Management Discussion and Analysis

Business Overview

2006 was a year of significance in the historical development of the Company. The H Shares of the Company were listed on the Main Board on 15 December 2006 that provides a sound platform for its international development. The Company's businesses in relation to star-rated hotel, Jin Jiang Inn, Star-rated hotel management and restaurants operations achieved stable development. Scale of operations continues to expand and the brand, information system, management system, and human resources achieved new accomplishments. As at 31 December 2006, the Company had a total of 277 hotels in operation and under development with an inventory of about 54,000 rooms. These hotels were spread over 78 cities and municipalities in 28 provinces and autonomous regions in the PRC.

Listing in Hong Kong

The H Shares were listed on the Main Board at the top end of the price range at HK$2.2 per share. "2006" was selected as the stock code to commemorate the year in which the H Shares were listed. The international placing and public offering in Hong Kong recorded over-subscription of 285 times and 383 times, respectively. The lowest and highest closing share price of the H Shares during the period from 15 December 2006 to 31 December 2006 were HK$3.50 and HK$3.81, respectively.

Star-rated Hotel Operation

Star-rated hotel operation is one of the major sources of revenue for the Group. The Group acquired 57% of Shanghai New Garden Hotel and 12.5% of Kunlun Hotel in March and April 2006 respectively that improved the Group's turnover.

Management Discussion and Analysis

Jin Jiang Tower started its renovation project by the end of year 2006. The project will last until 2008. Jian Guo Hotel completed its exterior renovation and Sofitel Hyland completed its lobby renovation during year 2006.

Guest amenities of the Group's hotels were upgraded and standardized. Each category of the Group's hotels now has its own specific type of guest amenities.

The Luxury Hotels of the Group have advanced the core quality standards in regard to upgrade of guest amenities, enhance quality management and maintain sustainable development. In a move to realign its strategic layout, the Company disposed of a 45% equity interests in Shanghai Jiu Long Hotel Co., Ltd. ("Jiu Long Hotel"), but retains the management contract.

All classes of hotels under the Group registered year-on-year growth in RevPAR, reflecting the strengths of the Group as a professional hotel operator.

Jin Jiang Inn Budget Hotels

Jin Jiang Inn Budget Hotels remain the main focus of the Company. During year 2006, the Company added 32 Jin Jiang Inn Budget Hotels in which the Group had equity interests and 42 Jin Jiang Inn Budget Hotels under franchised arrangement. There were a total of 181 Jin Jaing Inn Budget Hotels by the end of year 2006, of which 91 inns were in operation. Due to generally lower Occupancy Rate in newly opened inns, overall RevPAR was diluted.

By the end of the year, there were 104 Jin Jiang Inn Budget Hotels in the Yangtze River Delta region accounting for 57% of the total number of Jin Jiang Inn Budget Hotels. Apart from Shanghai and Beijing, the Company is now expanding the Jin Jiang Inn Budget Hotels network to the Pearl River Delta region, the Tianjin Bohai gulf area and other secondary cities in the PRC.

Management Discussion and Analysis

In 2006, the Group successfully obtained 44 franchise contracts. Two franchise contracts were terminated by the Group as the standards and the Franchisee did not meet the relevant guidelines.

Hotel Management

During year 2006, the Group adopted a centralised procurement system that contained costs of supplies. Besides following closely and adhering to the standards and checklists stipulated under the Star-rating Standard Manual, the Company, after merging the international management standards with its local management practical, has also formulated its own set of Star-rated hotel management standards, which it has systematically set down in a number of manuals, namely, Core Technical Standards; Core Quality Standards; Guest's Satisfaction Survey System; Sales and Marketing Strategies Manual; Uniform Accounting System and Logo Manual. These manuals set down the uniform Star-rated hotel management standards to be adopted for the management of Star-rated hotels of the whole Group.

