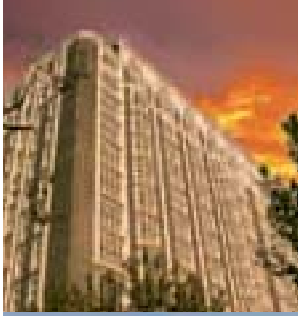
Jin Jiang Hotels

Shanghai Jin Jiang International Hotels (Group) Company Limited

(a joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code : 02006

ANNUAL REPORT 2008

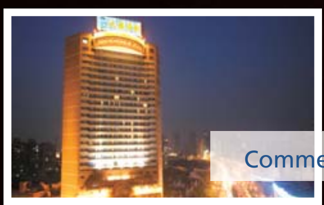






Landmark Hotels

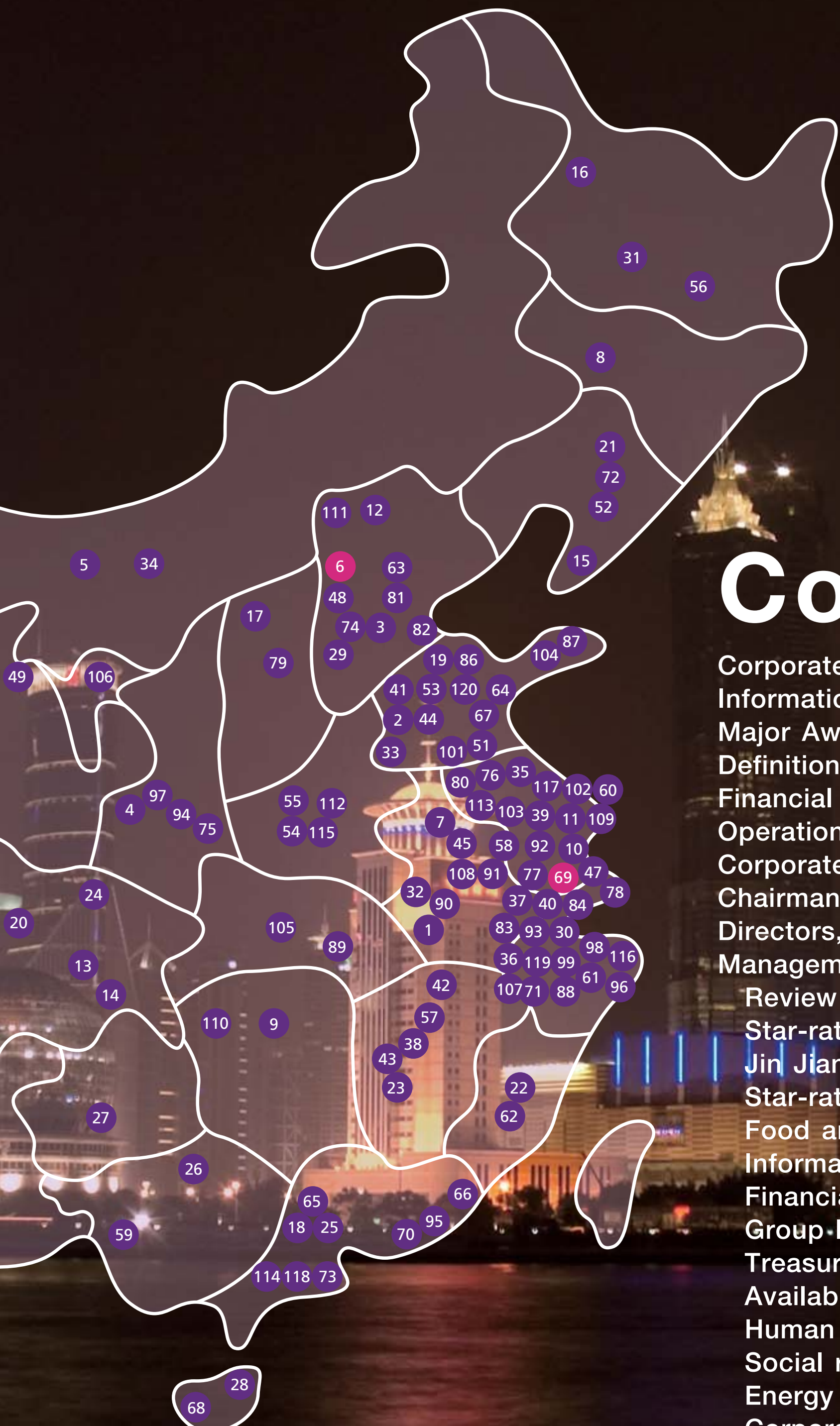
Luxury Hotels



Commercial Hotels

Budget Hotels

1	Anqing	16	Daqing	31	Harbin	46	Kunming	61	Ningbo	76	Suqian	91	Wujiang	106	Yinchuan
2	Anyang	17	Datong	32	Hefei	47	Kunshan	62	Putian	77	Suzhou	92	Wuxi	107	Yiwu
3	Baoding	18	Dongguan	33	Heze	48	Langfang	63	Qian'an	78	Taicang	93	Wuzhen	108	Yixing
4	Baoji	19	Dongying	34	Hohhot	49	Lanzhou	64	Qingdao	79	Taiyuan	94	Xi'an	109	Zhangjiagang
5	Baotou	20	Dujiangyan	35	Huai'an	50	Lhasa	65	Qingyuan	80	Taizhou	95	Xiamen	110	Zhangjiajie
6	Beijing	21	Fushun	36	Huangshan	51	Lianyungang	66	Quanzhou	81	Tangshan	96	Xiangshan	111	Zhangjiakou
7	Bengbu	22	Fuzhou	37	Huzhou	52	Liaoyang	67	Rizhao	82	Tianjin	97	Xianyang	112	Zhengzhou
8	Changchun	23	Ganzhou	38	Ji'an	53	Linyi	68	Sanya	83	Tonglu	98	Xiaoshan	113	Zhenjiang
9	Changsha	24	Guangyuan	39	Jiangyin	54	Luohe	69	Shanghai	84	Tongxiang	99	Xinchang	114	Zhongshan
10	Changshu	25	Guangzhou	40	Jiaxing	55	Luoyang	70	Shantou	85	Urumchi	100	Xining	115	Zhoukou
11	Changzhou	26	Guilin	41	Jinan	56	Mudanjiang	71	Shaoxing	86	Weifang	101	Xuzhou	116	Zhoushan
12	Chengde	27	Guiyang	42	Jingdezhen	57	Nanchang	72	Shenyang	87	Weihai	102	Yancheng	117	Zhouzhuang
13	Chengdu	28	Haikou	43	Jinggangshan	58	Nanjing	73	Shenzhen	88	Wenzhou	103	Yangzhou	118	Zhuhai
14	Chongqing	29	Handan	44	Jining	59	Nanning	74	Shijiazhuang	89	Wuhan	104	Yantai	119	Zhuji
15	Dalian	30	Hangzhou	45	Jurong	60	Nantong	75	Shiyan	90	Wuhu	105	Yichang	120	Zibo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CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Mr. Yu Minliang *(Chairman)*
Ms. Chen Wenjun
Mr. Yang Weimin *(CEO)*
Mr. Chen Hao
Mr. Yuan Gongyao
Mr. Xu Zurong
Mr. Han Min
Mr. Kang Ming

NON-EXECUTIVE DIRECTOR
Mr. Shen Maoxing *(Vice Chairman)*

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Ji Gang
Mr. Xia Dawei
Mr. Sun Dajian
Dr. Rui Mingjie
Mr. Yang Menghua
Dr. Tu Qiyu
Mr. Shen Chengxiang
Mr. Lee Chung Bo

SUPERVISORS
Mr. Wang Xingze
(Chairman of Supervisory Committee)
Mr. Wang Guoxing
Mr. Ma Mingju
Ms. Chen Junjin
Ms. Jiang Ping
Mr. Zhou Qiquan

AUTHORISED REPRESENTATIVES
Mr. Yang Weimin
Mr. Kang Ming

ALTERNATE TO AUTHORISED REPRESENTATIVES
Ms. Chen Junjin

JOINT COMPANY SECRETARIES
Mr. Kang Ming
Mr. Ngai Wai Fung

QUALIFIED ACCOUNTANT
Dr. Ai Gengyun

AUDIT COMMITTEE
Mr. Xia Dawei *(Chairman)*
Mr. Yang Menghua
Mr. Sun Dajian

REMUNERATION COMMITTEE
Mr. Chen Hao *(Chairman)*
Mr. Ji Gang
Mr. Yang Menghua

STRATEGIC INVESTMENT COMMITTEE
Mr. Yang Weimin *(Chairman)*
Mr. Chen Hao
Dr. Rui Mingjie

INTERNATIONAL AUDITOR
PricewaterhouseCoopers

PRC AUDITOR
Deloitte Touche Tohmatsu CPA Ltd.

LEGAL ADVISERS
As to Hong Kong law & US law:
Baker & McKenzie

As to PRC law:
King and Wood

CHINESE NAME OF THE COMPANY
上海錦江國際酒店（集團）股份有限公司

ENGLISH NAME OF THE COMPANY
Shanghai Jin Jiang International Hotels (Group) Company Limited

H SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

INVESTOR AND MEDIA RELATIONS CONSULTANT
iPR Ogilvy Limited

PRINCIPAL BANKERS
Industrial and Commercial Bank of China, Shanghai Branch
Bank of China, Shanghai Branch

LEGAL ADDRESS
Room 316–318
No. 24 Yang Xin Dong Road
Shanghai
The People's Republic of China
(the "PRC")

PRINCIPAL PLACE OF BUSINESS IN THE PRC
13th Floor, Youyou Yanqiao Building
No. 489 Pudian Road
Shanghai, the PRC

JOINT COMPANY SECRETARIAL OFFICE
26/F., Union Building
No. 100 Yan'an East Road
Shanghai, the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 3203, 32nd Floor
Shun Tak Centre, West Tower
200 Connaught Road Central
Hong Kong Special Administrative Region of the PRC ("Hong Kong")

STOCK EXCHANGE ON WHICH H SHARES OF THE COMPANY ("H SHARES") ARE LISTED
Main board ("Main Board") of The Stock Exchange of Hong Kong Limited
(the "Stock Exchange")
Abbreviation of H Shares:
JIN JIANG HOTELS
Stock code: 02006
Website: www.jinjianghotels.com.cn
Tel: (86-21) 6326 4000
Fax: (86-21) 6323 8221

INFORMATION ON HOTELS OF THE GROUP

1 STATISTICS OF ALL HOTELS

All hotels (As at 31 December 2008)	Hotels in which the Group held Hotel Interests and managed by the Group		Hotels in which the Group held Hotel Interests but managed by third parties		Hotels owned by third parties but managed by the Group		Hotels owned by third parties but granted franchises by the Group		Total number of hotels	
	Number of hotels	Total Number of Rooms	Number of hotels	Total Number of Rooms	Number of hotels	Total Number of Rooms	Number of hotels	Total Number of Rooms	Number of hotels	Total Number of Rooms
Hotel Category										
Landmark Hotels	**6**	**1,666**	**—**	**—**	**—**	**—**	**—**	**—**	**6**	**1,666**
Luxury Hotels (excluding Landmark Hotels)										
— 5-star hotels	**5**	**2,717**	**2**	**974**	**28**	**9,152**	**—**	**—**	**35**	**12,843**
— 4-star hotels	**7**	**3,314**	**2**	**944**	**37**	**9,750**	**—**	**—**	**46**	**14,008**
Subtotal	**12**	**6,031**	**4**	**1,918**	**65**	**18,902**	**—**	**—**	**81**	**26,851**
Commercial Hotels										
— 3-star hotels	**7**	**1,417**	**1**	**388**	**6**	**1,360**	**—**	**—**	**14**	**3,165**
— 2-star hotels	**3**	**467**	**—**	**—**	**1**	**97**	**—**	**—**	**4**	**564**
Subtotal	**10**	**1,884**	**1**	**388**	**7**	**1,457**	**—**	**—**	**18**	**3,729**
Jin Jiang Inn Budget Hotels	**132**	**20,576**	**—**	**—**	**—**	**—**	**228**	**27,342**	**360**	**47,918**
Total	**160**	**30,157**	**5**	**2,306**	**72**	**20,359**	**228**	**27,342**	**465**	**80,164**

INFORMATION ON HOTELS OF THE GROUP

2 STATISTICS OF HOTELS IN OPERATION

In Operation (As at 31 December 2008)	Hotels in which the Group held Hotel Interests and managed by the Group		Hotels in which the Group held Hotel Interests but managed by third parties		Hotels owned by third parties but managed by the Group		Hotels owned by third parties but granted franchises by the Group		Total number of hotels	
	Number of hotels	Total Number of Rooms	Number of hotels	Total Number of Rooms	Number of hotels	Total Number of Rooms	Number of hotels	Total Number of Rooms	Number of hotels	Total Number of Rooms
Hotel Category										
Landmark Hotels	**6**	**1,666**	**—**	**—**	**—**	**—**	**—**	**—**	**6**	**1,666**
Luxury Hotels (excluding Landmark Hotels)										
— 5-star hotels	**4**	**2,467**	**2**	**974**	**13**	**4,595**	**—**	**—**	**19**	**8,036**
— 4-star hotels	**7**	**3,314**	**2**	**944**	**28**	**6,536**	**—**	**—**	**37**	**10,794**
Subtotal	**11**	**5,781**	**4**	**1,918**	**41**	**11,131**	**—**	**—**	**56**	**18,830**
Commercial Hotels										
— 3-star hotels	**7**	**1,417**	**1**	**388**	**6**	**1,360**	**—**	**—**	**14**	**3,165**
— 2-star hotels	**3**	**467**	**—**	**—**	**1**	**97**	**—**	**—**	**4**	**564**
Subtotal	**10**	**1,884**	**1**	**388**	**7**	**1,457**	**—**	**—**	**18**	**3,729**
Jin Jiang Inn Budget Hotels	**93**	**15,272**	**—**	**—**	**—**	**—**	**147**	**18,778**	**240**	**34,050**
Total	**120**	**24,603**	**5**	**2,306**	**48**	**12,588**	**147**	**18,778**	**320**	**58,275**

3 STATISTICS OF HOTELS UNDER DEVELOPMENT

Under development (As at 31 December 2008)	Hotels in which the Group held Hotel Interests and managed by the Group		Hotels in which the Group held Hotel Interests but managed by third parties		Hotels owned by third parties but managed by the Group		Hotels owned by third parties but granted franchises by the Group		Total number of hotels	
	Number of hotels	Total Number of Rooms	Number of hotels	Total Number of Rooms	Number of hotels	Total Number of Rooms	Number of hotels	Total Number of Rooms	Number of hotels	Total Number of Rooms
Hotel Category										
Landmark Hotels	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Luxury Hotels (excluding Landmark Hotels)										
— 5-star hotels	**1**	**250**	**—**	**—**	**15**	**4,557**	**—**	**—**	**16**	**4,807**
— 4-star hotels	**—**	**—**	**—**	**—**	**9**	**3,214**	**—**	**—**	**9**	**3,214**
Subtotal	**1**	**250**	**—**	**—**	**24**	**7,771**	**—**	**—**	**25**	**8,021**
Commercial Hotels										
— 3-star hotels	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
— 2-star hotels	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Subtotal	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Jin Jiang Inn Budget Hotels	**39**	**5,304**	**—**	**—**	**—**	**—**	**81**	**8,564**	**120**	**13,868**
Total	**40**	**5,554**	**—**	**—**	**24**	**7,771**	**81**	**8,564**	**145**	**21,889**

INFORMATION ON HOTELS OF THE GROUP

4 STATISTICS OF REGIONAL DISTRIBUTION

Province/autonomous region/ municipality		In operation				Under development			
		Star-rated hotels		Jin Jiang Inn Budget Hotels		Star-rated hotels		Jin Jiang Inn Budget Hotels	
		No. of hotels	Total No. of rooms	No. of hotels	Total No. of rooms	No. of hotels	Total No. of rooms	No. of hotels	Total No. of rooms
Eastern region	Shanghai	32	10,785	58	8,263	2	1,114	19	2,174
	Zhejiang	2	593	22	2,899	2	522	5	570
	Jiangsu	9	2,478	48	6,135	2	500	17	1,800
	Anhui	1	198	3	404	—	—	5	445
	Shandong	3	983	15	1,702	3	780	14	1,373
Northern region	Beijing	12	3,027	23	3,326	1	462	4	440
	Tianjin	—	—	7	1,111	—	—	4	484
	Hebei	5	1,352	3	377	1	285	—	—
	Liaoning	1	320	5	936	2	720	5	687
	Jilin	—	—	1	157	—	—	3	411
	Heilongjiang	2	283	4	474	—	—	2	238
Central region	Henan	1	277	5	792	1	302	8	1,058
	Hubei	2	472	3	686	1	370	8	1,009
	Hunan	—	—	4	674	1	300	1	139
	Jiangxi	2	375	6	936	1	360	2	130
	Guangxi	—	—	2	387	—	—	—	—
Southern region	Fujian	—	—	7	843	2	620	1	115
	Guangdong	1	420	5	895	1	350	4	394
	Hainan	1	243	1	283	1	300	—	—
Northwestern region	Shanxi	1	398	3	449	—	—	4	714
	Shaanxi	—	—	5	787	—	—	6	610
	Gansu	1	236	—	—	—	—	—	—
	Qinghai	—	—	1	155	—	—	—	—
	Xinjiang	—	—	—	—	—	—	1	150
	Inner Mongolia	1	900	2	386	—	—	2	197
	Ningxia	—	—	—	—	—	—	2	234
Southwestern region	Chongqing	1	315	2	257	1	316	—	—
	Sichuan	—	—	4	667	3	720	1	196
	Guizhou	1	250	—	—	—	—	2	300
	Yunnan	1	320	—	—	—	—	—	—
	Tibet	—	—	1	69	—	—	—	—
Total		80	24,225	240	34,050	25	8,021	120	13,868

INFORMATION ON HOTELS OF THE GROUP

5 STAR-RATED HOTELS IN WHICH THE GROUP HOLDS SUBSTANTIAL INTERESTS

Name of hotels	Effective interests held by the Company	Total Number of Rooms
Landmark Hotels		
Jin Jiang Hotel	100.00%	434
Peace Hotel	100.00%	260
Park Hotel	100.00%	244
Pacific Hotel	100.00%	189
New Asia Hotel	50.32%	344
Metropole Hotel	50.32%	142
5-star hotels		
Jin Jiang Tower	100.00%	648
Huating Hotel & Towers	50.00%	803
Jin Jiang Tomson Inter-Continental Hotel	25.16%	421
Renaissance Yangtze Hotel	20.13%	553
Kunlun Hotel	47.41%	646
Wuhan Jin Jiang International Hotel	75.16%	400
4-star hotels		
Jian Guo Hotel	32.71%	454
Galaxy Hotel	100.00%	666
Rainbow Hotel	100.00%	642
Cypress Hotel	100.00%	149
Shanghai Hotel	100.00%	755
Sofitel Hyland	33.55%	401
New Asia Plaza Great Wall Hotel	100.00%	543
Wuxi Jin Jiang Grand Hotel	25.00%	285
Kunming Jin Jiang Hotel	99.83%	320
3-star hotels		
Peace Palace Hotel	100.00%	103
New Garden Hotel	57.00%	310
Jinsha Hotel	100.00%	294
Da Hua Hotel	100.00%	90
Y.M.C.A Hotel	100.00%	159
Hua Ting Guest House	100.00%	190
Zhongya Hotel	22.64%	388
Jiangsu Jin Jiang Nanjing Hotel	40.00%	305
2-star hotels		
East Asia Hotel	50.32%	167
Nanjing Hotel	50.32%	165
Min Hang Hotel	50.32%	140

Note: Substantial interests refer to 20% or more equity interests held by the Group.

MAJOR AWARDS

MAJOR AWARDS RECEIVED IN 2008

3rd Annual Starlight Award for PRC Hotels

- Most Competitive Domestic Hotel Brand in China
- Best Domestic Hotel Management Group in China
- Best Budget Hotel Chain in China

Forum on Development and Financing of PRC Hotel Industry 2008

- Award for Pioneering Development in the PRC Hotel Industry

PRC Hotel Association

- Most Competitive Chained Hotel Brand
- Meritorious Enterprise of the PRC Hotel Industry for the 30th anniversary of Economic Reforms

FinanceAsia

- Best Small and Mid-Cap Listed Company

5th Golden Pillow Award for PRC Hotels

- Best Domestic Hotel Management Company for Investment Value 2008

Global Hotel Forum and 5-star Anvil Medal and 5-star Anvil Award of Global Hotels 2008

- Most Influential World Branded Hotel Group 2008
- Pioneer in World Branded Hotel Chain 2008

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

"ADR"	room revenue divided by rooms in use
"Available Rooms"	number of rooms available of each hotel after deducting Permanent House Use
"Board"	the board of directors of the Company
"Commercial Hotels"	hotels in which the Group holds Hotel Interests or which are owned by the third parties but managed by the Group, which have obtained or are expected to obtain 3-star or 2-star ratings (excluding Jin Jiang Pacific Hotel, New Asia Hotel and Metropole Hotel which are categorized as Landmark Hotels of the Group and other 3-star and 2-star hotels managed by Jin Jiang Inn), according to the criteria set by the Group
"Company"	Shanghai Jin Jiang International Hotels (Group) Company Limited
"Franchisee(s)"	third parties who have entered into franchise agreement(s) with the Group for the licence to use the Jin Jiang trademark or Jin Jiang Inn trademarks
"Group"	the Company and its subsidiaries or, where the context so requires, in respect of the period prior to the date of incorporation of the Company, those entities and businesses which were contributed to and operated by the Company upon its establishment
"Hotel Interests"	the equity interests held by the Group in companies engaged in hotel operations which are associated companies, jointly controlled entities or subsidiaries of the Company
"Jin Jiang Inn Budget Hotels"	budget hotels in which the Group holds Substantial Hotel Interests and managed by Jin Jiang Inn, or which are owned by third parties to which Jin Jiang Inn has granted a franchise, most of which are operating under the trademarks of 锦江之星 and Ji INN
"Jin Jiang Inn"	Jin Jiang Inn Company Limited
"Landmark Hotels"	Jin Jiang Hotel, Peace Hotel, Park Hotel, Metropole Hotel, New Asia Hotel and Pacific Hotel
"Listing Rules"	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Luxury Hotels"	hotels in which the Group holds Hotel Interests or which are owned by third parties but managed by the Group which have obtained or are expected to obtain 5-star or 4-star ratings (excluding Jin Jiang Hotel, Peace Hotel and Park Hotel, which are categorised as Landmark Hotels), according to the criteria set by the Group
"Occupancy Rate"	rooms in use divided by Available Rooms for a given period
"Permanent House Use"	guestrooms which have been removed from the saleable inventory for a period longer than six months
"Prospectus"	the prospectus issued by the Company on 30 November 2006
"RevPAR"	room revenue per Available Room
"Star-Rating Standard Manual"	the star-rating standard for tourist hotels published by the National Tourism Administration of the PRC
"Star-rating" or "Star-rated"	number of star conferred by the National Tourism Administration of the PRC to a hotel according to the Star-rating Standard Manual and a Star-rated hotel refers to a hotel with Star-rating conferred as mentioned above
"Substantial Hotel Interests"	the equity interests held by the Group in companies engaged in hotel operations which are jointly controlled entities or subsidiaries of the Company
"Total Number of Rooms"	the total number of Available Rooms in each hotel

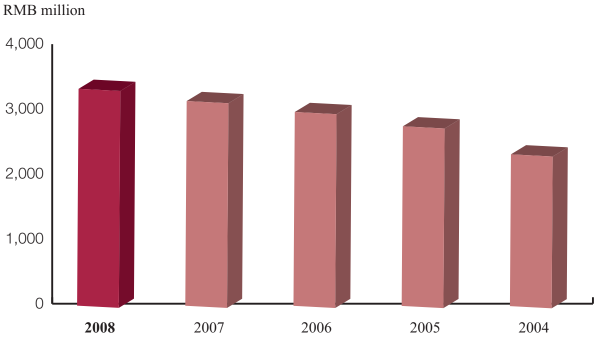
FINANCIAL HIGHLIGHTS

	2008	2007	2006	2005	2004
Items of consolidated income statement (RMB million)					
Revenue	**3,403**	3,197	3,030	2,808	2,373
EBITDA	**1,071**	1,169	1,047	945	806
Profit attributable to equity holders of the Company	**270**	383	335	313	179
Dividends	**96**	137	145	146	—
Proposed dividend per share (RMB cents)*	**2.10**	3.00	2.60	N/A	N/A
Items of consolidated balance sheet (RMB million)					
Total assets	**10,380**	13,828	10,201	6,944	6,785
Total liabilities	**2,001**	2,930	3,068	2,706	2,738
Net assets (total equity)	**8,379**	10,898	7,133	4,238	4,047
Net assets per share (RMB)	**1.84**	2.39	1.56	1.28	1.23
Gearing ratio**	**5.2%**	3.6%	19.3%	21.3%	7.6%
Capital expenditure	**1,001**	1,012	970	1,890	1,416
Items of consolidated cash flow statement (RMB million)					
Net cash generated from operating activities	**547**	470	543	917	337

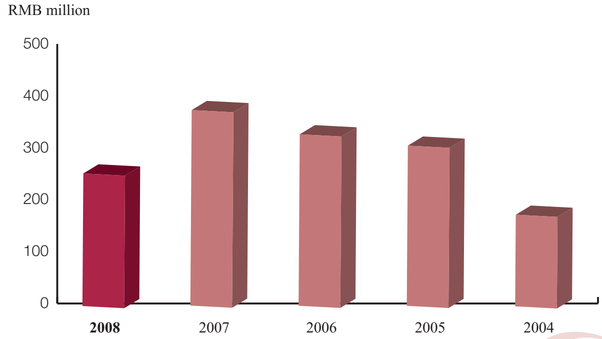
* Figures of dividend payout ratio and number of shares entitled to dividends have not been presented as such information is not comparable.

** Gearing ratio is calculated as total borrowings divided by total assets as shown in the consolidated balance sheet. Total borrowings include non-current and current borrowings.

Revenue



Profit attributable to shareholders of the Company



OPERATIONAL STATISTICS

	2008	2007
Average Occupancy Rate		
— Landmark Hotels	**63%**	73%
— 5-star Luxury Hotels	**60%**	70%
— 4-star Luxury Hotels	**60%**	71%
— 3-star Commercial Hotels	**57%**	65%
— 2-star Commercial Hotels	**66%**	71%
— Jin Jiang Inn Budget Hotels	**71%**	74%
Average room rate (RMB)		
— Landmark Hotels	**697**	709
— 5-star Luxury Hotels	**1,088**	1,011
— 4-star Luxury Hotels	**623**	617
— 3-star Commercial Hotels	**326**	310
— 2-star Commercial Hotels	**295**	290
— Jin Jiang Inn Budget Hotels	**203**	195
RevPAR (RMB)		
— Landmark Hotels	**435**	515
— 5-star Luxury Hotels	**650**	709
— 4-star Luxury Hotels	**373**	440
— 3-star Commercial Hotels	**185**	201
— 2-star Commercial Hotels	**194**	206
— Jin Jiang Inn Budget Hotels	**144**	145

Notes:

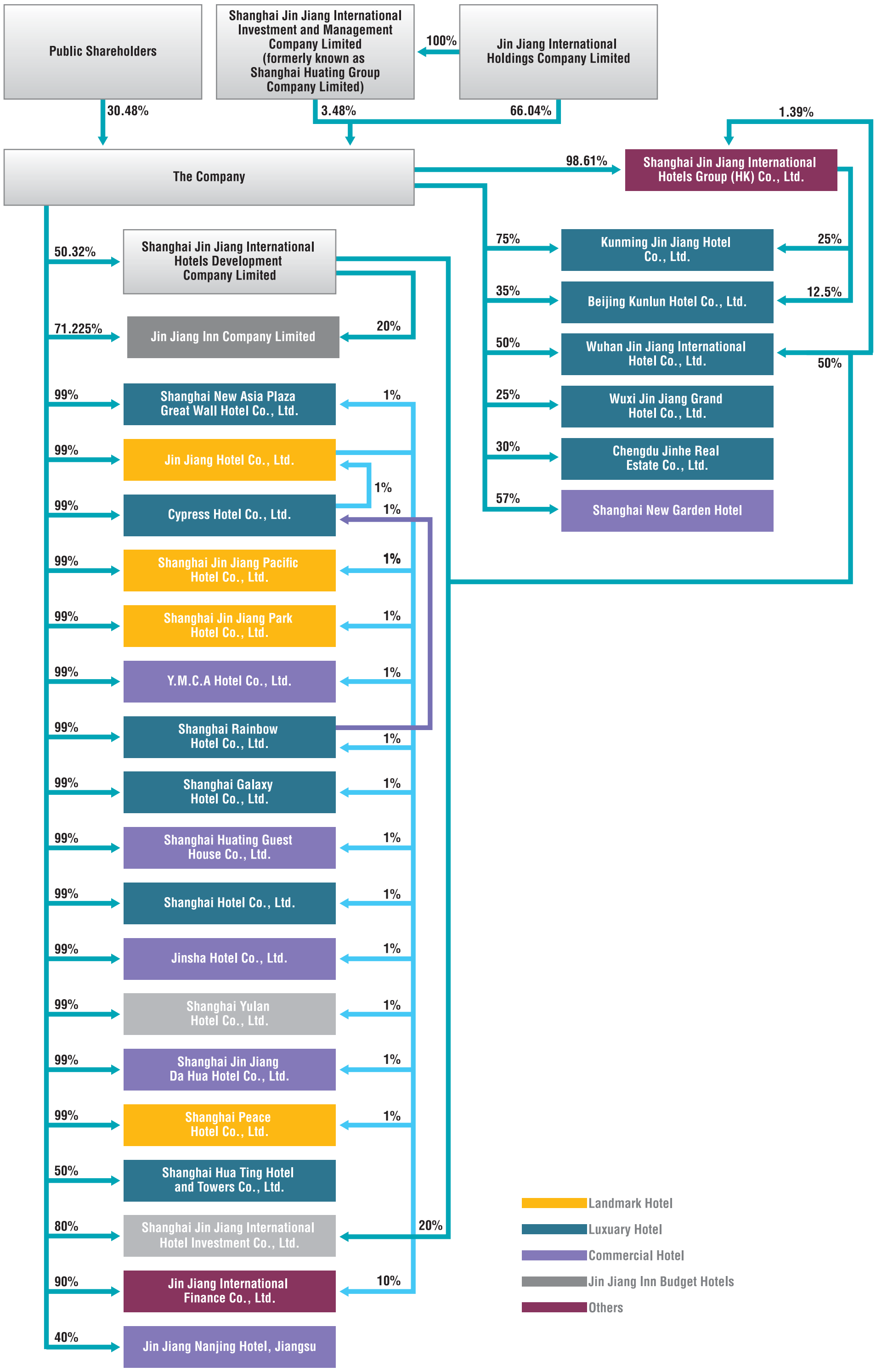
A. Peace Hotel was excluded from the above analysis under the category of Landmark Hotels due to its suspension for renovation since April 2007;

B. Wuhan Jin Jiang International Hotel, which had been under soft opening for certain floors since July 2007, was excluded from the above analysis under the category of 5-star Luxury Hotels; and

C. Peace Palace Hotel and Y.M.C.A Hotel, which had been suspended for renovation since 2007, Jiu Long Hotel, which had been deconsolidated since 2007, and Zhongya Hotel, which was closed down in June 2008, were excluded from the above analysis under the category of 3-star Commercial Hotels.

