower than the fair value of the asset. The adjusted carrying amounts after an impairment charge represent the new cost basis and is depreciated over the remaining useful lives. Fair values of the long-lived assets (or groups of assets) were estimated by the Group based on the income approach using the discounted cash flow associated with the underlying assets, which were classified as level 3 inputs under the fair value hierarchy. In consideration of the operating losses of certain hotels and restaurants, the Group recognized impairment losses of RMB53,244,063, RMB40,559,449 and RMB12,600,000 (USD1,726,193) for the years ended December 31, 2022, 2023 and 2024, respectively, out of which impairment losses of RMB48,306,360, RMB40,559,449 and RMB12,600,000 (USD1,726,193) for the years ended December 31, 2022, 2023 and 2024, respectively, were charge to the long-lived assets (excluding indefinite-lived intangible asset, Note 10) in hotel business segment and impairment losses of RMB4,937,703, nil, and nil for the years ended December 31, 2022, 2023 and 2024, respectively, were charge to the long-lived assets in restaurant business segment.

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)****Revenue recognition***Leased and operated hotel revenues*

Revenues from leased-and-operated hotels are primarily derived from hotel operations including the rental of rooms. Each of these services represent an individual performance obligation and, in exchange for these services, the Group receives fixed amounts based on fixed rates or fixed standalone selling price. Revenue is recognized when rooms are occupied when the respective performance obligations are satisfied.

Sublease rental revenues are derived from subleasing partial space of the leased-and-operated hotels to third-parties. In accordance with the provisions of ASC Topic 842, *Leases* (“ASC 842”) since the Group has not been relieved as the primary obligor of the head lease, the Group cannot net the sublease income against its lease payment to calculate the lease liability and right-of-use (“ROU”) asset. The Group records sub-lease rental revenue over the term of the subleases on a straight-line basis. The sublease rental revenue included in leased-and-operated hotels revenue amounted to RMB61,578,703, RMB102,194,590 and RMB90,666,129 (USD12,421,209) for the years ended December 31, 2022, 2023 and 2024, respectively.

*Leased and operated restaurant revenues*

Revenues from leased-and-operated restaurants are primarily derived from restaurant operations, including the dine-in orders in restaurants and take-out orders sold through third-party platforms. Revenues are recognized when a customer takes possession of the food, which is when our obligation to perform is satisfied. Payment terms with respect to these sales are short-term in nature.

*Franchise and managed hotel revenues*

The franchise and managed agreements contain the following promised services:

- Intellectual Property (“IP”) license grant the right to access the Group’s hotel system IP, including brand names.
- Pre-opening services include providing services (e.g., property design, leasehold improvement, construction project management, systems installation, personnel recruiting and training, etc.) to the franchisees to assist in preparing for the hotel opening.
- System maintenance services include providing standardization hotel property management system (“PMS”), central reservation system (“CRS”) and other internet related services.
- Hotel management services include providing day-to-day management services of the hotels for the franchisees.

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)****Revenue recognition (continued)***Franchise and managed hotel revenues (continued)*

The promises to provide pre-opening services and system maintenance services are not distinct performance obligation because they are attendant to the license of IP. Therefore, the promises to provide pre-opening services and system maintenance services are combined with the license of IP to form a single performance obligation. Hotel management services form a single distinct performance obligation.

Revenues from franchised-and-managed hotels are derived from franchise agreements where the franchisees are required to pay (i) an initial one-time non-refundable franchise fee, and (ii) continuing franchise fees, which mainly consist of on-going management and service fees based on a certain percentage of the room revenues of the franchised-and-managed hotels and CRS usage fee based on a fixed rate per transaction. For franchised-and-managed hotels, the Group has a performance obligation to provide franchisees a license to its hotel system intellectual property for use of certain of its brand names. The one-time franchise fees are fixed consideration payable upon submission of a franchise application or renewal and are recognized on a straight-line basis over the initial or renewal term of the franchise agreements. The Group does not consider this advance consideration to include a significant financing component, since it is used to protect the Group from the franchisees failing to adequately complete some or all of its obligations under the contract. The continuing fees represent variable consideration, as the transaction price is based on a percentage of underlying service revenue is recognized by the franchisees' operations. The Group recognizes continuing franchise fees on a monthly basis over the term of the agreement as those amounts become payable.

In addition, the Group designates hotel managers to certain hotels and accounts for hotel manager fees related to the hotels under the franchise program as revenues. Pursuant to the franchise-and-management agreements, the Group charges the franchisees fixed hotel manager fees to compensate the Group for the franchised-and-managed hotel managers' salaries, social welfare benefits and certain other out-of-pocket expenses as incurred. During the years ended December 31, 2022, 2023 and 2024, the hotel manager fees that were recognized as part of franchised-and-managed hotels revenue were RMB115,738,098, RMB134,798,805 and RMB121,522,458 (USD16,648,509), respectively.

*Franchise and managed restaurant revenues*

Franchise and managed restaurant revenues consist of initial one-time non-refundable franchise fees and continuing franchise fees. The one-time franchise fees are fixed consideration payable upon submission of a franchise application or renewal and are recognized on a straight-line basis over the initial or renewal term of the franchise agreements. Such revenues have been insignificant during the presented periods. The Group does not consider this advance consideration to include a significant financing component, since it is used to protect the Group from the franchisees failing to adequately complete some or all of its obligations under the contract. Continuing franchise fees are based upon a percentage of franchisee sales, as those sales occur. The continuing fees represent variable consideration, as the transaction price is based on a percentage of underlying service revenue is recognized by the franchisees' operations. The Group recognizes continuing franchise fees monthly over the term of the agreement as those amounts become payable.

*Wholesale and other revenues*

Wholesale revenues are primarily derived from sales of prepared meals and frozen foods to supermarkets, distributors and restaurant franchisees. The revenues from product sales are recognized at a point in time when the control of the product is transferred to the customer. The Group recognizes revenues net of discounts, return allowances and sales rebate. The Group estimates product returns based on historical experience, which historically have not been significant. Payment terms with respect to these sales are short-term in nature.

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)****Revenue recognition (continued)****Wholesale and other revenues (continued)**

Other revenues are derived from hotel business segment selling hotel related products through the Group's online mall and to franchisees. Revenues are recognized upon customers' acceptance. Such revenues have been insignificant during the presented periods.

**Membership Program**

The Group invites its customers to participate in a membership program with four tiers of membership – E-membership, R-membership, gold membership and platinum membership. A one-time membership fee is charged for new members except for the E-membership. The membership automatically expires after two years in the event of non-usage and is automatically renewed if used at least once within a two-year period. Members enjoy discounts on room rates, priority in hotel reservation, and accumulate membership points for their paid stays, which can be redeemed for membership upgrades, room night awards and other gifts within two years after the points are earned.

Membership fees from the Group's membership 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 three to five years depending on membership level.

Membership points earned by members represent a material right to free or discounted goods or services in the future. The membership program has one performance obligation that consists of marketing and managing the program and arranging for award redemptions by members. The amount of revenue the Group recognize upon point redemption is impacted by the estimate of the "breakage" for points that members will never redeem, which amount were included in revenues from leased and operated hotel or revenues from franchised and managed hotels depending on the type of hotels the membership was sold at. The Group estimates breakage based on the Group's historical experience and expectations of future member behavior and will true up the estimated breakage at end of each period. The Group recognized revenue net of reimbursement paid to franchisees as its performance obligation is to facilitate the transaction between the member and the franchised and managed hotels.

**PRC Value-Added Taxes and related tax surcharges**

The accommodation services of the Group are subject to 6% of Value-Added Taxes ("VAT") and the restaurant services of the Group are subject to 13% of VAT. Revenues are recorded net of VAT.

The Group is subject to education surtax and urban maintenance and construction tax, on the services provided in the PRC.

**Advertising and promotional expenses**

Advertising related expenses, including promotion expenses and production costs of marketing materials, are charged to the consolidated statements of comprehensive (loss) income as incurred, and amounted to RMB35,872,725, RMB24,170,599 and RMB22,872,580 (USD3,133,531) for the years ended December 31, 2022, 2023 and 2024, respectively.

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)*****Government subsidies***

Government subsidies are received from provincial and local governments for operating a business in their jurisdictions and compliance with specific policies promoted by the local governments. Such subsidies allow the Group full discretion to utilize the funds and are used by the Group for general corporate purposes. During the years ended December 31, 2022, 2023 and 2024, the Group received financial subsidies of RMB11,466,168, RMB13,076,243 and RMB8,075,235 (USD1,106,303), respectively, from various local PRC government authorities. There are no defined rules and regulations to govern the criteria necessary for companies to receive such benefits, and the amount of financial subsidy is determined at the discretion of the relevant government authorities. Such amounts are recorded as other operating income when received as the amount of the subsidies and the timing of payment are determined solely at the discretion of the relevant government authorities and there is no assurance that the Group will continue to receive any or similar subsidies in the future.

***Interest***

Interest income is mainly generated from bank deposits and other interest earning financial assets and is recognized on an accrual basis using the effective interest method.

***Leases***

The Group leases properties from property owners. In evaluating whether an agreement constitute a lease, the Group reviews the contractual terms to determine which party obtains both the economic benefits and control of the assets at the inception of the contract. The Group categorizes leases with contractual terms longer than twelve months as either operating or finance lease at the commencement date of a lease. However, the Group has no finance leases for any of the periods presented. The Group recognizes a lease liability for future fixed lease payments and a ROU asset representing the right to use the underlying asset for the lease term. The lease term is based on the non-cancellable term of the lease and may contain options to extend the lease when it is reasonably certain that the Company will exercise the option. Lease liabilities are recognized at commencement date based on the present value of fixed lease payments over the lease term using the rate implicit in the lease, if available, or the Group's incremental borrowing rate. As the Group's leases do not provide an implicit borrowing rate, the Group uses an incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at the commencement date. Current maturities of operating lease liabilities are classified as operating lease liabilities, current in the Group's consolidated balance sheets. Most leases have initial terms ranging from 5 to 20 years. The Group's lease agreements may include non-lease components, mainly common area maintenance, which are combined with the lease components as the Group elects to account for these components as a single lease component, as permitted. Besides, the Group's lease payments are fixed. Lease expense for fixed lease payments is recognized on a straight-line basis over the lease term. The Group's lease agreements do not contain any significant residual value guarantees or restricted covenants.

The ROU assets are measured at the amount of the lease liabilities with adjustments, if applicable, for lease prepayments made prior to or at lease commencement, initial direct costs incurred by the Group, deferred rent and lease incentives, and any off-market terms (that is, favorable or unfavorable terms) present in the lease when the Group acquired leases in a business combination in which the acquiree acts as a lessee. The Group evaluates the carrying value of ROU assets if there are indicators of impairment and reviews the recoverability of the related asset group.

The Group reassesses of a contract is or contains a leasing arrangement and re-measures ROU assets and liabilities upon modification of the contract. The Group will derecognize ROU assets and liabilities, with difference recognized in the income statement on the contract termination.

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)*****Income taxes***

Income taxes are provided for using the liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates or change in tax status is recognized in income in the period the change in tax status occurs or the change in tax rates or tax law is enacted. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some or all of the deferred tax assets will not be realized.

In accordance with ASC subtopic 740-10, *Income Taxes, Overall*, the Group recognizes the benefit of a tax position if the tax position is more likely than not to prevail based on the technical merits of the tax position. Tax positions that meet the "more likely than not" threshold are measured at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement.

The Group estimates its liability for unrecognized tax benefits which are periodically assessed and may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statute of limitations. The ultimate outcome for a particular tax position may not be determined with certainty prior to the conclusion of a tax audit or appeal or litigation process. The actual benefits ultimately realized may differ from the Group's estimates. As each tax audit is concluded, adjustments, if any, are recorded in the Group's financial statements. Additionally, in future periods, changes in facts, circumstances and new information may require the Group to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the changes occur. The Group has elected to include interest and penalties related to an uncertain tax position in "income tax (expense) benefit" in the consolidated statements of comprehensive (loss) income.

***Foreign currency translation and transactions***

The reporting currency of the Group is the Renminbi ("RMB"). The functional currency of the Group, GreenTree Samoa, GreenTree Suites, PHI and the entities incorporated in Hong Kong is the United States dollar ("USD"). The financial records of PRC subsidiaries of the Group are maintained in the local currency, the RMB, which is their functional currency.

Monetary assets and liabilities denominated in currencies other than the applicable functional currencies are translated into the functional currencies at the prevailing rates of exchange at the balance sheet date. Nonmonetary assets and liabilities are re-measured into the applicable functional currencies at historical exchange rates. Transactions in currencies other than the applicable functional currencies during the year are converted into the functional currencies at the applicable rates of exchange prevailing on the transaction dates. Transaction gains and losses are recognized in "other income, net" in the consolidated statements of comprehensive (loss) income.

Assets and liabilities are translated into RMB at the exchange rate at the balance sheet date. Equity accounts are translated at historical exchange rates, and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive (loss) income in the consolidated statements of comprehensive (loss) income.

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)*****Convenience translation***

Translations of amounts from RMB into U.S. dollars are solely for the convenience of the reader and were calculated at the noon buying rate of USD 1 to RMB7.2993 on December 31, 2024, 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 U.S. dollars at that rate on December 31, 2024, or at any other rate.

***Fair value measurement***

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 that 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 Group follows ASC subtopic 820-10, *Fair Value Measurements and Disclosures*, which establishes a three-tier fair value hierarchy, and prioritizes the inputs used in measuring fair value as follows:

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.

***Assets and Liabilities Measured at Fair Value on a recurring basis***

Investments in equity securities with readily determinable fair values are measured using quoted market prices and are recorded at fair values at each balance sheet date. The fair value of the Group's investments in wealth management products are measured using the income approach, based on quoted market interest rates of a similar instrument and other significant inputs derived from or corroborated by observable market data.

For the available-for-sale debt investment, the Group uses a combination of valuation methodologies, including income approach and Black-Scholes-Merton valuation model based on the Group's best estimate, which is determined by using information including but not limited to the future cash flow forecast, discount rate, expected volatility and a discount for lack of marketability. These unobservable inputs and resulting fair value estimates may be affected by unexpected changes in future market or economic conditions.

The carrying values of other financial instruments, which consist of cash and cash equivalents, time deposits, accounts receivable, loans receivable, accounts payable, and short-term bank loans approximates their fair value due to the short-term nature of these instruments. The Group does not use derivative instruments to manage risks.

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

*Fair value measurement (continued)*

*Assets and Liabilities Measured at Fair Value on a recurring basis (continued)*

The following table summarizes the Group's financial assets and liabilities measured and recorded at fair value as of December 31, 2023 and 2024 on a recurring basis:

Description	As of December 31, 2023	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)
<b>Short-term investments</b>				
Wealth management products	287,711,617	—	287,711,617	—
<b>Investments in equity securities</b>				
Equity securities with readily determinable fair value	26,076,169	26,076,169	—	—
<b>Long-term investments</b>				
Equity securities with readily determinable fair value	38,324,789	38,324,789	—	—
Available-for-sale debt investment	103,703,272	—	—	103,703,272
<b>Total</b>	<b>455,815,847</b>	<b>64,400,958</b>	<b>287,711,617</b>	<b>103,703,272</b>

Description	As of December 31, 2024	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)
<b>Short-term investments</b>				
Wealth management products	10,475	—	10,475	—
<b>Long-term investments</b>				
Equity securities with readily determinable fair value	28,355,681	28,355,681	—	—
Available-for-sale debt investment	103,709,272	—	—	103,709,272
<b>Total</b>	<b>132,075,428</b>	<b>28,355,681</b>	<b>10,475</b>	<b>103,709,272</b>

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

*Fair value measurement (continued)*

*Assets and Liabilities Measured at Fair Value on a recurring basis (continued)*

Reconciliations of assets and liabilities categorized within Level 3 under the fair value hierarchy are as follows:

	Available-for-sale debt investment
January 1, 2023	103,706,206
Net unrealized fair value change recognized in other comprehensive (loss) income	(2,934)
December 31, 2023	103,703,272
Net unrealized fair value change recognized in other comprehensive (loss) income	6,000
December 31, 2024	103,709,272
December 31, 2024 (USD)	14,208,112

*Significant Unobservable Inputs*

Financial Assets	Unobservable Input	Inputs as of December 31, 2023	Inputs as of December 31, 2024
Available-for-sale debt investment	WACC	12%	11%
	Discount for lack of marketability	35%	39%
	Expected volatility	36%	43%

*Comprehensive income (loss)*

Comprehensive income (loss) is defined as the increase in equity of the Group during a year from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. Accumulated other comprehensive income (loss) of the Group includes the foreign currency translation adjustments and unrealized gains (losses) on available-for-sale investments.

*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 the PRC subsidiary of the Group to make contributions to the government for these benefits beyond the contribution made. The total amounts for such employee benefits, which were expensed as incurred, amounted to RMB63,954,002, RMB54,737,023 and RMB 49,181,636 (USD6,737,857) for the years ended December 31, 2022, 2023 and 2024, respectively.

*Share-based compensation*

Share based awards granted to employees are accounted for under ASC Topic 718, *Compensation—Stock Compensation*, which requires that such equity awards granted to employees be measured based on the grant date fair value and recognized as compensation expense a) immediately at grant date if no vesting conditions are required; or b) using accelerated method, net of estimated forfeitures, over the requisite service period, which is the vesting period.

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)*****Earnings (loss) per share***

Class A and Class B ordinary shares have the same rights with regard to dividends and distributions upon liquidation of the Group. Net income (loss) is allocated on a pro rata basis to the Class A and Class B ordinary shares to the extent that each class shares in income for the period. Basic earnings (loss) per share for each class of ordinary shares is computed by dividing net income (loss) attributable to that class by the weighted average number of ordinary shares outstanding of that class for the period. Diluted earnings (loss) per share is calculated by dividing net income (loss) attributable to the Class A and Class B ordinary shares as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary share equivalents are excluded from the computation of diluted per share if their effects would be anti-dilutive.

***Concentration of credit risk***

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents, restricted cash, short-term investments, long-term deposits, accounts receivable, amounts due from related and loans receivable. As of December 31, 2023, the Group had RMB1,120,364,700 and RMB152,287,629 of cash and cash equivalents and restricted cash, short-term investment and long-term time deposits that are held by financial institutions in the PRC and by international financial institutions outside of the PRC, respectively. As of December 31, 2024, the Group had RMB1,682,703,645 (USD230,529,454) and RMB128,078,768 (USD17,546,719) of cash and cash equivalents and restricted cash, short-term investments and long-term time deposits that are held by financial institutions in the PRC and by international financial institutions outside of the PRC, respectively. Management believes that these financial institutions are of high credit quality and continually monitors the credit worthiness of these financial institutions.

The Group conducts credit evaluations on its customers and generally does not require collateral or other security from such customers. The Group periodically evaluates the creditworthiness of the existing customers in determining an allowance for doubtful accounts primarily based upon the age of the receivables and factors surrounding the credit risk of specific customers.

The Group made loans to third-party individuals and related parties under loan agreements and is exposed to credit risk in case of defaults by the debtors. The maximum amount of loss due to credit risk is limited to the total outstanding principal plus accrued interest on the balance sheet date. As of December 31, 2023 and 2024, there were RMB533,195,219 and RMB460,249,212 (USD63,053,884) of loans receivable outstanding, respectively. The Group evaluates and monitors the credit worthiness of the debtors and records an allowance for uncollectible accounts based on an assessment of the payment history, the existence of collateral, current information and events, and the facts and circumstances around the credit risk of the debtor.

***Currency Convertibility Risk***

Substantially all of the Group's operating activities are transacted in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions take place either through the People's Bank of China or other banks authorized by the PRC government to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other regulatory institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)*****Foreign Currency Exchange Rate Risk***

The functional currency of the Company is USD, and the reporting currency is RMB. Since July 21, 2005, RMB has been permitted by the PRC government to fluctuate within a managed band against a basket of certain foreign currencies. The appreciation of the USD against the RMB was approximately 8.23%, 2.94%, 2.81% in 2022, 2023 and 2024 respectively. Any significant revaluation of RMB may materially and adversely affect the cash flows, operating results and financial position of the Group. As a result, an appreciation of RMB against USD would result in foreign currency translation loss when translating the net assets of the Group from USD into RMB.

***Recent Accounting Pronouncements******New accounting standards which have been adopted***

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280) — Improvements to Reportable Segment Disclosures* (“ASU 2023-07”), requiring public business entities to provide disclosures of significant expenses and other segment items. The guidance also requires public entities to provide in interim periods all disclosures about a reportable segment’s profit or loss and assets that are currently required annually. ASU 2023-07 is effective for public entities for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. We adopted ASU 2023-07 during the year ended December 31, 2024. See Note 28 to the consolidated financial statements for further detail.

***Accounting Standards Not Yet Adopted***

In December 2023, the FASB issued ASU 2023-09, *Improvements to income tax disclosures* (“ASU 2023-09”), which requires entities to provide additional information in the rate reconciliation and additional disclosures about income taxes paid. The ASU 2023-09 also eliminates certain existing requirements related to uncertain tax positions and unrecognized deferred tax liabilities and replaces the term “public entity” with “public business entity” (PBE) in ASC 740. This update will be effective for the company’s fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is currently in the process of evaluating the disclosure impact of adopting ASU 2023-09.

In December 2024, the FASB issued ASU 2024-03, *Disaggregation of Income Statement Expenses* (“ASU 2024-03”), which requires additional disclosures about specific types of expenses included in the expense captions presented on the face of the income statement as well as disclosures about selling expenses. In January 2025, the FASB issued ASU 2025-01, which clarifies the effective date of ASU 2024-03. ASU 2024-03 is effective for fiscal year beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027. This ASU should be applied prospectively with the option to apply the standard retrospectively. Early adoption is permitted. The Group is currently evaluating the impact of this new standard on its consolidated financial statements.

**3. BUSINESS COMBINATIONS*****Common control acquisition in 2023:***

In March 2023, the Group completed acquisition of Da Niang Dumpling Catering Group Co., Ltd. (“Da Niang”) and Hugu Cyber Ltd (“Bellagio”) and their subsidiaries, two restaurant chain businesses in China (collectively, the “Restaurant Business”) from GreenTree Inns Hotel Management Group, Inc. (“GTI”) with a total consideration amounting RMB399,800,000, which effectively settled the amounts of RMB326,440,000, RMB28,278,520 and RMB45,081,480 due from GTI, Beifu Hongkong Industrial Co, Limited (“Beifu HK”) and Shanghai Aotao Industrial Co., Ltd (together with its subsidiaries and VIE, known as “Aotao”), respectively, as of December 31, 2022 (Note 25). Before and after the acquisition, the Restaurant Business and the Group were both ultimately controlled by GTI. Thus, the acquisition was accounted for as business combinations under common control using the pooling-of-interests method. The Group as the receiving entity recast its comparative consolidated financial statements for the prior periods as if the Restaurant Business was part of the Group since the inception of common control. Assets and liabilities received were recorded at historical carrying amounts of the Restaurant Business on the date of the transfer with no gain or losses recorded. The only goodwill that is recognized is any existing goodwill relating to the acquired business.

**4. DECONSOLIDATIONS***Deconsolidation of Argyle*

The Group became the major shareholder of Argyle Beijing and its subsidiaries (“Argyle”) in April 2019. Starting late May 2022, the Group has been in a dispute with Mr. Kevin Zhang, the noncontrolling interest shareholder and general manager of Argyle, as to the performance of relevant transaction documents and/or compliance with local laws and regulations by Mr. Zhang. Since then, Mr. Zhang refused, and caused other management team members of Argyle to refuse, to provide the Group with any operational or financial information of Argyle. The Group passed a board resolution to replace Mr. Zhang as Argyle’s general manager with effect from June 1, 2022. However, Mr. Zhang continued to run the daily operations of Argyle and refused to transfer any of his roles and responsibilities to the new management team appointed by the Group. Mr. Zhang also refused, and caused others at Argyle to refuse, to hand over Argyle’s assets, including office space, original licenses, official seals and bank security tokens, which are needed to conduct operational and financial activities, and effectively denied the Group’s access to and control of the bank accounts of Argyle.

Despite the Group legally holding a 60% equity ownership in Argyle, the Group concluded that starting from June 1, 2022, it lost the power and ability to direct the relevant activities of Argyle in accordance with ASC 810-10-40-4 and ASC 810-10-55-4A:

- The Group could not access or obtain sufficient financial information or operational documents, and has effectively lost the power and ability to manage funds and operations of Argyle; and
- The noncontrolling interest shareholder has obtained substantive participating rights as defined in ASC 810-10-25-11, which would overcome the presumption that the Group with a majority voting interest shall consolidate Argyle. Specifically, Mr. Zhang as the former general manager of Argyle by the above-mentioned actions and inactions effectively took the rights and responsibilities for implementing Argyle’s policies and procedures; and establishing operating and capital decisions of Argyle.

As a result, the Group has deconsolidated Argyle since June 2022. The Group conducted an impairment assessment and recorded impairment of RMB17,054,641, RMB700,762 and RMB42,198,904 for the property, plant and equipment, intangible assets with definite lives and goodwill, respectively, related to the business of Argyle before the deconsolidation. The Group measured the retained interest in Argyle at the then fair value of RMB48,000,000 estimated with the assistance of a third-party independent valuer and recorded a disposal loss of RMB13,944,925. The impairment of long-lived assets and disposal losses before and upon the deconsolidation in 2022 are included in “Other general expenses” in the consolidated statements of comprehensive (loss) income. The Group accounts for its equity interests in Argyle using the measurement alternative method under ASC 321 (Note 13) and an impairment loss of RMB42,000,000 was subsequently recorded in “(Losses and impairment) Gains on equity securities held” in the consolidated statements of comprehensive loss for the year ended December 31, 2022. The carrying value of the investment in Argyle at December 31, 2023 and 2024 was insignificant. The Group estimated fair value using the income approach and the market approach. The fair value determined using the income approach was compared with comparable market data and reconciled, as necessary, which is determined by using information including but not limited to the future cash flow forecast, discount rate, and a discount for lack of marketability and control.

As of December 31, 2024, the Group was still pursuing all legal remedies to resolve the dispute with Mr. Zhang.

4. DECONSOLIDATIONS (CONTINUED)

*Deconsolidation of Urban Group*

In November 2022, the Group and the noncontrolling interest shareholder of Shandong Xinghui Urban Hotel Management Group Co., Ltd and its subsidiaries (“Urban Group”) entered into definitive agreements for the noncontrolling interest shareholder and its designated person to repurchase all of the equity interest in Urban Group held by the Group. As of November 25, 2022, the transaction was completed and since then the Group deconsolidated Urban Group. The total consideration of RMB142,971,057 consisted of 870,908 ordinary shares of the Group with a fair value of RMB16,971,057 and RMB126,000,000 in cash. RMB88,200,000 of total cash consideration was received in 2022, and the shares and remaining cash consideration amounting RMB37,800,000 were received in 2023.

The Group conducted impairment assessments and recognized impairment losses of RMB12,000,345 and RMB10,640,503 for the indefinite-lived trademark and property, plant and equipment, respectively, before the deconsolidation. The Group also recorded an impairment loss of RMB49,037,576 for the goodwill related to the business of Urban Group and recognized a disposal loss of RMB855,223 for the year ended December 31, 2022. Disposal losses and all impairment losses of long-lived assets excluding goodwill and indefinite-lived trademark are included in “Other general expenses” in the consolidated statements of comprehensive (loss) income.

The Group estimated fair value using the income approach and the market approach. The fair value determined using the income approach was compared with comparable market data and reconciled, as necessary.

5. REVENUE FROM CONTRACTS WITH CUSTOMERS

*Disaggregated Revenues*

The following tables present our revenues disaggregated by the type of the services:

	Years Ended December 31,			
	2022	2023	2024	2024
	RMB	RMB	RMB	USD
<b>Leased and operated revenues</b>	<b>700,022,649</b>	<b>787,814,342</b>	<b>596,640,639</b>	<b>81,739,432</b>
Hotel	338,506,220	490,924,060	437,521,898	59,940,254
Restaurant	361,516,429	296,890,282	159,118,741	21,799,178
<b>Franchise and managed revenues</b>	<b>588,463,368</b>	<b>705,244,948</b>	<b>635,360,312</b>	<b>87,044,006</b>
Hotel	582,441,077	696,321,236	625,072,856	85,634,630
Restaurant	6,022,291	8,923,712	10,287,456	1,409,376
<b>Wholesales and others</b>	<b>180,588,258</b>	<b>134,198,399</b>	<b>111,439,245</b>	<b>15,267,114</b>
<b>Total</b>	<b>1,469,074,275</b>	<b>1,627,257,689</b>	<b>1,343,440,196</b>	<b>184,050,552</b>

Substantially all revenues are generated in the PRC.

*Contract Balances*

The Group’s payments from customers are based on the billing terms established in contracts. Customer billings are classified as accounts receivable when the Group’s right to consideration is unconditional. If the right to consideration is conditional on future performance under the contract, the balance is classified as a contract asset. Our contract assets are insignificant as of December 31, 2023 and 2024.

Payments received in advance of performance under the contract are classified as current or non-current contract liabilities on the Group’s consolidated balance sheets and are recognized as revenue as the Group performs under the contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

5. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Contract Balances (continued)

	Years Ended December 31,		
	2023	2024	2024
	RMB	RMB	USD
Advance from customers	22,393,097	25,684,437	3,518,753
Deferred revenue-current	186,281,838	175,046,178	23,981,228
Deferred revenue-non-current	207,905,769	176,353,919	24,160,388
<b>Total contract liabilities</b>	<b>416,580,704</b>	<b>377,084,534</b>	<b>51,660,369</b>

The deferred revenue balances above, as of December 31, 2023 and 2024 were comprised of the following:

	Years Ended December 31,		
	2023	2024	2024
	RMB	RMB	USD
Initial fees received from franchisees owners	169,240,060	145,314,471	19,908,001
Cash received for membership fees and not recognized as revenue	126,864,736	103,514,777	14,181,466
Cash received for prepaid card and sublease	40,828,943	39,922,504	5,469,361
Deferred revenue related to the membership program	57,253,868	62,648,345	8,582,788
<b>Total deferred revenue</b>	<b>394,187,607</b>	<b>351,400,097</b>	<b>48,141,616</b>

The Group recognized revenues that were previously deferred as contract liabilities of RMB157,377,305 and RMB137,930,826 (USD18,996,446) during the years ended December 31, 2023 and 2024, respectively.

Revenue Allocated to Remaining Performance Obligations

Revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods.

As of December 31, 2024, the Group had RMB145,314,471 (USD19,908,001) of deferred revenues related to initial fees received from franchisees owners are expected to be recognized as revenues over the remaining contract periods over one to 22 years. The Group had RMB103,514,777 (USD14,181,466) of deferred revenues related to membership fees that are expected to be recognized as revenues over the remaining membership life, which is estimated to be one to five years. The Group had RMB62,648,345 (USD8,582,788) of deferred revenues related to unsatisfied performance obligations under Greentree Reward membership program that will be recognized as revenues when the points are redeemed, which is estimated to occur over the next two years. The Group also had RMB39,922,504 (USD5,469,361) related to cash received for prepaid card and sublease, which are expected to be recognized as revenues in future periods over the terms of the related contracts within two years.

The Group did not estimate revenues expected to be recognized related to the Group's unsatisfied performance for the following:

- Revenues related to on-going management and franchise service fees, as they are considered sales-based royalty fees.
- Revenues related to central reservation system usage fees, IT system maintenance fees, and reimbursement for hotel manager fee, as the related revenues from the satisfaction of these performance obligations is recognized when the Group is entitled to invoice the amount.