CORPORATE STRUCTURE

The following diagram sets out the principal subsidiaries, jointly controlled entities and associated companies of the Company as at 31 December 2008:



CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present on behalf of the Board of Shanghai Jin Jiang International Hotels (Group) Company Limited (the "Company" or "Jin Jiang Hotels") the annual report of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2008.

2008 was an extraordinary year, during which the worldwide financial tsunami triggered by the U.S. sub-prime crisis coupled with the snowstorm disaster which occurred in the PRC's central and southern regions and the "5.12" Sichuan mega earthquake, have brought unprecedented challenges to the global economy, as well as China's tourism industry. Influenced by various adverse macroeconomic factors, the tourism and hotel industries of Shanghai were hard-hit to varying degrees, the number of inbound foreign visitors was on a downward trend and there was an over-supply of Star-rated hotels. Notwithstanding the above, relying on our industry leadership, diversified product portfolio and strong brand advantage, complemented by a pro-active but prudent business strategy, the Group was able not only to attain turnover growth despite adverse market conditions, but also to win numerous national and international awards, underpinning industry recognition of its achievements in hotel operations and management, both at national and international levels.

To reward shareholders for their long-standing support, the Board has proposed the payment of a final dividend of RMB2.1 cents per share.

As the leading hotel operator and manager in China, Jin Jiang Hotels maintained its leading position in terms of the number of hotel rooms in the PRC, despite increasing competition in the marketplace during the year under review. As at 31 December 2008, the Group had 465 hotels and budget hotels in operation or under development, with over 80,000 guest rooms, covering an extensive network of 120 cities in 31 provinces, autonomous regions and municipalities in China.

During the year, performance of the Star-rated hotels in Shanghai was affected by the slowdown in global economy and increasing market competition for Star-rated hotels. The Group reported a lower average Occupancy Rate amid relatively fast growth in market supply, although our overall room rates were relatively stable in comparison to our peers. Kunlun Hotel, Park Hotel and Metropole Hotel were able to report turnover growth. The Group sought to address the challenge by increasing the competitiveness of its Star-rated hotels, striving to ensure that refurbishment work at Peace Hotel, Jin Jiang Tower and Y.M.C.A. Hotel be completed according to schedules and that such hotels will be re-opened for business as soon as practicable. We also endeavoured to bolster our marketing capabilities by improving our environmental protection and energy conservation technologies, as well as our management standards. Currently, the Group has 105 Star-rated hotels, 80 of which are in operation.

Although the financial tsunami had caused an adverse impact on China's tourism industry as a whole, it did bring more opportunities to operators of budget hotels. As a pioneer in budget hotels, the Group deeply appreciated that "Jin Jiang Inns" would be a growth impetus, leading the Group to weather and overcome the economic downturn. During the year, the Group therefore grasped this opportunity and swiftly launched more Jin Jiang Inn Budget Hotels. At present, the geographic coverage of Jin Jiang Inn Budget Hotels has been further perfected with 360 outlets located in Yangtze River Delta region, Beijing-Tianjin-Bohai Gulf region and other regions in China, providing very stable contributions to the Group's turnover and profit. Furthermore, the Group injected further resources into Jin Jiang Inn to

CHAIRMAN'S STATEMENT

enhance system facilities for human resources and information management, increasing its brand influence while offering best-in-class services to customers.

Jin Jiang Hotel is committed to consolidating its brand advantage as a means to maintain its industry leadership, further broaden its customer base and increase its Occupancy Rate. During the year under review, the Group strengthened its marketing efforts by participating in various international tourism exhibitions, introducing customer loyalty programmes, launching credit cards in co-operation with banks and signing co-operation agreements with overseas travel agencies, for the purpose of improving the popularity of the Group, as well as acting as a catalyst for reinforcing and expanding its customer base.

The Group reported stable development for its restaurant operations during the year. The business of Star-rated hotel management also made important contributions to the Group's development as a whole, such as enhancing its network marketing, optimising its management policies and strengthening its human resource training, thereby giving a significant boost to the overall service quality of the Group. On another note, the international profile of the Group was further enhanced as its subsidiary Jin Jiang (Northern) Management Company Limited received wide acclaim for its outstanding performance in managing the Beijing Olympics Media Villages during the Beijing Olympics Games in August.

To address the financial crisis, the Group was committed to compliance with corporate governance practices, operating with a high level of transparency and strengthening its internal controls, with a view to reducing the risk exposure of shareholders and safeguarding their interests.

Looking ahead to a new year, given the uncertainties in global financial markets, it is expected that the global tourism industry still needs some time to return to normal. Nevetheless, the forthcoming Shanghai World Expo 2010, coupled with a series of major tourism recovery plans organised by the Shanghai Municipal Tourism Board should combine to offer strong stimulus on Shanghai's tourism spendings and create a very positive impact on Shanghai's hotel and tourism industries against adverse market conditions. The Group will address all challenges in a pro-active manner and strive forward. We will re-set our strategy on hotel assets and will use budget hotels as the best shield to overcome the difficulties, by flexibly expanding Jin Jiang Inn Budget Hotels on a self-managed or franchised basis, while continuing to actively upgrade our Star-rated hotels. Meanwhile, the Group will adopt prudent financial management strategies, enhance its human resources, brand promotion and risk control, increase its transparency and formulate contingency measures to weather the impact of unfavourable factors caused by the external environment. We are convinced that, through the implementation of the above strategies and measures, the Group will be able to withstand any future havoc as well as firmly reinforce and enhance its developed foundations.

I would like to take this opportunity to express sincere gratitude to every one of our employees, whose restless enthusiasm and wholehearted devotion have contributed to the development of "Jin Jiang" as a household name in the PRC hotel industry. I would also like to thank all shareholders, investors and the public for their enduring and vigorous support. With concerted efforts, we are prepared to map out a bright future hand in hand with our shareholders.

Yu Minliang
Chairman

Shanghai, the PRC
17 April 2009

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

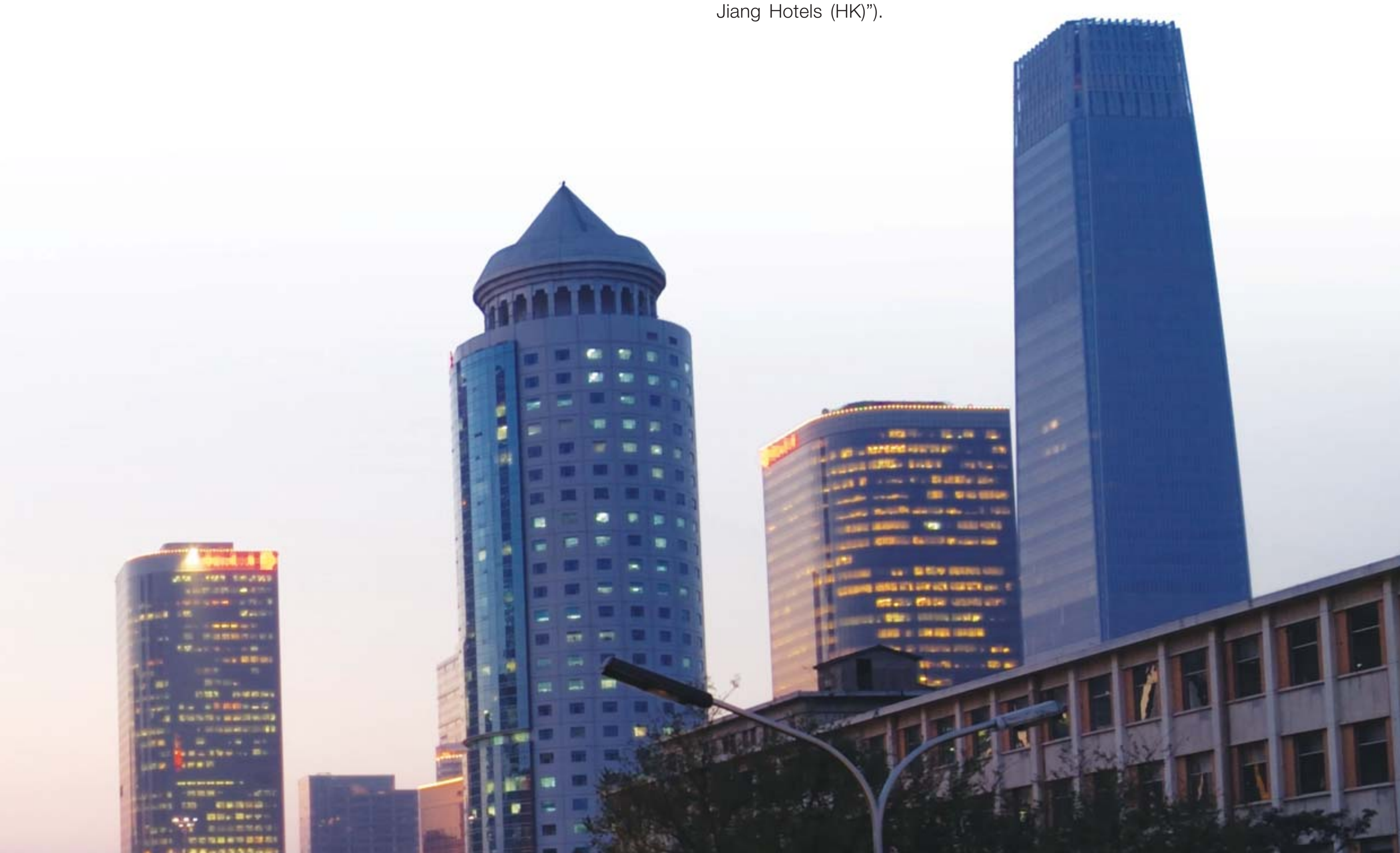
Mr. Yu Minliang (俞敏亮) aged 51, chairman of the Board and executive director. Mr. Yu is an economist with a master's degree in economics from Fudan University. With more than 20 years' experience in hotel management, he has been general manager of the Shanghai Yangtze Hotel Company Limited, general manager of Shanghai Jin Jiang International Hotels Development Company Limited ("Jin Jiang Hotels Development"), general manager of Shanghai New Asia (Group) Company, chairman of Jin Jiang (Group) Company Limited and chairman, chief executive officer and chairman of the board's executive committee of Jin Jiang International Holding Company Limited ("Jin Jiang International") since joining the Group in 1984. Apart from serving as chairman of Jin Jiang International, Mr. Yu is currently the director and chairman of Jin Jiang Hotels Development and chairman of the Shanghai Yangtze Hotel Company Limited.

Ms. Chen Wenjun (陳文君) aged 53, executive director. Ms. Chen is a senior accountant with a master's degree in economics from Shanghai University of Finance and Economics. She has extensive experience in finance management, having been deputy general manager of Jin Jiang Hotel Co., Ltd., vice president, director and assistant to the president of Jin Jiang (Group) Company Limited, director of Jin Jiang Hotels Development and director of Shanghai Jin Jiang International Industrial Investment Company Limited ("Jin Jiang Investment") since joining the Group in 1981. She has also been director and financial controller of Jin Jiang International. Apart from being director and senior vice president of Jin Jiang International and chairman of Shanghai Jin Jiang International Investment & Management Company Limited (formerly known as Shanghai Huating Group Company Limited, "Huating Group"), Ms. Chen is now the chairman of Jin Jiang Hotel Co., Ltd., Shanghai Jin Jiang International Hotel Investment Co., Ltd. ("Jin Jiang International Hotel Investment"), Jin Jiang Inn, Jin Jiang International Finance Co., Ltd. ("Jin Jiang International Finance") and Shanghai Hotel Co., Ltd..

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Yang Weimin (楊衛民) aged 54, executive director, authorized representative and chief executive officer of the Company ("CEO"). Mr. Yang is a senior economist with a master's degree in law from the East China University of Science & Technology. He has extensive experience in hotel management, having worked as deputy manager and principal of the training division of Jin Jiang (Group) Company Limited, general manager of Jin Jiang Tower of the Company, vice president of Jin Jiang (Group) Company Limited, general manager of Jin Jiang International Hotel Management Company Limited ("Jin Jiang Hotel Management"), vice president of Jin Jiang International and chief executive officer and vice chairman of Jin Jiang Hotels Development since joining the Group in 1989. He is currently the vice-chairman of Jin Jiang Hotels Development, Jin Jiang International Hotel Investment and Jin Jiang Inn, chairman of Shanghai Jin Jiang International Catering Investment Company Limited, Shanghai Jian Guo Hotel Co., Ltd. ("Jian Guo Hotel") and Yunnan Jin Jiang International Management Company Limited, and executive director of Jin Jiang Hotel Management.

Mr. Chen Hao (陳灝) aged 59, executive director. Mr. Chen is an engineer with a bachelor's degree in industrial automation from Shanghai Polytechnic University. He has many years of experience in hotel management, having been chief engineer of the Shanghai Yangtze Hotel Company Limited, engineering director of Shanghai New Asia (Group) Hotel Management Company, engineering director of Shanghai New Asia Tomson Hotel, executive manager and acting general manager of Jin Jiang Hotels Development, assistant to the president of Jin Jiang International and director and executive president of Jin Jiang Hotels Development since joining the Group in 1985. He is currently director and chief executive officer of Jin Jiang Hotels Development, vice chairman of Wenzhou Dynasty Hotel Company Limited, chairman of Shanghai City Restaurant in Holland, director of Jin Jiang International Hotel Investment, chairman of Wuhan Jin Jiang International Hotel Co., Ltd. ("Wuhan Jin Jiang"), director of Jin Jiang Inn, vice chairman of Shanghai Jin Jiang International Catering Investment Company Limited, executive director of Shanghai Jinya Hotel Company Limited, director of Shanghai Jin Jiang Tomson Hotel Company Limited and Jian Guo Hotel, chairman of Hotel Sofitel Hyland and chairman of Shanghai Jin Jiang International Hotels Group (HK) Co., Ltd. ("Jin Jiang Hotels (HK)").



DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Yuan Gongyao (袁公耀) aged 59, executive director and vice president of the Company mainly responsible for the financial operations of the Group. Mr. Yuan is a senior accountant with many years of experience in finance management. He has held various positions including manager of the financial department of Huating Group, manager of the asset management department of Jin Jiang (Group) Company Limited, deputy general manager of the asset management business branch of Jin Jiang (Group) Company Limited, deputy general manager of Jin Jiang International Real Estate Company Limited, deputy operational manager of planning and financial department of Jin Jiang International since joining the Group in 2000. Mr. Yuan is now the executive director of Y.M.C.A Hotel Co., Ltd., vice chairman of Wuxi Jin Jiang Grand Hotel Co., Ltd., director of Shanghai Hua Ting Hotel and Towers Co., Ltd., executive director of Shanghai Park Hotel Co., Ltd. and Shanghai Jin Jiang Pacific Hotel Co., Ltd., chairman of Shanghai Hua Ting Guest House Hotel Co., Ltd., Shanghai New Garden Hotel and Kunming Jin Jiang Hotel Co., Ltd. and director of Jin Jiang Hotels (HK), Wuhan Jin Jiang and Jin Jiang International Finance.

Mr. Xu Zurong (徐祖榮) aged 53, executive director and vice president of the Company. He is a senior economist. He has been general manager of Cypress Hotel Co., Ltd. ("Cypress Hotel") and Jin Jiang California Company in the US, as well as manager of integrated operation management division of Jin Jiang (Group) Company Limited since joining the Group in 1981. He is now the president of Jin Jiang Inn, and is also director and general manager of Jin Jiang International Hotel Investment.

Mr. Han Min (韓敏) aged 51, executive director and vice president of the Company. He holds a master's degree in international law from Fudan University. He has been a manager of the investment development division of Jin Jiang (Group) Company Limited, manager of the merger division of Jin Jiang International and director of Shanghai Jin Jiang International Travel Co., Ltd since joining the Group in 2005.

Mr. Kang Ming (康鳴) aged 37, executive director and authorized representative. Mr. Kang is a senior accountant and a council member of Shanghai Society of Finance China, holding a master's degree in Economics from the Shanghai University of Finance and Economics. Mr. Kang has gained experience in listed companies information disclosure, corporate governance, capital operation and investor relationship in the past 14 years since joining the Group in 1994. He was previously the board secretary of Jin Jiang Hotels Development, the A Shares and B Shares of which are listed on the Shanghai Stock Exchange, and has been awarded with "Nomination of Excellent Secretary" by the Association of Board Secretaries of Shanghai Listed Companies. He is also a joint company secretary of the Company (the "Joint Company Secretary") and the Board secretary.

NON-EXECUTIVE DIRECTOR

Mr. Shen Maoxing (沈懋興) aged 58, vice-chairman of the Board and a non-executive director. Mr. Shen holds a master's degree of business administration from Macau University of Science and Technology. He has extensive experience in hotel management, having been vice president of Huating Group, general manager and chairman of Jin Jiang Hotel Management, president of Jin Jiang (Group) Company Limited and vice chairman, chief operation officer and executive president of Jin Jiang International since joining the Group in 1995. Currently, apart from being the vice chairman and president of Jin Jiang International, chairman of Jin Jiang Investment, Shanghai Eastern Jin Jiang Hotel Company Limited ("Eastern Jin Jiang"), Jin Jiang International Group (HK) Co., Ltd. and Shanghai Jin Jiang Kirin Beverages and Foods Company Limited, he is also vice chairman of Jin Jiang Hotels Development and the chairman of Chengdu Jinhe Real Estate Company Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ji Gang (季崗) aged 51, independent non-executive director, is a senior economist with a master's degree in economics. Mr. Ji was previously an independent director of Jin Jiang Hotels Development from 2003 to 2006, general manager of Shanghai Zhongya Hotel; general manager and chairman of Shanghai Everbright City Company Limited, director of Zhabei District Commercial Committee; and director of Zhabei District Economic Committee. Mr. Ji is currently the president of Shanghai Industrial Development Co., Ltd..

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Xia Dawei (夏大慰) aged 56, independent non-executive director, is a professor with a master's degree in economics. Mr. Xia was previously a visiting research fellow of the Osaka City University in Japan and held various positions in Shanghai University of Finance and Economics, such as dean of School of International Business Administration and executive vice president of the university. He was also an independent director of Shanghai No. 1 Pharmacy Co., Ltd. Mr. Xia is currently the principal of Shanghai National Accounting Institute, vice president of the China Accounting Institute and a member of the Expert Committee for Listed Companies of Shanghai Stock Exchange. Mr. Xia was appointed by the PRC State-owned Assets Supervision and Administration Commission of the State Council as an external director of Shanghai Baosteel Group Corporation in 2005. He is also holding independent directorships in Shanghai Airlines Company Limited and Lianhua Supermarket Company Limited. Furthermore, Mr. Xia is also a member of the audit committee, and chairman of the nomination committee and remuneration committee of Lianhua Supermarket Company Limited.

Mr. Sun Dajian (孫大建) aged 54, independent non-executive director, is a senior accountant and PRC certified public accountant with a bachelor's degree in accounting from Shanghai University of Finance and Economics. He has worked as auditor in Hong Kong local accountants firm for one year. Mr. Sun has also gained ample accounting experience as manager of Dahua Accountants Firm and manager of Pricewaterhouse Da Hua. He is now the chief accountant of Shanghai Yaohua Pilkington Glass Co., Ltd., a listed company in the PRC, with primary responsibilities to oversee the internal control and accounting policies of the Company as well as its annual audit. The directors have evaluated Mr. Sun's education, qualification and experience and are satisfied that he has the necessary training and experience to satisfy the requirements of Rule 3.10(2) of the Listing Rules.

Dr. Rui Mingjie (芮明杰) aged 54, independent non-executive director, is a professor with a doctoral degree in economics, and was formerly independent director with Shanghai Hainiao Enterprise Development Company Limited and Shanghai Dragon (Group) Corporation. Dr. Rui is currently professor in corporate management of the School of Management, head of the Department of Industrial Economics of the School of Management, member of the degree assessment committee and chairman of the degree committee of the School of Management at Fudan University. He is currently holding independent directorships in China Enterprise Company Limited, Zhejiang Zhongda Group Company Limited and Shanghai Fosun Pharmaceuticals (Group) Company Limited.

Mr. Yang Menghua (楊孟華) aged 65, independent non-executive director, was deputy director of Shanghai Branch of Bank of Communications and director of Shanghai New Asia (Group) Company Limited (now known as "Jin Jiang Hotels Development") from June 1998 to August 2003. He is now the chairman of the supervisory committee of Sand Bankcard — Link Information & Service Co., Ltd. and Shanghai Sandpay Enterprise Service Co., Ltd..

Dr. Tu Qiyu (屠啓宇) aged 39, independent non-executive director, is a professor and research fellow of Shanghai Academy of Social Sciences, specialising in International Economics and Urban Studies. Dr. Tu was formerly Fulbright Professor of Bard College, New York from 2001 to 2002 and a visiting scholar at Cambridge University, Harvard University, Fondation Nationale des Sciences Politiques and Hamburg Institute for Economic Research. He received a first-class award from the Shanghai Municipal Social Science Foundation in 2000. Dr. Tu was named among the "Top Ten Young Economists of Shanghai" in 2003 and received a first-class award for policy-making advisory and research achievements in 2004 from Shanghai Government. He was also conferred the title of "Outstanding Returning Talents from Overseas of Shanghai".

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Shen Chengxiang (沈成相) aged 61, independent non-executive director, is a senior economist with a master's degree committed to making contributions to the PRC tourism. He is currently serving as vice president of China Tourism and Hospitality Association, chairman of Hotels Association under Hainan Tourism Industry Association, vice chairman of the China Famous Hotel Organisation. He was named among the "Top Ten Personnel in the PRC Hotel Industry 2005". Mr. Shen is the chairman of several hotel companies, such as of Huandao Taide Hotel Property Management Company Limited, Hainan Huandao International Travel Agency Company Limited, Hainan Yalongwan Undersea World Travel Company Limited, Hainan Huandao Undersea World Hotel Company Limited and Beijing Huandao Boya Hotel Company Limited.

Mr. Lee Chung Bo (李松坡) aged 65, independent non-executive director, has extensive experience in hotel operation and management having attended a number of training programs held by the international hotel groups and holding various posts in different hotel companies and hotels. He has been food and beverage manager of the Peninsula Group, resident manager of Renaissance Yangtze Hotel, executive vice president of Gloria International Hotels Ltd. and vice president in New Asia Hotel Management Company.

SUPERVISORS

Mr. Wang Xingze (王行澤) aged 53, chairman of the supervisory committee. Mr. Wang joined the Group in 2003 and he has been a deputy director of the administration office of Shanghai New Asia (Group) Company. He is currently the chairman of the supervisory committee and chairman of the labour union of Jin Jiang Hotels Development.

Mr. Wang Guoxing (王國興) aged 45, supervisor of the Company. Mr. Wang is a senior accountant with a master's degree in economics from Shanghai University of Finance and Economics. He joined the Group in 1992. Mr. Wang was previously lecturer of the School of Finance of Shanghai University of Finance and Economics, board secretary of Jin Jiang Hotels Development, board secretary and deputy financial controller of Shanghai New Asia (Group) Company Limited (which is the predecessor of the Company), deputy financial controller of Jin Jiang International and secretary-general of the executive committee of the board (vice president) of Jin Jiang International. He is currently vice president of Jin Jiang International, vice chairman of Jin Jiang International Hotel Investment and director of Jin Jiang Inn.

Mr. Ma Mingju (馬名駒) aged 48, supervisor, holds a master's degree in business administration from the Asia International Open University (Macau) and is a senior accountant. He joined the Group in 2005 and was a manager of the planning and finance division of Jin Jiang International. Mr. Ma is currently vice president, manager of planning and finance division and general manager of the finance business division of Jin Jiang International, director of Beijing Kunlun Hotel Co., Ltd. ("Kunlun Hotel Company"), Jin Jiang International Hotel Investment, Jin Jiang Inn and Jin Jiang International Finance.

Ms. Chen Junjin (陳君瑾) aged 48, supervisor, is an accountant with a post-secondary diploma in accounting and finance from Shanghai Tourism College. Ms. Chen joined the Group in 1981 and was previously accountant of finance department of Cypress Hotel; head of finance department of Jin Jiang (Group) Company Limited and deputy finance controller of Jin Jiang Hotel Management. Ms. Chen is now the head of finance department and the general manager of Jin Jiang Hotels (HK).

Ms. Jiang Ping (蔣平) aged 51, supervisor, is an economist with a degree in executive master in business administration from Northwestern Polytechnic University in the US. Ms. Jiang joined the Group in 1999. and was previously deputy director of general office and manager of business department of Shanghai Lujiazui Finance and Trade Zone Development Company, as well as general manager of Shanghai Luijiazui Investment and Development Company. Ms. Jiang now serves as deputy general manager and board secretary of Shanghai Luijiazui Finance and Trade Zone Development Company Limited.

Mr. Zhou Qiquan (周啓全) aged 58, supervisor, graduated from Shanghai College of Finance & Economics (now known as Shanghai University of Finance & Economics) with a post-secondary diploma in finance & credit and is an accountant. Mr. Zhou joined the Group in 2003. He was previously the person-in-charge of the finance department of Shanghai Luwan Residential Corporation; and section head, deputy manager of planning and the finance department of Shanghai Minhang United Development Company Limited. Mr. Zhou currently serves as a manager of planning and finance department of Shanghai Minhang United Development Company Limited.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

JOINT COMPANY SECRETARIES

Mr. Kang Ming (康鳴), Joint Company Secretary. Please refer to his biography under the section headed "Executive Directors" in this section.

Mr. Ngai Wai Fung (魏偉峰), aged 47, is the joint company secretary of the Company. Mr. Ngai is a director and head of listing services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. Mr. Ngai is currently vice president of The Hong Kong Institute of Chartered Secretaries (HKICS) and the Chairman of its Membership Committee. He is also a fellow of HKICS and the Institute of Chartered Secretaries and Administrators in United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants, a member of the Association of Chartered Certified Accountants in the United Kingdom, a member of Hong Kong Institute of Directors and a member of Hong Kong Securities Institute. Mr. Ngai holds a Master of Corporate Finance from The Hong Kong Polytechnic University, a Master of Business Administration from Andrews University of the United States and a Bachelor of Laws (with Honours) degree from the University of Wolverhampton, the United Kingdom.

SENIOR MANAGEMENT

Mr. Yang Weimin (楊衛民) is an executive director, CEO and authorised representative of the Company. Please refer to his biography under the paragraph headed "Executive Directors" in this section.

Mr. Xu Zurong (徐祖榮) is an executive director and vice president of the Company. Please refer to his biography under the paragraph headed "Executive Directors" in this section.

Mr. Yuan Gongyao (袁公耀) is an executive director and vice president of the Company. Please refer to his biography under the paragraph headed "Executive Directors" in this section.

Mr. Han Min (韓敏) is an executive director and vice president of the Company. Please refer to his biography under the paragraph headed "Executive Directors" in this section.

Mr. Kang Ming (康鳴) is an executive director, authorized representative and the Board secretary and also the Joint Company Secretary. Please refer to his biography under the paragraph headed "Executive Directors" in this section.

Dr. Ai Gengyun (艾耕雲), aged 38, is the qualified accountant and director of the Planning and Finance Department. Dr. Ai is a member of the Chinese Institute of Certified Public Accountants and a qualified senior accountant in the PRC with over 13 years of professional experience in financial reporting, management and internal control. He joined Jin Jiang Hotels Development, a subsidiary of the Company, in 1995 and has been controller of the Planning and Finance Department of the Company since April 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

In 2008, the gradual spread of the worldwide financial tsunami coupled with the several natural disasters which occurred in China caused relatively significant adverse impact on China's tourism and hotel industries. Notwithstanding Beijing's successful hosting of the Olympic Games during the year did bring about some benefits to certain of the Group's hotels in Beijing, the positive effect brought by the Olympic Games to the hotel industry as a whole was not as strong as expected. However, thanks to a complete and diversified portfolio of assets, sound operations management and effective cost control measures of the Group, the Company sustained stable development and ongoing expansion in its various businesses, including Star-rated hotel operations, Jin Jiang Inn Budget Hotels, Star-rated hotel management and food and restaurants, as well as accomplished new benchmarks in terms of brand influence, network, management system and human resources. The Company continued to report revenue growth in 2008, recording sales revenue of approximately RMB3,402,808,000, which represented a 6.4% increase over the previous year. The operating profit of the Company for the year decreased by 18.3% to approximately RMB500,230,000 (2007: RMB641,791,000); the profit attributable to equity holders of the Company decreased by 29.5% to RMB270,255,000 (2007: RMB383,417,000). The main factor of the decrease is the less gain from disposal of assets, including disposal of available-for-sale financial assets, disposal of an investment in Shanghai Jiu Long Hotel Co., Ltd. ("Jiu Long Hotel"), disposal of investment in associates and compensation on lease termination of a Jin Jiang Inn Budget Hotel (2008: RMB109,100,000; 2007: RMB291,589,000). Excluding the above factor, the operating profit increased by RMB40,928,000, or approximately 11.7%.

As at 31 December 2008, the Company had 465 hotels in operation or under development, with over 80,000 guest rooms, spreading across 120 cities in 31 provinces, autonomous regions and municipalities in China. The Group remained one of the leading hotel groups in the PRC in terms of the number of hotel rooms. According to the latest ranking of global hotel groups announced by the HOTELS Magazine (the official publication of The International Hotel & Restaurant Association) in July 2008, the Group ranked 17th in the world in terms of the number of hotel rooms.

STAR-RATED HOTEL OPERATION

Star-rated hotel operation is one of the major sources of revenue for the Group and Shanghai is the base of the Group's business where over 80% of our self-managed Star-rated hotels are located. The average Occupancy Rate and ADR of our Star-rated hotels in Shanghai suffered a setback in varying degrees as the number of inbound foreign visitors (including visitors from Hong Kong, Macau and Taiwan) received by Shanghai in 2008 dropped 3.8% year-on-year to approximately 6.40 million, while market competition continued to intensify with the rapidly growing supply of luxury Star-rated hotels in Shanghai. During the year under review, Star-rated hotels contributed approximately RMB2,294,913,000 to the Group's revenue, dropped 4.4% year-on-year, and accounted for 67.4% of the Group's turnover.