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net is comprised of the following:

	As of December 31,		
	2023	2024	2024
	RMB	RMB	USD
Receivables from franchise and managed hotels	82,023,109	78,125,555	10,703,157
Receivables from third-party merchandisers for sublease rental	23,923,294	11,325,847	1,551,635
Receivable from individual and corporate customers and travel agents	13,872,840	7,392,616	1,012,784
Receivables from distributors, supermarkets and franchise and managed restaurants	7,600,652	8,489,793	1,163,097
Less: allowances for credit losses	(3,532,016)	(5,645,777)	(773,468)
<b>Total</b>	<b>123,887,879</b>	<b>99,688,034</b>	<b>13,657,205</b>

The movements in the allowance for credit losses were as follows:

	2023	2024	
	RMB	RMB	USD
Balance of the beginning of the year	8,840,708	3,532,016	483,884
Effect on the opening balance of adoption of ASU 2016-03	1,504,518	—	—
Provision	12,377,993	22,708,804	3,111,093
Write-off	(19,191,203)	(20,595,043)	(2,821,509)
Balance of the end of the year	<b>3,532,016</b>	<b>5,645,777</b>	<b>773,468</b>

7. INVENTORIES

The Group's inventories are comprised of the following:

	As of December 31,		
	2023	2024	2024
	RMB	RMB	USD
Products	9,993,021	3,747,208	513,366
Hotel consumables	5,090,286	137,151	18,790
Raw materials	3,615,120	2,341,559	320,792
Packing materials and others	1,764,063	655,552	89,810
<b>Total</b>	<b>20,462,490</b>	<b>6,881,470</b>	<b>942,758</b>

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. LOANS RECEIVABLE, NET

Loans receivable, net is comprised of the following:

	As of December 31,		
	2023	2024	2024
	RMB	RMB	USD
<b>Loans receivable, current portion</b>			
Franchisees	374,022,230	381,417,382	52,253,967
Third parties	32,595,889	39,000,000	5,342,978
Less: allowances of credit losses	(277,097,025)	(334,953,915)	(45,888,498)
Total	129,521,094	85,463,467	11,708,447
<b>Loans receivable, non-current portion</b>			
Franchisees	90,484,128	22,771,354	3,119,663
Third parties	20,000,000	-	-
Less: allowances of credit losses	(39,793,823)	(7,399,116)	(1,013,675)
Total	70,690,305	15,372,238	2,105,988

Loans receivable to franchisees represent loan agreements entered with certain franchisees to finance the renovation of certain franchised-and-managed hotels with maturity from one month to five years and the interest rate from 4.7% to 9.9% per annum.

Loans receivable to third parties mainly represent loan agreements entered with certain third-party companies to support their daily operation or bridge loan of mortgage with maturity from one year to three years and the interest rate from 7.9% to 18.0% per annum.

The Group recognized allowances of credit losses of RMB161,431,671, RMB15,396,673 and RMB25,462,183 (USD3,488,304) in relation to loans receivables in “Other general expenses” in the consolidated statements of comprehensive (loss) income for the years ended December 31, 2022, 2023 and 2024, respectively.

The following table presents the aging of past-due gross loans receivable as of December 31, 2023 and 2024:

	1 to 3 months	4 to 6 months	7 to 12 months	Over 1 year	Total
	past due	past due	past due	past due	RMB
	RMB	RMB	RMB		
December 31, 2023	16,572,823	24,199,825	63,451,054	215,286,707	319,510,409
December 31, 2024	34,445,795	32,464,971	55,303,739	266,000,526	388,215,031
December 31, 2024 (USD)	4,719,055	4,447,683	7,576,581	36,441,922	53,185,241

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. LOANS RECEIVABLE, NET (CONTINUED)

Movement of allowance for loans receivable for the years ended December 31, 2023 and 2024 are as follows:

	2023	2024	
	RMB	RMB	USD
Balance of the beginning of the year	279,317,673	316,890,848	43,413,868
Effect on the opening balance of adoption of ASU 2016-03	22,176,502	—	—
Provision	15,396,673	25,462,183	3,488,304
Balance of the end of the year	316,890,848	342,353,031	46,902,172
Evaluated for impairment on an individual basis	116,302,348	109,047,517	14,939,449

9. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consists of the following:

	As of December 31,		
	2023	2024	2024
	RMB	RMB	USD
Land	—	40,972,933	5,613,269
Buildings and plants	685,779,415	562,423,983	77,051,770
Leasehold improvements	654,857,745	651,694,871	89,281,831
Furniture, fixtures and equipment	286,033,440	244,771,734	33,533,590
Motor vehicles	9,358,564	9,476,389	1,298,260
Total	1,636,029,164	1,509,339,910	206,778,720
Less:			
Accumulated depreciation	(841,035,233)	(862,489,629)	(118,160,595)
Construction in progress	19,955,095	2,677,929	366,875
Property, plant and equipment, net	814,949,026	649,528,210	88,985,000

Depreciation expense was RMB119,299,006, RMB110,184,167 and RMB110,979,569 (USD15,204,139) for the years ended December 31, 2022, 2023 and 2024, respectively.

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

10. INTANGIBLE ASSETS, NET

	As of December 31, 2023		
	Gross carrying value	Accumulated amortization	Net carrying value
	RMB	RMB	RMB
<i>Intangible asset with indefinite life:</i>			
Da Niang Trademark	103,419,001	—	103,419,001
<i>Finite-lived intangible assets:</i>			
Trademarks	21,129,394	11,918,554	9,210,840
Technology	4,200,000	1,890,000	2,310,000
Network rights	210,755	209,550	1,205
Purchased software	24,888,810	22,772,548	2,116,262
Reacquired rights	2,531,418	1,868,033	663,385
Others	435,185	435,185	—
<b>Total</b>	<b>156,814,563</b>	<b>39,093,870</b>	<b>117,720,693</b>

	As of December 31, 2024			
	Gross carrying value	Accumulated amortization	Net carrying value	Net carrying value
	RMB	RMB	RMB	USD
<i>Intangible asset with indefinite life:</i>				
Da Niang Trademark	64,347,001	—	64,347,001	8,815,503
<i>Finite-lived intangible assets:</i>				
Trademarks	21,129,394	12,600,294	8,529,100	1,168,482
Technology	4,200,000	2,310,000	1,890,000	258,929
Network rights	210,755	209,550	1,205	165
Purchased software	29,279,182	28,875,979	403,203	55,239
Reacquired rights	2,531,418	2,024,376	507,042	69,464
Others	435,185	435,185	—	—
<b>Total</b>	<b>122,132,935</b>	<b>46,455,384</b>	<b>75,677,551</b>	<b>10,367,782</b>

Amortization expense of intangible assets for the years ended December 31, 2022, 2023 and 2024 amounted to RMB6,039,895, RMB6,686,070 and RMB4,766,969 (USD653,072), respectively.

Due to strategic optimization of leased-and-operated restaurants closures for varying reasons in each year, the Group recognized impairment losses of RMB18,892,000, RMB16,027,000 and RMB39,072,000 (USD5,352,842) for the years ended December 31, 2022, 2023 and 2024, respectively, to Da Niang Trademark in restaurant business segment. The Group evaluated the fair value of Da Niang Trademark using the relief from royalty method with the assistance of a third-party valuer and based on the significant assumptions including royalty rate for the trademark, projected revenue and discount rate, which were classified as level 3 inputs under the fair value hierarchy that involve considerable management judgements. Accordingly, actual results may vary significantly from the Group estimates as they are forward-looking and include assumptions about economic and market conditions with uncertain future outcome.

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

10. INTANGIBLE ASSETS, NET (CONTINUED)

The estimated aggregate amortization expense for each of the five succeeding years is as follows:

Year ending December 31,	RMB	USD
2025	2,828,117	387,450
2026	2,145,606	293,947
2027	1,665,461	228,167
2028	1,447,553	198,314
2029	916,867	125,610
Thereafter	2,326,946	318,790

11. LEASES

The Group has operating leases arrangements for their leased and operated hotels and restaurants.

A summary of supplemental information related to operating leases as of December 31, 2023 and 2024 is as follows:

	As of December 31,		
	2023	2024	2024
	RMB	RMB	USD
<b>Operating lease right-of-use assets</b>	1,535,330,762	1,328,582,419	182,015,045
Operating lease liabilities, current	267,536,846	241,363,244	33,066,629
Operating lease liabilities, non-current	1,391,909,308	1,215,776,075	166,560,639
<b>Total operating lease liabilities</b>	1,659,446,154	1,457,139,319	199,627,268
<b>Right-of-use assets obtained in exchange for operating lease liabilities</b>	154,520,189	150,287,251	20,589,269
<b>Weighted average remaining lease term (in years)</b>	9	8	
<b>Weighted average discount rate</b>	4%	4%	

Lease expense for all the Group's operating leases for the years ended December 31, 2022, 2023 and 2024 were RMB319,102,819, RMB279,301,541 and RMB258,421,629 (USD35,403,618), respectively.

A summary of maturity of operating lease liabilities under the Group's non-cancelable operating leases as of December 31, 2024 is as follows:

	As of December 31, 2024	
	RMB	USD
	2025	226,571,015
2026	203,393,259	27,864,762
2027	182,660,506	25,024,387
2028	155,604,006	21,317,661
2029	142,877,266	19,574,105
Thereafter	816,080,433	111,802,561
<b>Total future lease payments</b>	1,727,186,485	236,623,578
<b>Less: imputed interest</b>	270,047,166	36,996,310
<b>Total operating lease liabilities</b>	1,457,139,319	199,627,268

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

12. GOODWILL

The changes in the carrying amount of goodwill for the years ended December 31, 2023 and 2024 were as follows:

	Hotel Business RMB	Da Niang Business RMB	Total RMB
Balance as of January 1, 2023	29,583,468	147,499,000	177,082,468
Balance as of December 31, 2023	29,583,468	147,499,000	177,082,468
Impairment	—	(81,008,000)	(81,008,000)
Balance as of December 31, 2024	29,583,468	66,491,000	96,074,468
Balance as of December 31, 2024 (USD)	4,052,918	9,109,230	13,162,148

Due to strategic optimization of leased-and-operated restaurants closures for varying reasons, the Group recognized impairment loss of RMB81,008,000 (USD11,098,050) for the year ended December 31, 2024, to the goodwill associated with Da Niang Business in restaurant business segment. The fair value of this reporting unit has been determined using the discounted cash flow approach with the assistance of a third-party valuer. The significant assumption used to estimate the fair value of Da Niang business reporting unit included projected revenue and discount rate, which were classified as level 3 inputs under the fair value hierarchy and involve considerable management judgements. Accordingly, actual results may vary significantly from the Group estimates as they are forward-looking and include assumptions about economic and market conditions with uncertain future outcome. The Group recognized nil and RMB91,236,480 of impairment loss for the years ended 2023 and 2022, respectively.

13. INVESTMENTS

Short-term investments

Short-term investments as of December 31, 2023 and 2024 consisted of the following:

	As of December 31,		
	2023 RMB	2024 RMB	2024 USD
Wealth management products	287,711,617	10,475	1,435
Time deposits	130,000,000	—	—
<b>Total</b>	<b>417,711,617</b>	<b>10,475</b>	<b>1,435</b>

Investments in equity securities with readily determinable fair values

Equity securities with readily determinable fair value represent investments in the equity securities of publicly listed companies, for which the Group does not have significant influence.

Total unrealized and realized gains and losses of investments in equity securities in current assets for the years ended December 31, 2022, 2023 and 2024 were as follows:

	For the years ended December 31,			
	2022 RMB	2023 RMB	2024 RMB	2024 USD
Total net losses recognized	(2,622,450)	(15,344,616)	(2,544,834)	(348,641)
Less: Net realized (losses) gains on equity securities sold	11,294,390	—	(1,245,632)	(170,651)
<b>Net unrealized losses recognized on equity securities held</b>	<b>(13,916,840)</b>	<b>(15,344,616)</b>	<b>(1,299,202)</b>	<b>(177,990)</b>

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

13. INVESTMENTS (CONTINUED)

*Long-term investments*

As at December 31, 2023 and 2024, long-term investments consisted of the following:

	As of December 31,		
	2023	2024	2024
	RMB	RMB	USD
Equity method investments			
Shanghai Wiselong Enterprise Management Co., Ltd (“Wiselong”)	25,630,564	27,133,053	3,717,213
Other	7,274,032	15,000,068	2,055,001
Equity securities with readily determinable fair values	38,324,789	28,355,681	3,884,712
Equity securities without readily determinable fair values	9,826,143	9,826,143	1,346,176
Available-for-sale debt investment	103,703,272	103,709,272	14,208,112
<b>Total</b>	<b>184,758,800</b>	<b>184,024,217</b>	<b>25,211,214</b>

*Equity securities with readily determinable fair values*

Total unrealized and realized gains and losses of equity securities with readily determinable fair values included in long-term investments for the years ended December 31, 2022, 2023 and 2024 were as follows:

	For the years ended December 31,			
	2022	2023	2024	2024
	RMB	RMB	RMB	USD
Total net gains (losses) recognized	(15,126,672)	9,966,512	(11,163,213)	(1,529,354)
Less: Net realized gains on equity securities sold	—	—	—	—
<b>Net unrealized gains (losses) recognized on equity securities held</b>	<b>(15,126,672)</b>	<b>9,966,512</b>	<b>(11,163,213)</b>	<b>(1,529,354)</b>

*Equity securities without readily determinable fair values*

The equity investments without readily determinable fair value held as of December 31, 2023 and 2024 were as follows:

	As of December 31,		
	2023	2024	2024
	RMB	RMB	USD
Initial cost	51,523,212	51,523,212	7,058,651
Cumulative unrealized gains	302,931	302,931	41,501
Cumulative unrealized losses (including impairment)	(42,000,000)	(42,000,000)	(5,753,976)
<b>Total carrying value</b>	<b>9,826,143</b>	<b>9,826,143</b>	<b>1,346,176</b>

During the year ended December 31, 2022, impairment of RMB42,000,000 was recorded in “Other general expenses” in the consolidated financial statements of comprehensive (loss) income. No impairment loss was recorded during the years ended December 31, 2023 and 2024.

*Available-for-sale debt securities*

Available-for-sale debt securities represent the Group’s investment in 30% interest of Yibon Hotel Group Co., Ltd (“Yibon”), which the Group has the option to require Yibon to redeem the investment at the Group’s discretion. No impairment was recorded for this investment during any of other presented periods.

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

13. INVESTMENTS (CONTINUED)

Long-term investments (continued)

Short-term and long-term debt securities as of December 31, 2023 and 2024 were shown as below:

	As of December 31, 2023					
	Amortized cost	Gross unrecognized holding gains	Gross unrecognized holding losses	Gross unrealized gains	Gross unrealized losses	Fair value
	RMB	RMB	RMB	RMB	RMB	RMB
Wealth management products	287,711,617	—	—	—	—	287,711,617
Available-for-sale debt securities of Yibon	103,701,474	—	—	2,791,663	(2,789,865)	103,703,272
	As of December 31, 2024					
	Amortized cost	Gross unrecognized holding gains	Gross unrecognized holding losses	Gross unrealized gains	Gross unrealized losses	Fair value
	RMB	RMB	RMB	RMB	RMB	RMB
Wealth management products	10,475	—	—	—	—	10,475
Available-for-sale debt securities of Yibon	103,703,272	—	—	—	6,000	103,709,272

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

14. OTHER ASSETS

	As of December 31,		
	2023	2024	2024
	RMB	RMB	USD
<b>Current</b>			
Receivable from on-line payment platforms	39,540,599	33,710,165	4,618,274
Interest receivable	13,666,330	1,413,179	193,605
Deposits	16,066,771	13,408,363	1,836,938
Advance to suppliers	12,190,988	14,671,464	2,009,982
VAT recoverable	13,096,157	16,958,328	2,323,281
Others	22,486,277	34,737,091	4,758,962
<b>Total</b>	<b>117,047,122</b>	<b>114,898,590</b>	<b>15,741,042</b>
<b>Non-current</b>			
Rental deposit	56,649,069	51,522,452	7,058,547
Purchase and rental deposits for buildings	192,305,859	192,305,859	26,345,795
VAT recoverable	17,872,226	13,963,593	1,913,004
Others	31,613,426	37,059,802	5,077,172
Less: impairment provision	(193,714,980)	(192,305,859)	(26,345,795)
<b>Total</b>	<b>104,725,600</b>	<b>102,545,847</b>	<b>14,048,723</b>

Purchase and rental deposits for certain real estate properties paid to a third party were fully provided due to the financial crisis of the counterparty. The provision of RMB192,305,859 was recorded in "Other general expenses" of the consolidated statements of comprehensive loss for the year ended December 31, 2022.

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

15. BANK LOANS

*Short-term bank loans*

Short-term bank loans consisted of RMB denominated borrowings from financial institutions in the PRC that are repayable within one year. The weighted average interest rates for the outstanding short-term bank loans as of December 31, 2023 and 2024 were 3.85% and 3.85%, respectively.

In February 2023, the Group entered into a secured loan agreement with Shanghai Pudong Development Bank, pursuant to which the Group was entitled to borrow a RMB denominated loan of RMB117,000,000 for interest rate at a fixed annual interest rate of 3.85% and maturity date on March 24, 2024. As of December 31, 2023, the outstanding amount was RMB116,800,000, and the Group collateralized such borrowing with time deposits of RMB130,000,000 with maturities of less than one year. The Group fully repaid this loan during the year ended December 31, 2024.

*Long-term bank loans*

In November 2023, the Group entered into a secured loan agreement with Shanghai Pudong Development Bank, pursuant to which the Group was entitled to borrow a RMB denominated loan of RMB57,000,000 for interest rate at a fixed annual interest rate of 3.50% and maturity date on November 14, 2026. The Group collateralize such borrowing with long-term time deposits of RMB63,340,000.

In March 2024, the Group entered into a secured loan agreement with Shanghai Pudong Development Bank, pursuant to which the Group was entitled to borrow a RMB denominated loan of RMB200,000,000 for interest rate at a fixed annual interest rate of 3.33% and maturity date on March 25, 2027. The Group collateralize such borrowing with long-term time deposits of RMB222,230,000.

As of December 31, 2024, aggregate loan principal payments on long-term borrowings are due according to the following schedule:

Year ending December 31,	RMB	USD
2025	400,000	54,800
2026	56,800,000	7,781,568
2027	199,400,000	27,317,688
Total	<u>256,600,000</u>	<u>35,154,056</u>

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

16. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	As of December 31,		
	2023	2024	2024
	RMB	RMB	USD
Payable to franchisees	210,052,467	224,856,300	30,805,187
VAT and tax surcharges	129,067,113	145,223,158	19,895,491
Construction payable	22,211,219	24,117,141	3,304,035
Deposits payable	24,759,270	29,756,957	4,076,686
Payable for business combination and asset acquisitions	13,743,026	10,972,875	1,503,278
Others	59,999,622	46,983,860	6,436,762
<b>Total</b>	<b>459,832,717</b>	<b>481,910,291</b>	<b>66,021,439</b>

17. OTHER LONG-TERM LIABILITIES

As of December 31, 2023 and 2024, other long-term liabilities of RMB111,711,750 and RMB120,975,955 (USD16,573,638), respectively, are mainly comprised of deposits from franchisees.

18. ORDINARY SHARES

The Group's Class A and Class B ordinary shares are identical in all respects except for voting and conversion rights. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, and Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. On all matters upon which the holders are entitled to vote, the Class A shares and Class B shares then outstanding shall constitute 39.0% and 61.0% of the total voting power of the issued and outstanding shares of the Group, respectively.

19. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The changes in accumulated other comprehensive income by component, net of tax, were as follows:

	Foreign	Unrealized	Total
	currency	gains(losses)	
	translation	on available-	
	adjustments	for-sale	
	RMB	investments	RMB
<b>Balance at January 1, 2023</b>	<b>27,727,372</b>	<b>4,732</b>	<b>27,732,104</b>
Net current-period other comprehensive gains (losses)	672,112	(2,934)	669,178
<b>Balance at December 31, 2023</b>	<b>28,399,484</b>	<b>1,798</b>	<b>28,401,282</b>
Net current-period other comprehensive gains (losses)	(22,374,019)	6,000	(22,368,019)
<b>Balance at December 31, 2024</b>	<b>6,025,465</b>	<b>7,798</b>	<b>6,033,263</b>
<b>Balance at December 31, 2024 (USD)</b>	<b>825,485</b>	<b>1,069</b>	<b>826,554</b>

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

20. OPERATING COSTS

Operating costs include all direct costs incurred in the operation of the leased-and-operated hotels and restaurants, cost of providing franchise services, cost of manufacturing products and consist of the following:

	Year ended December 31,			
	2022	2023	2024	2024
	RMB	RMB	RMB	USD
Rental	317,562,563	277,652,599	258,046,448	35,352,218
Utilities	44,864,225	42,865,151	46,254,870	6,336,891
Personnel cost	167,637,463	145,561,157	153,679,021	21,053,940
Depreciation and amortization	104,582,040	92,987,860	102,538,301	14,047,690
Consumable, food and beverage	32,443,116	54,360,427	40,388,169	5,533,156
Costs of hotel manager of franchised-and-managed hotels	107,852,170	114,328,002	95,368,385	13,065,415
Material cost	226,713,708	171,832,538	108,606,199	14,878,988
Other costs of franchised-and-managed hotels	14,340,427	17,518,603	9,085,550	1,244,715
Others	50,517,239	30,332,477	8,620,371	1,180,987
<b>Total</b>	<b>1,066,512,951</b>	<b>947,438,814</b>	<b>822,587,314</b>	<b>112,694,000</b>

21. SHARE BASED COMPENSATION

2018 Share Incentive Plan

In January 2018, the Group adopted the 2018 Share Incentive Plan which allows the Group to offer incentive awards to employees, directors and consultants (the “Participants”). Under the 2018 Share Incentive Plan, the Group may issue incentive awards to the Participants to purchase not more than 9,000,000 Class A ordinary shares. The incentive awards granted under the Share Incentive Plans typically have a maximum life of six years and vest in typical ways as vest ratably over the following four years starting after the first/second/third anniversary of the stated vesting commencement date.

For options granted during the year ended December 31, 2022, the weighted-average grant date fair value for options granted was USD 1.34, computed using the binomial option pricing model. The binomial model requires the input of subjective assumptions including the expected stock price volatility and the expected price multiple at which employees are likely to exercise stock options. The Group uses historical data to estimate forfeiture rate. Expected volatilities are based on the average volatility of the Group and comparable companies. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. During the years ended December 31, 2023 and 2024, no options were granted.

Share-based compensation expenses were immaterial for the years ended December 31, 2022, 2023 and 2024.

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

21. SHARE BASED COMPENSATION (CONTINUED)

2018 Share Incentive Plan (continued)

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

	Granted in 2022
Risk-free interest rate	1.35%
Volatility	39%
Dividend yield	2.5%
Expected life	6 years

The aggregate grant date fair value of the outstanding options was determined to be RMB35,706,209, RMB36,103,497 and RMB 37,117,460 (USD 5,085,071) as of December 31, 2022, 2023 and 2024, respectively. The total fair value of share options vested during the years ended December 31, 2022, 2023 and 2024 were RMB8,998,734, RMB9,145,095 and RMB24,633 (USD3,375).

Total unrecognized compensation expense related to unvested options was insignificant as of December 31, 2024.

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

	Number of Options	Weighted Average Exercise Price USD	Weighted Average Remaining Contractual Life Years	Aggregate Intrinsic Value USD
Share options outstanding at December 31, 2023	925,000	12.25	0.18	—
Vested and expected to vest at December 31, 2023	925,000	12.25	0.18	—
Exercisable as of December 31, 2023	914,250	12.22	0.18	—
Share options outstanding, vested and exercisable at December 31, 2024	80,000	12.25	0.37	—

**22. INCOME TAXES**

*Cayman Island*

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gain. Upon payment of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

*Samoa*

Under the current laws of Samoa, GreenTree Samoa is not subject to tax on income or capital gain. Upon payment of dividends by the Company to its shareholders, no Samoa withholding tax will be imposed.

*Hong Kong*

Subsidiaries in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5%, and foreign-derived income is exempted from income tax. There are no withholding taxes upon payment of dividends by the subsidiaries incorporated in Hong Kong to their shareholders.

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

22. INCOME TAXES (CONTINUED)

Mainland China

On March 16, 2007, the PRC government promulgated the Law of the People's Republic of China on Enterprise Income Tax ("New EIT Law"), which was effective from January 1, 2008. Under the New EIT Law, domestically-owned enterprises and foreign-invested enterprises are subject to a statutory tax rate of 25%. Enterprises qualified as "High New Technology Enterprises ("HNTEs") enjoy a preferential income tax rate of 15%. Dividends, interest, rent or royalties and proceeds from any such assets located in the PRC (after deducting the net value of such assets) shall be subject to a 10% withholding tax.

Shanghai Evergreen and Shanghai Sipei are recognized as qualified HNTEs for the periods from 2023 to 2025 and enjoy a preferential tax rate of 15%.

(Loss) Income before income taxes and share of losses in equity method investments consists of:

	Year ended December 31,			
	2022	2023	2024	2024
	RMB	RMB	RMB	USD
Mainland China	(301,862,814)	351,791,690	176,652,452	24,201,287
Others	(202,301,240)	28,580,168	20,554,343	2,815,935
Total	(504,164,054)	380,371,858	197,206,795	27,017,222

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

22. INCOME TAXES (CONTINUED)

The current and deferred components of income tax expense appearing in the consolidated statements of comprehensive income (loss) are as follows:

	Year ended December 31,			
	2022	2024	2024	2024
	RMB	RMB	RMB	USD
Current tax	86,534,248	120,875,594	107,567,291	14,736,659
Deferred tax	(130,607,150)	(2,423,339)	(18,840,322)	(2,581,114)
Total	(44,072,902)	118,452,255	88,726,969	12,155,545

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

	Years ended December 31,			
	2022	2023	2024	2024
PRC statutory tax rate	25%	25%	25%	25%
Withholding tax	9%	3%	7%	7%
Effect of international rate differences	(9)%	(2)%	(2)%	(2)%
Effect of preferential tax rate	0%	(1)%	(8)%	(8)%
Uncertain tax positions	(3)%	(3)%	1%	1%
Valuation allowances	(11)%	8%	8%	8%
Deferred tax	1%	(1)%	2%	2%
Provision to return	1%	0%	1%	1%
Non-deductible expenses	(4)%	2%	11%	11%
Effective tax rate	9%	31%	45%	45%

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

22. INCOME TAXES (CONTINUED)

The principal components of the Group's deferred income tax assets and liabilities as of December 31, 2022, 2023 and 2024 are as follows:

	As of December 31		
	2023	2024	2024
	RMB	RMB	USD
<b>Deferred tax assets:</b>			
Tax losses carryforward	156,003,878	125,063,028	17,133,565
Allowance for accounts receivables and other current assets	10,241,904	10,863,499	1,488,293
Allowance for non-current other assets	48,076,465	48,076,465	6,586,449
Allowance for loans receivable	79,222,712	85,588,610	11,725,591
Impairment of long-lived assets	17,466,327	13,073,472	1,791,059
Lease liabilities	417,112,367	362,136,225	49,612,459
Deferred revenue	83,228,802	75,722,666	10,373,963
Accrued liabilities	19,373,529	19,542,973	2,677,376
Unrealized losses from equity securities	1,342,225	1,638,899	224,528
Investment in subsidiaries	—	2,775,000	380,173
Valuation allowance	(192,143,009)	(165,327,438)	(22,649,766)
<b>Total deferred tax assets</b>	<b>639,925,200</b>	<b>579,153,399</b>	<b>79,343,690</b>
<b>Deferred tax liabilities:</b>			
Property, plant and equipment	(2,479,000)	(2,219,319)	(304,045)
Right-of-use assets	(381,932,879)	(327,572,728)	(44,877,280)
Intangible assets arising from acquisition	(75,820,498)	(47,872,112)	(6,558,452)
Unrealized gains from equity securities	(1,939,227)	(1,805,008)	(247,285)
Investment in subsidiaries	(30,504,731)	(33,595,045)	(4,602,503)
<b>Total deferred tax liabilities</b>	<b>(492,676,335)</b>	<b>(413,064,212)</b>	<b>(56,589,565)</b>

As of December 31, 2024, the Group had tax losses carryforwards of RMB502,614,634 (USD68,857,923), mainly deriving from the entities in the PRC. The tax losses in the PRC can be carried forward for five years to offset future taxable profit and which will expire between 2025 and 2029 if not utilized.

For the year ended December 31, 2024, the Group paid withholding tax of RMB11,349,180 (USD1,554,831) for the remittance of earnings from subsidiaries in the PRC to offshore entities. As of December 31, 2024, the Group has accrued RMB33,595,045 (USD4,602,503) deferred tax liabilities related to undistributed earnings from PRC subsidiaries. As of December 31, 2024, the taxable temporary differences for unrecognized deferred tax liabilities related to investments in foreign subsidiaries were RMB906,737,961 (USD124,222,591). The amount of unrecognized deferred tax liabilities for temporary differences related to investments in foreign subsidiaries is not determined because such a determination is not practicable.

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

22. INCOME TAXES (CONTINUED)

Below is a tabular roll-forward of the Group's unrecognized tax benefits.

Unrecognized tax benefits — December 31, 2022	257,300,164
Increases — tax positions in the current period	61,493,198
Decreases — tax positions in prior period	(40,097,137)
Unrecognized tax benefits — December 31, 2023	<u>278,696,225</u>
Unrecognized tax benefits — January 1, 2024	278,696,225
Increases — tax positions in the current period	69,991,983
Decreases — tax positions in prior period	(32,266,665)
Unrecognized tax benefits — December 31, 2024	<u><u>316,421,543</u></u>

It is possible that the amount of uncertain tax benefits will change in the next 12 months, however, an estimate of the range of the possible outcomes cannot be made at this time. RMB316,421,543 (USD43,349,574) of the uncertain tax positions, if ultimately recognized, would affect the effective tax rate.

The Group's subsidiaries in mainland China are subject to examination by the tax authorities for tax years 2019 through 2024 on non-transfer pricing matters and from 2014 through 2024 on transfer pricing matters.

23. MAINLAND CHINA CONTRIBUTION PLAN AND PROFIT APPROPRIATION

Full time employees of the Group in the PRC participate in a government-mandated multi-employer 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 RMB63,954,002, RMB54,737,023 and RMB49,181,636 (USD6,737,857) for the years ended December 31, 2022, 2023 and 2024, respectively. The Group has no ongoing obligation to its employees subsequent to its contributions to the PRC plan.

**24. STATUTORY RESERVES AND RESTRICTED NET ASSETS**

In accordance with the PRC Regulations on Enterprises with Foreign Investment, an enterprise established in the PRC with foreign investment is required to make appropriations to certain statutory reserves, namely a general reserve fund, an enterprise expansion fund, a staff welfare fund and a bonus fund, all of which are appropriated from net profit as reported in its PRC statutory accounts. A foreign invested enterprise is required to allocate at least 10% of its annual after-tax profits to a general reserve fund until such fund has reached 50% of its respective registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus funds are at the discretion of the board of directors for the foreign invested enterprises. For other subsidiaries incorporated in the PRC, the general reserve fund was appropriated based on 10% of net profits as reported in each subsidiary's PRC statutory accounts. General reserve and statutory surplus funds are restricted to set-off against losses, expansion of production and operation and increasing registered capital of the respective company. Staff welfare and bonus fund and statutory public welfare funds are restricted to capital expenditures for the collective welfare of employees. The reserves are not allowed to be transferred to the Group in terms of cash dividends, loans or advances, nor are they allowed for distribution except under liquidation. As of December 31, 2023 and 2024, the PRC statutory reserve funds amounted to RMB152,416,879 and RMB156,764,775 (USD21,476,686), respectively.

In addition, under PRC laws and regulations, the Group's PRC subsidiaries are restricted in their ability to transfer their net assets to the Group in the form of dividend payments, loans or advances. Amounts of net assets restricted include paid up capital and statutory reserve funds of the Group's PRC totaling RMB901,492,604 and RMB908,421,883 (USD124,453,288) as of December 31, 2023 and 2024, respectively.