MANAGEMENT DISCUSSION AND ANALYSIS

Comparison between the performance of the Group's Star-rated hotels and other Star-rated hotels in the Shanghai market is set out below:

	2008				2007			
	The Group's Star-rated hotels in Shanghai		**Other Star-rated hotels in Shanghai**		The Group's Star-rated hotels in Shanghai		Other Star-rated hotels in Shanghai	
	Average Occupancy Rate (%)	***Average room rate (RMB)***	***Average Occupancy Rate (%)***	***Average room rate (RMB)***	*Average Occupancy Rate (%)*	*Average room rate (RMB)*	*Average Occupancy Rate (%)*	*Average room rate (RMB)*
5-star	**57.1**	**989**	**59.9**	**1,233**	67.7	1,006	68.2	1,336
4-star	**61.0**	**668**	**55.2**	**618**	71.6	664	63.5	648
3-star	**58.2**	**366**	**52.0**	**324**	65.9	347	56.9	326
2-star	**65.7**	**295**	**55.6**	**212**	71.2	289	57.4	212

Notes: The statistics in the table above cover the following Star-rated hotels of the Group in Shanghai:

1. *5-star hotels: Jin Jiang Hotel, Huating Hotel & Towers, Jin Jiang Tomson Inter-Continental Hotel and Renaissance Yangtze Hotel;*

2. *4-star hotels: Park Hotel, Jian Guo Hotel Shanghai, Cypress Hotel, Holiday Inn Downtown Shanghai, Galaxy Hotel, Rainbow Hotel, Shanghai Hotel and Sofitel Hyland;*

3. *3-star hotels: Jin Jiang Pacific Hotel, New Asia Hotel, Metropole Hotel, Hua Ting Guest House, New Garden Hotel, Jinsha Hotel, Da Hua Hotel; and*

4. *2-star hotels: East Asia Hotel, Nanjing Hotel and Min Hang Hotel.*

MANAGEMENT DISCUSSION AND ANALYSIS

The overall Occupancy Rate of Star-rated hotels in Shanghai dropped from 61.5% in 2007 to 55.4% in 2008, according to the statistics published by Shanghai Municipal Tourism Administrative Commission. The average room rate for 2008 was RMB658, down from RMB668 for 2007. Despite the adverse market conditions causing the average Occupancy Rate of the Group's Star-rated hotels in Shanghai to fall by a substantial portion, the average room rate was generally stable. During the year, turnover growth was reported by Kunlun Hotel, Park Hotel, Metropole Hotel and New Garden Hotel.

The overall refurbishment of Peace Hotel, which commenced during the first half of 2007, continued to progress as scheduled. The hotel is expected to complete renovation by the end of 2009 and re-open for business before the Shanghai World Expo begins.

Guest-room renovation at Jin Jiang Tower was basically completed, leading to notable improvements in the hardware facilities of the guest rooms.

Y.M.C.A Hotel has been under renovation, and the hotel is expected to complete renovation in the second half of 2009 and re-open for operation before the Shanghai World Expo begins.

In line with our strategy to realign the distribution of hotels, the Group disposed of its 9.445% equity interest in Jiu Long Hotel in 2008 to Shanghai Greenland Commercial (Group) Co., Ltd. Following the transfer, the Group no longer holds any interest in but retains the right to manage Jiu Long Hotel. Additionally, as of the latest practicable date prior to printing of this report, negotiations with an independent third party were underway in respect of the acquisition of a hotel in the north-western region of China.

JIN JIANG INN BUDGET HOTELS

Jin Jiang Inn Budget Hotels is a main focus of the Company's business development. The business of Jin Jiang Inn Budget Hotels comprises mainly the operation of Jin Jiang Inn Budget Hotels on leased properties, the grant of franchises of the brand of Jin Jiang Inn to third party hotel owners and the development of budget hotels on the Group's own properties.

Jin Jiang Inn Budget Hotels reported fast turnover growth during the year under review, contributing revenue of approximately RMB983,180,000 to the Group, representing a 46.0% growth over the previous year and accounting for 28.9% of the Group's turnover. Initial and ongoing franchise fees income amounted to approximately RMB62,467,000, representing an 80.8% growth over the previous year.

In 2008, Jin Jiang Inn entered into new agreements for the development of 15 self-managed budget hotels and 65 franchised budget hotels. As at 31 December 2008, there were a total of 360 Jin Jiang Inn Budget Hotels either in operation or under development (including 7 Bestay Hotels Express), offering an aggregate of over 48,000 guest rooms. During 2008, 80 new Jin Jiang Inn Budget Hotels commenced operations, including 26 self-managed hotels and 54 franchised budget hotels. As at 31 December 2008, there were 240 Jin Jiang Inn Budget Hotels in operation.

As at 31 December 2008, the Jin Jiang Inn Budget Hotel's network covered 98 cities in 29 provinces, autonomous regions or municipalities, including 169 budget hotels in the Yangtze River Delta region accounting for approximately 46.9% of the total number of Jin Jiang Inn Budget Hotels. There were 77 and 27 Jin Jiang Inn Budget Hotels in Shanghai and Beijing respectively, which further reinforced the strong foundation of the Group in these two leading regional centres of China. The Jin Jiang Inn Budget Hotels continued to focus its expansion in the regions, such as the eastern regions of China, cities in the central regions and key provinces and municipalities, as well as through the development of operating procedures to further standardize and strengthen the quality control of project development and other measures, to ensure rapid and sound development of the projects. In addition, the Jin Jiang Inn Budget Hotel's network will be gradually expanding into the Pearl River Delta region, the Bohai gulf area and other secondary cities in China. The weighting of franchised hotels further increased to 228 franchised hotels in operation or under development, accounting for 63.3% of the total number of Jiang Jiang Inn Budget Hotels.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review, Jin Jiang Inn Budget Hotels achieved further enhanced profitability, steadily rising operating revenue, growing corporate scale, reinforced brand and quality leadership, improved systems building and ongoing improvements in management standards. Facilitated by continuous efforts to enhance standardisation for construction works, construction costs were further reduced, with a more efficient project construction management and a faster completion rate. In line with a strong focus on quality enhancement and brand reputation, Jin Jiang Inn Budget Hotels completed the documentation of the "Brand Name Hardware Standards" to provide further standardization in the area.

Jin Jiang Inn Budget Hotels continued to invest in the building of management systems. Its human resources system was increasingly standardised and institutionalised, while the functions of the hotel reception management systems (PMS) were further enhanced through initiatives in information-based construction to serve as a centralised database and contribute to an optimised Jin Jiang Inn information management system. The franchise management system was also further improved to assure pro-active, extensive support for franchised hotels. The effect of assurance measures in supporting performance was further manifested. A platform for the purchase of supplies was built to provide convenience to outlets. The number of customers making reservation via Jin Jiang Inn's website also multiplied.

In addition, Jin Jiang Inn also increased its efforts in collaborating with external parties, such as the issuance of the "BoCom Jin Jiang Inn Credit Card" jointly with the Bank of Communications, which not only enhanced the reputation of Jin Jiang Inn, but also offered convenience to business travelers. Currently, over 250,000 joint membership cards have been issued. Jin Jiang Inn Budget Hotels entered into an overseas room reservation co-operation agreement with Japan Pacific Travel Company (日本太平洋旅遊度假公司), to enhance its brand influence in the overseas market. The parties will join hands to process room reservation in 35 cities including Shanghai, Beijing, Guangzhou, etc. This marked an initial move of Jin Jiang Inn Budget Hotels to tap the overseas market.

The ancillary catering service of Jin Jiang Chef (錦江大廚) and Chef Two Cafe (星連心) (operated based on Hong Kong-style "tea" restaurant) achieved steady progress. Restaurant management was improved as we sought to enhance customer satisfaction through the emphasis on "temperature, speed and passion" to meet consumers' quest for a simple, efficient and convenient lifestyle.

Jin Jiang Inn has been actively exploring new brand development. In March 2009, it officially launched Bestay Hotel Express, a new member of the family of budget hotels featuring more convenience and more affordable prices. The overall design of Bestay Hotel Express is more modernised and simplistic, with more compact space design and layout and an overall feeling of ease and harmony. With the strong support of the central support system of Jin Jiang Inn, Bestay Hotel Express will pursue development by way of both direct operation and franchising. A nationwide reservation hotline (4008208999) and a website for online reservation (www.bestay.com.cn) have already been launched.

STAR-RATED HOTEL MANAGEMENT

As at 31 December 2008, Jin Jiang Hotel Management managed 100 Star-rated hotels with over 29,000 guest rooms, spreading across 49 cities in 21 provinces, autonomous regions and municipalities in China, of which 72 hotels are owned by third parties but managed by the Group.

During the year, Jin Jiang Hotels strengthened its efforts in the building and promotion of service and product standards, such as the introduction of Jin Jiang Oriental Dream (錦江東方之夢) mattress, which were well received by hotels and guests. A management team was deployed at the Jin Jiang World Expo Village Hotel Apartments in the second half of 2008 to prepare for its opening.

For online marketing, Jin Jiang Hotel Management continued to improve Jin Jiang Hotels' central reservation system ("the JREZ system") and expand access to centralised reservations to channel in more patrons. Bookings for over 100,000 room nights were operated through the JREZ system during the year, representing an increase of 52% against the previous year. Referrals through the international distribution system (IDS) and the global distribution system (GDS) accounted for 59% of the patrons.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Beijing Olympics, 5 high-end Star-rated hotels managed by Jin Jiang (Northern) Management Company Limited, a subsidiary of the Group, were signed up to provide accommodation in relation to the Olympic Games. Jin Jiang (Northern) Management Company Limited was also appointed to manage the Beijing Olympics Media Villages. Huating Hotel & Towers was appointed as a hotel for official reception in the Shanghai Games Zone. The international profile of the Group was further enhanced as the effective management of its hotels was well recognised.

In terms of management, the Group continued to enhance its development of the two core products, namely guest-rooms and restaurants. With a strong focus on the standardisation of policies and procedures for hotel operation and management, we strengthened our management system and released 7 hotel operation and management manuals. During the reporting period, the Jin Jiang Hotels Operational Examination Team was set up and the first round of issue-specific inspection was conducted on member hotels in Shanghai.

During the year, the number of signed-up corporate customers continued to grow as the Group provided designated individuals for signing and room reservation services for over 260 corporate customers, who became major sources of patrons for our hotels. The Group's distribution network comprised over 1,500 partners, through which extensive sources for international patrons were secured in substantial growth over 2007. Bookings for over 100,000 room nights were received through the JREZ system in 2008, representing an increase of approximately 52% over the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, the Group formed a delegation to take part in tourism exhibitions and marketing programmes held in Melbourne (AIME), Tokyo (JATA), Hong Kong (ITE) and China (CITM). A road-show highlighting Jin Jiang Hotels' welcoming the Olympic Games was also held in Beijing during the year. Such activities expanded the Company's access to customers and increased the Group's exposure in the international market.

The Group set up the "800" and "400" toll-free reservation hotlines to provide ease of reservation and strived to improve the experience of telephone reservation for patrons. Reservations made via www.jinjianghotels.com, the company website of Jin Jiang Hotel Management Company Limited, also multiplied. The Group will update its reservation websites and launch new marketing activities from time to time to attract more patrons.

During the year, the Group developed a frequent patron management system with Jin Jiang characteristics known as "Jinjiang Prestige" based on customary practices of the international hotel industry, aiming to enhance customer loyalty and the competitiveness of our hotels by providing customers with a first-hand experience of "courteous reception and efficient services" offered by Jin Jiang. The Group also cooperated with airlines and banks to offer score-points swapping and marketing services, while the joint credit card named "Jin Jiang Dragon Card" and a number of special marketing campaigns were also launched. The system has been applied in 15 of the Group's hotels and plans are underway for implementation at more hotels under the Group in 2009.

FOOD AND RESTAURANTS

In 2008, the Group's various brands of restaurant chains held through Jin Jiang Hotels Development continued to enjoy stable growth. As at the end of 2008, Shanghai KFC had a total of 233 outlets contributing to steady growth in revenue as well as its leading position in Shanghai's fast food market. Other restaurant chains included 5 Café de Coral outlets operated by Shanghai New Asia Café de Coral Company Limited, 62 New Asia Snacks outlets, 21 Yoshinoya outlets and 71 Jing An Bakery outlets, respectively. Chinoise Story operated 2 restaurants, each located in Shanghai and Wuhan respectively.

INFORMATION TECHNOLOGY

The Group places a strong emphasis on the application of information technology to enhance hotel management and guestroom services. In 2008, the Group continued to advance the building of information systems in an orderly manner in accordance with its information development planning, so as to provide stronger support for both its owned hotels and hotels under management. During the year, the Group launched the JHMSS system which was designed to serve hotels under its management. Trial operations of special services such as JJPrestige and the Jin Jiang Dragon Card were completed. The "Jin Jiang Hotels Integrated Procurement Platform" system, designed to lower costs and improve efficiency, was successfully developed during the year. We continued to promote the application of the Jin Jiang digital room system and implemented software asset management at hotels owned or controlled by the Group.

While enhancing its guest room marketing ability with the application of information technology, the Group also leveraged its brand advantage, operational scale, core standards and rich supplier resources to develop the "Jin Jiang Hotels Centralized Procurement System", a browser/server-based supply chain management platform designed to lower procurement costs and to regulate the sunlight procurement process. Currently under trial operation following completion of stage one construction, the system should enable Jin Jiang Hotels to exercise stronger regulation over procurement activities and reduce its procurement costs.

In 2008, the Group improved the efficiency of using information software assets by introducing software asset management concepts and methods with stronger efforts in the building of information system. The centralized procurement of key information system software such as server software was also accomplished with the execution of an agreement for the centralized procurement of desktop application software in co-operation with major international software suppliers.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2008, Jin Jiang Inn further enhanced the functions of its PMS system to improve frontline operating efficiency. A "tea restaurant" management system capable of integration with the Jin Jiang Inn PMS system was being developed, while full-scale upgrading to PMS4.1 version, a more powerful version with account book management functions, was completed during the year. The PMS4.2 version, a system capable of executing flexible changes in response to changing market prices, is now on-line following successful development on the basis of a full revamping of the existing PMS system with the integration of the externally sourced CRS system. A special task force was set up to study the new PMS5.0 version business system based on centralized data management. This new system will facilitate more convenient operation, more flexible response to marketing needs and more accurate and timely data exchange.

During the year, Jin Jiang Inn continued to leverage the function of the centralized data centre, which has been expanded to be capable of storing data of millions of patrons, laying foundations for improving its customer relations management system. The Jin Jiang Inn information management system was further optimized with the development of a software that facilitated on-line document distribution among outlets, regions and districts. As a result, document delivery was processed with more convenience and efficiency at lower costs.

FINANCIAL REVIEW

Turnover

The Group's turnover for the year ended 31 December 2008 as compared with the same period in 2007 is set out below:

	Year ended 31 December 2008		Year ended 31 December 2007	
	RMB in millions	***As a percentage of turnover***	*RMB in millions*	*As a percentage of turnover*
Star-rated hotel operation	**2,294.9**	**67.4%**	2,400.0	75.1%
Jin Jiang Inn Budget Hotels	**983.2**	**28.9%**	673.6	21.1%
Star-rated hotel management	**50.5**	**1.5%**	42.5	1.3%
Food and restaurants	**44.7**	**1.3%**	45.9	1.4%
Others	**29.5**	**0.9%**	35.1	1.1%
Total	**3,402.8**	**100.0%**	3,197.1	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

(I) Star-rated Hotel Operation

The following table sets out the amount and percentage of contributions from different businesses to the Group's turnover in Star-rated hotel operation for the year ended 31 December 2008, together with comparative figures of 2007:

	Year ended 31 December 2008		Year ended 31 December 2007	
	RMB in millions	***As a percentage of turnover***	*RMB in millions*	*As a percentage of turnover*
— Accommodation revenue	**1,208.1**	**52.6%**	1,373.6	57.2%
— Food and beverage sales	**769.2**	**33.5%**	730.8	30.5%
— Rendering of ancillary services	**128.6**	**5.6%**	130.7	5.4%
— Rental revenue	**140.5**	**6.2%**	122.9	5.1%
— Sales of hotel supplies	**48.5**	**2.1%**	42.0	1.8%
Total	**2,294.9**	**100.0%**	2,400.0	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

Accommodation revenue

Accommodation revenue was mainly determined by the number of Available Rooms, Occupancy Rate and ADR of the Group's hotels. The accommodation revenue of Star-rated hotels operation for the year was approximately RMB1,208,146,000, representing a decrease of 12.0% compared to the same period in 2007. The main factors which affected accommodation revenue were as follows:

(i) Year-on-year decrease in inbound foreign visitors to Shanghai in the aftermath of the financial tsunami that swept through the world with a profound impact on the global economy, coupled with fast-growing supply of high-end Star-rated hotels in Shanghai had a severe impact on Shanghai's tourism and hotel industries. Inbound foreign visitors received by Shanghai in 2008 dropped 3.8% year-on-year, according to statistics published by Shanghai Municipal Tourism Administrative Commission.

(ii) Benefited from the Beijing 2008 Olympic Games, Kunlun Hotel recorded substantial year-on-year growth in its daily average room rate of 28.1% as compared to the same period in 2007, resulting in the increase of accommodation revenue of approximately RMB42,124,000.

(iii) Wuhan Jin Jiang International Hotel contributed RMB16,521,000 in net increase of accommodation revenue for the year, following its commencement of operations in July 2007.

(iv) Peace Hotel recorded accommodation revenue from January to April 2007 before its suspension for refurbishment since April 2007. Accommodation revenue decreased by RMB9,665,000 as compared to the previous year.

(v) The number of patrons to the Group's hotels dropped as a result of the objective factors such as the "5.12" Wenchuan mega earthquake and adverse climate in central southern regions caused by rarely seen rainstorm and snowstorm.

Food and beverage sales

The Group's food and beverage sales primarily comprise catering for weddings and conferences, room services for guests and other sales in bars and restaurants in hotels. As the cost of utilities, labour costs and prices of raw materials increased during the year, menu and banquet prices were accordingly adjusted upwards. As a result, the revenue from food and beverages sales at Star-rated hotels increased 5.3% to approximately RMB769,187,000, as compared to the same period in 2007.

Rendering of ancillary services

The revenue from rendering of ancillary services mainly represents the turnover generated from gift shop, entertainment, laundry services and other guest services. During the year, the revenue from ancillary services decreased by approximately RMB2,118,000 or approximately 1.6% as compared to the same period in 2007, in line with the reduced number of patrons.

Rental revenue

Rental revenue was mainly generated from the leasing of space at the Group's hotels for shops, showroom and other purposes. Rental revenue increased by approximately RMB17,571,000 or approximately 14.3% as compared to the same period in 2007.

Sales of hotel supplies

Turnover from guest amenities and hotel supplies increased by approximately RMB6,479,000, or approximately 15.4% as compared to the same period in 2007. The growth was mainly attributable to the turnover growth due to an increase in the amount of new contracted and managed Star-rated hotels and new franchised Jin Jiang Inn Budget Hotels.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) Jin Jiang Inn Budget Hotels

ADR and Occupancy Rate of budget hotels were relatively stable as compared to Star-rated hotels. Turnover of Jin Jiang Inn Budget Hotels for the year amounted to approximately RMB983,180,000, an increase of approximately RMB309,590,000 or approximately 46.0% compared to the previous year. The increase was mainly attributable to the increase in Available Rooms from the new directly-managed Jin Jiang Inn Budget Hotels which opened during the year as well as the increase in initial franchise fees and ongoing franchise fees. During the year, initial and ongoing franchise fees income amounted to approximately RMB62,467,000, representing an 80.8% growth compared to the previous year.

(III) Star-rated Hotel Management

The external sales of Star-rated hotel management for 2008 amounted to approximately RMB50,551,000, representing an increase by approximately 18.9% compared to the same period in 2007. Such sales represented mainly the management fee received for hotel management services provided to Star-rated hotels not owned by the Group, including newly added managed hotels through Jin Jiang (Northern) Management Company Limited.

MANAGEMENT DISCUSSION AND ANALYSIS

(IV) Food and Restaurant Operation and Others

Revenue from the food and restaurant operation and others are mainly derived from Chinoise Story and Shanghai New Asia Food Company Limited. During the year, revenue from the food and restaurant operations amounted to approximately RMB44,670,000, a decrease of approximately 2.7% as compared to the same period in 2007.

The Group also engaged in other businesses, including the provision of intra-group financial services through Jin Jiang International Finance and the operation of training schools. During the year, revenue from such other businesses amounted to RMB29,494,000, a decrease of approximately 16.0% as compared to the same period in 2007.

Cost of sales

Cost of sales for the year amounted to approximately RMB2,353,925,000, a year-on-year increase in approximately 10.8%. The increase was mainly due to increase in labour costs, energy expenses and commodity cost prices and the increase in amortisation costs and property rental expenses attributable to the opening of new outlets of Jin Jiang Inn Budget Hotels.

Gross profit

For the above reasons, the Group recorded a gross profit of approximately RMB1,048,883,000 for the year, a decrease of approximately RMB23,101,000 or approximately 2.2% compared to the same period in 2007.

Other income

Other income for the year included dividend income received from Suzhou, Wuxi and Hangzhou KFCs and from Changjiang Securities amounting to approximately RMB95,514,000 (same period in 2007: approximately RMB35,638,000); a gain of approximately RMB46,432,000 (same period in 2007: approximately RMB166,265,000) from the disposal of shares in PDB; a gain of approximately RMB16,694,000 (same period in 2007: approximately RMB43,313,000) from the disposal of other equity investments; and a gain of approximately RMB22,394,000 (same period in 2007: approximately RMB82,011,000) from the disposal of 9.445% equity interests in Jiu Long Hotel. Other income for the year decreased by approximately RMB139,778,000 compared to the same period in 2007.

Selling and marketing expenses

Selling and marketing expenses for the year primarily comprising travel agents commission, advertising expenses and labour costs, amounted to approximately RMB159,685,000 (same period in 2007: approximately RMB159,954,000), representing a decrease of approximately 0.2% as compared to the same period in 2007.

Administrative expenses

Administrative expenses for the year decreased year-on-year by approximately 0.6% to approximately RMB602,207,000 (same period in 2007: approximately RMB605,638,000), attributable to the increase in labour costs, notwithstanding the decrease of office expenses, telephone charges and decoration and maintenance expenses.

Other expenses

Other expenses of the Group for the year, primarily consisting of bank charges and losses from the disposal of property, plant and equipment, decreased by approximately 38.3% from 2007 to approximately RMB28,396,000 (same period in 2007: approximately RMB46,014,000). The decrease reflected mainly the reduction of losses from the disposal of property, plant and equipment by approximately RMB16,570,000.

Finance cost

Finance cost, comprising interest expenses in respect of the Group's bank borrowings, amounted to approximately RMB44,308,000 (same period in 2007: approximately RMB92,716,000) for the year, a decrease by approximately 52.2% compared to the same period in 2007. The decrease was mainly attributable to the repayment of bank borrowings using listing proceeds during the period from April to June 2007, resulting in a year-on-year reduction in interest expenses. In addition, a foreign exchange loss of approximately RMB38,500,000 in respect of foreign currency amounts in the proceeds of the initial public offering of the Company recorded for the same period in 2007 contributed to the increase in finance cost.

MANAGEMENT DISCUSSION AND ANALYSIS

Share of results of associates

Results of associates primarily include results of the Group's associates Shanghai Kentucky Fried Chicken Company Limited and Shanghai Yangtze Hotel Company Limited, etc.. Share of results of associates for the year decreased by approximately 25.8% to approximately RMB72,760,000 (same period in 2007: approximately RMB98,099,000). The decline was mainly attributable to the decrease in share of results from Shanghai Kentucky Fried Chicken Company Limited and Shanghai Yangtze Hotel Company Limited by approximately RMB5,886,000 and RMB4,630,000 respectively, and from Jiangsu Jin Jiang Nanjing Hotel Company Limited, Wuxi Jinjiang Grand Hotel Company Limited, Shanghai Zhongya Hotel and Chengdu Jinhe Real Estate Company Limited by approximately RMB2,397,000, RMB2,205,000, RMB3,923,000 and RMB5,400,000, respectively, as compared to the same period in 2007.

Taxation

The effective tax rate for the year was approximately 18.1% (same period in 2007: approximately 17.2%). The effective tax rate for 2008 was lower than the statutory tax rate due to a higher amount of after-tax dividend income which was received during the year. Lower tax rates for 2007 were mainly attributable to the substantial decrease in income tax expense as a result of adjustments to the Group's deferred income tax assets and liabilities in accordance with the applicable tax rates under the new Corporate Income Tax Law of PRC promulgated in March 2007.

Profit for the year

As a result of the factors described above, profit for the year ended 31 December 2008 attributable to equity holders of the Company was approximately RMB270,255,000 (same period in 2007: approximately RMB383,417,000), decreasing by approximately RMB113,162,000 or approximately 29.5%.

Pledge of assets

As at 31 December 2008, property of the Group with net book amount of approximately RMB324,038,000 were pledged to banks as security for the Group's borrowings.

Gearing Ratio

The gearing ratio (calculated as total borrowings divided by total assets) increased from approximately 3.6% on 31 December 2007 to approximately 5.2% on 31 December 2008.

GROUP LIABILITIES AND FINANCIAL CONDITIONS

The Group entered into 6 unsecured/secured RMB corporate loan agreements with 4 banks in 2008 with a total amount of RMB321 million, comprising unsecured loans of RMB310 million, secured loans of RMB11 million, 1-year term loan of RMB221 million and loans of RMB100 million with terms ranging from 1 to 2 years.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has fulfilled all covenants under its loan agreements. Outstanding borrowings as at 31 December 2008 are analysed as follows:

	Maturity of contracted borrowings outstanding at 31 December 2008				
(RMB'000)	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Borrowings					
Bank borrowings (RMB)	235,500	125,000	120,563	30,000	511,063
Bank borrowings (USD)	27,338	—	—	—	27,338
Total	262,838	125,000	120,563	30,000	538,401

Note: Of the total amount of borrowings, unsecured borrowings accounted for approximately RMB337 million or approximately 63%, and secured borrowings accounted for approximately RMB201 million or approximately 37%. RMB borrowings accounted for approximately RMB511 million or approximately 95%, and US$ borrowings accounted for approximately US$4 million (equivalent to approximately RMB27.34 million) or approximately 5%.

TREASURY MANAGEMENT

Cash and cash equivalents as at 31 December 2008 and 2007 were approximately RMB1,644,962,000 and RMB1,943,291,000, respectively, providing relatively ample cash flow.

Interest rate and exchange rate risk management

Jin Jiang International Finance, a subsidiary of the Company, acts as a non-banking financial institution within the Group. In order to centralise cash resources and improve the efficiency of fund applications, the subsidiaries and associates of the Company deposit most of their cash in the accounts with Jin Jiang International Finance and borrow from Jin Jiang International Finance as first priority in case of fund shortage. As a result, the interest expenses of external bank borrowings have decreased. The lending interest rates applicable to the Group are mostly charged at a 5%–10% discount to the prevailing benchmark rate of the People's Bank of China, leading to decrease in interest expenses for borrowings.

During the year under review, the Company was not subject to any exposure to significant fluctuation in exchange rate nor was it engaged in any hedging activities. The Company will actively consider the use of relevant financial instruments to manage interest rate risks and currency exchange rate risks in line with its business development.

MANAGEMENT DISCUSSION AND ANALYSIS

AVAILABLE-FOR-SALE FINANCIAL ASSETS

During year under review, 1,843,000 shares in Shanghai Pudong Development Bank ("PDB") were disposed of, realising an investment gain of approximately RMB46,432,000. Net gain after deducting income tax expense and minority interests amounted to approximately RMB31,210,000.

As at 31 December 2008, available-for-sale financial assets held by the Group comprised 4,559,985 shares in PDB (Stock code: 600000.SH) and 13,148,849 shares in Shenzhen Catic Real Estate Co., Ltd. (Stock code: 000043.SZ) as well as 100,637,463 shares in Changjiang Securities Co., Ltd. (Stock code: 000783.SZ) and 675,000 shares in China Quanjude (Group) Co., Ltd. (Stock code: 002186.SZ) held by Jin Jiang Hotels Development, the controlling interest of which is owned by the Company. The Group will continue to gradually dispose of its available-for-sale financial assets based on market conditions.

During the period from 25 February to 4 March 2009, the Company disposed of a total of 4,559,985 A shares in PDB and received net proceeds of approximately RMB78,432,000. Following the above disposal, the Company no longer holds any A shares in PDB.

HUMAN RESOURCES AND TRAINING

The Group runs a professional training school to provide professional training and nurture industry professionals, where education and training are based on the actual context of hotel management. The Company has set up the Les Roches Jin Jiang International Hotel Management College in partnership with GESHOTEL-Les Roches Swiss Hotel Association School of Hotel Management, which provides hotel managers and future hotel management with various types and levels of Star-rated hotel training courses. In 2008, the Hotel Management College expanded its enrolment for full-time students and 23 top graduates were selected as management trainees of the Group to undergo a half-year training course with internship, while 43 of our incumbent intermediate or senior management officers were assigned to one-year or six-month training courses of the college.

MANAGEMENT DISCUSSION AND ANALYSIS

In relation to staff training, the Group increased its efforts in the training and amount of back-up human resources with the holding of 2 training sessions for intermediate and senior management staff and 1 session for management trainees. Various management personnel were trained at Jin Jiang International Management School with an emphasis on their ability to adapt to the development trends in the industry. The quality of management staff of our hotels was improved through short-term and medium-term training courses for intermediate and senior management staff held during the year with a total enrolment of over 1,800 attendees. Thirteen training sessions in various skills were held to improve the quality of our hotel services.

To cater to the ongoing expansion of its hotel chain, Jin Jiang Inn further improved its appraisal system and remuneration management standards, as well as its staff career development regime. The training system was enhanced to provide staff with multi-faceted training. In 2008, 36 training sessions were organised for over 1,000 intermediate and senior management staff from budget hotels and 40 training sessions for budget hotel launch were organised with a total enrolment of over 1,600 attendees. The training network comprising the headquarter, regional, district and outlet levels was generally enhanced.

To comply with the Implementation Rules of the Labour Contract Law of PRC, the hotel management company under the Group revised its hotel staff manual to ensure stable and orderly personnel management.

In 2008, the Group developed a collective wage negotiation system, and improved its annuity, supplementary provident fund, supplementary medical insurance and other welfare systems.

As at 31 December 2008, the Group had approximately 18,800 employees, basically same as the previous year. Employee benefit expense increased by approximately RMB50,600,000 or 5.2% against 2007. The remuneration package for existing employees comprises the basic salary, discretionary bonus and social security contributions. No share option scheme has been set up so far.

MANAGEMENT DISCUSSION AND ANALYSIS

SOCIAL RESPONSIBILITY

The Group has always pursued the cause of social welfare with strong enthusiasm and actively participated in community service. During the period, we actively organized donations to victims in the aftermath of the "5.12" Wenchuan earthquake, as we felt compelled to support the emergency relief efforts in China. Our employees were engaged in concerted efforts in relief donations and fundraising, in a bid to help the restoration of homes in disaster-stricken areas with practical actions.

To provide further assistance, a charity fundraising campaign entitled "Compassion and Charity" (點燃激情、傳遞愛心) was launched through the reservation website of Jin Jiang International Hotel Management Company Limited; while Jin Jiang Inn organised the "Donations for Patronage" (您住店，我捐款) campaign.

During 2008, the hotels of the Company fulfilled hospitality tasks for a number of significant events with best-in-class services. Five high-end Star-rated hotels managed by Jin Jiang (Northern) Management Company Limited, a subsidiary of the Group, were signed up to provide accommodation in relation to the Olympic Games. Jin Jiang (Northern) Management Company Limited was also appointed to manage the Beijing Olympics Media Villages. Huating Hotel & Towers was appointed as a hotel for official reception in the Shanghai Games Zone. These services were highly commended. In addition, Thayer Jin Jiang Interactive Co., Ltd. (www.hubs1.net), an investee of the Company, was selected by the organizers of Shanghai World Expo to be a provider of hotel reservation services for the event.

Energy conservation continued to be on top of the Group's agenda as we actively employed energy-saving technologies to advance the building of green hotels in an orderly fashion. During the period under review, Jin Jiang Hotel, Huating Hotel & Towers and Jiangxi Jinfeng Hotel were each named a "Golden-Leaf Grade Green Tourist Hotel", while Metropole Hotel and Pacific Hotel were each named a "Silver-Leaf Grade Green Tourist Hotel".