Furthermore, cash transfers from the Group's PRC subsidiaries to the Group's subsidiaries outside of the PRC are subject to the PRC government control of currency conversion. Shortages in the availability of foreign currency may restrict the ability of the Group's PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to the Group or otherwise satisfy their foreign currency denominated obligations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 25. 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. The related parties that had transactions or balances with the Group in 2022, 2023 and 2024 consisted of:

Related Party	Nature of the party	Relationship with the Group
Alex S. Xu	Individual	Founder and CEO
Hui Xu	Individual	Brother of Alex S. Xu
Wen Qi	Individual	Quality Control Manager
GTI	Investment holding	Shareholder of the Group, controlled by Alex S. Xu
Shanghai Aotao Industrial Co., Ltd (“Aotao”)	Restaurant management	Controlled by GTI
Getao Industrial (HK) Limited. (“Getao”)	Restaurant management	Controlled by GTI
Beifu HK	Restaurant management	Controlled by GTI
Gelu (Shanghai) Catering Management Co., Ltd. (“Gelu”)	Restaurant management	Controlled by GTI
Shanghai Geyi Catering Management Co., Ltd. (“Geyi”)	Restaurant management	Controlled by GTI
Napa Infinity Winery (Shanghai) Inc. (“Napa”)	Wine distributor	Controlled by Hui Xu
Woyaojiu Information Technology (Shanghai) Co.,Ltd. (“Woyaojiu”)	Wine distributor	Controlled by Hui Xu
Yibon	Hotel management	Equity investee of the Group
Shanxi Hanyuanbaili Hotel Management Co., Ltd. (“Hanyuan”)	Hotel management	Equity investee of the Group
Shanxi Yueyuanbaili Hotel Management Co., Ltd. (“Yueyuan”)	Hotel management	Equity investee of the Group
Wuhan Jiangxia Deep Sleep Hotel Co. Ltd. (“Jiangxia WM”)	Hotel management	Equity investee of the Group
Apex (Weihai) Industrial Co., Ltd. (“Apex”)	Construction	Controlled by Hui Xu
Anhui Aoyang Daling Canyon Beverage Co. Ltd. (“Aoyang”)	Drinking-water manufacturing	Equity investee of the Group
Geweimei Biotechnology (Wuxi) Co., Ltd. (“Geweimei”)	Food manufacturing	Controlled by GTI
Shanghai Xiaoyi Health Services Co., Ltd. (“Xiaoyi”)	Care service provider	Controlled by GTI
Wiselong	IT consulting	Equity investee of the Group

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

25. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(a) Related party balances

Due from related parties:

	As of December 31		
	2023	2024	2024
	RMB	RMB	USD
<b>Current:</b>			
Yibon <sup>(i)</sup>	7,321,246	6,920,600	948,118
Hanyuan <sup>(ii)</sup>	6,732,977	6,732,977	922,414
Wen Qi <sup>(iii)</sup>	2,360,000	2,360,000	323,319
Yueyuan <sup>(ii)</sup>	688,064	640,000	87,680
Aotao <sup>(iv)</sup>	141,069	270,067	36,999
Jiangxia WM <sup>(vi)</sup>	—	858,000	117,546
Others <sup>(iv)</sup>	3,217,386	4,590,246	628,860
Less: provision	(531,961)	(531,961)	(72,878)
<b>Total</b>	<b>19,928,781</b>	<b>21,839,929</b>	<b>2,992,058</b>
<b>Non-current:</b>			
Apex <sup>(v)</sup>	110,000,000	110,000,000	15,069,938
<b>Total</b>	<b>110,000,000</b>	<b>110,000,000</b>	<b>15,069,938</b>

(i). Current amounts due from Yibon mainly comprised of a loan repayable on demand with an interest rate of 6% per annum with pledge of one Yibon's leased-and-operated hotel.

(ii). Current amounts due from Hanyuan and Yueyuan are loans to them, who are the equity investees of the Group, for hotel improvement.

(iii). Current amounts due from Wen Qi is a loan with a principal of RMB2,360,000 (USD323,319) with an interest rate of 7.9% per annum maturing in July 2024.

(iv). The current amounts mainly consisted of accounts receivable due to daily operations with the related parties which were unsecured, interest free, and repayable upon demand.

(v). Noncurrent amounts due from related parties comprised of RMB110,000,000 (USD15,069,938) prepayments made by the Group to Apex to acquire a building for hotel business development. In April 2025, the building was pledged to the Group to guarantee the related party's performance.

(vi). The current amounts due from Jiangxia WM are a loan to the Group's equity investee for hotel improvements.

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

25. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(a) *Related party balances (continued)*

Due to related parties:

	As of December 31,		
	2023	2024	2024
	RMB	RMB	USD
<b>Current:</b>			
Aotao <sup>(i)</sup>	12,660,573	13,323,770	1,825,349
Others <sup>(ii)</sup>	3,649,720	4,138,406	566,959
<b>Total</b>	<b>16,310,293</b>	<b>17,462,176</b>	<b>2,392,308</b>

(i) Amounts due to Aotao comprised of the payable for advertising service from Aotao and loans from Aotao which were unsecured, interest free, and repayable upon demand.

(ii) Amounts due to others represent the trade payables due to the normal business operation with related parties which were unsecured, interest free, and repayable upon demand.

(b) *Related party transactions*

During the years ended December 31, 2022, 2023 and 2024, related party transactions consisted of the following:

	Year ended December 31,			
	2022	2023	2024	2024
	RMB	RMB	RMB	USD
<b>Loan to related parties</b>				
Loan to GTI	(162,490,000)	—	—	—
Loan to Hanyuan	(3,237,408)	—	—	—
Loan to Qiwen	(2,360,000)	—	—	—
Loan to Yueyuan	(608,394)	—	—	—
Loan to Jiangxia WM	—	—	(858,000)	(117,546)
Repayment from GTI	42,305,000	—	—	—
Repayment from Yibon	1,250,000	—	363,347	49,778
<b>Interest income from Yibon</b>	12,333	465,500	395,694	54,210
<b>Service provided by related parties</b>	(5,770,739)	(14,044)	(47,866)	(6,558)
<b>Goods purchased from related parties</b>	(692,797)	(2,837,072)	(1,939,754)	(265,745)
<b>Service provided to related parties</b>	1,397,915	2,604,417	721,657	98,867
<b>Goods sold to related parties</b>	—	23,787	19,727	2,703

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

26. COMMITMENTS AND CONTINGENCIES

*Litigation and contingencies*

The Group and its operations from time to time are, and in the future may be, parties to or targets of lawsuits, claims, investigations, and proceedings, including but not limited to non-compliance respect to licenses and permits, franchise agreements and lease contracts, which are handled and defended in the ordinary course of business. The Group may be unable to estimate the reasonably possible loss or a range of reasonably possible losses until developments in such matters have provided sufficient information to support an assessment of the range of possible loss, such as quantification of a damage demand from plaintiffs, discovery from other parties and investigation of factual allegations, rulings by the court on motions or appeals, or the progress of settlement negotiations. The Group accrues a liability for such matters when it is probable that a liability has been incurred, and the amount can be reasonably estimated. When a single amount cannot be reasonably estimated but the cost can be estimated within a range, the Group accrues the minimum amount. The Group expenses legal costs, including those expected to be incurred in connection with a loss contingency, as incurred.

27. EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share for each of the years presented is calculated as follows:

	Year Ended December 31,			
	2022	2023	2024	2024
	RMB	RMB	RMB	USD
Numerator:				
Net (loss) income used in calculating earnings per share-basic and diluted	(425,153,181)	269,316,308	110,002,230	15,070,246
Denominator:				
Weighted average number of Class A ordinary shares outstanding used in calculating basic and diluted earnings per share	68,201,056	67,321,003	66,776,243	66,776,243
Weighted average number of Class B ordinary shares outstanding used in calculating basic and diluted earnings per share	34,762,909	34,762,909	34,762,909	34,762,909
Allocation of undistributed (loss) earnings — basic and diluted:				
To Class A Shares	(281,612,076)	177,605,302	72,341,905	9,910,802
To Class B Shares	(143,541,105)	91,711,006	37,660,325	5,159,444
Basic and diluted (loss) earnings per share:				
To Class A Shares	(4.13)	2.64	1.08	0.15
To Class B Shares	(4.13)	2.64	1.08	0.15

In November 2022, the Group received 870,908 Class A ordinary shares as a portion of repurchase consideration for the repurchase of Urban Group, which were excluded in the computation of basic and diluted earnings per shares for the year ended December 31, 2022 upon the completion of the disposition of Urban Hotel Group.

**28. SEGMENT REPORTING**

In accordance with ASC 280, *Segment Reporting*, operating segments are defined as components of an enterprise for which separate financial information is available that is regularly evaluated by the chief operating decision maker ("CODM"), or decision-making group, in deciding how to allocate resources and in assessing performance. The Group's CODM has been identified as the CEO of the Group. The Group reports its financial results in two operating segments: (1) Hotel Business, which consists of leased-and-operated hotels and franchised-and-managed hotels operating under the hotel related brand, and (2) Restaurant Business, which consists of leased-and-operated restaurants and franchised-and-managed restaurants operating under the brands of Da Niang and Bellagio. The reportable segments align with the manner in which the CODM currently receives and uses financial information to allocate resource and evaluate the performance of the segments.

The Group derives the results of the segments directly from its internal management reporting system. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the consolidated financial statements. Inter-segment sales are accounted for as if the sales were to third parties, that is, at current market prices. The CODM compares actual segment income (loss) from operations and segment net income (loss) with historical results on a regular basis when assessing the operating results and making resource decisions to improve profitability, and to develop strategic initiatives and capital allocation priorities.

The Group's CODM does not evaluate its operating segments using discrete asset information. There is no asset information that are supplemental to those disclosed in these consolidated financial statements, that are regularly provided to the CODM.

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

28. SEGMENT REPORTING (CONTINUED)

The following tables provide information about reported segment revenues, and measures of a segment's profit or loss, together with relevant reconciliations and other required disclosures:

	Year Ended December 31, 2022		
	Hotel business	Restaurant business	Consolidated
	RMB	RMB	RMB
Revenue from external customers	936,801,282	532,272,993	1,469,074,275
Intersegment revenue	—	1,514,259	1,514,259
	<u>936,801,282</u>	<u>533,787,252</u>	<u>1,470,588,534</u>
Reconciliation of revenue:			
Elimination of intersegment revenues			(1,514,259)
<b>Total revenues</b>			<b><u>1,469,074,275</u></b>
Less:			
Total operating costs and expenses *	(1,399,392,154)	(580,020,769)	(1,979,412,923)
Segment income (loss) from operations	<u>(462,590,872)</u>	<u>(46,233,517)</u>	<u>(508,824,389)</u>
Reconciliation of income (loss) from operations:			
Other operating income	19,448,889	4,544,259	23,993,148
Elimination of intersegment gross margin			(1,698,589)
<b>Income from operations</b>			<b><u>(486,529,830)</u></b>
Reconciliation of net (loss) income			
Other segment income (expense)**	(15,918,607)	(1,715,618)	(17,634,225)
Income tax benefit (expense)	45,592,418	(1,944,162)	43,648,256
Share of loss in equity method investments, net of tax	(1,598,301)	—	(1,598,301)
Segment net (loss) income	<u>(415,066,473)</u>	<u>(45,349,038)</u>	<u>(460,415,511)</u>
Elimination of intersegment income tax impact			424,647
<b>Net Loss</b>			<b><u>(461,689,453)</u></b>
<b>Other segment disclosures</b>			
Interest revenue	47,383,941	721,184	48,105,125
Interest expense	(25,375,848)	(2,611,994)	(27,987,842)

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

28. SEGMENT REPORTING (CONTINUED)

	Year Ended December 31, 2023		
	Hotel business	Restaurant business	Consolidated
	RMB	RMB	RMB
Revenue from external customers	1,191,906,073	435,351,616	1,627,257,689
Intersegment revenue	—	6,284,350	6,284,350
	<u>1,191,906,073</u>	<u>441,635,966</u>	<u>1,633,542,039</u>
Reconciliation of revenue:			
Elimination of intersegment revenues			(6,284,350)
<b>Total revenues</b>			<b><u>1,627,257,689</u></b>
Less:			
Total operating costs and expenses*	(881,148,053)	(448,102,058)	(1,329,250,111)
Segment income (loss) from operations	<u>310,758,020</u>	<u>(6,466,092)</u>	<u>304,291,928</u>
Reconciliation of income (loss) from operations:			
Other operating income	24,525,333	2,644,568	27,169,901
Elimination of intersegment gross margin			4,187,097
<b>Income from operations</b>			<b><u>335,648,926</u></b>
Reconciliation of net (loss) income			
Other segment income (expense) **	44,832,395	(109,463)	44,722,932
Income tax benefit (expense)	(113,125,742)	(4,279,739)	(117,405,481)
Share of loss in equity method investments, net of tax	(1,392,002)	—	(1,392,002)
Segment net (loss) income	<u>265,598,004</u>	<u>(8,210,726)</u>	<u>257,387,278</u>
Elimination of intersegment income tax impact			(1,046,774)
<b>Net income</b>			<b><u>260,527,601</u></b>
<b>Other segment disclosures</b>			
Interest revenue	41,240,610	130,552	41,371,162
Interest expense	(13,706,157)	(347,684)	(14,053,841)

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

28. SEGMENT REPORTING (CONTINUED)

	Year Ended December 31, 2024			
	Hotel business	Restaurant business	Consolidated	Consolidated
	RMB	RMB	RMB	USD
Revenue from external customers	1,066,502,811	276,937,385	1,343,440,196	184,050,552
Intersegment revenue	207,413	1,500,428	1,707,841	233,973
	<u>1,066,710,224</u>	<u>278,437,813</u>	<u>1,345,148,037</u>	<u>184,284,525</u>
Reconciliation of revenue:				
Elimination of intersegment revenues			(1,707,841)	(233,973)
<b>Total revenues</b>			<u><b>1,343,440,196</b></u>	<u><b>184,050,552</b></u>
Less:				
Total operating costs and expenses*	(851,935,422)	(391,435,679)	(1,243,371,101)	(170,341,142)
Segment income (loss) from operations	<u>214,774,802</u>	<u>(112,997,866)</u>	<u>101,776,936</u>	<u>13,943,384</u>
Reconciliation of income (loss) from operations:				
Other operating income	56,818,174	3,329,384	60,147,558	8,240,182
Elimination of intersegment gross margin			—	—
<b>Income (loss) from operations</b>			<u><b>161,924,494</b></u>	<u><b>22,183,566</b></u>
Reconciliation of net (loss) income				
Other segment income (expense) **	39,741,684	71,217	39,812,901	5,454,346
Income tax benefit (expense)	(107,223,277)	18,496,308	(88,726,969)	(12,155,545)
Share of loss in equity method investments, net of tax	(1,165,474)	—	(1,165,474)	(159,669)
Segment net (loss) income	<u>202,945,909</u>	<u>(91,100,957)</u>	<u>111,844,952</u>	<u>15,322,698</u>
Elimination of intersegment income tax impact			(4,530,600)	(620,690)
<b>Net income</b>			<u><b>107,314,352</b></u>	<u><b>14,702,008</b></u>
<b>Other segment disclosures</b>				
Interest revenue	39,982,179	89,889	40,072,068	5,489,851
Interest expense	(6,310,152)	—	(6,310,152)	(864,487)

\* Total operating costs and expenses (i.e. the significant segment expenses) include hotel operating costs, selling expenses, general and administrative expenses, other operating expenses, other general expenses and impairment loss of goodwill and intangible asset with indefinite life.

\*\* Other segment income (expense) includes interest income, interest expense, gains (losses and impairment) on equity securities held, and other income, net.

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

28. SEGMENT REPORTING (CONTINUED)

The following table presents the Group's revenues disaggregated by segment and by types of products or services.

	Year Ended December 31,			
	2022	2023	2024	2024
	RMB	RMB	RMB	USD
Revenue:				
Leased-and-operated hotels	338,506,220	490,924,060	437,521,898	59,940,254
Franchised-and-managed hotels	582,441,077	696,321,236	625,072,856	85,634,630
Wholesale and others	15,853,985	4,660,777	4,115,470	563,818
<b>Hotel business subtotal</b>	<b>936,801,282</b>	<b>1,191,906,073</b>	<b>1,066,710,224</b>	<b>146,138,702</b>
Revenue:				
Leased-and-operated restaurants	362,806,697	296,890,282	159,118,741	21,799,178
Franchised-and-managed restaurants	6,022,291	8,923,712	10,287,456	1,409,376
Wholesale and others	164,958,264	135,821,972	109,031,616	14,937,270
<b>Restaurant business subtotal</b>	<b>533,787,252</b>	<b>441,635,966</b>	<b>278,437,813</b>	<b>38,145,824</b>
Inter-segment*	(1,514,259)	(6,284,350)	(1,707,841)	(233,974)
<b>Total revenue</b>	<b>1,469,074,275</b>	<b>1,627,257,689</b>	<b>1,343,440,196</b>	<b>184,050,552</b>

\* The inter segment eliminations mainly consist of labor services related to restaurant staff and prepared meals and frozen foods provided by restaurant business segment to hotel business segment.

The Group primarily generates its revenues from customers in the PRC. Accordingly, no geographical segments are presented. Substantially all of the Group's long-lived assets are located in the PRC.