The Group also regard the improvement of staff remuneration and welfare as its priority task. During 2008, the first general assembly of staff representatives of the Group was held in a move to enhance the mechanisms for mutual consultation and rights protection regarding staff interests. The agreement for collective wage negotiation for 2008 was approved at the meeting.

ENERGY CONSERVATION

During 2008, the Company continued to pursue its objectives in energy conservation and discharge reduction in complement to its efforts to establish green tourist hotels and positive results were attained. In 2008, the Company further promoted the consumption of natural gas in substitution for diesel and the use of fuel-saving and environment-friendly additives. We also made a major effort to promote the conversion of steam boilers into hot-water boilers and the recycling of condensed water from boilers to reduce energy consumption of the boiler system. Energy consumption of the air-conditioning system was also reduced with the application of technologies such as frequency conversion and fuzzy-logic controls, while the reduction of energy consumption at the pump systems was facilitated by the use of frequency conversion units and soft-start units. During the year under review, the geo-thermal heat pump system has also been gradually introduced to other hotels after the successful trial operation at Da Hua Hotel. The system is now in operation at Min Hang Hotel after completion of the geo-thermal heat pump system conversion works, while such conversion projects are underway at Cypress Hotel, New Garden Hotel and Jinsha Hotel, which are scheduled for completion and trial operation during the first half of 2009. The possibility of shared laundry on the back of resource integration was also under active consideration, with an aim to improve the utilization rate of equipment and reduce energy consumption.

CORPORATE STRATEGIES AND OUTLOOK FOR FUTURE DEVELOPMENT

The Group has implemented diversified strategies to sustain long-term development, which include the strategic redeployment of hotel assets, expansion of budget hotels, upgrading of Landmark Hotels, brand enhancement strategy, strengthening of hotel management standards and market leadership.

MANAGEMENT DISCUSSION AND ANALYSIS

For the purpose of countering the various adverse effects of the financial tsunami on the hotel industry, the Company has formulated various measures for the main goal of reducing costs and improving service quality, which include considering and formulating a guide for hotel operations under the financial crisis to provide member hotels with guidance on aspects such as revenue increase, expenses reduction and risk control; implementing hotel operation and management manuals to improve hotels quality; launching a central procurement system to reduce operational costs; and strengthening marketing efforts for guest-rooms and restaurants so as to increase revenues and reduce expenses as well as to mitigate the negative impacts of the financial tsunami.

Although the global economy has been severely affected by the financial tsunami, the Shanghai World Expo 2010 will bring sound opportunities for the hotel industry of China. Along with the increase of visits to Shanghai by worldwide enterprises to prepare for the World Expo, we expect an increase of hotel patronage in Shanghai in 2009, which would benefit the Group, whose hotels are mostly located in Shanghai.

In the case of the operation of Star-rated hotels, the Group plans to upgrade and renovate the facilities and exterior/interior decoration of Landmark Hotels and Luxury Hotels which have been in operation for decades. For budget hotels, the strategy will continue to focus on the expansion in the number of outlets and geographical presence in China through organic growth and franchising. In terms of hotel management, more efforts will be devoted to brand building, standardisation and talent recruitment to improve our management quality and acquire more hotel management contracts. In light of the actual circumstances of Jin Jiang Hotel brand, the Group will further optimize its brand development strategic plan, refine its brand character and formulate a framework proposal for Jin Jiang Hotel brand structuring.

The Group is the leading hotel investor cum operator in China. Benefited from its competitive advantages in hotel ownership and management, the Company is well-positioned to strengthen control over its hotels while realising potential value growth for its hotel properties. The Group will enhance future profitability through the redeployment of funds to rationalise the network and distribution of its hotels.

The Group will continue to strengthen its six major platforms namely information, finance, purchasing, marketing, human resources and management systems. Innovations will be explored in six aspects, namely business models, hotel networks, asset allocation, institutions and systems, management and corporate culture. Core competitive advantages of Jin Jiang Hotels will be enhanced in terms of brand building, networking, human resources and management systems, so that it will develop into a leading hotel operator and manager in China with international competitive advantages.

REPORT OF THE DIRECTORS

The Board has pleasure in presenting their report together with audited consolidated financial statements of the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Group is principally engaged in Star-rated hotel operation and management, budget hotel operation and franchising, food and restaurants and other businesses. The Group is structured as a horizontally integrated hospitality services provider, offering hospitality services tailored to all segments ranging from budget accommodation to 5-star hotels. This structure enables the Group to enjoy economies of scale and scope as well as providing the Group with a platform to increase its market presence.

OPERATIONAL REVIEW

Management discussion and analysis on operation are set out on pages 20 to 36 of this report.

FINANCIAL REVIEW

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 66 of this report. Management discussion and analysis on financial review are set out on pages 20 to 36 of this report. A financial summary of the Group for the years ended 31 December 2004, 2005, 2006, 2007 and 2008 is set out on page 9 of this report.

SHARE CAPITAL

The number of shares in each class of shares of the Company as at 31 December 2008 is set out as follows:

Class of shares	Number of shares in issue ('000)	As a percentage of total share capital (%)
Domestic shares	3,173,500	69.52
Including:		
Jin Jiang International	3,014,825	66.04
Shanghai Jin Jiang International Investment & Management Company Limited	158,675	3.48
H Shares	1,391,500	30.48
Total	4,565,000	100.00

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Company was successfully listed on the Main Board on 15 December 2006 and raised a net amount (after listing expenses) of approximately RMB2,676,100,000 under the global offering.

According to the plan described in the Prospectus, the proceeds were applied as follows:

In 2007, approximately RMB1,098,200,000 was injected into Shanghai Jin Jiang International Hotel Investment Company Limited by way of additional capital on a pro-rata basis for the development and expansion of the Jin Jiang Inn Budget Hotels network, pursuant to an arrangement between the Company and Jin Jiang Hotels Development.

As at 31 December 2008, a total of RMB572,500,000 of the issue proceeds was utilized by Shanghai Jin Jiang International Hotel Investment Company Limited on an accumulative basis as external investment in the development of Jin Jiang Inn Budget Hotels project.

REPORT OF THE DIRECTORS

The proceeds of approximately RMB725,000,000 were applied as additional capital and investments in relevant subsidiary hotels for the refurbishment of certain Landmark Hotels and Luxury Hotels, including Peace Hotel, Jin Jiang Tower, Cypress Hotel, Jin Jiang Hotel, Galaxy Hotel, Rainbow Hotel and Y.M.C.A Hotel.

From 1 January 2007 to 31 December 2008, issue proceeds of approximately RMB249,100,000 was utilized as payments for construction work included payment in respect of Peace Hotel, Jin Jiang Tower, Cypress Hotel, Jin Jiang Hotel, Galaxy Hotel, Rainbow Hotel, and Y.M.C.A Hotel, etc..

From March 2007 to May 2007, issue proceeds of approximately RMB852,900,000 were used for partial repayment of bank borrowings of the Group.

DIVIDENDS

On 17 April 2009, the Board proposed to declare a final dividend of RMB2.1 cents (tax inclusive) per share for the year ended 31 December 2008.

Pursuant to the Corporate Income Tax Law of PRC and its implementing regulations (hereinafter collectively referred to as the "CIT Law") which took effect on 1 January 2008, the tax rate of the corporate income tax applicable to the income of non-resident enterprise deriving from PRC is 10%. For this purpose, any H shares registered under the name of non-individual enterprise, including the H shares registered under the name of Hong Kong Securities Clearing Company Nominees Limited, other nominees or trustees, or other organizations or entities, shall be deemed as shares held by non-resident enterprise shareholders (as defined under the CIT Law). The Company will distribute the final dividend to non-resident enterprise shareholders subject to a deduction of 10% corporate income tax withheld and paid by the Company on their behalf.

Any resident enterprise (as defined under the CIT Law) which has been legally incorporated in the PRC or which has established effective administrative entities in the PRC pursuant to the laws of foreign countries (regions) and whose name appears on the Company's H share register on 15 June 2009 must deliver a legal opinion ascertaining its status as a resident enterprise furnished by a qualified PRC lawyer (with the seal of the issuing law firm affixed thereon) and relevant documents to Computershare Hong Kong Investor Services Limited no later than 4:30 pm on Friday, 15 May 2009, if they do not wish to have the 10% corporate income tax withheld and paid on their behalf by the Company.

The 10% corporate income tax will not be withheld from the final dividend payable to any natural person shareholders whose names appear on the H share register of members of the Company on 15 June 2009. Any natural person investor whose H shares are registered under the name of non-individual shareholders and who does not wish to have any corporate income tax to be withheld by the Company may consider transferring the legal title of the relevant H shares into his or her name and duly lodge all transfer documents with the relevant H share certificates with the Company's H share registrar for registration on or before 4:30 p.m. on Friday, 15 May 2009.

The proposed final dividend is subject to the approval by shareholders of the Company at the forthcoming annual general meeting. The proposed final dividend will be paid on or before 30 June 2009 to the shareholders whose names appear on the H share register of members of the Company on 15 June 2009.

The Company will have no liability in respect of any claims arising from any delay in, or inaccurate determination of the status of the shareholders or any disputes over the mechanism of withholding.

The Board is not aware that any shareholder has waived or agreed to waive any dividends.

REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the financial year of 2008, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of its listed securities.

PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries of the Company are set out on pages 136 to 139.

RESERVES

The Group had a reserve of RMB2,395,351,000 as at 31 December 2008, of which RMB462,835,000 was retained earnings. Details of which are set out in Note 18 to the consolidated financial statements on pages 112 to 113.

DISTRIBUTABLE RESERVES

According to the articles of association of the Company (the “Articles of Association”), distributable reserves are determined based on the profits of the Company prepared according to the PRC Accounting Standards and the Hong Kong Financial Reporting Standards (“HKFRS”), whichever is the lower.

According to the PRC Company Law, the profit after tax (after transferring appropriate amount into the statutory surplus reserve fund) can be distributed as dividend.

As at 31 December 2008, in accordance with the PRC Accounting Standards, relevant PRC laws and the Articles of Association, the distributable reserves of the Company amounted to RMB412,623,785, of which about RMB95,865,000 is proposed to be the final dividend for the year.

FIXED ASSETS

Details of hotels in which the Group held substantial equity interests are set out on page 6 of this report.

BORROWINGS

The details of short and long term borrowings are set out in Note 20 to the consolidated financial statements on pages 116 to 119.

MAJOR CUSTOMERS AND SUPPLIERS

The Group’s customers mainly comprised Franchisees, travel agencies, corporate customers and guests at its hotels. For the year ended 31 December 2008, the Group’s five largest customers in aggregate accounted for less than 30% of the Group’s total sales. Pursuant to the Group’s franchise agreements with its Franchisees, no credit term is granted to the Franchisee and the Group’s Franchisee is required to pay the continuing franchise fee on or before the 10th day of every month. The Franchisee is obliged to pay a certain percentage of the amount payable in case of a default in payment. The Group offers credit term of one to three months for travel agencies and corporate customers, while no credit term is provided to individual guests.

The Group’s suppliers mainly comprise vendors who supply the Group’s hotel operations with hotel supplies such as food and beverages, as well as bath products. For the year ended 31 December 2008, the Group’s five largest suppliers in aggregate accounted for less than 30% of the Group’s total purchases. Generally, the credit term provided by the Group’s suppliers is about two to six months.

None of the directors, their associates nor any shareholder (who to the knowledge of the directors owns more than 5% of the Company’s issued share capital) had an interest in the major suppliers or customers noted above.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

Continuing Connected Transactions

According to an announcement issued by the Company on 16 December 2008 (the "Connected Transaction Announcement"), the Company and Jin Jiang International, the controlling shareholder of the Company, and/or its associates had carried out the following continuing connected transactions. Since each of the applicable percentage ratios for the continuing connected transactions calculated on an annual basis is more than 0.1% but less than 2.5%, the continuing connected transactions are only subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules and are exempted from the independent shareholders' approval requirement in accordance with Rule 14A.34 of the Listing Rules. All terms used below shall have the same meanings as defined in the Connected Transaction Announcement, unless the context requires otherwise.

(i) Leases

Dates:	30 November 2004, 20 February 2006, 16 June 2006, 25 August 2006, 21 September 2006, 22 September 2006 and 10 November 2006
Parties:	(i) certain associates of Jin Jiang International as landlord; and (ii) certain members of the Group as tenant
Properties:	11 commercial properties located in Shanghai
Terms:	each of the Leases has automatically extended for further terms of 3 years and has a term due to expire on 31 December 2011. Upon the expiry of such initial term, each of the Leases shall automatically extend for further terms of 3 years with the rent to be agreed by the parties based on the then prevailing market price, subject to the fulfilment of the relevant requirements of the Listing Rules, unless at least 3 months prior to the expiry of each such term any relevant party gives written notice of termination to the other party.
Aggregate Rental:	Approximately RMB11,040,000, RMB12,690,000 and RMB13,710,000 for the years ending 31 December 2009, 2010 and 2011, respectively, which shall be paid monthly in advance (except for two leases, which shall be paid quarterly in advance), and which is inclusive of the expected future figures of utility charges and administrative fees as disclosed in the Prospectus.

(ii) Long Term Leases

Dates:	10 June 1996 and 6 February 2006
Parties:	(i) certain associates of Jin Jiang International as landlord; and (ii) certain members of the Group as tenant
Terms:	Each of the Long Term Leases has a current term of 20 years and will expire on 30 June 2016 and 31 December 2026, as the case may be, unless the relevant member of the Group gives to the lessor at least 1 year's prior written notice of termination.
Properties:	2 commercial properties located in Shanghai
Rental:	Approximately RMB10,050,000, RMB10,070,000 and RMB10,560,000 for the years ending 31 December 2009, 2010 and 2011, respectively, which shall be paid quarterly or semiannually in advance, as the case may be, and which is inclusive of the expected future figures of utility charges and administrative fees.

REPORT OF THE DIRECTORS

(iii) Master Agreements

Date:	20 November 2006
Parties:	(i) Jin Jiang International as provider and/or recipient (as the case may be); and (ii) the Company as provider and/or recipient (as the case may be)
Terms:	each of the Master Agreements has automatically extended for further terms of 3 years and has a current term due to expire on 31 December 2011. Upon the expiry of such term, each of the Master Agreements shall automatically extend for further terms of 3 years, subject to the fulfillment of the relevant requirements of the Listing Rules, unless at least 3 months prior to the expiry of each such term any relevant party gives written notice of termination to the other party.

Nature of transactions:

(a) Master Food and Beverage Services and Provision of Food Agreement:

- (i) provision of food; (ii) food and beverage services; and (iii) other related or ancillary goods and services by Jin Jiang International and its associates to the Group as well as by the Group to Jin Jiang International and its associates

(b) Master Hotel Supporting Services Agreement:

- (i) provision of IT services, laundry services, lift maintenance services, film development services, printing services, telecommunication and electronic products, telephone services, hotel-related goods and other hotel supporting services; and (ii) other related or ancillary goods and services by Jin Jiang International and its associates to the Group

(c) Master Provision of Hotel Rooms Agreement:

- (i) provision of hotel rooms; and (ii) other related or ancillary goods and services by the Group to Jin Jiang International and its associates; and

It is envisaged that from time to time and as required, individual implementation agreements may be entered into between the Group, Jin Jiang International, its subsidiaries and/or associates, as appropriate, under the Master Agreements.

Prices:

Each relevant product or service must be provided in accordance with the following general pricing principles:

- Stated-Prescribed Prices; or
- where there is no State-Prescribed Price, then according to relevant market prices.

Payment for goods and services under the Master Agreements is usually settled monthly or quarterly in arrears, as the case may be.

REPORT OF THE DIRECTORS

The historical amounts of the Continuing Connected Transactions under the Agreements for the three years ended 31 December 2008 and the relevant annual caps for each of the three years ended 31 December 2008 were as follows:

Items	Historical Figures (RMB million) For the year ended 2006	For the year ended 2007	**For the year ended 2008**	Annual Caps (RMB million) For the year ended 2006	For the year ended 2007	**For the year ended 2008**
Expenditure Items:						
1) Leases and Long Term Leases	5.9	18.3	**20.0**	9	23	**24**
2) Master Food and Beverage Services and Provision of Food Agreement	28.3	27.2	**23.7**	35	38	**42**
3) Master Hotel Supporting Services Agreement	7.6	6.5	**7.4**	N/A	N/A	**N/A**
Revenue Items:						
1) Master Food and Beverage Services and Provision of Food Agreement	2.5	3.3	**2.5**	N/A	N/A	**N/A**
2) Master Provision of Hotel Rooms Agreement	31.8	24.1	**19.8**	43	47	**52**

The annual caps for the Continuing Connected Transactions for the three years ending 31 December 2011 are set out in the table below.

Items	**Annual Caps for items (RMB million) For the year ending 2009**	**For the year ending 2010**	**For the year ending 2011**
Expenditure Items:			
1) Leases and Long Term Leases	22	23	25
2) Master Food and Beverage Services and Provision of Food Agreement	33	43	47
3) Master Hotel Supporting Services Agreement	9.2	12	13.1
Revenue Items:			
1) Master Food and Beverage Services and Provision of Food Agreement	4	5.1	5.6
2) Master Provision of Hotel Rooms Agreement	38	49	54

REPORT OF THE DIRECTORS

The independent non-executive directors, Mr. Ji Gang, Mr. Xia Dawei, Mr. Sun Dajian, Dr. Rui Mingjie, Mr. Yang Menghua, Dr. Tu Qiyu, Mr. Shen Chengxiang and Mr. Lee Chung Bo, have reviewed the above continuing connected transactions and confirm that these transactions have been entered into:

(1) in the ordinary and usual course of business of the Company;

(2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The international auditor of the Company has performed certain agreed-upon procedures on such transactions and has provided a letter to the Board stating that the above continuing connected transactions:

(1) received the approval of the Board;

(2) were in accordance with the pricing policies of the Group if the transactions involve provision of services by the Group, based on the samples of transactions selected and checked by the international auditor;

(3) were entered into in accordance with the relevant agreements governing such transactions, based on the samples of transactions selected and checked by the international auditor; and

(4) did not exceeded the relevant annual caps as disclosed in the Prospectus.

Other Connected Transactions

The Company did not have any other connected transactions in 2008.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the directors, supervisors and senior management as at 31 December 2008 are set out on pages 14 to 19.

INTERESTS IN SHARES OF DIRECTORS, CHIEF EXECUTIVE AND SUPERVISORS

As at 31 December 2008, none of the directors, chief executive officer or supervisors of the Company had any interest or short positions in the shares, underlying shares or debentures of the Company which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") (including interests and short positions which he or she is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), which shall be deemed to apply to the supervisors to the same extent as it applies to the directors.

REPORT OF THE DIRECTORS

INTERESTS IN SHARES OR UNDERLYING SHARES OR DEBENTURES OF ASSOCIATED CORPORATIONS

As at 31 December 2008, three directors, namely Mr. Xu Zurong, Mr. Yang Weimin and Mr. Chen Hao held the following equity interests in Jin Jiang Inn:

Name	Equity interest in Jin Jiang Inn	Nature of interests	Capacity	Percentage in total registered capital of Jin Jiang Inn
Xu Zurong	2,594,600 (Note 1)	Long Position	Beneficial owner	1.4438% (Note 1)
	2,594,600 (Note 2)	Short Position	Beneficial owner	1.4438% (Note 2)
Yang Weimin	1,729,730 (Note 1)	Long Position	Beneficial owner	0.9625% (Note 1)
	1,729,730 (Note 2)	Short Position	Beneficial owner	0.9625% (Note 2)
Chen Hao	1,729,730 (Note 1)	Long Position	Beneficial owner	0.9625% (Note 1)
	1,729,730 (Note 2)	Short Position	Beneficial owner	0.9625% (Note 2)

Notes:

1. These figures represent the respective equity interest in Jin Jiang Inn of these directors. In addition, under the Jin Jiang Inn Shareholders' Agreement (as defined in the Prospectus), in the event new equity interest is issued by Jin Jiang Inn, each of these directors has been granted pre-emptive rights over such new equity interest in proportion to his respective equity interest in Jin Jiang Inn. Please refer to the section headed "Connected Transactions — Jin Jiang Inn Shareholders' Agreement" in the Prospectus for more information.

2. Under the Jin Jiang Inn Shareholder's Agreement, each of these directors has granted to (a) the Company rights of first refusal to purchase his respective equity interest in Jin Jiang Inn if he intends to transfer his said equity interest; and (b) the Company (or a third party designated by the Company) buy back rights to purchase his equity interest in Jin Jiang Inn after the occurrence of certain events. Under the articles of association of Jin Jiang Inn, the Company and Jin Jiang Hotels Development have also been granted certain rights of first refusal over the equity interests held by these directors in Jin Jiang Inn if they intend to transfer their said respective equity interests. Please refer to the section headed "Connected Transactions — Jin Jiang Inn Shareholders' Agreement" in the Prospectus for more information.

As at 31 December 2008, Mr. Yu Minliang, the chairman and an executive director of the Company, held the following number of shares in Jin Jiang Hotels Development:

Name	No. of shares held in Jin Jiang Hotels Development	Nature of interests	Capacity	Percentage in total share capital of Jin Jiang Hotels Development
Yu Minliang	14,305	Long Position	Beneficial owner	0.0024%

Save as disclosed above, as at 31 December 2008, none of the directors, chief executive officer or supervisors of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such directors, chief executive officer and supervisors of the Company were taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code (which shall be deemed to apply to the supervisors to the same extent as it applies to the directors).

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS

(a) Substantial shareholders' interest in shares or underlying shares of the Company

As at 31 December 2008, so far as was known to the directors, the following persons (other than a director, chief executive officer or supervisor of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Class of shares	Number of shares/ underlying shares held	Capacity	Percentage in the relevant class of share capital	Percentage in total share capital
Jin Jiang International	Domestic shares	3,173,500,000 (long position)	Beneficial owner and controlled corporation (Note 1)	100%	69.52%
National Council for Social Security Fund (全國社會保障基金理事會)	H shares	110,088,000 (long position)	Beneficial owner	7.91%	2.41%
JJ Co-Invest Holdings Limited	H shares	106,170,000 (long position)	Beneficial owner (Note 2)	7.63%	2.33%
Hotel JJ Holdings Limited	H shares	106,170,000 (long position)	Controlled corporation (Note 2)	7.63%	2.33%
SCG Hotel Management, L.L.C.	H shares	106,170,000 (long position)	Controlled corporation (Note 2)	7.63%	2.33%
Starwood Capital Group Global, L.L.C.	H shares	106,170,000 (long position)	Controlled corporation (Note 2)	7.63%	2.33%
Barry S. Sternlicht	H shares	106,170,000 (long position)	Controlled corporation (Note 2)	7.63%	2.33%

Notes:

(1) According to the form filed by Jin Jiang International, 3,014,825,000 domestic shares are beneficially held by it and 158,675,000 domestic shares are held through a controlled corporation.

(2) The Company has been informed that: (i) JJ Co-Invest Holdings Limited is ultimately 100% owned by investment funds, which are controlled by Starwood Capital Group Global, L.L.C., which is in turn controlled by Mr. Barry S. Sternlicht; (ii) JJ Co-Invest Holdings Limited is a non wholly owned subsidiary of Hotel JJ Holdings Limited, which is owned by certain of such Starwood Capital investment funds of which SCG Hotel Management, L.L.C. is general partner; and (iii) SCG Hotel Management, L.L.C. is controlled by Starwood Capital Group Global, L.L.C., which is in turn controlled by Mr. Barry S. Sternlicht.

Save as disclosed above and so far as the directors are aware, as at 31 December 2008, no other person had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

REPORT OF THE DIRECTORS

(b) Substantial Shareholders' interests in shares/underlying shares of other members of the Group:

As at 31 December 2008, so far as the directors are aware, each of the following persons, not being (i) a director, chief executive officer or supervisor of the Company or (ii) a member of the Group, was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

	Name of subsidiary	Name of shareholder	Percentage of shareholding
1	上海錦花旅館有限公司 (Shanghai Jinhua Hotel Co., Ltd.)	上海花木經濟發展總公司 (Shanghai Huamu Economic Development Company Limited)	20%
2	揚州錦揚旅館有限公司 (Yangzhou Jinyang Hotel Co., Ltd.)	揚州市雙橋鄉農工商總公司 (Yangzhou Shuangqiao Town NGS Co., Ltd.)	25%
3	上海錦海旅館有限公司 (Shanghai Jinhai Hotel Co., Ltd)	閔行區商業建設公司 (Minhang Commercial Construction Co., Ltd.)	30%
4	蘇州新區錦獅旅館有限公司 (Suzhou New Area Jinshi Hotel Co., Ltd.)	蘇州新區獅山農工商總公司 (Suzhou Shishan Industry & Commercial Co., Ltd.)	40%
5	南京錦綉旅館有限公司 (Nanjing Jinxu Hotel Co., Ltd.)	上海浦東新區合慶繡品服裝(集團)有限公司 (Shanghai Pudong Heqing Embroidery Clothing (Group) Co., Ltd.)	40%
6	上海新苑賓館 (Shanghai New Garden Hotel)	上海鑫達實業總公司 (Shanghai Xinda Industrial Co., Ltd.)	43%
7	上海海侖賓館有限公司 (Sofitel Hyland Shanghai)	上海國際集團投資管理有限公司 (SIG Investment Management Co., Ltd.)	33.33%
8	上海建國賓館有限公司 (Jian Guo Hotel Co., Ltd)	上海國際集團投資管理有限公司 (SIG Investment Management Co., Ltd.)	35%
9	上海錦江飯店發展有限公司 (Shanghai Jin Jiang Hotels Development Co., Ltd.)	上海錦江飯店實業有限公司 (Shanghai Jin Jiang Hotel Industries Company Limited)	10%
10	北京錦江北方物業管理有限公司 (Beijing Jin Jiang Northern Property Management Company Limited)	北京市昆侖經貿公司 (Beijing Kun Lun Economy & Trade Company Limited)	20%
11	澳大利亞新亞大包快餐(連鎖)有限公司 (New Asia Chains of Snack (Australia) PTY. Ltd.)	英華進出口有限公司 (Ying Hua Import & Export Pty Limited)	45%
12	上海錦江同樂餐飲管理有限公司 (Shanghai Jin Jiang Tung Lok Catering Management Inc.)	新加坡同樂(中國)控股有限公司 (Tung Lok (China) Holdings Pte. Ltd)	49%
13	上海豫錦酒店管理有限公司 (Shanghai YuJin Hotel Management Company Limited)	上海豫園(集團)有限公司 (Shanghai Yuyuan (Group) Co., Ltd.)	40%

Save as disclosed above and so far as the directors are aware, as at 31 December 2008, no other person, not being (i) a director, chief executive officer or a supervisor of the Company or (ii) a member of the Group, was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

REPORT OF THE DIRECTORS

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

As at 31 December 2008 or at any time during 2008, there was no contract of significance (as defined in Appendix 16 of the Listing Rules) subsisting during or at the end of the financial year in which the directors or the supervisors was materially interested, whether directly or indirectly.

As at 31 December 2008 or at any time during 2008, there was no contract of significance in relation to the Company's business subsisting during or at the end of the financial year to which the Company, its subsidiaries, its holding company or the subsidiaries of the holding company was a party and in which the directors or the supervisors was materially interested, whether directly or indirectly.

As at 31 December 2008 or at any time during 2008, there was no contract entered into or proposed to be entered into with the Company in which the directors or the supervisors would had or had material interests, in any way, whether directly or indirectly.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the directors and supervisors has entered into a service contract with the Company for a term expiring upon the conclusion of the annual general meeting of the Company to be held in 2009. Each of the directors and supervisors (who are appointed by shareholders) have offered themselves for re-appointment in forthcoming annual general meeting.

Commencement dates of the term of the non-executive director and each independent non-executive director are as follows.

Name	Title	Commencement Date
Mr. Shen Maoxing	Non-executive Director	1 January 2006
Mr. Ji Gang	Independent Non-executive Director	20 November 2006
Mr. Xia Dawei	Independent Non-executive Director	20 November 2006
Mr. Sun Dajian	Independent Non-executive Director	20 November 2006
Dr. Rui Mingjie	Independent Non-executive Director	20 November 2006
Mr. Yang Menghua	Independent Non-executive Director	20 November 2006
Dr. Tu Qiyu	Independent Non-executive Director	20 November 2006
Mr. Shen Chengxiang	Independent Non-executive Director	20 November 2006
Mr. Lee Chung Bo	Independent Non-executive Director	20 November 2006

The Company did not enter into any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation) with any director or supervisor.

EMOLUMENT POLICY OF THE GROUP

The Group's staff emolument policy comprised basic salary, social security contribution and the Group's performance-based discretionary bonus.

The compensation of the directors and supervisors, and the five highest paid individuals and information regarding pension scheme have been stated in Note 24 to the consolidated financial statements on pages 121 to 124. The Group has adopted the PRC government's social security system that comprises retirement fund, housing fund and medical insurance. For the retirement funds, the employer contribution ratio and employee contribution ratio in Shanghai are currently 22% and 8% respectively.

The Company determines the remuneration of the directors on the basis of their qualifications, experience and contributions.

REPORT OF THE DIRECTORS

EXECUTIVE DIRECTORS, NON-EXECUTIVE DIRECTOR, INDEPENDENT NON-EXECUTIVE DIRECTORS, SUPERVISORS

As at 31 December 2008, the executive directors of the Company were Mr. Yu Minliang (chairman), Ms. Chen Wenjun, Mr. Yang Weimin (CEO), Mr. Chen Hao, Mr. Yuan Gongyao, Mr. Xu Zurong, Mr. Han Min, Mr. Kang Ming; the non-executive director was Mr. Shen Maoxing (vice chairman); the independent non-executive directors were Mr. Ji Gang, Mr. Xia Dawei, Mr. Sun Dajian, Dr. Rui Mingjie, Mr. Yang Menghua, Dr. Tu Qiyu, Mr. Shen Chengxiang, Mr. Lee Chung Bo.

As at 31 December 2008, the supervisors of the Company were Mr. Wang Xingze (chairman of supervisory committee), Mr. Wang Guoxing, Mr. Ma Mingju, Ms. Chen Junjin, Ms. Jiang Ping and Mr. Zhou Qiquan.

Detailed biographies of the directors and the supervisors are set out on pages 14 to 19.

PENSION SCHEMES

In accordance with relevant PRC laws and regulations, full time employees of the Group are enrolled in various defined contribution pension schemes established by relevant provincial or municipal governments. During 2008, the Group and its employees made contributions to the plans at a certain percentage of the wages of the employees in accordance with the aforesaid pension schemes.

AUDIT COMMITTEE

The Company has established an audit committee, the principal duty of which is to review the financial controls, internal controls and risk management system of the Company. The audit committee comprises three independent non-executive directors, namely, Mr. Xia Dawei (chairman), Mr. Sun Dajian and Mr. Yang Menghua.

The annual results have been reviewed by the audit committee. Such committee has reviewed the accounting principles and practices adopted by the Company and conducted a discussion on matters in relation to the audit, internal controls and financial reporting, including review of the audited annual results 2008, together with the management.

REMUNERATION COMMITTEE

The Company has established a remuneration committee, the principal duty of which is to make recommendations to the Board in respect of the remuneration policy and structure formulated by the Company for the directors and the senior management. The remuneration committee comprises a chairman, Mr. Chen Hao, and two independent non-executive directors, Mr. Ji Gang, and Mr. Yang Menghua.

PUBLIC FLOAT

At least 25% of the Company's total issued share capital was held by the public as at the latest practicable date prior to the issue of this report, based on information publicly available to the Company and within the knowledge of the directors.

NON-EXECUTIVE DIRECTOR

The Company has only one non-executive director, Mr. Shen Maoxing. His biography is set out in the section headed "Directors, Supervisors and Senior Management".

CONFIRMATION OF INDEPENDENCE BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to Rule 3.13 of the Listing Rules, all independent non-executive directors, Mr. Ji Gang, Mr. Xia Dawei, Mr. Sun Dajian, Dr. Rui Mingjie, Mr. Yang Menghua, Dr. Tu Qiyu, Mr. Shen Chengxiang and Mr. Lee Chung Bo, have confirmed their independence with the Company. Based on their confirmation, the Company considers that all independent non-executive directors are independent.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during year 2008.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

Under the Articles of Association and the laws of the PRC, no pre-emptive rights exist which require the Company to offer new shares to its existing shareholders in proportion to their shareholding.

TAX RELIEF AND EXEMPTION

The Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

INTERNATIONAL AUDITOR

The consolidated financial statements of the Company prepared in accordance with HKFRS have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

By order of the Board
Yu Minliang
Chairman of the Board

17 April 2009

REPORT OF THE SUPERVISORY COMMITTEE

To the shareholders of the Company:

In 2008, all members of the supervisory committee have strictly adhered to the principles of conscientiousness and faithfully discharged their supervisory duties with prudence in accordance with the requirements set out in the Company Law of the PRC, the Articles of Association, for the purpose of safeguarding the interests of the shareholders and the Group.

The supervisory committee convened two meetings in 2008. The 2007 annual report and consolidated financial statements, and the 2008 interim report and condensed financial statements, were tabled for review and discussion in the meetings held on 18 April 2008 and 29 August 2008 respectively. The supervisory committee was of the view that the consolidated financial statements of the Group for the year 2008 were true and reliable.

Besides, the supervisory committee has conducted reviews on the financial system of the Group, including financial reporting, internal audit, financial budget and its approval procedures.

The supervisory committee has supervised the Group's operations. The scope of supervision includes financial control, operational control and compliance control as well as risk management function. The supervisory committee is of the view that the Group has established comprehensive internal control systems which effectively control operational risks of the Group. The Group has

REPORT OF THE SUPERVISORY COMMITTEE

carried out its business operations in accordance with the PRC laws and regulations and the Articles of Association as well as internal work procedures.

The supervisory committee has supervised the performance by the directors and managers of the Group of their duties and the implementation of the resolutions passed in the general meeting(s). The supervisory committee is of the view that the directors and operation staff performed their duties in accordance with the resolutions passed in the general meeting(s). The directors and other members of the management of the Group did not contravene any laws and regulations and the Articles of Association and jeopardise the interests of the Group and the shareholders in performance of their duties.

The supervisory committee has reviewed the Group's mergers and acquisitions and disposals of assets. The supervisory committee is of the view that consideration paid/received in respect of the mergers and acquisitions as well as the disposal of assets are fair and reasonable. No insider dealing has been reported and there was no instances in which the interests of the shareholders, especially the minority shareholders are jeopardised.

By order of the supervisory committee
Wang Xingze
Chairman of the supervisory committee

CORPORATE GOVERNANCE REPORT

The Board has reviewed its "Company Operation and Corporate Governance Guidelines" and is of the view that such document has incorporated most of the principles and all of the code provisions of the "Code on Corporate Governance Practices" as set out in Appendix 14 to the Listing Rules. The Company was in compliance with the code provisions set out in Appendix 14 to the Listing Rules for the year ended 31 December 2008.

THE BOARD

The Board currently consists of eight executive directors, one non-executive director and eight independent non-executive directors (at least one independent non-executive director possesses appropriate professional qualification or possesses accounting or related financial management expertise). Biographical details of the directors are set out on pages 14 to 19 of this report.

In 2008, the Board held 7 meetings. The attendance record of each respective director at the Board meetings held in 2008 is set out in the following table:

Directors	Attendance/ No. of meetings
Mr. Yu Minliang *(chairman)* Note1	6/7
Mr. Shen Maoxing *(vice chairman)* #Note 1	6/7
Ms. Chen Wenjun Note 1	6/7
Mr. Yang Weimin *(CEO)*	7/7
Mr. Chen Hao	7/7
Mr. Yuan Gongyao	7/7
Mr. Xu Zurong	7/7
Mr. Han Min	7/7
Mr. Kang Ming	7/7
Mr. Ji Gang*	6/7
Mr. Xia Dawei*	7/7
Mr. Sun Dajian* Note 2	7/7
Dr. Rui Mingjie*	7/7
Mr. Yang Menghua*	7/7
Dr. Tu Qiyu*	7/7
Mr. Shen Chengxiang* Note 2	7/7
Mr. Lee Chung Bo* Note 2	6/7

\# non-executive director

* independent non-executive directors

Note 1: At the sixth Board meeting of the Company for the year 2008, the matters relating to continuing connected transactions of the Company were discussed and approved. In accordance with the Articles of Association, Mr. Yu Minliang, Mr. Shen Maoxing and Ms. Chen Wenjun refrained from voting and were not counted in the quorum of such Board meeting.

Note 2: Each of Mr. Sun Dajian, Mr. Shen Chengxiang and Mr. Lee Chung Bo attended one of the meetings not in person but by proxy.

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS AND TERM OF OFFICE

A nomination committee has not been set up under the Board. Shareholders of the Company may nominate candidates for directorship. A written notice stating their intention to nominate a candidate for directorship and the nominee's consent to be nominated shall be delivered to the Company after the dispatch of the notice of general meeting at which the election of directors will be held and not less than 7 days before the general meeting, and the notice period shall not be less than 7 days. The criteria for nomination shall be based mainly on the academic qualifications, experience and other biographical details of the candidates. The independence of the candidates and their potential contributions to the Board as a whole will also be considered.

Our directors (including the non-executive director) shall be appointed for a term of three years from the effective date of their appointment.

RESPONSIBILITIES OF THE BOARD

The Board is accountable to the Company's shareholders in general meetings and exercise the following duties:

1. be responsible to convene general meetings and report their work therein;

2. execute the resolutions passed in general meetings;

3. determine the Company's business plans and investment plans;

4. prepare the Company's annual financial budget and final accounts;

5. formulate the Company's profit appropriation plan (including annual dividend payout plan) and loss recovery plan;

6. formulate plans to increase/reduce the registered capital and to issue the Company's debenture;

7. determine the Company's merger, spin-off, and dissolution plans;

8. determine the establishment of the Company's internal management structure;

9. engage or terminate chief executive officer, and based on nominations of the chief executive officer, engage or terminate the Company's executive president, vice president(s), finance officers, and determine their remunerations;

10. formulate the Company's basic management system;

11. draw up proposals to amend the Articles of Association;

12. determine the Company's wages level, fringe benefits and incentive scheme according to the relevant requirements of the PRC;

13. determine major business and administrative matters not specified in the Articles of Association to be resolved in the Company's general meeting(s);

14. formulate major acquisition and disposal plans of the Company; and

15. perform other functions as authorised by in the Articles of Association and general meeting(s) of the Company.

CORPORATE GOVERNANCE REPORT

Resolutions in respect of matters referred to in items 6, 7 and 11 above shall be approved by two-thirds of the directors and a simple majority is required in respect of other matters.

The chairman shall call for and the Board shall convene meetings at least four times every year. Notices of such regular meetings shall be served on all of the directors and supervisors not less than 14 days before the dates of the meetings. A regular Board meeting shall not seek approval of the Board through the circulation of written resolutions. In case of any urgent matters, upon requisition by shareholders holding one tenth or more of the voting rights, one third or more of the directors or the supervisory committee, an extraordinary Board meeting may be held.

The time and venue for a Board meeting may be determined in advance by the Board and no separate notice for the meeting shall be necessary if such pre-determined time and venue has been put on record in the minutes of a previous meeting and such minutes have been sent to all directors at least 10 days before the convening of the forthcoming meeting.

If the time and venue for a Board meeting have not been determined in advance by the Board, the chairman or the secretary to the Board shall dispatch a notice containing the time and venue of the Board meeting to all directors at least 5 days (but not earlier than 10 days) prior to the date of the meeting by way of telex, telegraph, facsimile, express mail, registered mail or by hand.

The meeting agenda and relevant documents for regular Board meetings shall be delivered in full in a timely manner to all directors at least 3 days (or any other agreed length of time) before the date set for such Board meetings.

The quorum of Board meetings shall be at least one half of all the directors, who attend the meetings in person. Each director shall have one vote.

Pursuant to relevant provisions of the Articles of Association and the Listing Rules, the Board has delegated the following duties to the senior management of the Company:

1. Preparation of the Company's annual financial budget and final accounts;

2. Adjustments to the internal management systems (below the departmental level) of the Company;

3. Establishment of the Company's daily management systems (such as human resources, finance, internal control, internal audit, asset management and investment management, etc); and

4. Determination of wages, fringe benefits and incentive scheme for the Company's staff (other than the directors and members of senior management) in accordance with the relevant State regulations.

CORPORATE GOVERNANCE REPORT

SUPERVISORY COMMITTEE

By the end of 2008, the supervisory committee comprised six members. The background and biographies of the supervisors are set out in the section headed "Directors, Supervisors and Senior Management".

Supervisors of the Company acted diligently to effectively supervise on the lawfulness and compliance of the Company's financial matters and the performance of duties by the directors and senior management.

BOARD COMMITTEES

(1) Audit Committee

The Company's audit committee is a committee established by the Board and its main responsibility is to review and supervise the Company's financial reporting procedures and internal controls and to maintain an appropriate relationship with the Company's auditors. The audit committee has adopted the terms of reference set out in "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) in February 2002.

The members of the audit committee are appointed by the Board. The audit committee of the Company comprised three independent non-executive directors, Mr. Xia Dawei, Mr. Yang Menghua and Mr. Sun Dajian and one of them was an independent non-executive director who possesses appropriate accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. The chairman of the audit committee is Mr. Xia Dawei and the secretary to the audit committee is Dr. Ai Gengyun.

In 2008, the audit committee held 3 meetings. The attendance record of each respective member at the Audit Committee meetings held in 2008 is set out in the following table:

	Attendance/ No. of meetings
Mr. Xia Dawei	3/3
Mr. Yang Menghua	3/3
Mr. Sun Dajian	2/3

The first meeting of the audit committee for the year 2008 was held on 16 April 2008, at which the consolidated results, internal control report and corporate governance report of the Group for the year 2007 were tabled for review and discussion. The second meeting of the audit committee was held on 27 August 2008, at which the condensed unaudited financial statements and the internal audit work of the Group for the interim period of 2008 were reviewed and discussed. The third audit committee meeting was held on 18 December 2008, at which the audit work conducted during 2008, audit strategy and audit risks were reviewed and discussed. The first meeting of the audit committee for the year 2009 was held on 10 April 2009, at which the consolidated financial statements, internal control report and corporate governance report for the year 2008 were tabled for review and discussion.

CORPORATE GOVERNANCE REPORT

(2) Remuneration Committee

The Company's remuneration committee is a committee established by the Board. Its main duties are to make recommendations to the Board on the Company's remuneration policy and structure for all directors and members of senior management and to draw up procedures for formulating a remuneration policy that is incentive-based and binding. The remuneration committee of the Company consists of one executive director, Mr. Chen Hao, and two independent non-executive directors, Mr. Ji Gang and Mr. Yang Menghua. Mr. Chen Hao is the chairman of the remuneration committee.

In 2008, the remuneration committee held one meeting. The attendance record of each respective member at the meeting held in 2008 is set out in the following table:

	Attendance/ No. of meetings
Mr. Chen Hao	1/1
Mr. Ji Gang	1/1
Mr. Yang Menghua	1/1

The meeting of remuneration committee in 2008 was held on 18 April 2008, and the matters discussed including the implementation measures on 2007 annual evaluation of executive directors and members of senior management of the Company.

(3) Strategic Investment Committee

The strategic investment committee of the Company assists the Board by providing advice, proposals, hypotheses, review, supervision of implementation, and other supervisory duties with regard to strategic investments to be made by the Company. The strategic investment committee consists of three members and its chairman is also an executive director. The remaining committee members are nominated by the chairman and appointed or dismissed by the Board.

In 2008, the strategic investment committee held a meeting on 16 April 2008 and the attendance record of each respective member at the meeting held in 2008 is set out in the following table:

	Attendance/ No. of meetings
Mr. Yang Weimin	1/1
Mr. Chen Hao	1/1
Dr. Rui Mingjie	1/1

The proposed investment projects of the Company were tabled for reporting at the meeting.

CHAIRMAN AND CEO

Under Paragraph A.2.1 of Appendix 14 to the Listing Rules, the roles of chairman and chief executive officer of an issuer should be separate and should not be performed by the same person. Currently, the chairman is Mr. Yu Minliang who is responsible for formulating overall strategies and major decision-making coordination, and the chief executive officer is Mr. Yang Weimin, who is an executive director and authorised representative of the Company, is fully responsible for daily operation and operation management of the Company as well as coordinating the implementation of the Board resolutions.

CORPORATE GOVERNANCE REPORT

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the then effective Model Code as set out in Appendix 10 to the Listing Rules as the Company's code regarding directors' and supervisors' securities transactions. Every director and supervisor at the time of appointment was given a copy of the Model Code. The Company confirms, having made specific enquiries with all directors and supervisors, that for the year ended 31 December 2008, its directors and supervisors have complied with the requirements relating to directors' and supervisors' dealing in securities as set out in the then effective Model Code.

EXTERNAL AUDITORS

The independence of the Company's external auditors is assured. The external auditors will retire in the following annual general meeting and offer themselves for re-election at such meeting. During year 2008, two external auditors were appointed, namely PricewaterhouseCoopers in Hong Kong for consolidated financial statements prepared in accordance with HKFRS and Deloitte Touche Tohmatsu CPA Ltd. ("Deloitte") in the PRC for consolidated financial statements prepared in accordance with PRC Accounting Standards. An aggregate remuneration of RMB7,970,000 was paid to the Company's external auditors in 2008. The fees were for the provision of audit services conducted by PricewaterhouseCoopers and Deloitte for the Company's consolidated financial statements. No remuneration was paid to PricewaterhouseCoopers and Deloitte for provision of non-audit related services to the Company.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES

The directors have acknowledged their responsibilities for the preparation of the consolidated financial statements for the year ended 31 December 2008, in accordance with HKFRS issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, which give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profits and cash flows for 2008. The directors are responsible for designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement arising from fraud or mistake. In preparing these consolidated financial statements, the directors have selected suitable accounting policies and made judgments under circumstances and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis. The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy the financial position of the Group at any time.

PricewaterhouseCoopers, the international auditor of the Company, have set out their responsibilities in the independent auditor's report as set out on page 61.

INVESTOR RELATIONS

The Company places strong emphasis on communications with shareholders and investors and transparency of the Company: designated department and staff were put in place to provide reception for investors and analysts. During the year under review, the Company received over 100 groups of funds managers and analysts and answered their questions on the Company. Arrangements were made for visits to various types of hotels, allowing them to have a prompt understanding of the operations and latest developments of the business of the Company. The Company conducted true, accurate, complete and timely information disclosure in strict compliance with relevant laws and regulations, the Articles of Association and the Listing Rules. Investors can access information and statutory announcements of the Company at any time by visiting its website www.jinjianghotels.com.cn. Annual reports, interim reports, circulars and announcements published since the Company's listing are available under the section "Investor Relations" on the Company's website. Interim and annual result announcements of the Company are followed by presentations, press conferences and one-on-one meetings with investors.

The Company reports the corporate information of the Group in an accurate and timely manner. The Annual Report 2007 and Interim Report 2008 published after the listing of the Company have been delivered to all shareholders. This report will be delivered to shareholders of the Company and it can also be downloaded from the Company's website.

CORPORATE GOVERNANCE REPORT

The annual general meeting is a formal occasion for direct communications between the directors and shareholders. All shareholders will receive a notice convening the annual general meeting 45 days prior to the meeting is held, setting out the date, venue and agenda of the meeting.

INTERNAL CONTROLS, AUDIT AND RISK MANAGEMENT

The Company has established a complete set of compliance manual, which comprises the corporate governance policies and operational regulations. It involves the structures of corporate governance, internal control for financial aspects, budgetary management, corporate finance, external investment, engineering and projects, and human resources management. The systems, policies and flowcharts in such compliance manual effectively cover all the decision and operational activities of the Company. Managerial employees in respective levels can effectively manage the risk level of their business activities. The compliance manual is reviewed and updated from time to time.

The Company's audit committee is responsible for reviewing the internal control system of the Company. The Board has reviewed the effectiveness of internal control systems of the Company and its subsidiaries.

During 2008, the Company prepared an internal audit plan and established an internal audit steering group. The group designed and perfected the questionnaire on internal control and internal audit system.

To further strengthen the needs in corporate internal control and management, on March 2009, an internal control project group was established by the Company headed by Mr. Yang Weimin, executive director and CEO and the deputy head was Mr. Yuan Gongyao, executive director and vice president.

MAJOR DUTIES OF INTERNAL AUDIT

Internal audit encompasses the Company's major projects and focuses on enhancement of efficiency and improvement of operation and management, and audits the annual business plan and operational targets of members of the Group. Besides, the internal audit assignments focus on the following issues:

— conduct audit on the integrity of department heads of members of the Group during their appointment period and separate audit for those who have been transferred, resigned, dismissed or retired;

— conduct audit in receivable, payable, and related business activities;

— conduct audit in construction projects of over RMB300,000 and upgrade and renovation of fixed assets;

— conduct audit in investment management, fund management, assets management and internal control policies;

— implement internal control and formulate and optimise internal control policies and standards according to management requirements;

— be responsible for the development of full-time and part-time internal audit workforce, and organise relevant assignments in the Company's system; and

— accomplish audit assignments of senior management, the Board and the supervisory committee.

CORPORATE GOVERNANCE REPORT

EXCLUDED HOTEL BUSINESSES AND NEW UNION

The Company confirms that Jin Jiang International and its subsidiaries (other than the Group) have complied with the terms of the Deed of Non-Competition dated 20 November 2006 entered into between the Company and Jin Jiang International.

In accordance with the arrangements disclosed in the Prospectus, the independent non-executive directors held four meetings in 2008 and a meeting on 20 March 2009 to consider whether or not to exercise the relevant Rights granted to the Company by Jin Jiang International over the relevant Excluded Hotel Businesses and New Union under the Deed of Non-Competition.

After considering the proposal presented by the Company, the independent non-executive directors present at the meeting have decided not to exercise the relevant Rights granted to the Company by Jin Jiang International over the relevant Excluded Hotel Businesses and New Union under the Deed of Non-Competition at this stage for the reasons set out below:

Eastern Jin Jiang: Pursuant to the written notice of Jin Jiang International, Eastern Jin Jiang has been converted into a limited liability company and has obtained its limited liability company business licence. The respective capital contributions of the shareholders of Eastern Jin Jiang have been ascertained upon its conversion into a limited liability company. Jin Jiang International is in a position to transfer its interests in Eastern Jin Jiang to the Company. It is for the Company to decide whether to exercise its Right to purchase Jin Jiang International's 50% direct and indirect equity interests in Eastern Jin Jiang.

In accordance with the relevant arrangements disclosed in the Prospectus, an internationally recognised independent valuer has been jointly appointed by the Company and Jin Jiang International to issue a valuation report that would determine the consideration for the purchase of the 50% equity interests in Eastern Jin Jiang. As at 20 March 2009 (the date when the latest meeting of the independent non-executive directors of the Company was held), the international valuer has not yet completed the said valuation report. In accordance with the relevant PRC laws, Jin Jiang International will further appoint a valuer qualified under the PRC laws to issue a second valuation report. Upon issuance of the two valuation reports, the independent non-executive directors shall convene a meeting to make a final decision, after considering all factors, on whether to exercise its Right to purchase Jin Jiang International's 50% equity interests in Eastern Jin Jiang.

Eastern Jin Jiang has in total 446 rooms. The revenue and net assets of Eastern Jin Jiang as set out in its management account prepared in accordance with the PRC Accounting Standards for the year ended and as at 31 December 2008 amounted to approximately RMB155,761,000 and RMB970,990,000, respectively.

JC Mandarin: As notified by Jin Jiang International in writing, the joint venture term of operation of JC Mandarin expired in August 2008, whereupon the withdrawal agreement has been executed by the foreign shareholder of JC Mandarin. As at 20 March 2009 (the date when the latest meeting of the independent non-executive directors of the Company was held), JC Mandarin has completed its changes with the Administration for Industry and Commerce, and is processing other relevant legal procedures. As advised by Jin Jiang International, subject to completion of the relevant legal procedures, it will issue the relevant written notice to the Company notifying the Company of its Right to purchase all equity interests held by Jin Jiang International. Accordingly, the Company is currently unable to exercise the relevant Right.

JC Mandarin has in total 510 rooms. The revenue and net assets of JC Mandarin as set out in its management account prepared in accordance with the PRC Accounting Standards for the year ended and as at 31 December 2008 amounted to approximately RMB214,566,000 and RMB111,241,000 respectively.

Pacific Shanghai: The joint venture term of operation of Pacific Shanghai has not expired and Jin Jiang International has not yet obtained any of the assets of this company. Accordingly, the Company is currently unable to exercise the relevant Right.

CORPORATE GOVERNANCE REPORT

Pacific Shanghai has in total 496 rooms. The revenue and net assets of Pacific Shanghai as set out in its management account prepared in accordance with the PRC Accounting Standards for the year ended and as at 31 December 2008 amounted to approximately RMB226,591,000 and RMB282,057,000 respectively.

Garden Hotel Shanghai: The joint venture term of operation of Garden Hotel Shanghai has not expired and Jin Jiang International has not yet obtained any of the buildings or facilities of this company. Accordingly, the Company is currently unable to exercise the relevant Right.

Garden Hotel Shanghai has in total 492 rooms. The revenue and net assets of Garden Hotel Shanghai as set out in its management account prepared in accordance with the PRC Accounting Standards for the year ended and as at 31 December 2008 amounted to approximately RMB288,406,000 and RMB75,660,000 respectively.

New Jin Jiang Business Travellers: The Company has not been granted any Right in relation to this company under the Deed of Non-Competition.

New Jin Jiang Business Travellers has in total 131 rooms. The revenue and net liabilities of New Jin Jiang Business Travellers as set out in its management account prepared in accordance with the PRC Accounting Standards for the year ended and as at 31 December 2008 amounted to approximately RMB18,003,000 and RMB0, respectively.

Jinyuan Inn and Jiaozhou Road Inn: Legal and valid land use right certificates and building ownership certificates for the land and buildings being used by Jinyuan Inn and Jiaozhou Road Inn have not yet been obtained and therefore it is not legally possible for the Company to exercise the relevant Right.

Jinyuan Inn and Jiaozhou Road Inn each has in total 82 rooms and 103 rooms, respectively. The revenue and net assets of Jinyuan Inn as set out in its management account prepared in accordance with the PRC Accounting Standards for the year ended and as at 31 December 2008 amounted to approximately RMB5,769,000 and RMB0, respectively. The revenue and net assets of Jiaozhou Road Inn as set out in its management account prepared in accordance with the PRC Accounting Standards for the year ended and as at 31 December 2008 amounted to approximately RMB6,948,000 and RMB0, respectively.

New Union: The development project of New Union, with an expected completion date prior to the end of 2010, has not yet been completed. At present, New Union remains a real estate development company, which does not accord with the Group's current development strategy of focusing on hotel investment and hotel management. Accordingly, the Company has not yet satisfied the conditions in respect of the exercise of the relevant Right under the Deed of Non-Competition.

The revenue and net assets of New Union as set out in its management account prepared in accordance with the PRC Accounting Standards as at 31 December 2008 was approximately RMB434,000 and RMB596,328,000, respectively.

Terms used in this section shall be as defined in the Prospectus, unless the context requires otherwise.

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

To the Shareholders of Shanghai Jin Jiang International Hotels (Group) Company Limited
(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Shanghai Jin Jiang International Hotels (Group) Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 62 to 140, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 17 April 2009

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**5,431,269**	4,922,886
Land use rights	7	**1,043,251**	1,073,274
Intangible assets	8	**25,538**	19,265
Investments in associates	11	**317,800**	349,596
Available-for-sale financial assets	12	**1,224,200**	4,831,463
Deferred income tax assets	13	**39,935**	50,005
		8,081,993	11,246,489
Current assets			
Inventories	14	**51,782**	57,649
Trade and other receivables	15	**381,201**	389,478
Restricted cash	16	**219,728**	190,644
Cash and cash equivalents	17	**1,644,962**	1,943,291
		2,297,673	2,581,062
Total assets		**10,379,666**	13,827,551

CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 31 December 2008

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	1	**4,565,000**	4,565,000
Reserves			
— Proposed final dividend	29	**95,865**	136,950
— Others		**2,299,486**	3,686,943
		6,960,351	8,388,893
Minority interests		**1,418,638**	2,508,714
Total equity		**8,378,989**	10,897,607
LIABILITIES			
Non-current liabilities			
Borrowings	20	**275,563**	430,968
Deferred income tax liabilities	13	**351,671**	1,284,477
		627,234	1,715,445
Current liabilities			
Trade and other payables	19	**1,047,078**	1,029,991
Income tax payable		**63,527**	113,508
Borrowings	20	**262,838**	71,000
		1,373,443	1,214,499
Total liabilities		**2,000,677**	2,929,944
Total equity and liabilities		**10,379,666**	13,827,551
Net current assets		**924,230**	1,366,563
Total assets less current liabilities		**9,006,223**	12,613,052

The notes on pages 69 to 140 are an integral part of these consolidated financial statements.

Yu Minliang
Chairman & Executive Director

Yang Weimin
Executive Director & CEO

BALANCE SHEET

As at 31 December 2008

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**637,252**	621,768
Land use rights	7	**46,322**	47,607
Intangible assets	8	**5,755**	264
Investments in subsidiaries	9	**4,380,306**	4,380,306
Investments in jointly controlled entities	10	**478,788**	478,788
Investments in associates	11	**24,505**	29,905
Available-for-sale financial assets	12	**144,057**	587,511
Deferred income tax assets	13	**9,174**	—
		5,726,159	6,146,149
Current assets			
Inventories	14	**3,701**	3,342
Trade and other receivables	15	**179,256**	308,390
Cash and cash equivalents	17	**546,059**	331,364
		729,016	643,096
Total assets		**6,455,175**	6,789,245

BALANCE SHEET (CONTINUED)

As at 31 December 2008

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	1	**4,565,000**	4,565,000
Reserves			
— Proposed final dividend	29	**95,865**	136,950
— Others		**1,717,795**	1,871,190
Total equity		**6,378,660**	6,573,140
LIABILITIES			
Non-current liabilities			
Borrowings	20	**—**	50,000
Deferred income tax liabilities	13	**—**	99,751
		—	149,751
Current liabilities			
Trade and other payables	19	**71,785**	55,883
Income tax payable		**4,730**	10,471
		76,515	66,354
Total liabilities		**76,515**	216,105
Total equity and liabilities		**6,455,175**	6,789,245
Net current assets		**652,501**	576,742
Total assets less current liabilities		**6,378,660**	6,722,891

The notes on pages 69 to 140 are an integral part of this financial statement.

Yu Minliang
Chairman & Executive Director

Yang Weimin
Executive Director & CEO

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

		Year ended 31 December	
		2008	2007
	Note	**RMB'000**	RMB'000
Revenue	5	**3,402,808**	3,197,065
Cost of sales	23	**(2,353,925)**	(2,125,081)
Gross profit		**1,048,883**	1,071,984
Other income	21	**241,635**	381,413
Selling and marketing expenses	23	**(159,685)**	(159,954)
Administrative expenses	23	**(602,207)**	(605,638)
Other expenses	22	**(28,396)**	(46,014)
Operating profit		**500,230**	641,791
Finance costs	25	**(44,308)**	(92,716)
Share of results of associates	11	**72,760**	98,099
Profit before income tax		**528,682**	647,174
Income tax expense	26	**(95,899)**	(111,491)
Profit for the year		**432,783**	535,683
Attributable to:			
Equity holders of the Company		**270,255**	383,417
Minority interests		**162,528**	152,266
		432,783	535,683
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB cents per share)			
— basic and diluted	28	**5.92**	8.40
Dividends	29	**95,865**	136,950

The notes on pages 69 to 140 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

		Attributable to equity holders of the Company				
	Note 18(a)	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Minority interests RMB'000	Total Equity RMB'000
Balance at 1 January 2007		4,565,000	1,438,140	138,163	991,902	7,133,205
Profit for the year		—	—	383,417	152,266	535,683
Redemption from minority interests	(v)	—	5,302	—	(5,302)	—
Fair value changes in available-for-sale financial assets — gross		—	2,833,268	—	1,903,371	4,736,639
Transfer of fair value changes in available-for-sale financial assets — gross		—	(196,520)	—	(13,058)	(209,578)
Fair value changes in and transfer of available-for-sale financial assets — tax		—	(659,187)	—	(472,578)	(1,131,765)
Addition for jointly controlled entities becoming subsidiaries		—	—	—	68,717	68,717
Profit appropriation		—	83,479	(83,479)	—	—
Dividends to minority interests		—	—	—	(116,604)	(116,604)
Dividends declared (note 29)		—	—	(118,690)	—	(118,690)
Transfer	(vi)	—	(38,519)	38,519	—	—
Balance at 31 December 2007		4,565,000	3,465,963	357,930	2,508,714	10,897,607
Profit for the year		—	—	270,255	162,528	432,783
Redemption from minority interest	(v)	—	283	—	(283)	—
Fair value changes in available-for-sale financial assets — gross		—	(2,005,615)	—	(1,505,282)	(3,510,897)
Transfer of fair value changes in available-for-sale financial assets — gross		—	(77,224)	—	(8,296)	(85,520)
Fair value changes in and transfer of available-for-sale financial assets — tax			520,709	—	378,396	899,105
Profit appropriation		—	28,400	(28,400)	—	—
Dividends to minority interests		—	—	—	(125,139)	(125,139)
Dividends declared (note 29)		—	—	(136,950)	—	(136,950)
Capital contribution from minority shareholders		—	—	—	8,000	8,000
Balance at 31 December 2008		4,565,000	1,932,516	462,835	1,418,638	8,378,989

The notes on pages 69 to 140 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Cash flows from operating activities:			
Cash generated from operations	30(a)	**744,220**	708,312
Interest paid		**(41,289)**	(62,152)
Income tax paid		**(169,511)**	(175,740)
Net cash generated from operating activities		**533,420**	470,420
Cash flows from investing activities:			
Cash flow form jointly controlled entities becoming subsidiaries		**—**	16,911
Proceeds from disposal of an investment in Shanghai Jiu Long Hotel Company Limited ("Jiu Long Hotel")	30(b)	**14,510**	165,940
Proceeds from disposal of investments in associates		**9,364**	—
Purchase of property, plant and equipment		**(964,069)**	(817,191)
Proceeds from disposal of property, plant and equipment		**4,210**	7,626
Compensation received from lease termination of a Jin Jiang Inn Budget Hotel	21(a)	**33,600**	—
Purchase of intangible assets		**(7,039)**	(1,111)
Purchase of land use rights		**—**	(18,579)
Proceeds from disposal of land use rights		**—**	4,468
Decrease in long-term bank deposits		**—**	46,852
Loans advanced to related parties		**(24,280)**	(219,540)
Loan repayments received from related parties		**33,818**	212,390
Interest received		**25,002**	40,257
Dividends received		**189,178**	121,019
Increase in investments in associates		**—**	(7,551)
Purchase of available-for-sale financial assets		**—**	(14,841)
Proceeds from disposal of available-for-sale financial assets other than investment in Jiu Long Hotel		**66,425**	227,500
Net cash used in investing activities		**(619,281)**	(235,850)
Cash flows from financing activities:			
Capital contribution from minority shareholders		**8,000**	—
Payments of share issue expenses		**—**	(62,408)
Proceeds from bank borrowings		**321,000**	88,000
Repayments of bank borrowings		**(284,567)**	(1,568,185)
Dividends paid to minority interests		**(125,139)**	(116,604)
Increase in deposits from related parties		**9,321**	10,222
Dividends paid to equity holders	29	**(136,950)**	(118,690)
Net cash used in financing activities		**(208,335)**	(1,767,665)
Decrease in cash and cash equivalents		**(294,196)**	(1,533,095)
Cash and cash equivalents at beginning of the year		**1,943,291**	3,516,893
Exchange losses on cash and cash equivalents		**(4,133)**	(40,507)
Cash and cash equivalents at end of the year	17	**1,644,962**	1,943,291

The notes on pages 69 to 140 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

1 ORGANISATION, REORGANISATION AND PRINCIPAL ACTIVITIES

Shanghai Jin Jiang International Hotel (Group) Company Limited (the "Company"), formerly known as Shanghai New Asia (Group) Company, was established on 16 June 1995 as a wholly state-owned company with limited liability and has been directly under the administration and control of the State-Owned Assets Supervision and Administration Commission of Shanghai Municipal Government ("Shanghai SASAC") or its predecessors. Pursuant to an enterprise reorganisation in June 2003, the Company was designated by Shanghai SASAC as a wholly-owned subsidiary of Jin Jiang International Holdings Company Limited ("Jin Jiang International"), which is also a wholly state-owned company directly under the administration and control of Shanghai SASAC. In September 2005, Jin Jiang International allocated its 5% equity interest in the Company to its wholly-owned subsidiary, Shanghai Jin Jiang International Investment and Management Company Limited (formerly known as Shanghai Huating Group Company Limited).