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

29. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed balance sheets

	As of December 31,		
	2023	2024	2024
	RMB	RMB	USD
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	13,423,750	253,708,400	34,757,908
Investments in equity securities	978,841	—	—
Amounts due from subsidiaries	125,960,969	169,208,479	23,181,467
Amounts due from a related party	—	—	—
Other current assets	321,495	330,527	45,282
<b>Total current assets</b>	<b>140,685,055</b>	<b>423,247,406</b>	<b>57,984,657</b>
<b>Non-current assets:</b>			
Investments in subsidiaries	2,179,129,452	2,183,092,396	299,082,432
Investments in equity securities	44,324,789	34,355,681	4,706,709
<b>TOTAL ASSETS</b>	<b>2,364,139,296</b>	<b>2,640,695,483</b>	<b>361,773,798</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Short-term bank loans	116,800,000	—	—
Long-term bank loans, current portion	200,000	400,000	54,800
Amounts due to subsidiaries	748,121,016	925,349,353	126,772,340
<b>Total current liabilities</b>	<b>865,121,016</b>	<b>925,749,353</b>	<b>126,827,140</b>
<b>Non-current liabilities:</b>			
Long-term bank loans, non-current portion	56,800,000	256,200,000	35,099,256
<b>Total liabilities</b>	<b>921,921,016</b>	<b>1,181,949,353</b>	<b>161,926,396</b>
<b>Shareholders' Equity:</b>			
Class A ordinary shares (USD0.50 par value per share; 400,000,000 and 400,000,000 shares authorized as of December 31, 2023 and 2024; 66,780,612 and 66,761,582 shares issued and outstanding as of December 31, 2023 and 2024, respectively)	222,587,070	222,587,070	30,494,304
Class B ordinary shares (USD0.50 par value per share; 100,000,000 and 100,000,000 shares authorized as of December 31, 2023 and 2024; 34,762,909 and 34,762,909 shares issued and outstanding as of December 31, 2023 and 2024, respectively)	115,534,210	115,534,210	15,828,122
Treasury stock	(36,677,832)	(37,043,116)	(5,074,886)
Additional paid-in capital	1,680,713,349	1,609,972,272	220,565,297
Accumulated losses	(568,339,799)	(458,337,569)	(62,791,989)
Accumulated other comprehensive income	28,401,282	6,033,263	826,554
<b>Total Shareholders' Equity</b>	<b>1,442,218,280</b>	<b>1,458,746,130</b>	<b>199,847,402</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2,364,139,296</b>	<b>2,640,695,483</b>	<b>361,773,798</b>

GREENTREE HOSPITALITY GROUP LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

29. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (CONTINUED)

Condensed statements of operations

	Year Ended December 31,			
	2022	2023	2024	2024
	RMB	RMB	RMB	USD
General and administrative expenses	(6,740,255)	(6,637,389)	(3,495,501)	(478,882)
Other general expense	(13,944,926)	—	—	—
Interest income	1,924	15,128	5,550,006	760,348
Interest expense	(5,192,054)	(4,723,335)	(8,046,920)	(1,102,424)
Other income (expense)	22,765,816	19,969,182	(4,815,940)	(659,781)
(Losses) gains on investments in equity securities	(76,105,482)	7,927,075	(11,463,068)	(1,570,434)
Share of (losses) profit in subsidiaries, net (Note a)	(345,938,204)	252,765,647	132,273,653	18,121,416
Net (loss) income	(425,153,181)	269,316,308	110,002,230	15,070,243
Other comprehensive losses, net of tax				
- Foreign currency translation adjustments	(11,361,872)	672,112	(22,374,019)	(3,065,228)
- Unrealized (losses) on available-for-sale investments	(2,786,931)	(2,934)	6,000	822
Comprehensive (loss) income	(439,301,984)	269,985,486	87,634,211	12,005,837

Condensed statements of cash flows

	Year Ended December 31,			
	2022	2023	2024	2024
	RMB	RMB	RMB	USD
Net cash used in operating activities	(4,198,307)	(12,424,134)	(5,660,966)	(775,549)
Net cash provided by investing activities	(156,276,810)	(352,234,205)	101,781,775	13,944,046
Net cash provided by financing activities	155,679,057	362,690,064	143,247,486	19,624,825
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(2,025,056)	(396,838)	916,355	125,540
Net decrease in cash and cash equivalents and restricted cash	(6,821,116)	(2,365,113)	240,284,650	32,918,862
Cash and cash equivalents and restricted cash at beginning of the year	22,609,979	15,788,863	13,423,750	1,839,046
Cash and cash equivalents and restricted cash at end of the year	15,788,863	13,423,750	253,708,400	34,757,908

(a) Basis of presentation

In the Group-only financial statements, the Group's investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries since inception.

The Group records its investment in its subsidiary under the equity method of accounting as prescribed in ASC 323-10 *Investment-Equity Method and Joint Ventures*, such investment is presented on the balance sheet as "Investment in subsidiaries" and share of the subsidiaries' profit or loss as "Equity in profit of subsidiaries" on the statements of operations.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted and as such, these Company-only financial statements should be read in conjunction with the Group's consolidated financial statements.

**DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED  
PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

As of December 31, 2024, GreenTree Hospitality Group Ltd. (the "company", "we", "us" and "our") had the following series of securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trade symbol	Name of each exchange on which registered
Class A ordinary shares, par value US\$0.50 per share* American depository shares, each representing one Class A ordinary share	GHG	New York Stock Exchange

\* Not for trading, but only in connection with the listing on the New York Stock Exchange of American depository shares.

**Description of Ordinary Shares (Items 9.A.3, 9.A.5, 9.A.6, 9.A.7, 10.B.3, 10.B.4, 10.B.6, 10.B.7, 10.B.8, 10.B.9 and 10.B.10 of Form 20-F)**

**General**

We are an exempted company incorporated in the Cayman Islands with limited liability and our affairs are governed by our amended and restated memorandum and articles of association, or our articles, and the Companies Act (As Revised) of the Cayman Islands, which we refer to as the Cayman Companies Act, and the common law of the Cayman Islands.

Each Class A ordinary share of our company has par value of US\$0.50. The number of Class A ordinary shares that were issued as of December 31, 2024 is provided on the cover of our annual report on Form 20-F for the year ended December 31, 2024.

Our amended and restated memorandum and articles of association currently effective, which we refer to as our articles, were adopted on March 11, 2018.

The following are summaries of certain material provisions of our articles and the Cayman Companies Act insofar as they relate to the material terms of our shares.

All of our issued and outstanding shares are fully paid and non-assessable. Our shares are issued in registered form, and are issued when registered in our register of shareholders. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares. We may not issue shares to bearer.

**Dividends**

The holders of our shares are entitled to such dividends as may be declared by our board of directors. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under the laws of the Cayman Islands, our company may pay a dividend out of either profits or share premium account, provided that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business.

**Voting Rights**

Our share capital is currently divided into two classes of shares. Our issued and outstanding share capital consists of Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are, on a poll, entitled to one (1) vote per share and holders of Class B ordinary shares are, on a poll, entitled to three (3) votes per share, in respect of all matters subject to vote at general meetings of the Company. Voting at any general meeting of shareholders shall be decided on a poll.

### *Transfer of Shares*

Subject to the restrictions set out below, any of our shareholders may transfer all or any of his or her shares by an instrument of transfer in any usual or common form or any other form approved by our board of directors, executed by or on behalf of the transferor and if in respect of a nil or partly paid up share, or if so required by the directors, shall also be executed on behalf of the transferee and shall be accompanied by the certificate (if any) of the shares to which it relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer. The transferor shall be deemed to remain a shareholder until the name of the transferee is entered in the register of member in respect of the relevant shares.

Our board of directors may, in its absolute discretion, decline to register any transfer of any share that has not been fully paid up or is on which our company has a lien. Our board of directors may also decline to register any transfer of any share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of shares;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four; and
- any fee of such maximum sum as the New York Stock Exchange may determine to be payable, or such lesser sum as the board of directors may from time to time require, is paid to us in respect thereof.

If our directors refuse to register a transfer, they shall within two calendar months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

### *Winding Up*

On the winding up of our company, if the assets available for distribution amongst our shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus shall be distributed amongst our shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to our company for unpaid calls or otherwise. If our assets available for distribution are insufficient to repay the whole of the share capital, such assets will be distributed so that, as nearly as may be, the losses shall be borne by our shareholders in proportion to the par value of the shares held by them.

The liquidator may, with the sanction of a special resolution of our shareholders and any other sanction required by the Cayman Companies Act, divide amongst the shareholders in species or in kind the whole or any part of the assets of our Company (whether they shall consist of property of the same kind or not), and may for such purpose value any assets and determine how the division shall be carried out as between our shareholders or different classes of shareholders.

We are an exempted company with limited liability incorporated under the Cayman Companies Act, and under the Cayman Companies Act, the liability of our shareholders is limited to the amount, if any, unpaid on the shares respectively held by them. Our memorandum of association contains a declaration that the liability of our shareholders is so limited.

### ***Redemption, Repurchase and Surrender of Shares***

We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders thereof, on such terms and in such manner as may be determined, before the issue of such shares, by our board of directors or by special resolution of our shareholders. Our Company may also repurchase any of our shares provided that the manner and terms of such purchase have been approved by our board of directors or by ordinary resolution of our shareholders, or as otherwise authorized by our articles. Under the Cayman Companies Act, the redemption or repurchase of any share may be paid out of our Company's profits or out of the proceeds of a new issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if our company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Cayman Companies Act no such share may be redeemed or repurchased (i) unless it is fully paid up, (ii) if such redemption or repurchase would result in there being no shares issued and outstanding or (iii) if the company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

### ***Calls on Shares and Forfeiture of Shares***

Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least fourteen calendar days prior to the specified time of payment. The shares that have been called upon and remain unpaid are subject to forfeiture.

### ***General Meetings of Shareholders***

As a Cayman Islands exempted company, we are not obliged by the Cayman Companies Act to call shareholders' annual general meetings. Our articles provide that we may (but are not obliged to) in each year hold a general meeting as our annual general meeting in which case we shall specify the meeting as such in the notices calling it, and the annual general meeting shall be held at such time and place as may be determined by our directors.

Shareholders' general meetings may be convened by a majority of our board of directors or by our chairman. Advance notice of at least ten calendar days is required for the convening of our annual general shareholders' meeting (if any) and any other general meeting of our shareholders. A quorum required for any general meeting of shareholders consists of at least one shareholder present in person or by proxy (or, if a corporation or other non-natural person, by its duly authorised representative), together holding Shares which carry in aggregate not less than one-third of all votes attaching to all of our shares in issue and entitled to vote at such general meeting.

The Cayman Companies Act provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our articles provide that upon the requisition of two or more shareholders together holding shares which carry in aggregate not less than one-third of all the votes attaching to all issued shares of our company entitled to vote at general meetings, our board shall convene an extraordinary general meeting and put the resolutions so requisitioned to a vote at such meeting. However, our articles do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

### ***Proceedings of Board of Directors***

Our articles provide that, subject to the Cayman Companies Act, our articles and to any resolutions passed in a general meeting, our business is to be managed and conducted by our board of directors. The quorum necessary for board meetings may be fixed by the board and, unless so fixed, will be a majority of the directors then in office.

Our articles provide that the directors may from time to time at their discretion exercise all powers of our company to borrow money, to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and issue debentures, debenture stock or other securities of our company, whether money is borrowed or as security for any debt, liability or obligation of our company or of any third party.

### **Changes in Capital**

Our shareholders may from time to time by ordinary resolution:

- increase our share capital by new shares of such amount;
- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;
- sub-divide our existing shares, or any of them, into shares of an amount smaller than that fixed by our memorandum of association, provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived; and
- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so canceled.

Our shareholders may by special resolution, subject to confirmation by the Grand Court of the Cayman Islands on an application by our company for an order confirming such reduction, reduce our share capital or any capital redemption reserve in any manner permitted by law.

### **Inspection of Books and Records**

Holders of our shares have no general right under the Cayman Companies Act to inspect or obtain copies of our list of shareholders or our corporate records (save for our articles, special resolutions of our shareholders and our register of mortgages and charges). However, we provide our shareholders with annual audited financial statements.

### **Exempted Company**

We are an exempted company with limited liability duly incorporated and validly existing under the Cayman Companies Act. The Cayman Companies Act distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except for the exemptions and privileges listed below:

- an exempted company does not have to file an annual return of its shareholders with the Registrar of Companies of the Cayman Islands;
- an exempted company's register of members is not open to inspection;
- an exempted company does not have to hold an annual general meeting;
- an exempted company may obtain an undertaking against the imposition of any future taxation (such undertakings are given for a period of up to 30 years);
- an exempted company may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- an exempted company may register as a limited duration company; and
- an exempted company may register as a segregated portfolio company.

"Limited liability" means that the liability of each shareholder is limited to the amount unpaid by the shareholder on that shareholder's shares in the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil). We are subject to reporting and other informational requirements of the Exchange Act, as applicable to foreign private issuers. We follow home country practice for certain corporate governance practices which may differ from the Corporate Governance Rules of the New York Stock Exchange. The listing requirements of the New York Stock Exchange require that every listed company hold an annual general meeting of shareholders. In addition, our articles allow our directors to call extraordinary general meetings of our shareholders pursuant to the procedures set forth in our articles.

## Differences in Corporate Law

The Cayman Companies Act is derived, to a large extent, from the older Companies Acts of England, but does not follow recent statutory enactments in England and accordingly there are significant differences between the Cayman Companies Act and the current Companies Act of England. In addition, the Cayman Companies Act differs from laws applicable to U.S. corporations and their shareholders. Set forth below is a summary of certain significant differences between the provisions of the Cayman Companies Act applicable to us and the laws applicable to companies incorporated in the State of Delaware.

### *Mergers and Similar Arrangements*

The Cayman Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (i) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (ii) a "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (i) a special resolution of the shareholders of each constituent company, and (ii) such other authorization, if any, as may be specified in such constituent company's articles of association. The plan must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

A merger between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders. For this purpose a subsidiary is a company of which at least 90% of the issued shares entitled to vote are owned by the parent company.

The consent of each holder of a fixed or floating security interest of a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

Except in certain limited circumstances, a shareholder of a Cayman Islands constituent company who dissents from the merger or consolidation is entitled to payment of the fair value of his or her shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) upon dissenting from a merger or consolidation, provide the dissenting shareholder complies strictly with the procedures set out in the Cayman Companies Act. The exercise of such dissenter rights will preclude the exercise by the dissenting shareholder of any other rights to which he or she might otherwise be entitled by virtue of holding shares, except for the right to seek relief on the grounds that the merger or consolidation is void or unlawful.

Separately from the statutory provisions relating to mergers and consolidations, the Cayman Companies Act also contains statutory provisions that facilitate the reconstruction and amalgamation of companies by way of schemes of arrangement, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must, in addition, represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;

- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

The Cayman Companies Act also contains a statutory power of compulsory acquisition which may facilitate the “squeeze out” of dissenting minority shareholder upon a tender offer. When a tender offer is made and accepted by holders of 90% of the shares affected within four months of the offer being made, the offeror may, within a two-month period commencing on the expiration of such four month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

If an arrangement and reconstruction is thus approved, or if a tender offer is made and accepted, a dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

#### ***Shareholders' Suits***

In principle, we will normally be the proper plaintiff to sue for a wrong done to us as a company and as a general rule, a derivative action may not be brought by a minority shareholder. However, based on English law authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, the Cayman Islands court can be expected to follow and apply the common law principles (namely the rule in *Foss v. Harbottle* and the exceptions thereto) so that a non-controlling shareholder may be permitted to commence a class action against or derivative actions in the name of the company to challenge:

- an act which is illegal or ultra vires with respect to the company and is therefore incapable of ratification by the shareholders;
- an act which, although not ultra vires, requires authorization by a qualified (or special) majority (that is, more than a simple majority) which has not been obtained; and
- an act which constitutes a “fraud on the minority” where the wrongdoers are themselves in control of the company.

#### ***Indemnification of Directors and Executive Officers and Limitation of Liability***

The Cayman Companies Act does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our articles provide that we shall indemnify our officers and directors against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by such directors or officer, other than by reason of such person’s dishonesty, willful default or fraud, in or about the conduct of our company’s business or affairs (including as a result of any mistake of judgment) or in the execution or discharge of his duties, powers, authorities or discretions, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by such director or officer in defending (whether successfully or otherwise) any civil proceedings concerning our company or its affairs in any court whether in the Cayman Islands or elsewhere. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation. In addition, we have entered into indemnification agreements with our directors and executive officers that provide such persons with additional indemnification beyond that provided in our articles.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

#### ***Anti-Takeover Provisions in Our Articles***

Some provisions of our articles may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our articles, as amended and restated from time to time, for a proper purpose and in what they believe in good faith to be in the best interests of our company.