During the years 2003 to 2006, the Group entered into several group reorganisation transactions ("Reorganisation") with Jin Jiang International, its subsidiaries other than the Group and other state-owned enterprises under the administration and control of Shanghai SASAC, through which the Group obtained from these companies equity interests in certain subsidiaries, jointly controlled entities and associates which were engaged in hotels and related business and also transferred to Jin Jiang International equity interests in certain subsidiaries, a jointly controlled entity and associates which were engaged in non-hotel related business.

On 11 January 2006, the Company's name was changed to its current name and the Company was converted into a joint stock limited company under the Company Law of the People's Republic of China (the "PRC" or "Mainland China") by converting its paid-in capital and reserves of Renminbi ("RMB") 3,300,000,000 at 30 September 2005 into 3,300,000,000 ordinary shares of RMB1 per share.

On 15 December 2006 and 20 December 2006, a total of 1,265,000,000 ordinary shares of RMB1 per share newly issued by the Company through a public offer in Hong Kong and an international placing were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing"). Accordingly, the share capital of the Company was increased to RMB4,565,000,000.

The address of the Company's registered office is Room 316–318, No. 24, Yang Xin Road East, Shanghai, the PRC.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in investment and operation of hotels and related businesses (the "Hotel Related Businesses") in Mainland China.

These consolidated financial statements have been approved for issue by the board (the "Board") of directors (the "Directors") of the Company on 17 April 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

The following new interpretations are mandatory for the financial year ended 31 December 2008.

HK(IFRIC) — Int 11	HKFRS2 — Group and Treasury Share Transactions
HK(IFRIC) — Int 12	Service Concession Arrangements
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the interpretations above did not have any significant impact to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following new standards, amendments to standards, interpretations and improvements have been issued but are not effective and have not been early adopted. The Directors anticipate that adoption of these standards, amendments to standards, interpretations and improvements will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 (Amendment) and HKAS 1 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation
Amendments to HKFRS 1	First-time Adoption of HKFRS and HKAS 27 — Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combination
HKFRS 8	Operating Segments
HK(IFRIC) — Int 13	Customer Loyalty Programmes
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners
HK(IFRIC) — Int 18	Transfers of Assets from Customers
HKFRS 7 (Amendments)	Financial Instruments: Disclosures: Improving Disclosures about Financial Instruments

Improvements to HKFRSs — Amendments to:

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 16	Property, Plant and Equipment
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 23 (Revised)	Borrowing Costs
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 29	Financial Reporting in Hyperinflationary Economies
HKAS 31	Interests in Joint Ventures
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS 41	Agriculture
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other minor amendments to:

HKFRS 7	Financial Instruments: Disclosures
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events After the Balance Sheet Date
HKAS 18	Revenue
HKAS 34	Interim Financial Reporting

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December 2008.

The principal accounting policies adopted set out below:

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (note 2(h)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (note 2(i)). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (note 2(h)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Associates (continued)

The Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognized in the consolidated income statement.

In the Company's balance sheet, the investments in associates are stated at cost less provision for impairment losses (note 2(i)). The results of associates are accounted for by the Company on the basis of dividend received and receivable.

(c) Jointly controlled entities

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's consolidated financial statements. The Group recognizes the portion of gains or losses on the sale of assets by the Group to the jointly controlled entities that it is attributable to the other venturers. The Group does not recognize its share of profits or losses from the jointly controlled entities that result from the Group's purchase of assets from the jointly controlled entities until it resells the assets to an independent party. However, a loss on the transaction is recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses (note 2(i)). The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

(d) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Foreign currency translation (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within "finance income or cost". All other foreign exchange gains and losses are presented in the consolidated income statement within "other (losses)/gains net".

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities, such as equity instruments held at fair value through profit or loss, are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

— assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

— all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed or sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Property, plant and equipment

Construction-in-progress represents properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and are ready for operational use.

Property, plant and equipment other than construction-in-progress are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	20–40 years
Plant and machinery	3–20 years
Motor vehicles	3–12 years
Furniture, fittings and equipment	3–17 years
Renovations and leasehold improvements	5–20 years but not exceeding the lease period

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in the income statement.

(g) Land use rights

Land use rights are stated at cost less accumulated amortization and accumulated impairment losses, if any. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods varying from 20 to 50 years. Amortization of land use rights is calculated on the straight-line method over the period of the land use rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, jointly controlled entity or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Computer software

Costs associated with maintaining computer software programmes and recognised as an expense as incurred. Acquired computer software licences are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (3 to 5 years).

(iii) Others

Other intangible assets mainly include use rights for certain internet access and electricity, and are amortized on a straight-line basis over the shorter of their effective beneficial lives or estimated useful period from 5 to 20 years.

(i) Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets (continued)

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months from the balance sheet date. During the year ended 31 December 2008, the Group did not hold any financial assets in this category.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year ended 31 December 2008, the Group did not hold any investments in this category.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the financial assets within 12 months from the balance sheet date.

Purchases and sales of financial assets are recognized on trade-date - the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category, including interest and dividend income, are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as gains or losses from investment securities. Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the Group's right to receive payments is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets (continued)

(iv) Available-for-sale financial assets (continued)

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement - is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables are described in note 2(l).

(k) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(l) Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

(m) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of 3 months or less.

(n) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(p) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(q) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(r) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Employee benefits

(i) Pension obligations

The Group companies in Mainland China participate in defined contribution retirement benefit plans organized by relevant government authorities for its employees in Mainland China and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The Group's subsidiary in Hong Kong participates in a mandatory provident fund ("MPF scheme") for its employees in Hong Kong. Both the Group and the employees are required to contribute 5% of the salaries of the employee's, up to a maximum of HK$1,000 per employee per month. The assets of MPF scheme are held separately from those of the Group in an independent administered fund.

The Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions to these plans and MPF Scheme are recognized as employee benefit expense when incurred.

(ii) Housing benefits

Employees of the Group companies in Mainland China are entitled to participate in government-sponsored housing funds. The Group contributes to these funds based on certain percentages of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The Group's liability in respect of these funds is limited to the contribution payable in each period. Contributions to the funds are expensed as incurred.

(t) Provisions and contingent liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognized in the income statement on a straight line basis over the expected lives of the related assets.

(v) Revenue recognition

Revenue from hotel accommodation, hotel management and related services, food and beverage sales and other ancillary services is recognized when the services are rendered.

Sales of goods are recognized when the Group has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Rental revenue from properties is recognized on a straight-line basis over the periods of the respective leases.

Interest income is recognized on a time-proportion basis using the effective interest method.

Dividend income is recognized when the right to receive payment is established.

(w) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(x) Dividend distribution

Dividend distribution to equity holders of the Company is recognized as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by equity holders of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(i) Market risk

(1) Foreign exchange risk

The Group mainly operates in Mainland China and most of the Group's transactions, assets and liabilities are denominated in RMB. Foreign currencies are however required to settle payments for the Group's purchases of equipment from overseas suppliers and certain expenses. Foreign currencies are also received from overseas customers. The Group's cash and cash equivalents and borrowings as at 31 December 2008 included foreign currencies, denominated in either United States Dollars ("US$") or HK$, are disclosed in notes 18 and 21.

As at 31 December 2008, if RMB strengthens/weakens by 10% (2007:10%)* (e.g. from 5% to 4.5% or 5.5%), against US$ and HK$ with all other variables held constant, the post-tax profit for the year then ended will have changed mainly as a result of foreign exchange gains/losses on translation of US$ and HK$ denominated cash and cash equivalent and borrowings. Details of the changes are as follows:

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
(Decrease)/increase in profit for the year		
— Strengthened	**(2,249)**	(2,517)
— Weakened	**2,249**	2,517

Profit is less sensitive to movement in foreign exchange rate in RMB against US$ and HK$ in 2008 than 2007 because of the decrease in the net amount of US$ and HK$ dominated cash and cash equivalents and borrowings.

* This represents market estimation as at 31 December 2008 for the subsequent 12 months.

(2) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets and liabilities other than its bank deposits and borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Bank deposits and borrowings at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risk. Details of the Group's bank deposits and borrowings have been disclosed in note 17 and 20.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (continued)

(i) Market risk (continued)

(2) Cash flow and fair value interest rate risk (continued)

As at 31 December 2008, if interest rates on bank borrowings are 10% (2007: 10%) *higher/lower with all other variables held constant, the post-tax profit for the year will have changed mainly as a result of higher/lower interest expenses on floating rate borrowings. Details of the changes are as follows:

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
(Decrease)/increase in profit for the year		
— Increase in interest rates	**(1,252)**	(580)
— Decrease in interest rates	**1,252**	580

Profit is more sensitive to movement in interest rate in 2008 than 2007 because of the increase in the net amount of bank deposits and borrowings.

* This represents market estimation as at 31 December 2008 for the subsequent 12 months.

(3) Price risk

The Group is exposed to equity securities price risk because of its holding of listed equity investments which are classified on the consolidated balance sheet as available-for-sale financial assets (note 12). The Group has not hedged its price risk arising from investments in equity securities.

As at 31 December 2008, if the quoted market price of the listed equity investments of the Group increases/decreases 30%* with all other variables held constant, the equity of the Group will have changed mainly as a result of fair value gain/losses on available-for-sales financial assets. Details of the changes are as follows:

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Increase/(decrease) in equity of the Group		
— Increase in quoted market price	**255,010**	1,060,304
— Decrease in quoted market price	**(255,010)**	(1,060,304)

Equity of the Group is less sensitive to movement in quoted market price of the listed equity investment in 2008 than 2007 because of the decrease in the carrying amount of the listed equity investments.

* This represents market estimation as at 31 December 2008 for the subsequent 12 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (continued)

(ii) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of bank deposits, cash at bank and trade and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2008, these bank deposits and cash at bank were deposited in reputable financial institutions which are considered with low credit risk, the table below shows bank deposits and cash at bank balances by counterparties:

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Counterparties		
— Big 4 domestic banks*	**811,232**	1,113,790
— Other domestic commercial banks	**814,260**	682,603
— Foreign owned banks	**3,947**	142,546
	1,629,439	1,938,939

* Big 4 domestic banks comprise Industrial and Commercial Bank of China Limited, Agricultural Bank of China, Bank of China Limited and China Construction Bank Corporation.

Management does not expect any losses from non-performance by these counterparties.

Most of the Group's sales are settled in cash or in credit card by its customers. Credit sales are made to selected customers with good credit history. The Group has policies in place to ensure that trade receivables are followed up on a timely basis.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalent and the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2008

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (continued)

(iii) Liquidity risk (continued)

The table below analyzes the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 year RMB'000	1–2 years RMB'000	2–5 years RMB'000	Over 5 years RMB'000
As at 31 December 2008				
Borrowings	262,838	125,000	120,563	30,000
Contractual interest payable	31,946	16,336	16,092	392
Trade and other payables	1,047,078	—	—	—
As at 31 December 2007				
Borrowings	71,000	235,218	165,750	30,000
Contractual interest payable	34,618	26,153	35,203	2,394
Trade and other payables	1,029,991	—	—	—

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total assets as shown in the consolidated balance sheet. Total borrowings include non-current borrowing and current borrowings.

The gearing ratios at 31 December 2008 and 2007 were as follows:

	As at 31 December	
	2008 RMB'000	2007 RMB'000
Total borrowings (note 20)	**538,401**	501,968
Total assets	**10,379,666**	13,827,551
Gearing ratio	**5.2%**	3.6%

The increase in the gearing ratio during 2008 results from the increase of total borrowings and the decrease of total assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Fair value estimation

The fair value of available-for-sale financial assets traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of available-for-sale financial assets that are not traded in an active market can be determined by using valuation technique. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on existing market conditions at each balance sheet date. When the fair value cannot be reliably measured, such available-for-sale financial assets are measured at cost and assessed whether there is objective evidence of impairment at each balance sheet date.

The fair values estimation of non-current borrowings are disclosed in note 20.

The face values less any estimated credit adjustments for other financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. If the useful lives for property, plant and equipment had been 10% longer/shorter with all other variables held constant, profit for the year would have been RMB32,112,000 higher or RMB39,249,000 lower.

(ii) Deferred income tax assets and liabilities

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax assets are realized or the deferred income tax liabilities are settled. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The Group's management determines the deferred income tax assets based on the enacted or substantially enacted tax rates and laws and best knowledge of profit projections of the Group for coming years during which the deferred income tax assets are expected to be utilized. Management revises the assumptions and profit projections by the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Critical accounting estimates and assumptions (continued)

(iii) Impairment of property, plant and equipment

The Group's management assesses at each of the balance sheet date whether property, plant and equipment have any indication of impairment, in accordance with the accounting policy stated in note 2(i). The recoverable amount is higher of an asset's value in use and fair value less costs to sell, which is estimated based on the best information available to reflect the amount that is obtainable at each of the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs to disposal, or cash to be generated from continuously using the assets.

(iv) Impairment of trade and other receivables

The Group's management estimates the provision of impairment of trade and other receivables by assessing their recoverability. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible and require the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivable and impairment charge in the period in which such estimate has been changed. If the provision for impairment of trade and other receivables rate had been 10% higher/lower with all other variables held constant, profit for the year would have been RMB41,000 higher/lower.

(b) Critical judgements in applying the Group's accounting policies

(i) Leasehold improvements on leased premises

The Group operates certain hotels on leased premises in Mainland China and incurs construction or renovation expenditures for these hotels. Some landlords named in the corresponding lease agreements have been unable to produce proper building ownership certificates or to provide valid lease permits or other necessary permissions. However, based on the Group's past experiences and available information and after consultation with the legal advisor, the Directors are of the view that such problem is unlikely to cause the interruption or termination of these leases or to have a material effect on the carrying values of the related leasehold improvements of RMB523,551,000 as at 31 December 2008 (2007: RMB364,065,000). Accordingly, no impairment for such leasehold improvements is considered necessary to be made according to the Group's accounting policies.

(ii) Fair value of available-for-sale financial assets

The fair value of available-for-sale financial assets that are not traded in an active market can be determined by using valuation technique. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on existing market conditions at each balance sheet date. When the fair value cannot be reliably measured, such available-for-sale financial assets are measured at cost and assessed whether there is objective evidence of impairment at each balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

5 TURNOVER AND SEGMENT INFORMATION

During the year ended 31 December 2008, the Group's Hotel Related Businesses were organized into four main business segments in Mainland China and Hong Kong:

(1) Star-rated hotel operation: ownership and operation of star-rated hotels;

(2) Jin Jiang Inn Budget Hotels: operation of self-owned budget hotels and franchising to budget hotels owned by other parties;

(3) Star-rated hotel management: provision of hotel management services to star-rated hotels owned by the Group or other parties; and

(4) Food and restaurants: operation of fast food or upscale restaurants, moon cake production and related investments.

Other businesses of the Group under the Hotel Related Businesses mainly include intra-group financial services, training and education, and are shown in the segment of "Others".

(a) Turnover

The Group's revenue which represents turnover for the year ended 31 December 2008 is as follows:

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Star-rated hotel operation		
— Accommodation revenue	**1,208,146**	1,373,570
— Food and beverage sales	**769,187**	730,782
— Rendering of ancillary services	**128,563**	130,681
— Rental revenue	**140,490**	122,919
— Sales of hotel supplies	**48,527**	42,048
	2,294,913	2,400,000
Jin Jiang Inn Budget Hotels	**983,180**	673,590
Star-rated hotel management	**50,551**	42,504
Food and restaurants	**44,670**	45,913
Others	**29,494**	35,058
	3,402,808	3,197,065

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

5 TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(b) Primary reporting format — business segments

Year ended 31 December 2008

	Star-rated hotel operation RMB'000	Jin Jiang Inn Budget Hotels RMB'000	Star-rated hotel management RMB'000	Food and restaurants RMB'000	Others RMB'000	Group RMB'000
External sales	2,294,913	983,180	50,551	44,670	29,494	3,402,808
Inter-segment sales	92,508	13,610	39,525	4,392	72,287	222,322
Total gross segment sales	2,387,421	996,790	90,076	49,062	101,781	3,625,130
Other income (note 21)	111,778	25,124	1,729	42,437	60,567	241,635
Operating profit	178,508	129,122	51,477	39,890	101,233	500,230
Finance costs (note 25)						(44,308)
Share of results of associates (note 11)	(1,625)	—	—	75,926	(1,541)	72,760
Profit before income tax						528,682
Income tax expense (note 26)						(95,899)
Profit for the year						432,783
Segment assets	5,432,512	2,910,383	184,245	145,555	1,389,171	10,061,866
Investments in associates (note 11)	60,871	—	258	251,441	5,230	317,800
Total assets	5,493,383	2,910,383	184,503	396,996	1,394,401	10,379,666
Total liabilities	951,016	703,205	17,412	28,426	300,618	2,000,677
Capital expenditure	342,643	656,351	467	1,057	830	1,001,348
Depreciation of property, plant and equipment (note 6)	308,626	152,389	547	3,928	368	465,858
Amortization of land use rights (note 7)	23,759	7,327	—	101	45	31,232
Amortization of intangible assets (note 8)	349	414	3	—	—	766
Write-down of inventories (note 14)	449	—	—	—	—	449
Provision for impairment of trade and other receivables (note 15)	9,488	91	—	—	—	9,579

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

5 TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(b) Primary reporting format — business segments (continued)

Year ended 31 December 2007

	Star-rated hotel operation RMB'000	Jin Jiang Inn Budget Hotels RMB'000	Star-rated hotel management RMB'000	Food and restaurants RMB'000	Others RMB'000	Group RMB'000
External sales	2,400,000	673,590	42,504	45,913	35,058	3,197,065
Inter-segment sales	113,365	16,245	47,147	—	46,078	222,835
Total gross segment sales	2,513,365	689,835	89,651	45,913	81,136	3,419,900
Other income (note 21)	321,425	7,239	478	26,229	26,042	381,413
Operating profit	423,737	89,955	44,223	27,255	56,621	641,791
Finance costs (note 25)						(92,716)
Share of results of associates (note 11)	20,199	—	—	82,012	(4,112)	98,099
Profit before income tax						647,174
Income tax expense (note 26)						(111,491)
Profit for the year						535,683
Segment assets	6,360,216	2,385,825	178,150	184,880	4,368,884	13,477,955
Investments in associates (note 11)	79,098	—	—	258,086	12,412	349,596
Total assets	6,439,314	2,385,825	178,150	442,966	4,381,296	13,827,551
Total liabilities	1,470,206	360,475	24,279	30,400	1,044,584	2,929,944
Capital expenditure	402,808	602,544	1,002	4,935	507	1,011,796
Depreciation of property, plant and equipment (note 6)	301,355	97,070	384	3,311	404	402,524
Amortization of land use rights (note 7)	22,785	3,278	—	61	45	26,169
Amortization of intangible assets (note 8)	310	408	—	—	—	718
Impairment of property, plant and equipment (note 6)	7,135	—	—	—	—	7,135
Write-down of inventories (note 14)	277	—	—	—	—	277
Provision for/(reversal of) impairment of trade and other receivables (note 15)	42	199	5	(102)	—	144

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2008

5 TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(b) Primary reporting format — business segments (continued)

Unallocated costs which mainly represent corporate expenses are included in the segment of "Others". Other income in the segment of "Star-rated hotel operation" for the year ended 31 December 2008 mainly includes gain on disposal of available-for-sale financial assets other than investment in Jiu Long Hotel of RMB46,432,000 (2007: RMB183,622,000) and gain on disposal of investment in Jiu Long Hotel of RMB22,394,000 (2007: RMB82,011,000).

Segment assets consist primarily of property, plant and equipment, land use rights, available-for-sale financial assets, deferred income tax assets, inventories, receivables and operating cash. They also include goodwill recognized arising from acquisition of subsidiaries relating to respective segments.

Segment liabilities comprise operating liabilities.

Capital expenditure comprises additions to property, plant and equipment (note 6), land use rights (note 7) and intangible assets (note 8), including additions for jointly controlled entities becoming subsidiaries.

(c) Secondary reporting format — geographical segments

No geographical segment information is presented as more than 90% of the Group's turnover and contribution to operation is attributable to Mainland China market and more than 90% of the Group's assets are located in Mainland China, which is considered as one geographic location with similar risks and returns.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

6 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fittings and equipment RMB'000	Renovations and leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2007	3,617,907	1,017,312	57,276	266,209	1,050,240	812,747	6,821,691
Additions	21,919	27,274	5,336	16,974	93,690	746,200	911,393
Addition for jointly controlled entities becoming subsidiaries	20,584	8,961	948	2,569	25,518	137	58,717
Disposal of Jiu Long Hotel (note 30(b))	(77,055)	(26,979)	(929)	—	(3,663)	—	(108,626)
Disposals	(4,322)	(26,383)	(4,446)	(16,260)	(64,541)	—	(115,952)
Transfers	525,834	167,917	2,798	53,548	444,520	(1,194,617)	—
At 31 December 2007	4,104,867	1,168,102	60,983	323,040	1,545,764	364,467	7,567,223
Additions	5,029	10,902	6,833	27,097	24,400	918,839	993,100
Disposals	(9,069)	(73,006)	(6,323)	(11,103)	(177,035)	—	(276,536)
Transfers	13,436	101,788	733	58,766	555,277	(730,000)	—
At 31 December 2008	**4,114,263**	**1,207,786**	**62,226**	**397,800**	**1,948,406**	**553,306**	**8,283,787**

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fittings and equipment RMB'000	Renovations and leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Accumulated depreciation and impairment							
At 1 January 2007	(1,117,344)	(667,245)	(37,907)	(157,669)	(391,570)	—	(2,371,735)
Depreciation charge for the year (note 23)	(114,131)	(84,937)	(4,823)	(30,710)	(167,923)	—	(402,524)
Impairment charge for the year (note 23)	(2,607)	(4,400)	—	(128)	—	—	(7,135)
Disposal of Jiu Long Hotel (note 30(b))	24,673	20,085	878	—	572	—	46,208
Disposals	1,811	23,659	4,211	14,300	46,868	—	90,849
At 31 December 2007	(1,207,598)	(712,838)	(37,641)	(174,207)	(512,053)	—	(2,644,337)
Depreciation charge for the year (note 23)	(115,656)	(83,756)	(4,987)	(43,052)	(218,407)	—	(465,858)
Disposals	6,229	69,587	5,615	8,856	167,390	—	257,677
At 31 December 2008	**(1,317,025)**	**(727,007)**	**(37,013)**	**(208,403)**	**(563,070)**	**—**	**(2,852,518)**
Net book amount							
At 31 December 2008	**2,797,238**	**480,779**	**25,213**	**189,397**	**1,385,336**	**553,306**	**5,431,269**
At 31 December 2007	2,897,269	455,264	23,342	148,833	1,033,711	364,467	4,922,886

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) The Group (continued)

Property, plant and equipment of the Group with net book amount of RMB324,038,000 (2007: RMB341,735,000) was pledged as securities for the Group's borrowings (note 20).

Depreciation expenses have been charged to the consolidated income statement as follows (note 23):

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Cost of sales	**433,308**	373,942
Selling and marketing expenses	**3,573**	2,986
Administrative expenses	**28,977**	25,596
	465,858	402,524

Borrowing costs of RMB1,466,000 (2007: RMB7,264,000) (note 25) arising on financing entered into for the construction of certain property, plant and equipment have been capitalized and are included in "Additions" in property, plant and equipment. The capitalization rate was 6.876% (2007: 6.260%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) The Company

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fittings and equipment RMB'000	Renovations and leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2007	587,698	46,663	553	534	34,268	6,796	676,512
Additions	—	433	359	7	—	41,607	42,406
Disposals	(96)	(1,130)	(114)	(7)	(30,499)	—	(31,846)
Transfers	—	5,463	—	—	38,693	(44,156)	—
At 31 December 2007	587,602	51,429	798	534	42,462	4,247	687,072
Additions	—	3,782	897	87	278	46,634	51,678
Disposals	—	(6,023)	(319)	(112)	—	—	(6,454)
Transfers	—	4,989	—	1,159	32,896	(39,044)	—
At 31 December 2008	**587,602**	**54,177**	**1,376**	**1,668**	**75,636**	**11,837**	**732,296**
Accumulated depreciation and impairment							
At 1 January 2007	(16,011)	(16,204)	(311)	(331)	(8,468)	—	(41,325)
Depreciation charge for the year	(16,304)	(10,261)	(117)	(76)	(12,300)	—	(39,058)
Disposals	90	994	90	6	13,899	—	15,079
At 31 December 2007	(32,225)	(25,471)	(338)	(401)	(6,869)	—	(65,304)
Depreciation charge for the year	(16,026)	(9,424)	(88)	(285)	(10,164)	—	(35,987)
Disposals	—	5,951	296	—	—	—	6,247
At 31 December 2008	**(48,251)**	**(28,944)**	**(130)**	**(686)**	**(17,033)**	**—**	**(95,044)**
Net book amount							
At 31 December 2008	**539,351**	**25,233**	**1,246**	**982**	**58,603**	**11,837**	**637,252**
At 31 December 2007	555,377	25,958	485	108	35,594	4,246	621,768

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

7 LAND USE RIGHTS

Land use rights represent the net book amount of prepaid operating lease payments. All the land use rights of the Group are located in Mainland China and are held on leases from 20 to 50 years. Movements in land use rights are as follows:

(a) The Group

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Cost		
At beginning of the year	**1,166,468**	1,128,556
Additions	**1,209**	18,579
Addition for jointly controlled entities becoming subsidiaries	**—**	21,996
Disposal of Jiu Long Hotel (note 30(b))	**—**	(2,288)
Disposals	**—**	(375)
At end of the year	**1,167,677**	1,166,468
Accumulated amortization		
At beginning of the year	**(93,194)**	(67,129)
Charge for the year (note 23)	**(31,232)**	(26,169)
Disposal of Jiu Long Hotel (note 30(b))	**—**	81
Disposals	**—**	23
At end of the year	**(124,426)**	(93,194)
Net book amount		
At end of the year	**1,043,251**	1,073,274

Amortization expenses have been charged to the consolidated income statement as follows (note 23):

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Cost of sales	**31,232**	26,169

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

7 LAND USE RIGHTS (CONTINUED)

(b) The Company

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Cost		
At beginning of the year	**50,177**	50,177
At end of the year	**50,177**	50,177
Accumulated amortization		
At beginning of the year	**(2,570)**	(1,285)
Charge for the year	**(1,285)**	(1,285)
At end of the year	**(3,855)**	(2,570)
Net book amount		
At end of the year	**46,322**	47,607

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

8 INTANGIBLE ASSETS

(a) The Group

	Goodwill RMB'000	Software RMB'000	Others RMB'000	Total RMB'000
Cost				
At 1 January 2007	17,451	1,509	1,201	20,161
Additions	—	1,111	—	1,111
Disposal	—	(59)	—	(59)
At 31 December 2007	17,451	2,561	1,201	21,213
Additions	—	7,039	—	7,039
At 31 December 2008	17,451	9,600	1,201	28,252
Accumulated amortization				
At 1 January 2007	—	(412)	(838)	(1,250)
Charge for the year (note 23)	—	(614)	(104)	(718)
Disposal	—	20	—	20
At 31 December 2007	—	(1,006)	(942)	(1,948)
Charge for the year (note 23)	—	(683)	(83)	(766)
At 31 December 2008	—	(1,689)	(1,025)	(2,714)
Net book amount				
At 31 December 2008	**17,451**	**7,911**	**176**	**25,538**
At 31 December 2007	17,451	1,555	259	19,265

Amortization expenses have been charged to the consolidated income statement as follows (note 23):

	Year ended 31 December	
	2008 RMB'000	2007 RMB'000
Cost of sales	**766**	718

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

8 INTANGIBLE ASSETS (CONTINUED)

(a) The Group (continued)

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to business segment. A segment level summary of the goodwill is presented below:

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Star-rated hotel operation	**11,003**	11,003
Jin Jiang Inn Budget Hotels	**6,448**	6,448
	17,451	17,451

The principal component of goodwill represents the excess of cost of acquisition of certain star-rated hotel and Jin Jiang Inn Budget Hotels over the fair value of the identified net assets acquired. The goodwill impairment assessment is based on recoverable amounts of respective CGUs which are determined by the higher of their fair value (less cost to sell) or value-in-use estimate. In view of the performance of the CGUs, the provision for impairment losses is not considered necessary.

(b) The Company

	Software	Others	Total
	RMB'000	RMB'000	RMB'000
Cost			
At 1 January 2007	—	62	62
Additions	252	—	252
At 31 December 2007	252	62	314
Additions	5,651	—	5,651
At 31 December 2008	5,903	62	5,965
Accumulated amortization			
At 1 January 2007	—	(21)	(21)
Charge for the year	(8)	(21)	(29)
At 31 December 2007	(8)	(42)	(50)
Charge for the year	(140)	(20)	(160)
At 31 December 2008	(148)	(62)	(210)
Net book amount			
At 31 December 2008	**5,755**	**—**	**5,755**
At 31 December 2007	244	20	264

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

9 INVESTMENTS IN SUBSIDIARIES — THE COMPANY

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Investments at cost		
— Shares of a listed company (i)	**685,434**	685,434
— Unlisted equity investments	**3,694,872**	3,694,872
	4,380,306	4,380,306

(i) The balance represents the Group's investment in Shanghai Jin Jiang International Hotels Development Company Limited ("Jin Jiang Hotels Development").