#### ***Directors' Fiduciary Duties***

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he or she reasonably believes to be in the best interests of the corporation. He or she must not use his or her corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interests of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

As a matter of Cayman law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore he owes the following duties to the company — a duty to act bona fide in the best interests of the company, a duty not to make a profit based on his or her position as director (unless the company permits him to do so), a duty not to put himself in a position where the interests of the company conflict with his or her personal interest or his or her duty to a third party, and a duty to exercise powers for the purpose for which such powers were intended. A director of a Cayman Islands company owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his or her duties a greater degree of skill than may reasonably be expected from a person of his or her knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

#### ***Shareholder Proposals***

Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. The Delaware General Corporation Law does not provide shareholders an express right to put any proposal before the annual meeting of shareholders, but in keeping with common law, Delaware corporations generally afford shareholders an opportunity to make proposals and nominations provided that they comply with the notice provisions in the certificate of incorporation or bylaws. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

The Cayman Companies Act provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our articles allow two or more of our shareholders holding in aggregate not less than one-third of all the votes attaching to the issued shares of our company entitled to vote at general meetings to requisition an extraordinary general meeting of our shareholders, in which case our board is obliged to convene an extraordinary general meeting and to put the resolutions so requisitioned to a vote at such meeting. Our articles provide no other right to put any proposals before annual general meetings or extraordinary general meetings. As a Cayman Islands exempted company, we are not obligated by law to call shareholders' annual general meetings. However, our corporate governance guidelines require us to call a general meeting every year.

#### ***Cumulative Voting***

Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. While there is nothing under the laws of the Cayman Islands which specifically prohibits or restricts the creation of cumulative voting rights for the election of directors of our company, it is not a concept that is accepted as a common practice in the Cayman Islands, and our company has made no provisions in our articles to allow cumulative voting for election of our directors. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

#### ***Removal of Directors***

Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our articles, subject to certain restrictions as contained therein, directors may be removed by ordinary resolution of our shareholders. A director shall hold office until the expiration of his or her term or his or her successor shall have been elected and qualified, or until his or her office is otherwise vacated. A director's office shall be vacated if the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) dies or is found to be or becomes of unsound mind; (iii) resigns his office by notice in writing to the company; (iv) without special leave of absence from our board of directors, is absent from three consecutive meetings of the board and the board resolves that his office be vacated, (v) is prohibited by any applicable law from being a director or; (vi) is removed from office pursuant to any other provisions of our articles.

#### ***Transactions with Interested Shareholders***

The Delaware General Corporation Law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation or bylaws that is approved by its shareholders, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting stock or who or which is an affiliate or associate of the corporation and owned 15% or more of the corporation's outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, the fiduciary duties owed by our directors do require that such transactions must be entered into bona fide in the best interests of our company and for a proper corporate purpose and not with the effect of constituting a fraud on the minority shareholders.

***Dissolution; Winding Up***

Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board of directors.

Under the Cayman Companies Act, our company may be wound up by either a special resolution of our members or, if our company is unable to pay its debts as they fall due, by an ordinary resolution of our members. In addition, a company may be wound up by an order of the courts of the Cayman Islands. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

***Variation of Rights of Shares***

Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under our articles, if our share capital is divided into different classes of shares, we may only materially adversely vary or abrogate the rights attached to any class only with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

***Amendment of Governing Documents***

Under the Delaware General Corporation Law, a corporation's certificate of incorporation may be amended only if adopted and declared advisable by the board of directors and approved by a majority of the outstanding shares entitled to vote, and the bylaws may be amended with the approval of a majority of the outstanding shares entitled to vote and may, if so provided in the certificate of incorporation, also be amended by the board of directors. Under the Cayman Companies Act and our articles, our articles may only be amended by special resolution of our shareholders.

***Rights of Non-Resident or Foreign Shareholders***

There are no limitations imposed by our articles on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our articles which require our company to disclose shareholder ownership above any particular ownership threshold.

***Directors' Power to Issue Shares***

Under our articles, our board of directors is empowered to issue or allot shares (including, without limitation, preferred shares) (whether in certificated form or non-certificated form) to such persons, in such manner, on such terms and having such rights and being subject to such restrictions as they may from time to time determine, and to grant options with respect to shares and issue warrants or similar instruments with respect thereto. In particular, pursuant to our articles, our board of directors has the authority, without further approval of the shareholders, to grant rights over shares or other securities to be issued in one or more classes or series as they deem necessary or appropriate and determine the designations, powers, preferences, privileges and other rights attaching to such Shares or securities, including dividend rights, voting rights, conversion rights, terms of redemption and liquidation preferences, any or all of which may be greater than the powers, preferences, privileges and rights associated with the then issued and outstanding shares, at such times and on such other terms as they think proper. Subject to the directors' fiduciary duty of acting in the best interests of our company, preferred shares can be issued quickly with terms calculated to delay or prevent a change in control of us or make removal of management more difficult. Additionally, the issuance of preferred shares may have the effect of decreasing the market price of the shares, and may adversely affect the voting and other rights of the holders of shares.

**Description of Debt Securities, Warrants and Rights and Other Securities (Items 12.A, 12.B and 12.C of Form 20-F)**

None.

**Description of American Depositary Shares (Items 12.D.1 and 12.D.2 of Form 20-F)**

Deutsche Bank Trust Company Americas, as depositary, registers and delivers the ADSs. Each ADS represents ownership of one (1) Class A ordinary share, deposited with Deutsche Bank AG, Hong Kong Branch, as custodian for the depositary. Each ADS also represents ownership of any other securities, cash or other property which may be held by the depositary. The depositary's corporate trust office at which the ADSs are administered is located at 60 Wall Street, New York, NY 10005, USA. The principal executive office of the depositary is located at 60 Wall Street, New York, NY 10005, USA.

The Direct Registration System, or DRS, is a system administered by The Depository Trust Company, or DTC, pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto.

We do not treat ADS holders as our shareholders and accordingly, you, as an ADS holder, do not have shareholder rights. Cayman Islands law governs shareholder rights. The depositary is the holder of the ordinary shares underlying your ADSs. As a holder of ADSs, you have ADS holder rights. A deposit agreement among us, the depositary and you, as an ADS holder, and the beneficial owners of ADSs sets out ADS holder rights as well as the rights and obligations of the depositary. The laws of the State of New York govern the deposit agreement and the ADSs.

The following is a summary of the material provisions of the deposit agreement. For more complete information, you should read the entire deposit agreement and the form of American Depositary Receipt.

**Holding the ADSs**

***How will you hold your ADSs?***

You may hold ADSs either (1) directly (a) by having an American Depositary Receipt, or ADR, which is a certificate evidencing a specific number of ADSs, registered in your name, or (b) by holding ADSs in DRS, or (2) indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADS holder. This description assumes you hold your ADSs directly. ADSs will be issued through DRS, unless you specifically request certificated ADRs. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

## Dividends and Other Distributions

### *How will you receive dividends and other distributions on the shares?*

The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on ordinary shares or other deposited securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent as of the record date (which will be as close as practicable to the record date for our ordinary shares) set by the depositary with respect to the ADSs.

- **Cash.** The depositary will convert or cause to be converted any cash dividend or other cash distribution we pay on the ordinary shares or any net proceeds from the sale of any ordinary shares, rights, securities or other entitlements under the terms of the deposit agreement into U.S. dollars if it can do so on a practicable basis, and can transfer the U.S. dollars to the United States and will distribute promptly the amount thus received. If the depositary shall determine in its judgment that such conversions or transfers are not practical or lawful or if any government approval or license is needed and cannot be obtained at a reasonable cost within a reasonable period or otherwise sought, the deposit agreement allows the depositary to distribute the foreign currency only to those ADS holders to whom it is possible to do so. It will hold or cause the custodian to hold the foreign currency if it cannot convert for the account of the ADS holders who have not been paid and such funds will be held for the respective accounts of the ADS holders. It will not invest the foreign currency and it will not be liable for any interest for the respective accounts of the ADS holders.
- Before making a distribution, any taxes or other governmental charges, together with fees and expenses of the depositary, that must be paid, will be deducted. It will distribute only whole U.S. dollars and cents and will round down fractional cents to the nearest whole cent. *If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, you may lose some or all of the value of the distribution.*
- **Shares.** For any ordinary shares we distribute as a dividend or free distribution, either (1) the depositary will distribute additional ADSs representing such ordinary shares or (2) existing ADSs as of the applicable record date will represent rights and interests in the additional ordinary shares distributed, to the extent reasonably practicable and permissible under law, in either case, net of applicable fees, charges and expenses incurred by the depositary and taxes and/or other governmental charges. The depositary will only distribute whole ADSs. It will try to sell ordinary shares which would require it to deliver a fractional ADS and distribute the net proceeds in the same way as it does with cash. The depositary may sell a portion of the distributed ordinary shares sufficient to pay its fees and expenses, and any taxes and governmental charges, in connection with that distribution.
- **Elective Distributions in Cash or Shares.** If we offer holders of our ordinary shares the option to receive dividends in either cash or shares, the depositary, after consultation with us and having received timely notice as described in the deposit agreement of such elective distribution by us, has discretion to determine to what extent such elective distribution will be made available to you as a holder of the ADSs. We must timely first instruct the depositary to make such elective distribution available to you and furnish it with satisfactory evidence that it is legal to do so. The depositary could decide it is not legal or reasonably practicable to make such elective distribution available to you. In such case, the depositary shall, on the basis of the same determination as is made in respect of the ordinary shares for which no election is made, distribute either cash in the same way as it does in a cash distribution, or additional ADSs representing ordinary shares in the same way as it does in a share distribution. The depositary is not obligated to make available to you a method to receive the elective dividend in shares rather than in ADSs. There can be no assurance that you will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of ordinary shares.
- **Rights to Purchase Additional Shares.** If we offer holders of our ordinary shares any rights to subscribe for additional shares, the depositary shall having received timely notice as described in the deposit agreement of such distribution by us, consult with us, and we must determine whether it is lawful and reasonably practicable to make these rights available to you. We must first instruct the depositary to make such rights available to you and furnish the depositary with satisfactory evidence that it is legal to do so. If the depositary decides it is not legal or reasonably practicable to make the rights available but that it is lawful and reasonably practicable to sell the rights, the depositary will endeavor to sell the rights and in a riskless principal capacity or otherwise, at such place and upon such terms (including public or private sale) as it may deem proper distribute the net proceeds in the same way as it does with cash. The depositary will allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them.

- U.S. securities laws may restrict transfers and cancellation of the ADSs represented by shares purchased upon exercise of rights. For example, you may not be able to trade these ADSs freely in the United States. In this case, the depositary may deliver restricted depositary shares that have the same terms as the ADSs described in this section except for changes needed to put the necessary restrictions in place.
- There can be no assurance that you will be given the opportunity to exercise rights on the same terms and conditions as the holders of ordinary shares or be able to exercise such rights.
- **Other Distributions.** Subject to receipt of timely notice, as described in the deposit agreement, from us with the request to make any such distribution available to you, and provided the depositary has determined such distribution is lawful and reasonably practicable and feasible and in accordance with the terms of the deposit agreement, the depositary will distribute to you anything else we distribute on deposited securities by any means it may deem practicable, upon your payment of applicable fees, charges and expenses incurred by the depositary and taxes and/or other governmental charges. If any of the conditions above are not met, the depositary will endeavor to sell, or cause to be sold, what we distributed and distribute the net proceeds in the same way as it does with cash; or, if it is unable to sell such property, the depositary may dispose of such property in any way it deems reasonably practicable under the circumstances for nominal or no consideration, such that you may have no rights to or arising from such property.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, shares, rights or anything else to ADS holders. This means that you may not receive the distributions we make on our shares or any value for them if we and/or the depositary determines that it is illegal or not practicable for us or the depositary to make them available to you.

#### **Deposit, Withdrawal and Cancellation**

##### ***How are ADSs issued?***

The depositary will deliver ADSs if you or your broker deposit ordinary shares or evidence of rights to receive ordinary shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will register the appropriate number of ADSs in the names you request and will deliver the ADSs to or upon the order of the person or persons entitled thereto.

##### ***How do ADS holders cancel an American Depositary Share?***

You may turn in your ADSs at the depositary's corporate trust office or by providing appropriate instructions to your broker. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the ordinary shares and any other deposited securities underlying the ADSs to you or a person you designate at the office of the custodian. Or, at your request, risk and expense, the depositary will deliver the deposited securities at its corporate trust office, to the extent permitted by law.

##### ***How do ADS holders interchange between Certificated ADSs and Uncertificated ADSs?***

You may surrender your ADR to the depositary for the purpose of exchanging your ADR for uncertificated ADSs. The depositary will cancel that ADR and will send you a statement confirming that you are the owner of uncertificated ADSs. Alternatively, upon receipt by the depositary of a proper instruction from a holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs, the depositary will execute and deliver to you an ADR evidencing those ADSs.

## **Voting Rights**

### ***How do you vote?***

You may instruct the depositary to vote the ordinary shares or other deposited securities underlying your ADSs at any meeting at which you are entitled to vote pursuant to any applicable law, the provisions of our memorandum and articles of association, and the provisions of or governing the deposited securities. *Otherwise, you could exercise your right to vote directly if you withdraw the ordinary shares. However, you may not know about the meeting sufficiently enough in advance to withdraw the ordinary shares.*

If we ask for your instructions and upon timely notice from us by regular, ordinary mail delivery, or by electronic transmission, as described in the deposit agreement, the depositary will notify you of the upcoming meeting at which you are entitled to vote pursuant to any applicable law, the provisions of our memorandum and articles of association, and the provisions of or governing the deposited securities, and arrange to deliver our voting materials to you. The materials will include or reproduce (a) such notice of meeting or solicitation of consents or proxies; (b) a statement that the ADS holders at the close of business on the ADS record date will be entitled, subject to any applicable law, the provisions of our memorandum and articles of association, and the provisions of or governing the deposited securities, to instruct the depositary as to the exercise of the voting rights, if any, pertaining to the ordinary shares or other deposited securities represented by such holder's ADSs; and (c) a brief statement as to the manner in which such instructions may be given. Voting instructions may be given only in respect of a number of ADSs representing an integral number of ordinary shares or other deposited securities. For instructions to be valid, the depositary must receive them in writing on or before the date specified. The depositary will try, as far as practical, subject to applicable law and the provisions of our memorandum and articles of association, to vote or to have its agents vote the ordinary shares or other deposited securities (in person or by proxy) as you instruct.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the ordinary shares underlying your ADSs. In addition, there can be no assurance that ADS holders and beneficial owners generally, or any holder or beneficial owner in particular, will be given the opportunity to vote or cause the custodian to vote on the same terms and conditions as the holders of our ordinary shares.

The depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. *This means that you may not be able to exercise your right to vote and you may have no recourse if the ordinary shares underlying your ADSs are not voted as you requested.*

In order to give you a reasonable opportunity to instruct the depositary as to the exercise of voting rights relating to deposited securities, if we request the depositary to act, we will give the depositary notice of any such meeting and details concerning the matters to be voted at least 30 business days in advance of the meeting date.

## **Compliance with Regulations**

### ***Information Requests***

Each ADS holder and beneficial owner shall (a) provide such information as we or the depositary may request pursuant to law, including, without limitation, relevant Cayman Islands law, any applicable law of the United States of America, our memorandum and articles of association, any resolutions of our Board of Directors adopted pursuant to such memorandum and articles of association, the requirements of any markets or exchanges upon which the ordinary shares, ADSs or ADRs are listed or traded, or to any requirements of any electronic book-entry system by which the ADSs or ADRs may be transferred, regarding the capacity in which they own or owned ADRs, the identity of any other persons then or previously interested in such ADRs and the nature of such interest, and any other applicable matters, and (b) be bound by and subject to applicable provisions of the laws of the Cayman Islands, our memorandum and articles of association, and the requirements of any markets or exchanges upon which the ADSs, ADRs or ordinary shares are listed or traded, or pursuant to any requirements of any electronic book-entry system by which the ADSs, ADRs or ordinary shares may be transferred, to the same extent as if such ADS holder or beneficial owner held ordinary shares directly, in each case irrespective of whether or not they are ADS holders or beneficial owners at the time such request is made.