Particulars of the Company's principal subsidiaries are set out in note 33.

10 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

(a) The Group

The Group's share of assets and liabilities, revenue and results of jointly controlled entities included in consolidated balance sheet and consolidated income statement during the year ended 31 December 2008 are set out as follows:

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Assets		
Non-current assets	**695,732**	728,554
Current assets	**162,176**	150,287
	857,908	878,841
Liabilities		
Non-current liabilities	**124,068**	147,598
Current liabilities	**96,517**	116,436
	220,585	264,034
Net assets	**637,323**	614,807
Proportionate interests in jointly controlled entities' commitments	**18,558**	5,668

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

10 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

(a) The Group (continued)

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Revenue	**441,360**	430,471
Expenses	**(361,737)**	(351,496)
Profit before income tax	**79,623**	78,975
Income tax expense	**(22,634)**	(974)
Profit for the year	**56,989**	78,001

There are no significant contingent liabilities relating to the Group's investments in the jointly controlled entities, and no significant contingent liabilities of the ventures themselves.

Particulars of the Group's principal jointly controlled entities are set out in note 33.

(b) The Company

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Unlisted equity investments, at cost	**478,788**	478,788

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

11 INVESTMENTS IN ASSOCIATES

(a) The Group

	At 31 December	
	2008	2007
	RMB'000	RMB'000
At beginning of the year	**349,596**	347,278
Additions	**—**	7,551
Share of results of associates		
— Profit before income tax	**104,391**	149,653
— Income tax expense	**(31,631)**	(51,554)
	72,760	98,099
Declaration of dividends	**(98,915)**	(89,082)
Disposals	**(5,641)**	(14,250)
At end of the year	**317,800**	349,596

A summary of the financial information of the Group's associates, all of which are unlisted, in aggregate is as follows:

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Total assets	**639,484**	638,825
Total liabilities	**321,684**	289,229
Revenue	**1,388,825**	1,254,456
Profit for the year	**72,760**	98,099

Particulars of the Group's principal associates are set out in note 33.

(b) The Company

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Unlisted equity investments, at cost	**29,905**	29,905
Less: provision for impairment	**(5,400)**	—
	24,505	29,905

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

12 AVAILABLE-FOR-SALE FINANCIAL ASSETS

(a) The Group

	At 31 December	
	2008	2007
	RMB'000	RMB'000
At beginning of the year	**4,831,463**	296,307
Additions	**—**	26,017
Fair value changes transferred to equity	**(3,510,897)**	4,736,639
Disposals	**(96,366)**	(227,500)
At end of the year	**1,224,200**	4,831,463

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Listed equity investments, at fair value	**1,134,212**	4,712,464
Unlisted equity investment, at fair value	**—**	28,040
Unlisted equity investments, at cost (i)	**103,712**	104,683
Less: provision for impairment	**(13,724)**	(13,724)
	1,224,200	4,831,463

(i) The balance represents the Group's/the Company's investments in various companies which do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

(b) The Company

	At 31 December	
	2008	2007
	RMB'000	RMB'000
At beginning of the year	**587,511**	211,489
Additions	**—**	22,388
Fair value changes transferred to equity	**(365,925)**	524,450
Disposals	**(77,529)**	(170,816)
At end of the year	**144,057**	587,511

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

12 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

(b) The Company (continued)

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Listed equity investments, at fair value	**124,716**	540,130
Unlisted equity investment, at fair value	**—**	28,040
Unlisted equity investments, at cost	**21,341**	21,341
Less: provision for impairment	**(2,000)**	(2,000)
	144,057	587,511

13 DEFERRED INCOME TAX

(a) The Group

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Deferred income tax assets		
— Deferred income tax assets to be recovered after more than 12 months	**30,210**	46,855
— Deferred income tax assets to be recovered within 12 months	**9,725**	3,150
	39,935	50,005
Deferred income tax liabilities		
— Deferred income tax liabilities to be settled after more than 12 months	**(346,824)**	(1,278,864)
— Deferred income tax liabilities to be settled within 12 months	**(4,847)**	(5,613)
	(351,671)	(1,284,477)
	(311,736)	(1,234,472)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

13 DEFERRED INCOME TAX (CONTINUED)

(a) The Group (continued)

The gross movement on the deferred income tax account is as follows:

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
At beginning of the year	**(1,234,472)**	(195,024)
Credited to income statement (note 26)		
— Effect of change of tax rates	**—**	48,212
— Effect of change in temporary difference	**23,631**	42,802
	23,631	91,014
Credited/(charged) to equity	**899,105**	(1,131,765)
Disposal of Jiu Long Hotel (note 30(b))	**—**	1,303
At end of the year	**(311,736)**	(1,234,472)

The movement in deferred income tax assets and liabilities during the year ended 31 December 2008, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets:

	Impairment of assets	Accelerated accounting depreciation	Tax losses	Provisions	Other temporary differences	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	17,293	8,885	4,847	2,030	—	33,055
(Charged)/credited to income statement	(1,885)	(3,198)	8,101	17,001	3,707	23,726
Disposal of Jiu Long Hotel (note 30(b))	(21)	—	—	—	—	(21)
At 31 December 2007	15,387	5,687	12,948	19,031	3,707	56,760
(Charged)/credited to income statement	(1,170)	(3,402)	4,720	(2,241)	481	(1,612)
At 31 December 2008	**14,217**	**2,285**	**17,668**	**16,790**	**4,188**	**55,148**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

13 DEFERRED INCOME TAX (CONTINUED)

(a) The Group (continued)

Deferred income tax liabilities:

	Impairment of assets RMB'000	Accelerated tax depreciation RMB'000	Provisions for staff welfare (i) RMB'000	Fair value changes RMB'000	Other temporary differences RMB'000	Total RMB'000
At 1 January 2007	(3,677)	(203,562)	(20,432)	—	(408)	(228,079)
Credited/(Charged) to income statement	1,443	53,287	12,966	—	(408)	67,288
Charged to equity	—	—	—	(1,131,765)	—	(1,131,765)
Disposal of Jiu Long Hotel (note 30(b))	—	991	333	—	—	1,324
At 31 December 2007	(2,234)	(149,284)	(7,133)	(1,131,765)	(816)	(1,291,232)
Credited/(Charged) to income statement	—	20,663	5,635	—	(1,055)	25,243
Credited to equity	—	—	—	899,105	—	899,105
At 31 December 2008	**(2,234)**	**(128,621)**	**(1,498)**	**(232,660)**	**(1,871)**	**(366,884)**

(i) Certain unpaid staff welfare of the Group were deductible for PRC current income tax purpose. However, it did not meet the definition of liabilities under HKFRS, which resulted in a deferred income tax liability.

Deferred income tax assets are recognized for tax losses carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. The Group did not recognize deferred income tax assets of RMB68,514,000 (2007: RMB52,736,000) in respect of tax losses, as the Directors believe it is more likely than not that such tax losses would not be realized before their expiry between 2009 to 2013. The expiry of related unrecognized deferred income tax assets are analyzed as follows:

	At 31 December	
	2008 RMB'000	2007 RMB'000
Within 1 year	**1,343**	7,931
Between 1 and 2 years	**13,053**	1,676
Between 2 and 3 years	**8,770**	13,053
Between 3 and 4 years	**21,306**	8,770
Between 4 and 5 years	**24,042**	21,306
	68,514	52,736

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13 DEFERRED INCOME TAX (CONTINUED)

(b) The Company

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Deferred income tax assets to be settled after more than 12 months	**9,174**	—
Deferred income tax liabilities to be settled after more than 12 months	**—**	(99,751)
	9,174	(99,751)

The gross movement on the deferred income tax account is as follows:

	At 31 December	
	2008	2007
	RMB'000	RMB'000
At beginning of the year	**(99,751)**	(86)
Credited to income statement	**2,805**	825
Credited/(charged) to equity	**106,120**	(100,490)
At end of the year	**9,174**	(99,751)

The movement in deferred income tax assets and liabilities during the year ended 31 December 2008, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets:

	Impairment of assets	Accelerated accounting depreciation	Fair value changes	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	351	419	—	770
Credited to income statement	315	352	—	667
At 31 December 2007	666	771	—	1,437
Credited/(charged) to income statement	2,878	(771)	—	2,107
Credited to equity	—	—	5,630	5,630
At 31 December 2008	**3,544**	**—**	**5,630**	**9,174**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2008

13 DEFERRED INCOME TAX (CONTINUED)

(b) The Company (continued)

Deferred income tax liabilities:

	Provisions for staff welfare (i) RMB'000	Fair value changes RMB'000	Total RMB'000
At 1 January 2007	(856)	—	(856)
Credited to income statement	158	—	158
Charged to equity	—	(100,490)	(100,490)
At 31 December 2007	(698)	(100,490)	(101,188)
Credited to income statement	698	—	698
Credited to equity	—	100,490	100,490
At 31 December 2008	**—**	**—**	**—**

(i) Certain unpaid staff welfare of the Company were deductible for PRC current income tax purpose. However, it did not meet the definition of liabilities under HKFRS, which resulted in a deferred income tax liability.

14 INVENTORIES

(a) The Group

	At 31 December 2008 RMB'000	2007 RMB'000
Raw materials	**25,951**	21,212
Finished goods/goods held for resale	**6,731**	6,858
Consumables and supplies	**19,100**	29,579
	51,782	57,649

The cost of inventories recognized as expense and included in cost of sales amounted to RMB452,947,000 (2007: RMB413,819,000) (note 23).

The Group wrote down the inventories to the net realizable value by RMB449,000 for the year ended 31 December 2008 (2007: RMB277,000) (note 23).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

14 INVENTORIES (CONTINUED)

(b) The Company

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Raw materials	**3,390**	2,881
Finished goods/goods held for resale	**129**	34
Consumables and supplies	**182**	427
	3,701	3,342

15 TRADE AND OTHER RECEIVABLES

(a) The Group

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Trade receivables	**68,143**	85,910
Less: provision for impairment of trade receivables	**(4,183)**	(5,133)
Trade receivables — net	**63,960**	80,777
Amounts due from related parties (note 32(b))	**151,447**	144,756
Prepayments and deposits	**144,070**	138,114
Loans to third parties	**—**	2,632
Receivables on disposal of an investment in Jiu Long Hotel (note 30(b))	**15,431**	—
Others	**20,393**	27,923
Less: provision for impairment of other receivables	**(14,100)**	(4,724)
Other receivables — net	**317,241**	308,701
	381,201	389,478

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

15 TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) The Group (continued)

The majority of the Group's sales in its Hotel Related Businesses are retail sales and no credit terms are granted. For certain corporate or travel agency customers, the sales are made with credit terms from 30 to 90 days generally. Ageing analysis of trade receivables at respective balance sheet dates are as follows:

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Current to 3 months	**54,963**	73,426
3 months to 1 year	**7,092**	8,572
Over 1 year	**6,088**	3,912
	68,143	85,910

The carrying amount of trade and other receivables approximate their fair value.

As of 31 December 2008 and as of 31 December 2007, trade and other receivables ageing over one year were fully impaired except for those considered recoverable, and the ageing over 3 months but less than one year were collectively impaired as the main receivables were from the regular customers with good reputation.

As of 31 December 2008, trade and other receivables of RMB17,650,000 (2007: RMB8,001,000) were individually impaired. The individually impaired receivables mainly relate to customers, which are in significant financial difficulties. The other overdue receivables were grouped for collective assessment according to their ageing and historical default rates as these customers were of similar credit risk characteristics. Ageing analysis of these receivables at respective balance sheet dates are as follows:

	At 31 December	
	2008	2007
	RMB'000	RMB'000
3 months to 1 year	**6,015**	8,572
Over 1 year	**2,514**	640
	8,529	9,212

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

15 TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) The Group (continued)

Movements on the provision for impairment of trade and other receivables are as follows:

	At 31 December	
	2008	2007
	RMB'000	RMB'000
At beginning of the year	**(9,857)**	(12,100)
Receivables written off as uncollectible	**1,153**	2,387
Provision for impairment of trade and other receivables (note 23)	**(9,579)**	(144)
At end of the year	**(18,283)**	(9,857)

The creation and usage of provision for impaired receivables have been included in "Administrative expenses" in the consolidated income statement (note 23).

The maximum exposure of the Group to credit risk at the balance sheet date was the fair value of trade and other receivables as mentioned above. The Group did not hold any collateral as security.

(b) The Company

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Trade receivables	**3,283**	11,022
Less: provision for impairment of trade receivables	**(223)**	(211)
Trade receivables — net	**3,060**	10,811
Amounts due from related parties (note 32(c))	**159,841**	287,615
Prepayments and deposits	**11,170**	9,995
Receivables on disposal of an investment in Jiu Long Hotel (note 30(b))	**15,431**	—
Others	**564**	217
Less: provision for impairment of other receivables	**(10,810)**	(248)
Other receivables — net	**176,196**	297,579
	179,256	308,390

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

15 TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) The Company (continued)

Ageing analysis of trade receivables at respective balance sheet dates are as follows:

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Current to 3 months	**2,894**	10,593
3 months to 1 year	**215**	263
Over 1 year	**174**	166
	3,283	11,022

The carrying amount of trade and other receivables approximate their fair value.

16 RESTRICTED CASH — THE GROUP

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Mandatory reserve deposit	**219,728**	190,644

Restricted cash represents mandatory reserve deposit of Jin Jiang International Finance Company Limited, a subsidiary and non-bank finance company, placed with the People's Bank of China, the central bank of Mainland China. The weighted average effective interest rate on mandatory reserve deposit was 1.26% (2007: 1.89%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

17 CASH AND BANK DEPOSITS

(a) The Group

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Cash at bank and in hand	**1,407,985**	1,306,672
Bank deposits	**236,977**	636,619
	1,644,962	1,943,291
Cash and bank deposits denominated in		
— RMB	**1,587,887**	1,875,351
— US$ and HK$	**57,075**	67,940
	1,644,962	1,943,291

The weighted average effective interest rate on short-term bank deposits, with maturities ranging from 7 days to 360 days, was 2.89% (2007: 4.07%) per annum.

(b) The Company

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Cash at bank and in hand	**176,059**	211,364
Bank deposits	**370,000**	120,000
	546,059	331,364
Cash and bank deposits denominated in		
— RMB	**545,772**	330,620
— US$ and HK$	**287**	744
	546,059	331,364

The weighted average effective interest rate on short-term bank deposits, with maturities ranging from 7 days to 360 days, was 3.29% (2007: 4.25%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

18 RESERVES

(a) The Group

	Other reserves						
	Capital surplus (i) RMB'000	Statutory and discretionary surplus reserve (ii) RMB'000	Merger reserve (iii) RMB'000	Available-for-sale financial assets (iv) RMB'000	Total RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2007	1,766,405	257,026	(585,291)	—	1,438,140	138,163	1,576,303
Profit for the year	—	—	—	—	—	383,417	383,417
Redemption from minority interests (v)	5,302	—	—	—	5,302	—	5,302
Fair value changes in available for-sale financial assets — gross	—	—	—	2,833,268	2,833,268	—	2,833,268
Transfer of fair value changes in available-for-sale financial assets — gross	—	—	—	(196,520)	(196,520)	—	(196,520)
Fair value changes in and transfer of available for-sale financial assets — tax	—	—	—	(659,187)	(659,187)	—	(659,187)
Profit appropriation	—	83,479	—	—	83,479	(83,479)	—
Dividends declared (note 29)	—	—	—	—	—	(118,690)	(118,690)
Transfer (vi)	—	(38,519)	—	—	(38,519)	38,519	—
At 31 December 2007	1,771,707	301,986	(585,291)	1,977,561	3,465,963	357,930	3,823,893
Profit for the year	—	—	—	—	—	270,255	270,255
Redemption from minority interests (v)	283	—	—	—	283	—	283
Fair value changes in available for-sale financial assets — gross	—	—	—	(2,005,615)	(2,005,615)	—	(2,005,615)
Transfer of fair value changes in available-for-sale financial assets — gross	—	—	—	(77,224)	(77,224)	—	(77,224)
Fair value changes in and transfer of available for-sale financial assets — tax	—	—	—	520,709	520,709	—	520,709
Profit appropriation	—	28,400	—	—	28,400	(28,400)	—
Dividends declared (note 29)	—	—	—	—	—	(136,950)	(136,950)
At 31 December 2008	**1,771,990**	**330,386**	**(585,291)**	**415,431**	**1,932,516**	**462,835**	**2,395,351**

(i) Capital surplus represents premium arising from equity holders' contribution in excess of paid-in capital or from the issue of shares at a price in excess of their par value per share.

(ii) Pursuant to the Company Law of Mainland China and the articles of association of certain group companies, the Company and its subsidiaries in Mainland China are required to transfer 10% of its net profit, as determined under Mainland China accounting regulations, to statutory surplus reserve until the fund aggregates to 50% of their share capital; after the transfer of statutory surplus reserves, the Company and its subsidiaries in Mainland China can appropriate profit, subject to respective equity holders' approval, to discretionary surplus reserve.

The transfer to statutory and discretionary reserves must be made before distribution of dividends to equity holders. These reserves shall only be used to make good previous years' losses, to expand production operations, or to increase the capital of the respective company. The Company and its subsidiaries in Mainland China may transfer their respective statutory surplus reserve into share capital, provided that the balance of the statutory surplus reserve after such transfer is not less than 25% of the registered capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

18 RESERVES (CONTINUED)

(a) The Group (continued)

(iii) Merger reserve represents the net effect arising from the application of merger accounting for business combinations resulting from transactions among entities under common control. It includes (1) the paid-in capital of certain subsidiaries, which were transferred to the Group in the Reorganisation, and their retained earnings/(accumulated losses) before acquisitions by Jin Jiang International, which were credited/(debited) to merger reserve and (2) the considerations and other settlements paid by the Group in the Reorganisation to obtain the interests in these subsidiaries, which were debited to merger reserve.

(iv) Reserve on available-for-sale financial assets represents the accumulated changes in fair value, net of tax, on available-for-sale financial assets through equity.

(v) Redemption from minority interests represents the payment in shares received from other A share non-public equity holders of Jin Jiang Hotels Development in the years ended 31 December 2008 and 2007 for their considerations in the share merger reform which were made by the Company in January 2006. Accordingly, such payment is treated as a transaction between equity holders and accordingly the redemptive share of net assets is recorded as an addition of capital surplus.

(vi) The Group adopted the Accounting Standards of Business Enterprises promulgated by the Ministry of Finance of PRC on 15 February 2006 (the "new PRC GAAP") for its PRC statutory financial statements since 1 January 2007. According to the relevant requirements under the new PRC GAAP, certain adjustments were made to retained earnings and statutory and discretionary surplus reserve upon first-time adoption of new PRC GAAP. Such adjustments are reflected in these financial statements as a transfer between retained earnings and statutory and discretionary surplus reserve in the year ended 31 December 2007.

(b) The Company

	Other reserves					
	Capital surplus RMB'000	Statutory surplus reserve RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2007	1,096,678	41,188	—	1,137,866	289,075	1,426,941
Profit for the year	—	—	—	—	398,418	398,418
Dividends declared (note 29)	—	—	—	—	(118,690)	(118,690)
Fair value changes in available-for-sale financial assets — gross	—	—	524,450	524,450	—	54,450
Transfer of fair value changes in available-for-sale financial assets — gross	—	—	(122,489)	(122,489)	—	(122,489)
Fair value changes in and transfer of available-for-sale financial assets — tax	—	—	(100,490)	(100,490)	—	(100,490)
Profit appropriation	—	45,423	—	45,423	(45,423)	—
Transfer	—	(30,834)	—	(30,834)	30,834	—
At 31 December 2007	1,096,678	55,777	301,471	1,453,926	554,214	2,008,140
Profit for the year	—	—	—	—	260,829	260,829
Dividends declared (note 29)	—	—	—	—	(136,950)	(136,950)
Fair value changes in available-for-sale financial assets — gross	—	—	(365,925)	(365,925)	—	(365,925)
Transfer of fair value changes in available-for-sale financial assets — gross	—	—	(58,553)	(58,553)	—	(58,553)
Fair value changes in and transfer of available-for-sale financial assets — tax	—	—	106,119	106,119	—	106,119
Profit appropriation	—	28,400	—	28,400	(28,400)	—
At 31 December 2008	**1,096,678**	**84,177**	**(16,888)**	**1,163,967**	**649,693**	**1,813,660**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

19 TRADE AND OTHER PAYABLES

(a) The Group

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Trade payables	**132,520**	148,618
Payables for purchases of property, plant and equipment, and intangible assets	**217,815**	183,290
Amounts due to related parties (note 32(b))	**98,114**	89,036
Salary and welfare payables	**252,363**	224,874
Other taxes payable	**62,034**	53,382
Accrued expenses	**18,727**	13,819
Advances from customers and buyers	**151,269**	157,884
Deposits from lessees and constructors	**49,083**	72,301
Others	**65,153**	86,787
	1,047,078	1,029,991

Ageing analysis of trade payables at respective balance sheet dates are as follows:

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Current to 3 months	**112,672**	115,317
3 months to 1 year	**8,668**	30,653
Over 1 year	**11,180**	2,648
	132,520	148,618

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

19 TRADE AND OTHER PAYABLES (CONTINUED)

(b) The Company

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Trade payables	**5,493**	944
Payables for purchases of property, plant and equipment, and intangible assets	**11,162**	4,670
Amounts due to related parties (note 32(c))	**9,489**	8,204
Salary and welfare payables	**17,757**	16,175
Other taxes payable	**6,379**	3,523
Accrued expenses	**11,748**	12,558
Advances from customers	**9,468**	7,332
Others	**289**	2,477
	71,785	55,883

Ageing analysis of trade payable at respective balance sheet dates are as follows:

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Current to 3 months	**5,235**	846
3 months to 1 year	**—**	—
Over 1 year	**258**	98
	5,493	944

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

20 BORROWINGS

(a) The Group

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Borrowings included in non-current liabilities:		
Bank borrowings — secured	**195,563**	240,750
Bank borrowings — unsecured	**127,338**	215,218
	322,901	455,968
Less: current portion of long-term secured bank borrowings	**(47,338)**	(25,000)
	275,563	430,968
Borrowings included in current liabilities:		
Bank borrowings — secured	**5,500**	11,000
Bank borrowings — unsecured	**210,000**	35,000
Current portion of long-term secured bank borrowings	**47,338**	25,000
	262,838	71,000

As at 31 December 2008, bank borrowings of RMB201,063,000 (2007: RMB251,750,000) were secured by property, plant and equipment of the Group with net book amount of RMB324,038,000 (2007: RMB341,735,000) (note 6).

All the bank borrowings were from state-owned banks (note 32(e)).

(i) The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates or maturity whichever is the earlier date are as follows:

	6 months or less	6–12 months
	RMB'000	RMB'000
Borrowings included in non-current liabilities:		
At 31 December 2008	**245,563**	**30,000**
At 31 December 2007	400,968	30,000
Borrowings included in current liabilities:		
At 31 December 2008	**52,838**	**210,000**
At 31 December 2007	21,000	50,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

20 BORROWINGS (CONTINUED)

(a) The Group (continued)

(ii) The maturity of the borrowings included in non-current liabilities is as follows:

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Between 1 and 2 years	**125,000**	235,218
Between 2 and 5 years	**120,563**	165,750
Over 5 years	**30,000**	30,000
	275,563	430,968

(iii) The effective interest rates at respective balance sheet dates were as follows:

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Borrowings denominated in RMB	**6.8322%**	6.1635%
Borrowings denominated in US$	**3.4770%**	6.3165%

(iv) The carrying amounts and fair values of non-current bank borrowings are as follows:

	Carrying amounts RMB'000	Fair values RMB'000
At 31 December 2008	**275,563**	**283,452**
At 31 December 2007	430,968	416,506

The fair values of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the respective balance sheet dates.

The carrying amounts of current borrowings approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

20 BORROWINGS (CONTINUED)

(a) The Group (continued)

(v) The carrying amounts of the Group's borrowings are denominated in the following currencies:

	At 31 December	
	2008	2007
	RMB'000	RMB'000
RMB	**511,063**	472,750
US$	**27,338**	29,218
	538,401	501,968

(b) The Company

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Borrowings included in non-current liabilities:		
Bank borrowings — unsecured	**—**	50,000

(i) The exposure of the Company's borrowings to interest-rate changes and the contractual repricing dates or maturity whichever is the earlier date are as follows:

	6 months or less	6–12 months
	RMB'000	RMB'000
Borrowings included in non-current liabilities:		
At 31 December 2008	**—**	**—**
At 31 December 2007	50,000	—

(ii) The maturity of the borrowings included in non-current liabilities is as follows:

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Between 1 and 2 years	**—**	50,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

20 BORROWINGS (CONTINUED)

(b) The Company (continued)

(iii) The effective interest rates at respective balance sheet dates were as follows:

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Borrowings denominated in RMB	**—**	5.6700%

(iv) The carrying amounts and fair values of non-current bank borrowings are as follows:

	Carrying amounts RMB'000	Fair values RMB'000
At 31 December 2008	**—**	**—**
At 31 December 2007	50,000	48,726

The carrying amounts of current borrowings approximate their fair values.

21 OTHER INCOME

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Gain on disposal of land use rights	**—**	4,116
Subsidy income	**13,552**	7,853
Gain on disposal of an investment in Jiu Long Hotel (note 30(b))	**22,394**	82,011
Gain on disposal of investment in associates	**3,722**	—
Interest income	**23,469**	42,217
Dividend income		
— Unlisted equity investments	**35,528**	26,587
— Listed equity investments	**59,986**	9,051
	95,514	35,638
Gain on disposal of available-for-sale financial assets other than investment in Jiu Long Hotel	**63,126**	209,578
Gain on lease termination of a Jin Jiang Inn Budget Hotel (a)	**19,858**	—
	241,635	381,413

(a) The Group received a compensation of RMB33,600,000 from a third party lessor for lease termination of a Jin Jiang Inn Budget Hotel in November 2008. After deducting the net loss in disposal of the property, plant and equipment and other operating assets of the Jin Jiang Inn Budget Hotel, a gain of RMB19,858,000 was recognized in the consolidated financial statements for the year ended 31 December 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

22 OTHER EXPENSES

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Bank charges	**27,489**	28,537
Loss on disposal of property, plant and equipment	**907**	17,477
	28,396	46,014

23 EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing expenses and administrative expenses are analyzed as follows:

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Cost of inventories sold (note 14)	**452,947**	413,819
Employee benefit expense (note 24)	**1,032,119**	981,519
Utility cost and consumables	**384,342**	359,977
Business tax, property tax and other tax surcharges	**236,473**	217,192
Operating leases		
— machinery	**—**	325
— land and buildings	**152,519**	91,396
	152,519	91,721
Auditors' remuneration	**7,970**	10,445
Depreciation of property, plant and equipment (note 6)	**465,858**	402,524
Amortization of land use rights (note 7)	**31,232**	26,169
Amortization of intangible assets (note 8)	**766**	718
Repairs and maintenance	**61,238**	63,445
Provision for impairment of property, plant and equipment (note 6)	**—**	7,135
Write-down of inventories (note 14)	**449**	277
Provision for impairment of trade and other receivables (note 15)	**9,579**	144

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

24 EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Wages and salaries	**649,743**	614,348
Retirement and housing benefits (a)	**190,420**	171,271
Welfare and other expenses	**191,956**	195,900
	1,032,119	981,519
Number of employee	**18,834**	18,789

(a) Retirement benefit and housing benefits schemes

The employees of the Group participate in various pension plans organized by the relevant municipal and provincial governments under which the Group is obliged to make monthly defined contributions to these plans based on percentages of the employees' monthly salaries and wages, subject to a certain ceiling. The employees of the Group companies in Mainland China are also entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds.

The Group had no further obligation for post-retirement benefits or housing funds beyond the payments above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

24 EMPLOYEE BENEFIT EXPENSE (CONTINUED)

(b) Directors', supervisors' and senior management's emoluments

The emoluments of every director, supervisor and other senior management members for the year ended 31 December 2008, on a named basis, are set out as below:

Name	Director's fee RMB'000	Salary and allowances RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Directors					
Mr. Yu Minliang	—	—	—	—	—
Mr. Shen Maoxing	—	—	—	—	—
Ms. Chen Wenjun	—	—	—	—	—
Mr. Yang Weimin	—	314	160	37	511
Mr. Chen Hao	—	304	140	36	480
Mr. Yuan Gongyao	—	271	80	34	385
Mr. Xu Zurong	—	245	80	35	360
Mr. Han Min	—	271	80	34	385
Mr. Kang Ming	—	198	55	32	285
Mr. Ji Gang	100	—	—	—	100
Mr. Xia Dawei	100	—	—	—	100
Mr. Sun Dajian	100	—	—	—	100
Dr. Rui Mingjie	100	—	—	—	100
Mr. Yang Menghua	100	—	—	—	100
Dr. Tu Qiyu	100	—	—	—	100
Mr. Shen Chengxiang	100	—	—	—	100
Mr. Lee Chung Bo	100	—	—	—	100
	800	1,603	595	208	3,206
Supervisors					
Mr. Wang Guoxing	—	—	—	—	—
Mr. Wang Xingze	—	271	80	34	385
Mr. Ma Mingju	—	—	—	—	—
Ms. Chen Junjin	—	—	—	—	—
Ms. Jiang Ping	—	—	—	—	—
Mr. Zhou Qiquan	—	—	—	—	—
	—	271	80	34	385
Senior management members other than directors and supervisors					
Dr. Laurence Yuen Chin Yau (i)	—	1,088	250	—	1,338
Mr. Ngai Wai Feng (ii)	—	—	—	—	—
Dr. Ai Gengyun (iii)	—	62	14	8	84
	—	1,150	264	8	1,422
	800	3,024	939	250	5,013

(i) Resigned as the joint company secretary and the qualified accountant on 21 October 2008.

(ii) Appointed as the joint company secretary on 21 October 2008.