### **Disclosure of Interests**

Each ADS holder and beneficial owner shall comply with our requests pursuant to Cayman Islands law, the rules and requirements of the New York Stock Exchange and any other stock exchange on which the ordinary shares are, or will be, registered, traded or listed or our memorandum and articles of association, which requests are made to provide information, inter alia, as to the capacity in which such ADS holder or beneficial owner owns ADS and regarding the identity of any other person interested in such ADS and the nature of such interest and various other matters, whether or not they are ADS holders or beneficial owners at the time of such requests.

### **Fees and Expenses**

As an ADS holder, you will be required to pay the following service fees to the depositary bank and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of your ADSs):

<b>Service</b>	<b>Fees</b>
• To any person to which ADSs are issued or to any person to which a distribution is made in respect of ADS distributions pursuant to stock dividends or other free distributions of stock, bonus distributions, stock splits or other distributions (except where converted to cash)	Up to US\$0.05 per ADS issued
• Cancellation of ADSs, including the case of termination of the deposit agreement	Up to US\$0.05 per ADS cancelled
• Distribution of cash dividends	Up to US\$0.05 per ADS held
• Distribution of cash entitlements (other than cash dividends) and/or cash proceeds from the sale of rights, securities and other entitlements	Up to US\$0.05 per ADS held
• Distribution of ADSs pursuant to exercise of rights.	Up to US\$0.05 per ADS held
• Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to US\$0.05 per ADS held
• Depositary services	Up to US\$0.05 per ADS held on the applicable record date(s) established by the depositary bank

As an ADS holder, you will also be responsible to pay certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of your ADSs) such as:

- Fees for the transfer and registration of ordinary shares charged by the registrar and transfer agent for the ordinary shares in the Cayman Islands (i.e., upon deposit and withdrawal of ordinary shares).
- Expenses incurred for converting foreign currency into U.S. dollars.
- Expenses for cable, telex and fax transmissions and for delivery of securities.
- Taxes and duties upon the transfer of securities, including any applicable stamp duties, any stock transfer charges or withholding taxes (i.e., when ordinary shares are deposited or withdrawn from deposit).

- Fees and expenses incurred in connection with the delivery or servicing of ordinary shares on deposit.
- Fees and expenses incurred in connection with complying with exchange control regulations and other regulatory requirements applicable to ordinary shares, deposited securities, ADSs and ADRs.
- Any applicable fees and penalties thereon.

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

The depositary fees payable for cash distributions are generally deducted from the cash being distributed or by selling a portion of distributable property to pay the fees. In the case of distributions other than cash (i.e., share dividends, rights), the depositary bank charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary bank sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via DTC), the depositary bank generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary banks.

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

The depositary may make payments to us or reimburse us for certain costs and expenses, by making available a portion of the ADS fees collected in respect of the ADR program or otherwise, upon such terms and conditions as we and the depositary bank agree from time to time.

#### **Payment of Taxes**

You will be responsible for any taxes or other governmental charges payable, or which become payable, on your ADSs or on the deposited securities represented by any of your ADSs. The depositary may refuse to register or transfer your ADSs or allow you to withdraw the deposited securities represented by your ADSs until such taxes or other charges are paid. It may apply payments owed to you or sell deposited securities represented by your ADSs to pay any taxes owed and you will remain liable for any deficiency. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any net proceeds, or send to you any property, remaining after it has paid the taxes. You agree to indemnify us, the depositary, the custodian and each of our and their respective agents, directors, employees and affiliates for, and hold each of them harmless from, any claims with respect to taxes (including applicable interest and penalties thereon) arising from any refund of taxes, reduced rate of withholding at source or other tax benefit obtained for you. Your obligations under this paragraph shall survive any transfer of ADRs, any surrender of ADRs and withdrawal of deposited securities or the termination of the deposit agreement.

#### **Reclassifications, Recapitalizations and Mergers**

##### **If we:**

Change the nominal or par value of our ordinary shares

Reclassify, split up or consolidate any of the deposited securities

Distribute securities on the ordinary shares that are not distributed to you, or Recapitalize, reorganize, merge, liquidate, sell all or substantially all of our assets, or take any similar action

##### **Then:**

The cash, shares or other securities received by the depositary will become deposited securities.

Each ADS will automatically represent its equal share of the new deposited securities.

The depositary may distribute some or all of the cash, shares or other securities it received. It may also deliver new ADSs or ask you to surrender your outstanding ADRs in exchange for new ADRs identifying the new deposited securities.

## **Amendment and Termination**

### ***How may the deposit agreement be amended?***

We may agree with the depository to amend the deposit agreement and the form of ADR without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depository for registration fees, facsimile costs, delivery charges or similar items, including expenses incurred in connection with foreign exchange control regulations and other charges specifically payable by ADS holders under the deposit agreement, or materially prejudices a substantial existing right of ADS holders, it will not become effective for outstanding ADSs until 30 days after the depository notifies ADS holders of the amendment. *At the time an amendment becomes effective, you are considered, by continuing to hold your ADSs, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended.* If any new laws are adopted which would require the deposit agreement to be amended in order to comply therewith, we and the depository may amend the deposit agreement in accordance with such laws and such amendment may become effective before notice thereof is given to ADS holders.

### ***How may the deposit agreement be terminated?***

The depository will terminate the deposit agreement if we ask it to do so, in which case the depository will give notice to you at least 90 days prior to termination. The depository may also terminate the deposit agreement if the depository has told us that it would like to resign, or if we have removed the depository, and in either case we have not appointed a new depository within 90 days. In either such case, the depository must notify you at least 30 days before termination.

After termination, the depository and its agents will do the following under the deposit agreement but nothing else: collect distributions on the deposited securities, sell rights and other property and deliver ordinary shares and other deposited securities upon cancellation of ADSs after payment of any fees, charges, taxes or other governmental charges. Six months or more after the date of termination, the depository may sell any remaining deposited securities by public or private sale. After that, the depository will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement, for the pro rata benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and has no liability for interest. After such sale, the depository's only obligations will be to account for the money and other cash. After termination, we shall be discharged from all obligations under the deposit agreement except for our obligations to the depository thereunder.

## **Books of Depository**

The depository maintains ADS holder records at its depository office. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the Company, the ADRs and the deposit agreement.

The depository maintains facilities in the Borough of Manhattan, The City of New York to record and process the issuance, cancellation, combination, split-up and transfer of ADRs.

These facilities may be closed at any time or from time to time when such action is deemed necessary or advisable by the depository in connection with the performance of its duties under the deposit agreement or at our reasonable written request.

## Limitations on Obligations and Liability

### *Limits on our Obligations and the Obligations of the Depositary and the Custodian; Limits on Liability to Holders of ADSs*

The deposit agreement expressly limits our obligations and the obligations of the depositary and the custodian. It also limits our liability and the liability of the depositary. The depositary and the custodian:

- are only obligated to take the actions specifically set forth in the deposit agreement without gross negligence or willful misconduct;
- are not liable if any of us or our respective controlling persons or agents are prevented or forbidden from, or subjected to any civil or criminal penalty or restraint on account of, or delayed in, doing or performing any act or thing required by the terms of the deposit agreement and any ADR, by reason of any provision of any present or future law or regulation of the United States or any state thereof, Cayman Islands or any other country, or of any other governmental authority or regulatory authority or stock exchange, or on account of the possible criminal or civil penalties or restraint, or by reason of any provision, present or future, of our memorandum and articles of association or any provision of or governing any deposited securities, or by reason of any act of God or war or other circumstances beyond its control (including, without limitation, nationalization, expropriation, currency restrictions, work stoppage, strikes, civil unrest, revolutions, rebellions, explosions and computer failure);
- are not liable by reason of any exercise of, or failure to exercise, any discretion provided for in the deposit agreement or in our memorandum and articles of association or provisions of or governing deposited securities;
- are not liable for any action or inaction of the depositary, the custodian or us or their or our respective controlling persons or agents in reliance upon the advice of or information from legal counsel, any person presenting ordinary shares for deposit or any other person believed by it in good faith to be competent to give such advice or information;
- are not liable for the inability of any holder of ADSs to benefit from any distribution on deposited securities that is not made available to holders of ADSs under the terms of the deposit agreement;
- are not liable for any special, consequential, indirect or punitive damages for any breach of the terms of the deposit agreement, or otherwise;
- may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper party;
- disclaim any liability for any action or inaction or inaction of any of us or our respective controlling persons or agents in reliance upon the advice of or information from legal counsel, accountants, any person presenting ordinary shares for deposit, holders and beneficial owners (or authorized representatives) of ADSs, or any person believed in good faith to be competent to give such advice or information; and
- disclaim any liability for inability of any holder to benefit from any distribution, offering, right or other benefit made available to holders of deposited securities but not made available to holders of ADS.

The depositary and any of its agents also disclaim any liability (i) for any failure to carry out any instructions to vote, the manner in which any vote is cast or the effect of any vote or failure to determine that any distribution or action may be lawful or reasonably practicable or for allowing any rights to lapse in accordance with the provisions of the deposit agreement, (ii) the failure or timeliness of any notice from us, the content of any information submitted to it by us for distribution to you or for any inaccuracy of any translation thereof, (iii) any investment risk associated with the acquisition of an interest in the deposited securities, the validity or worth of the deposited securities, the credit-worthiness of any third party, (iv) for any tax consequences that may result from ownership of ADSs, ordinary shares or deposited securities, or (v) for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the depositary or in connection with any matter arising wholly after the removal or resignation of the depositary, provided that in connection with the issue out of which such potential liability arises the depositary performed its obligations without gross negligence or willful misconduct while it acted as depositary.

In addition, the deposit agreement provides that each party to the deposit agreement (including each holder, beneficial owner and holder of interests in the ADRs) irrevocably waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in any lawsuit or proceeding against the depositary or our company related to our shares, the ADSs or the deposit agreement.

In the deposit agreement, we agree to indemnify the depositary under certain circumstances.

#### **Requirements for Depositary Actions**

Before the depositary will issue, deliver or register a transfer of an ADS, split-up, subdivide or combine ADSs, make a distribution on an ADS, or permit withdrawal of ordinary shares, the depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any ordinary shares or other deposited securities and payment of the applicable fees, expenses and charges of the depositary;
- satisfactory proof of the identity and genuineness of any signature or any other matters contemplated in the deposit agreement; and
- compliance with (A) any laws or governmental regulations relating to the execution and delivery of ADRs or ADSs or to the withdrawal or delivery of deposited securities and (B) such reasonable regulations and procedures as the depositary may establish, from time to time, consistent with the deposit agreement and applicable laws, including presentation of transfer documents.

The depositary may refuse to issue and deliver ADSs or register transfers of ADSs generally when the register of the depositary or our transfer books are closed or at any time if the depositary or we determine that it is necessary or advisable to do so.

#### **Your Right to Receive the Shares Underlying Your ADSs**

You have the right to cancel your ADSs and withdraw the underlying ordinary shares at any time except:

- when temporary delays arise because: (1) the depositary has closed its transfer books or we have closed our transfer books; (2) the transfer of ordinary shares is blocked to permit voting at a shareholders' meeting; or (3) we are paying a dividend on our ordinary shares;
- when you owe money to pay fees, taxes and similar charges;
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of ordinary shares or other deposited securities, or
- other circumstances specifically contemplated by Section I.A.(l) of the General Instructions to Form F-6 (as such General Instructions may be amended from time to time); or
- for any other reason if the depositary or we determine, in good faith, that it is necessary or advisable to prohibit withdrawals.

The depositary shall not knowingly accept for deposit under the deposit agreement any ordinary shares or other deposited securities required to be registered under the provisions of the Securities Act, unless a registration statement is in effect as to such ordinary shares.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

#### **Direct Registration System**

In the deposit agreement, all parties to the deposit agreement acknowledge that the DRS and Profile Modification System, or Profile, will apply to uncertificated ADSs upon acceptance thereof to DRS by DTC. DRS is the system administered by DTC pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto. Profile is a required feature of DRS which allows a DTC participant, claiming to act on behalf of an ADS holder, to direct the depositary to register a transfer of those ADSs to DTC or its nominee and to deliver those ADSs to the DTC account of that DTC participant without receipt by the depositary of prior authorization from the ADS holder to register such transfer.

**List of Significant Subsidiaries of  
GreenTree Hospitality Group Ltd. (as of December 31, 2024)\***

<b>Subsidiaries</b>	<b>Jurisdiction of Incorporation</b>
GreenTree Inns Hotel (China) Management, Inc.** 格林豪泰酒店 (中国) 有限公司	PRC
Shanghai Evergreen Technology Co., Ltd.** 上海常青藤信息技术有限公司	PRC
GreenTree Inns Hotel (Shanghai) Management, Inc.** 格林豪泰酒店 (上海) 有限公司	PRC
GreenTree Inns Hotel (Beijing) Management, Inc.** 格林豪泰酒店管理 (北京) 有限公司	PRC
GreenTree Inns Jiangpu Hotel (Shanghai) Company Limited** 格林豪泰江浦酒店 (上海) 有限公司	PRC
GreenTree Inns Hotel (Changning) Management, Inc.** 格林豪泰长宁酒店 (上海) 有限公司	PRC
Shiruide Hotel Management (Shanghai) Co., Ltd. ** 诗瑞德酒店管理 (上海) 有限公司	PRC

\* Other subsidiaries of GreenTree Hospitality Group Ltd. have been omitted because, in the aggregate, they would not be a "significant subsidiary" as defined in rule 1-02(w) of Regulation S-X as of the end of the fiscal year covered by this report.

\*\* The English name of this subsidiary has been translated from its Chinese name.

## Certification by the Principal Executive Officer

## Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Alex S. Xu, certify that:

1. I have reviewed this annual report on Form 20-F of GreenTree Hospitality Group Ltd. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 30, 2025

By: /s/ Alex S. Xu  
Name: Alex S. Xu  
Title: Chairman and Chief Executive Officer

## Certification by the Principal Financial Officer

## Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Yiping Yang, certify that:

1. I have reviewed this annual report on Form 20-F of GreenTree Hospitality Group Ltd. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 30, 2025

By: /s/ Yiping Yang  
Name: Yiping Yang  
Title: Chief Financial Officer

**Certification by the Principal Executive Officer**

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report of GreenTree Hospitality Group Ltd. (the "Company") on Form 20-F for the year ended December 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alex S. Xu, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 30, 2025

By: /s/ Alex S. Xu  
Name: Alex S. Xu  
Title: Chairman and Chief Executive Officer

**Certification by the Principal Financial Officer**

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report of GreenTree Hospitality Group Ltd. (the "Company") on Form 20-F for the year ended December 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Yiping Yang, Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 30, 2025

By: /s/ Yiping Yang  
Name: Yiping Yang  
Title: Chief Financial Officer

上海市乔文律师事务所  
SHANGHAI QIAOWEN LAW FIRM  
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Tel: +86 021 5858 9128  
Web: www.qiaowen.com

April 30, 2025  
GreenTree Hospitality Group Ltd.  
1228 Zhongshan North Road, 200065  
Putuo District  
Shanghai 200065  
People's Republic of China

Dear Sir/Madam,

We are qualified lawyers of the People's Republic of China (the "PRC", for the purpose of this consent, excluding the Hong Kong Special Administrative Region, Macao Special Administrative Region and the region of Taiwan) and as such are qualified to advise on PRC laws, regulations or rules effective on the date hereof.

We are acting as the PRC counsel to GreenTree Hospitality Group Ltd. (the "Company"), a company incorporated under the laws of the Cayman Islands, in connection with the Company's Annual Report on Form 20-F for the year ended December 31, 2024 (the "2024 Annual Report").

We consent to the reference to our firm under the headings "Item 3. Key Information—D. Risk Factors.—Risks Related to Doing Business in China" and "Item 4. Information on the Company—C. Organizational Structure" in the Company's 2024 Annual Report, which will be filed with the Securities and Exchange Commission (the "SEC"). We also consent to the filing with the SEC of this consent letter as an exhibit to the 2024 Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours faithfully,

/s/ SHANGHAI QIAOWEN LAW FIRM

SHANGHAI QIAOWEN LAW FIRM