(iii) Appointed as the qualified accountant on 21 October 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

24 EMPLOYEE BENEFIT EXPENSE (CONTINUED)

(b) Directors', supervisors' and senior management's emoluments (continued)

The emoluments of every director, supervisor and other senior management members for the year ended 31 December 2007, on a named basis, are set out as below:

Name	Director's fee RMB'000	Salary and allowances RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Directors					
Mr. Yu Minliang	—	—	—	—	—
Mr. Shen Maoxing	—	—	—	—	—
Ms. Chen Wenjun	—	—	—	—	—
Mr. Yang Weimin	—	192	211	93	496
Mr. Chen Hao	—	186	200	90	476
Mr. Yuan Gongyao	—	140	159	68	367
Mr. Xu Zurong	—	147	122	72	341
Mr. Han Min	—	140	159	68	367
Mr. Kang Ming	—	102	92	51	245
Mr. Ji Gang	100	—	—	—	100
Mr. Xia Dawei	100	—	—	—	100
Mr. Sun Dajian	100	—	—	—	100
Dr. Rui Mingjie	100	—	—	—	100
Mr. Yang Menghua	100	—	—	—	100
Dr. Tu Qiyu	100	—	—	—	100
Mr. Shen Chengxiang	100	—	—	—	100
Mr. Lee Chung Bo	100	—	—	—	100
	800	907	943	442	3,092
Supervisors					
Mr. Wang Guoxing	—	—	—	—	—
Mr. Wang Xingze	—	140	159	68	367
Mr. Ma Mingju	—	—	—	—	—
Ms. Chen Junjin	—	—	—	—	—
Ms. Jiang Ping	—	—	—	—	—
Mr. Zhou Qiquan	—	—	—	—	—
	—	140	159	68	367
Senior management members other than directors and supervisors					
Dr. Laurence Yuen Chin Yau	—	1,367	228	30	1,625
	—	1,367	228	30	1,625
	800	2,414	1,330	540	5,084

The emoluments fell within the following bands:

	Year ended 31 December 2008 Number	2007 Number
Nil to RMB889,100 (equivalent to HK$1,000,000)	**25**	23
RMB889,100 to RMB1,333,650 (equivalent to HK$1,500,000)	**1**	—
RMB1,333,650 to RMB1,778,200 (equivalent to HK$2,000,000)	**—**	1
	26	24

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

24 EMPLOYEE BENEFIT EXPENSE (CONTINUED)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year ended 31 December 2008 do not include any directors of the Company. The emoluments payable to these individuals during the year ended 31 December 2008 are as follows:

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Salary and allowances	**4,141**	7,048
Discretionary bonuses	**651**	1,175
Retirement scheme contributions	**258**	184
	5,050	8,407

The emoluments fell within the following bands:

	Year ended 31 December	
	2008	2007
	Number	Number
RMB889,100 (equivalent to HK$1,000,000) to RMB1,333,650 (equivalent to HK$1,500,000)	**5**	1
RMB1,333,650 to RMB1,778,200 (equivalent to HK$2,000,000)	**—**	2
RMB1,778,200 to RMB2,222,750 (equivalent to HK$2,500,000)	**—**	2
	5	5

(d) During the year ended 31 December 2008, no directors, supervisors, senior management or the five highest paid individuals of the Group waived any emoluments and no other emoluments were paid by the Group to any of the directors, supervisors, senior management or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

25 FINANCE COSTS

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Interest expenses		
— Bank borrowings wholly repayable within 5 years	**39,891**	59,696
— Bank borrowings wholly repayable over 5 years	**2,349**	1,818
	42,240	61,514
Less: amounts capitalized in property, plant and equipment (note 6)	**(1,466)**	(7,264)
	40,774	54,250
Net foreign exchange losses	**3,534**	38,466
	44,308	92,716

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

26 INCOME TAX EXPENSE

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Mainland China current corporate income tax ("CIT")	**119,530**	202,505
Deferred income tax (note 13)	**(23,631)**	(91,014)
	95,899	111,491

Provision for Mainland China CIT is calculated based on the statutory income tax rate of 25% on the assessable income of the Group companies operating in Mainland China during the year ended 31 December 2008 (2007: 33%) as determined in accordance with the Corporate Income Tax Law of the PRC (the "New CIT Law") and the Detail Implementation Regulations ("DIR") except for as described below.

The Company, Shanghai Jin Jiang International Hotels Development Company Limited ("Jin Jiang Hotels Development"), Shanghai Jin Jiang International Hotel Investment Company Limited, Jin Jiang International Hotel Management Company Limited, Shanghai New Asia Café de Coral Company Limited, Shanghai Jinhua Hotel Co., Ltd. and Shanghai Jin Jiang Tomson Hotel Company Limited were registered in Shanghai Pudong New Area and entitled to the preferential income tax rates of 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012 respectively (2007: 15%).

Hong Kong profits tax is provided at a rate of 16.5% on the estimated assessable profits of Group's subsidiary incorporated in Hong Kong during the year ended 31 December 2008 (2007: 17.5%). For the year ended 31 December 2008, the Group's subsidiary incorporated in Hong Kong did not have assessable profits and declared no Hong Kong profits tax accordingly.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of 25% (2007: 33%) in Mainland China as follows:

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Profit before income tax	**528,682**	647,174
Tax calculated at a tax rate of 25% (2007: 33%)	**132,171**	213,567
Effect of different taxation rates	**(21,146)**	(41,252)
Effect of change of tax rates	**—**	(48,212)
Income not subject to tax	**(26,448)**	(26,114)
Expenses not deductible for tax purposes	**5,803**	9,921
Tax losses for which no deferred income tax assets were recognized	**24,042**	24,469
Utilization of previous unrecognized tax losses	**(333)**	(551)
Effect of share of profit tax of associates	**(18,190)**	(32,373)
Unrealized profit on internal assets transfer	**—**	12,036
Income tax expense	**95,899**	111,491

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

27 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company has been dealt with in the financial statements of the Company to the extent of RMB260,829,000 (2007: RMB398,418,000).

28 EARNINGS PER SHARE

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Profit attributable to equity holders of the Company	**270,255**	383,417
Weighted average number of ordinary shares in issue (thousands)	**4,565,000**	4,565,000
Basic earnings per share (RMB cents)	**5.92**	8.40

As there are no potentially dilutive securities, there is no difference between the basic and diluted earnings per share.

29 DIVIDENDS

A 2007 final dividend of RMB3.0 cents (2006 final dividend: RMB2.6 cents) per share, totalling RMB136,950,000 (2006 final dividend: RMB118,690,000) was paid in June 2008. The Directors recommend the payment of a final dividend of RMB2.1 cents per share, totalling RMB95,865,000. Such dividend is to be approved by the shareholders at the Annual General Meeting on 16 June 2009. These financial statements do not reflect this dividend payable.

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Proposed final dividend of RMB2.1 cents (2007: RMB3.0 cents) per share	**95,865**	136,950

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

30 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit for the year to cash generated from operations:

		Year ended 31 December	
	Note	**2008**	2007
		RMB'000	RMB'000
Profit for the year		**432,783**	535,683
Adjustments for:			
— income tax expense	26	**95,899**	111,491
— depreciation of property, plant and equipment	23	**465,858**	402,524
— amortization of land use rights	23	**31,232**	26,169
— amortization of intangible assets	23	**766**	718
— loss on disposal of property, plant and equipment	22	**907**	17,477
— gain on lease termination of a Jin Jiang Inn Budget Hotel	21	**(19,858)**	—
— gain on disposal of land use rights	21	**—**	(4,116)
— provision for impairment of property, plant and equipment	23	**—**	7,135
— provision for impairment of trade and other receivables	23	**9,579**	144
— write-down inventories to net realizable value	23	**449**	277
— gain on disposal of Jiu Long Hotel(b)	21	**(22,394)**	(82,011)
— gain on disposal of investment in associates	21	**(3,722)**	—
— interest income	21	**(23,469)**	(42,217)
— interest expenses	25	**40,774**	54,250
— net foreign exchange losses	25	**3,534**	38,466
— share of results of associates	11	**(72,760)**	(98,099)
— gain on disposal of available-for-sale financial assets other than investment in Jiu Long Hotel	21	**(63,126)**	(209,578)
— dividend income	21	**(95,514)**	(35,638)
Changes in working capital:			
— restricted cash	16	**(29,084)**	(111,965)
— inventories		**5,418**	(8,143)
— trade and other receivables		**7,699**	(68,477)
— trade and other payables		**(20,751)**	174,222
Cash generated from operations		**744,220**	708,312

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

30 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(b) Disposal of Jiu Long Hotel

Subsequent to the sales of its 45% equity interest in Jiu Long Hotel to Shanghai Greenland Commercial (Group) Co., Ltd. in November 2006, the Group sold its 44% equity interest in Jiu Long Hotels and the remaining equity interest in Jiu Long Hotels to Shanghai Greenland Commercial (Group) Co., Ltd. in July 2007 and December 2008, at a consideration of RMB112,200,000 and RMB29,941,000, respectively.

Details of the disposal are as below:

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Cash consideration received at the end of the year	**14,510**	112,200
Cash consideration receivable at end of the year (note 15(a))	**15,431**	—
Total consideration	**29,941**	112,200
Less: share of net assets disposed	**(7,547)**	(30,189)
Gain on disposal	**22,394**	82,011
Cash proceeds received from disposal occurred in December 2008 and July 2007	**14,510**	112,200
Cash proceeds received from disposal occurred in November 2006	**—**	55,748
Cash and cash equivalent disposed	**—**	(2,008)
	14,510	165,940

Immediately before the disposal of equity interest in July 2007, Jiu Long Hotel was accounted for as a jointly controlled entity, and the assets and liabilities attributable to the then holding of 55% equity interest of Jiu Long Hotel in July 2007 are as below:

	RMB'000
Cash and cash equivalents	2,008
Property, plant and equipment (note 6)	62,418
Land use rights (note 7)	2,207
Inventories	909
Trade and other receivables	1,212
Deferred income tax liabilities (note 13)	(1,303)
Borrowings, current	(26,125)
Trade and other payables	(3,590)
Net assets disposed	37,736
Share of net assets transferred to available-for-sale financial assets	(7,547)
Share of net assets disposed	30,189

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

31 COMMITMENTS

(a) Capital commitments

Capital expenditure at 31 December 2008 but not yet incurred is as follows:

(i) The Group

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Acquisition of property, plant and equipment		
— contracted but not provided for	**367,072**	311,459

(ii) The Company

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Acquisition of property, plant and equipment		
— contracted but not provided for	**13,545**	18,179

Besides, the Company is committed to acquire a hotel property in the north-western region of China from an independent third party at a consideration to be determined based on its asset valuation (not exceeding RMB 230,000,000) according to framework agreements signed in December 2007 and July 2008. Acquisition deposit of RMB5,000,000 was paid in January 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

31 COMMITMENTS (CONTINUED)

(b) Operating lease commitments

The Group leases various premises, offices and machinery and also lease out space in hotels, under non-cancellable operating lease agreements. The rental revenue and the operating expenses recognized in the consolidated income statement for the year ended 31 December 2008 are disclosed in notes 5(a) and 23, respectively.

Leases with different lessees and lessors are negotiated for terms ranging from 1 year to 20 years with different renewal options, escalation clauses and restrictions on subleasing. When certain rental receipts and lease payments of properties are based on the higher of minimum guaranteed rentals or revenue level based rentals, the minimum guaranteed rentals have been used to arrive at the commitments below.

(1) The Group

The future aggregate minimum lease rentals receipts under non-cancellable operating leases are as follows:

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Not later than 1 year	**144,312**	101,004
Later than 1 year and not later than 5 years	**367,909**	240,002
Later than 5 years	**782,271**	793,302
	1,294,492	1,134,308

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Not later than 1 year	**175,569**	135,080
Later than 1 year and not later than 5 years	**769,160**	551,127
Later than 5 years	**2,277,192**	1,654,669
	3,221,921	2,340,876

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

31 COMMITMENTS (CONTINUED)

(b) Operating lease commitments (Continued)

(2) The Company

The future aggregate minimum lease rentals receipts under non-cancellable operating leases are as follows:

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Not later than 1 year	**45,662**	45,793
Later than 1 year and not later than 5 years	**165,400**	170,421
Later than 5 years	**726,900**	726,170
	937,962	942,384

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Not later than 1 year	**1,378**	515
Later than 1 year and not later than 5 years	**960**	468
	2,338	983

32 SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Related party transactions — The Group

The Group had the following significant related party transactions during the year ended 31 December 2008:

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Transactions with Jin Jiang International		
— Provision of hotel services	**329**	1,315
— Provision of training services	**16**	28
— Sales of hotel supplies	**567**	963
	912	2,306
— Rental expenses paid	**6,167**	4,214

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

32 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Related party transactions — The Group (Continued)

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Transactions with subsidiaries of Jin Jiang International		
— Provision of hotel services	**22,907**	26,294
— Rental income received	**851**	917
— Provision of other services	**3,407**	3,174
	27,165	30,385
— Purchase of food and beverage	**2,412**	5,273
— Rental expenses paid	**13,799**	13,802
— Receipt of laundry services	**3,201**	3,023
— Receipt of other services	**5,758**	4,440
	25,170	26,538
Transactions with jointly controlled entities of the Group		
— Interest income received	**965**	2,146
— Sales of hotel supplies	**5,328**	7,356
— Management fees received	**4,886**	5,415
	11,179	14,917
— Interest expenses paid	**1,192**	760
— System management fee paid	**3,758**	3,099
	4,950	3,859
Transactions with associates of the Group		
— Rental income received	**5,955**	6,010
— Interest income received	**6,681**	7,338
— Management fees received	**4,023**	4,565
— Sales of hotel supplies	**5,154**	4,411
	21,813	22,324
— Purchase of food and beverage	**15,655**	15,326
— Interest expenses paid	**211**	151
	15,866	15,477

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

32 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Related party transactions — The Group (Continued)

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Transactions with companies with common directors		
— Management fees received	**741**	338
— Sales of hotel supplies	**1,371**	1,382
— Sales of food and beverage	**527**	—
	2,639	1,720
— Purchase of food and beverage	**5,976**	6,115

(b) Amounts due from/due to related parties — The Group

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Amounts due from related parties (note 15(a))		
— Jin Jiang International	**196**	203
— Subsidiaries of Jin Jiang International	**3,751**	5,536
— Jointly controlled entities of the Group (i)	**21,368**	15,190
— Associates of the Group (ii)	**125,749**	107,729
— Companies with common directors	**383**	281
— A state-owned bank for disposal of investment in an associates	**—**	15,817
	151,447	144,756
Amounts due to related parties (note 19(a))		
— Jin Jiang International	**(1,915)**	(2,532)
— Subsidiaries of Jin Jiang International	**(4,405)**	(3,696)
— Jointly controlled entities of the Group (iii)	**(85,075)**	(69,141)
— Associates of the Group (iv)	**(6,202)**	(13,083)
— Companies with common directors	**(517)**	(584)
	(98,114)	(89,036)

(i) The balances include unsecured loans to jointly controlled entities of RMB14,190,000 as at 31 December 2008 (2007: RMB12,040,000) with effective interest rates of 5.94% (2007: 5.98%) per annum.

(ii) The balances include unsecured loans of RMB9,130,000 to an associate as at 31 December 2008 (2007: RMB18,000,000) with effective interest rates of 7.01% (2007: 5.81%) per annum and secured loans to associates of RMB89,500,000 as at 31 December 2008 (2007: RMB76,500,000) with effective interest rates of 6.74% (2007: 6.55%) per annum which were guaranteed by a third party company or pledged by their or third parties' properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

32 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Amounts due from/due to related parties — The Group (Continued)

(iii) The balances include deposits from jointly controlled entities of RMB84,711,000 as at 31 December 2008 (2007: RMB68,754,000) with the interest rates of 3.25% (2007: 2.74%) per annum.

(iv) The balances include deposits from associates of RMB6,036,000 as at 31 December 2008 (2007: RMB13,003,000) with effective interest rates of 0.36% (2007: 0.72%) per annum.

Other than disclosed above, balances with related parties are all unsecured and interest free.

(c) Amounts due from/to related parties — The Company

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Amounts due from related parties (note 15(b))		
— Subsidiaries of Jin Jiang International	**1,119**	1,000
— Subsidiaries of the Group	**148,105**	257,494
— Jointly controlled entities of the Group	**117**	18,572
— Associates of the Group	**10,500**	10,500
— Companies with common directors	**—**	49
	159,841	287,615
Amounts due to related parties (note 19(b))		
— Jin Jiang International	**(1,258)**	(1,305)
— Subsidiaries of the Group	**(7,691)**	(6,537)
— Subsidiaries of Jin Jiang International	**(527)**	(362)
— Associates of the Group	**(13)**	—
	(9,489)	(8,204)

All the balances above are unsecured and interest free.

(d) Key management compensation

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Salary and other allowances	**2,827**	2,272
Discretionary bonus	**858**	1,172
Retirement scheme contributions	**216**	472
	3,901	3,916

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32 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Additional financial information on other state-owned enterprises

The Company is controlled by Jin Jiang International, and is ultimately controlled by Mainland China government, which also controls a significant portion of the productive assets and entities in Mainland China, in accordance with Hong Kong Accounting Standard 24 "Related Party Disclosures", state-owned enterprises and their subsidiaries, other than Jin Jiang International and fellow subsidiaries, are also defined as related parties of the Company ("other state-owned enterprises").

In the Hotel Related Businesses, the Group is likely to have extensive transactions with the employees of other state-owned enterprises while such employees are on corporate business as well as management personnel and their close family members. These transactions are carried out on terms that are consistently applied to all customers and are made on a cash basis. Due to the vast volume and the pervasiveness of the Group's retail transactions in the hotel businesses, the Group is unable to determine the aggregate amount of such transactions for disclosure. Therefore, the information disclosed below does not include the retail sales to such related parties. Management believes that meaningful information relative to related party balances and transactions have been adequately disclosed.

(i) Summary of significant transactions with other state-owned enterprises

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Interest income from state-owned banks	**21,405**	33,309
Interest expenses to state-owned banks	**42,240**	61,514

(ii) Balances with other state-owned enterprises

	At 31 December	
	2008	2007
	RMB'000	RMB'000
Bank deposits in state-owned banks (1)	**1,486,112**	1,514,621
Amount due from a state-owned bank for a disposal of an investment in associates	**—**	15,847
Bank borrowings from state-owned banks (note 20)	**(538,401)**	(501,968)

(1) The weighted average effective interest rate on bank deposits to state-owned banks with maturities ranging from 7 days to 360 days, were 2.89% (2007: 4.07%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

As at 31 December 2008, the Company had direct and indirect interests in the following subsidiaries, jointly controlled entities and associates:

Company name	Country and date of incorporation	Issued/ registered and paid in capital '000	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities and place of operation	Type of legal entity
(a) Subsidiaries						
Jin Jiang Hotel Company Limited 上海錦江飯店有限公司	Mainland China, 30 May 1982	RMB206,920	99.0%	1.0%	Hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Shanghai Jin Jiang Park Hotel Company Limited 上海錦江國際飯店有限公司	Mainland China, 21 December 1979	RMB91,583	99.0%	1.0%	Hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Cypress Hotel Company Limited 上海龍柏飯店有限公司	Mainland China, 28 January 1984	RMB84,182	99.0%	1.0%	Hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Shanghai Jin Jiang Pacific Hotel Company Limited 上海錦江金門大酒店有限公司	Mainland China, 21 December 1979	RMB40,649	99.0%	1.0%	Hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Y.M.C.A Hotel Company Limited 上海錦江青年會賓館有限公司	Mainland China, 23 October 1984	RMB40,000	99.0%	1.0%	Hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Shanghai Rainbow Hotel Company Limited 上海虹橋賓館有限公司	Mainland China, 9 February 1988	RMB21,951	99.0%	1.0%	Hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Shanghai Galaxy Hotel Company Limited 上海銀河賓館有限公司	Mainland China, 22 August 1990	RMB19,885	99.0%	1.0%	Hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Shanghai Hua Ting Guest House Company Limited 上海南華亭酒店有限公司	Mainland China, 15 July 2002	RMB26,099	99.0%	1.0%	Hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Shanghai Hotel Company Limited 上海市上海賓館有限公司	Mainland China, 23 August 1991	RMB134,886	99.0%	1.0%	Hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Jinsha Hotel Company Limited 上海金沙江大酒店有限公司	Mainland China, 22 January 2003	RMB35,000	99.0%	1.0%	Hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Shanghai Yulan Hotel Company Limited 上海白玉蘭賓館有限公司	Mainland China, 25 March 1998	RMB5,055	99.0%	1.0%	Budget hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Shanghai Jin Jiang Da Hua Hotel Company Limited 上海錦江達華賓館有限公司	Mainland China, 18 February 1982	RMB20,704	99.0%	1.0%	Hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Shanghai New Asia Plaza Great Wall Hotel Company Limited 上海新亞廣場長城酒店有限公司	Mainland China, 26 April 1994	RMB120,000	99.0%	1.0%	Hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Shanghai Peace Hotel Company Limited 上海和平飯店有限公司	Mainland China, 11 November 1998	RMB345,460	99.0%	1.0%	Hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Shanghai Linqing Hotel Company Limited 上海臨青賓館有限公司	Mainland China, 18 November 1999	RMB16,600	—	78.2%	Budget hotel ownership and operations, Shanghai, Mainland China	Limited liability company

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33 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (CONTINUED)

Company name	Country and date of incorporation	Issued/ registered and paid in capital '000	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities and place of operation	Type of legal entity
Kunming Jin Jiang Hotel Company Limited 昆明錦江大酒店有限公司	Mainland China, 7 December 1985	US$8,000	75.0%	24.8%	Hotel ownership and operations, Kunming, Mainland China	Limited liability company
Jin Jiang International Finance Company Limited 錦江國際集團財務有限責任公司	Mainland China, 16 October 1997	RMB300,000	90.0%	10.0%	Provision of intra-group treasury and financing services, Shanghai, Mainland China	Limited liability company
Jin Jiang Inn Company Limited 錦江之星旅館有限公司	Mainland China, 17 May 1996	RMB179,712	71.2%	10.1%	Budget hotel ownership, operations and franchising, Shanghai, Mainland China	Limited liability company
Shanghai Jin Jiang International Hotel Investment Company Limited 上海錦江國際旅館投資有限公司	Mainland China, 20 December 2004	RMB1,225,000	80.0%	10.1%	Budget hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Wuhan Jin Jiang International Hotel Company Limited 武漢錦江國際大酒店有限公司	Mainland China, 22 November 2004	RMB220,000	50.0%	25.2%	Hotel ownership and operations, Wuhan, Mainland China	Limited liability company
Shanghai Jin Jiang International Hotels Development Company Limited 上海錦江國際酒店發展股份有限公司	Mainland China, 9 June 1993	RMB603,241	50.3%	—	Hotel and restaurant ownership and operations, Shanghai, Mainland China	Joint stock limited company
Shanghai New Asia Food Company Limited 上海新亞食品有限公司	Mainland China, 1 November 1996	RMB1,415	—	50.3%	Food manufacturing, Shanghai, Mainland China	Limited liability company
Jin Jiang International Hotel Management Company Limited 錦江國際酒店管理有限公司	Mainland China, 1 December 1992	RMB100,000	—	50.3%	Star-rated hotel management, Shanghai, Mainland China	Limited liability company
Shanghai Jin Jiang International Catering Investment Company Limited 上海錦江國際餐飲投資管理有限公司	Mainland China, 1 December 1992	RMB149,930	—	50.3%	Investment in and operation of restaurants, Shanghai, Mainland China	Limited liability company
Shanghai Jin Ya Hotel Company Limited 上海錦亞旅館有限公司	Mainland China, 1 December 1992	RMB18,000	—	81.3%	Budget hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Tianjin Jin Jiang Inn Company Limited 天津錦江之星旅館有限公司	Mainland China, 1 July 2003	RMB40,000	—	90.1%	Budget hotel ownership and operations, Tianjin, Mainland China	Limited liability company
Qingdao Jin Jiang Inn Company Limited 青島錦江之星旅館有限公司	Mainland China, 21 March 2005	RMB20,000	—	85.7%	Budget hotel ownership and operations, Qingdao, Mainland China	Limited liability company
Beijing Jin Jiang Inn Investment and Management Company Limited 北京錦江之星旅館投資管理有限公司	Mainland China, 22 July 2003	RMB28,000	—	81.3%	Budget hotel ownership and operations, Beijing, Mainland China	Limited liability company
Xi'an Jin Jiang Inn Company Limited 西安錦江之星旅館有限公司	Mainland China, 24 June 2005	RMB20,000	—	89.2%	Budget hotel ownership and operations, Xi'an, Mainland China	Limited liability company

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33 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (CONTINUED)

Company name	Country and date of incorporation	Issued/ registered and paid in capital '000	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities and place of operation	Type of legal entity
Zhengzhou Jin Jiang Inn Company Limited 鄭州錦江之星旅館有限公司	Mainland China, 5 July 2005	RMB20,000	—	89.2%	Budget hotel ownership and operations, Zhengzhou, Mainland China	Limited liability company
Shanghai Di Shui Hu Jin Jiang Inn Company Limited 上海滴水湖錦江之星旅館有限公司	Mainland China, 22 September 2005	RMB20,000		89.2%	Budget hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Shanghai Jin Min Hotel Company Limited 上海錦閔旅館有限公司	Mainland China, 5 July 2005	RMB40,000	—	81.3%	Budget hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Shanghai YuJin Hotel Management Company Limited 上海豫錦酒店管理有限公司	Mainland China, 30 October 2008	RMB20,000	—	48.8%	Budget hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Tianjin Hedong District Jin Jiang Inn Company Limited 天津河東區錦江之星旅館有限公司	Mainland China, 15 January 2008	RMB21,000	—	81.3%	Budget hotel ownership and operations, Tianjin, Mainland China	Limited liability company
Shenyang Songhua River Street Jin Jiang Inn Company Limited 瀋陽松花江街錦江之星旅館有限公司	Mainland China, 21 February 2008	RMB20,000		81.3%	Budget hotel ownership and operations, Shenyang, Mainland China	Limited liability company
Shanghai Jin Jiang International Hotels Group (HK) Company Limited 上海錦江國際酒店集團（香港）有限公司	Hong Kong, 14, February 2000	HK$70,736	98.6%	0.7%	Hotel reservation, Hong Kong	Limited liability company
Jian Guo Hotel 上海建國賓館有限公司	Mainland China, 30 October 1986	RMB80,000	—	32.7%	Hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Sofitel Hyland Shanghai 上海海侖賓館有限公司	Mainland China, 22 November 1985	RMB62,626	—	33.5%	Hotel ownership and operations, Shanghai, Mainland China	Limited liability company
(b) Jointly controlled entities						
Shanghai Hua Ting Hotel and Towers Company Limited 上海華亭賓館有限公司	Mainland China, 19 September 1985	RMB120,000		50.0%	Hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Beijing Kunlun Hotel Company Limited 北京昆侖飯店有限公司	Mainland China, 24 May 1988	US$34,167	35.0%	12.4%	Hotel ownership and operations, Beijing, Mainland China	Limited liability company
Shanghai Jin Jiang Tomson Hotel Company Limited 上海錦江湯臣大酒店有限公司	Mainland China, 10 July 1993	US$24,340		25.2%	Hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Thayer JinJiang Interactive Co., Ltd. 上海錦江德爾互動有限公司	Mainland China, 31 October 2005	US$3,000	—	25.2%	Software development and related services, Shanghai, Mainland China	Limited liability company
Shanghai New Garden Hotel 上海新苑賓館	Mainland China, 26 November 1984	RMB13,975	57.0%	—	Hotel ownership and operations, Shanghai, Mainland China	Limited liability company

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33 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (CONTINUED)

Company name	Country and date of incorporation	Issued/ registered and paid in capital '000	Attributable equity interest Direct	Indirect	Principal activities and place of operation	Type of legal entity
(c) Associates						
Chengdu Jinhe Real Estate Company Limited 成都錦和物業發展有限公司	Mainland China, 12 August 1993	RMB18,000	30.0%	—	Hotel ownership and operations, Chengdu, Mainland China	Limited liability company
Wuxi Jin Jiang Grand Hotel Company Limited 無錫錦江大酒店有限公司	Mainland China, 16 December1994	RMB67,570	25.0%	—	Hotel ownership and operations, Wuxi, Mainland China	Limited liability company
Shanghai Yangtze Hotel Company Limited 上海揚子江大酒店有限公司	Mainland China, 4 February 1985	US$53,000	—	20.1%	Hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Shanghai Kentucky Fried Chicken Company Limited 上海肯德基有限公司	Mainland China, 5 May 1989	US$27,010	—	24.7%	Fast food operations, Shanghai, Mainland China	Limited liability company
Shanghai New Asia Fulihua Catering Company Limited 上海新亞富麗華餐飲股份有限公司	Mainland China, 25 June 1992	RMB35,000	—	20.6%	Restaurant operations, Shanghai, Mainland China	Limited liability company
Shanghai Yoshinoya Company Limited 上海吉野家速食有限公司	Mainland China, 3 June 2002	US$4,800	—	20.1%	Fast food operations, Shanghai, Mainland China	Limited liability company
Shanghai Zhongya Hotel 上海中亞飯店	Mainland China, 12 March 1990	RMB1,800	—	22.6%	Hotel ownership and operations, Shanghai, Mainland China	Limited liability company
Shanghai New Asia Café de Coral Company Limited 上海新亞大家樂餐飲有限公司	Mainland China, 12 December 1997	RMB68,670	—	25.2%	Fast food operations, Shanghai, Mainland China	Limited liability company
Jiangsu Jin Jiang Nanjing Hotel Company Limited 江蘇錦江南京飯店有限公司	Mainland China, 12 October 1982	RMB34,640	40%	—	Hotel ownership and operations, Nanjing, Mainland China	Limited liability company

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34 EVENTS AFTER THE BALANCE SHEET DATE

(a) Equity and assets transfers of Shanghai New Asia Café de Coral Company Limited ("New Asia Café de Coral")

As at 31 December 2008, Shanghai Jin Jiang International Catering Investment Co., Ltd. ("Catering Investment"), a subsidiary of the Group, and Grand Regent China Limited ("Grand Regent China") were the shareholders of New Asia Café de Coral and each held a 50% equity interest of New Asia Café de Coral.

Pursuant to an equity transfer agreement signed between Catering Investment and Grand Regent China on 9 February 2009, Grand Regent China transferred its 25% equity interest in New Asia Café de Coral to Catering Investment, at a consideration of approximately RMB12,272,000. The equity transfer was completed in March 2009 and Catering Investment held 75% equity interest in New Asia Café de Coral thereafter.

Pursuant to an assets transfer agreement signed between New Asia Café de Coral and Shanghai Arena Catering Management Limited ("Arena Catering"), a wholly-owned subsidiary of Grand Regent China on 9 February 2009, New Asia Café de Coral sold the assets of 6 Café de Coral outlets to Arena Catering, at a consideration of approximately RMB5,811,000. The assets transfer was completed in March 2009.

(b) Disposal of equity interest in Shanghai Zhongya Hotel

As of 31 December 2008, Jin Jiang Hotels Development held a 45% equity interest in Shanghai Zhongya Hotel, with the carrying amount of RMB214,000.

Pursuant to an agreement signed between two third parties (the "Purchasers") and Jin Jiang Hotels Development on 26 March 2009, Jin Jiang Hotels Development will dispose all its 45% equity interest in Shanghai Zhongya Hotel to the Purchasers, at a consideration of RMB119,820,000.

(c) Partial disposal of equity interest in Shanghai Kentucky Fried Chicken Company Limited ("Shanghai Kentucky")

As of 31 December 2008, Jin Jiang Hotels Development held a 49% equity interest in Shanghai Kentucky, with a carrying amount of RMB151,196,000.

Pursuant to the resolution of the board of directors of Jin Jiang Hotels Development dated 26 March 2009, Jin Jiang Hotels Development proposed to dispose of its 7% equity interest in Shanghai Kentucky at a consideration to be determined based on the result of an assets valuation. Such proposal has been listed in Shanghai United Assets and Equity Exchange for public bidding in accordance with the relevant PRC regulation.

(d) Disposal of shares in Shanghai Pudong Development Bank ("PDB")

During the period from 25 February to 4 March 2009, the Group disposed of a total of 4,559,985 A shares in PDB and received net proceeds of approximately RMB78,432,000. The gain on disposal of PDB shares is approximately RMB75,608,000. After the disposal, the Company no longer holds any A shares in PDB.