In terms of business network and brand name, the Company established its own world-wide room reservation system 'Jrez' during year 2006, cooperating with four major global distribution system providers and 43 domestic and international internet distribution system providers in connecting reservation pathways. The operation has been stable with increased business volume every month. The company devised a logo for Star-rated hotels, featuring graphically the roof eaves of Chinese palaces to be adopted by the Group's hotels with a specific colour to identify each of the hotel categories.

By the end of year 2006, the Group managed 92 hotels compared to 85 hotels last year. There was a net increase of 2,600 rooms, which has surpassed the Group's original target of 2,000 rooms for the year.

Restaurants

The Group's various brands of fast food, held through Jin Jiang Hotels Development achieved satisfactory performance in 2006. By the end of 2006, KFC achieved a total number of 191 outlets compared with 171 outlets in 2005. New Asia Café de Carol had five outlets in 2006, increased by four compared with 2005. New Asia Snacks had 67 outlets in 2006 compared with 73 outlets in 2005 as a result of the closure of unprofitable outlets. Yoshinoya focused in new product development and outlets readjustment. Total number of outlets in 2006 was eight, compared with seven outlets in 2005. In respect of Jing An Bakery, the number of outlets in 2006 was 55, compared with 45 outlets in 2005. The Chinoise Story opened its first outlet at one of the Group's premium Star-rated hotels.

Human Resources, Training and Others

The Group possesses a professional training school which provides professional training to nurture industry professionals. In 2004, the Company opened 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 course to nurture high quality industry professionals for the society and provide manpower resources for the Company's future development. During year 2006, the college launched supervisory courses, higher education programmes and full-time courses, namely 'Business to Customer' and post-graduate certificate in hospitality management. There were about 310 enrolments, and most of the graduates of these programmes have joined the Group. There were about 40 students of the college who continued their studies in Switzerland. During year 2006, the Group conducted training programmes actively in subsidiaries according to the recommendation of individual companies of the Group. There were 16 trainees selected from hotels' middle and senior managerial positions to participate in the Group's one-year training programme in Les Roches Jin Jiang International Management College. Such trainees will graduate in 2007.

As at 31 December 2006, the Group had about 17,300 employees, increased by about 1,000 employees compared with last year. Employee benefit expense increased to RMB834.6 million in 2006 from RMB737.6 million in 2005, which represented an increase of 13.2%. The remuneration of the existing employees is basic salary, discretionary bonus and social security contribution. No share option scheme is provided so far.

Management Discussion and Analysis

Financial Information and Review

Overview

The Group is principally engaged in Star-rated hotel operation and management, budget hotel operation and franchising, restaurant operation, 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. As at 31 December 2006, the Group's hotels in operation and under development, including: (i) hotels managed and owned (wholly or partially) by the Group, (ii) hotels owned (wholly or partially) by the Group but managed by third parties, (iii) hotels owned by third parties but managed or where management contracts had been secured by the Group and (iv) hotels owned by third parties but granted franchises by the Group, amounted to 277 hotels with approximately 54,000 rooms in total.

The Group sets out below its financial information for the year ended 31 December 2006 as compared with 2005:

	2006		2005	
	RMB million	**Percentage of turnover**	RMB million	Percentage of turnover
Star-rated hotel operation	**2,465.7**	**81.4%**	2,285.4	81.4%
Jin Jiang Inn Budget Hotels	**430.3**	**14.2%**	334.9	11.9%
Star-rated hotel management	**38.3**	**1.2%**	36.7	1.3%
Restaurants	**49.2**	**1.6%**	89.8	3.2%
Others	**47.0**	**1.6%**	60.9	2.2%
Total	**3,030.5**	**100%**	2,807.7	100%

Segmental Turnover & Operating Cost

Hotel Operation

The following table sets out the Group's turnover attributable to the Group's Star-rated hotel operation analysed by business for the year ended 31 December 2006 compared with 2005:

	2006		2005	
	RMB million	**Percentage of turnover**	RMB million	Percentage of turnover
Star-rated Hotel Operation	**2,465.7**	**81.4%**	2,285.4	81.4%
— Accommodation revenue	**1,413.6**	**46.7%**	1,355.1	48.3%
— Food and beverage sales	**770.5**	**25.4%**	660.7	23.5%
— Rendering of ancilliary services	**134.7**	**4.5%**	133.5	4.7%
— Rental revenue	**104.4**	**3.4%**	101.9	3.7%
— Sales of hotel supplies	**42.5**	**1.4%**	34.2	1.2%

Accommodation revenue

Turnover was mainly driven by Occupancy Rate and average daily rate of the Group's hotels. The accommodation revenue of star-rated hotel operation for the year ended 31 December 2006 was RMB1,413.6 million, increased by 4.3% compared to 2005. The major reasons are as follows:

(i) RevPAR increased as a result of higher Occupancy Rate compared to 2005.

(ii) Cathay Garden of Jin Jiang Hotel has completed its renovation in the second half of 2005, which increased about 20,000 Available Rooms in 2006, on a year-on-year basis.

Management Discussion and Analysis

(iii) The Group acquired 50% and 35% equity interests in Shanghai Hua Ting Hotel and Towers Co., Ltd. and Kunlun Hotel Company respectively in March 2005, and further acquired 57% and 12.5% equity interests in Shanghai New Garden Hotel and Kunlun Hotel Company respectively in March 2006 and in April 2006 respectively. Such acquisitions contributed an incremental accommodation revenue of RMB66.8 million to the Group in 2006 compared to 2005.

F&B Sales

The Group's food and beverage sales ("F&B Sales") comprise primarily of catering for weddings and conferences, room services for guests and other sales in bars and restaurants. Turnover for the year ended 31 December 2006 of RMB770.5 million was driven by the Occupancy Rate of the Group's hotels and the popularity of their bars and restaurants. This increase of 16.6% compared with 2005 was mainly contributed by increased wedding banquets and the improvement of the bars and restaurants of the Group's hotels. Most Mainland Chinese believe that 2006 was an auspicious year for marriage, and therefore the average spending of wedding banquet per table increased by approximately 10% as compared to 2005.

Rendering of ancillary services

The income from rendering of ancillary services mainly represents the turnover generated from business center, gift shop, telephone, laundry service, broadband internet, entertainment and other guest services. The ancillary services income for the year increased by RMB1.2 million to RMB134.7 million in 2006, which was mainly due to higher Occupancy Rate.

Rental revenue

Turnover was generated from the leasing of space at the Group's hotels for shops, showcase and other purposes. The increase was mainly due to the increase in rent and additional lease agreements entered into during 2006.

Sales of hotel supplies

Turnover comprised guest amenities and hotel supplies. The increases were contributed by improved sales from franchising of Jin Jiang Inn Budget Hotels.

Jin Jiang Inn Budget Hotels

The Group was one of the first hospitality service providers to enter the budget hotel sector in the PRC and has built the brand name of "Jin Jiang Inn" into one of the leading budget hotel brands in the PRC. Jin Jiang Inn Budget Hotels are limited-services hotels which are simple but tastefully decorated. Jin Jiang Inn Budget Hotels are more affordable and prices are designed to fit the budget of the general public in the PRC. The Group believes that its Jin Jiang Inn Budget Hotels can best cater for the accommodation needs of domestic business travellers and the middle management of large domestic enterprises. ADR and Occupancy Rate of budget hotels are relatively stable as compared to Star-rated hotels. Accommodation revenue of Jin Jiang Inn Budget Hotels is mainly driven by Occupancy Rate and ADR. Turnover of Jin Jiang Inn for the year ended 31 December 2006 amounted to RMB430.3 million, which was RMB95.4 million or 28.5% more compared to 2005. The increase was mainly attributable to (1) increased RevPAR from eight new Jin Jiang Inns opened in 2005 and 14 new Jin Jiang Inns opened in 2006; and (2) the increase in initial franchise fees and ongoing franchise fees received from the Franchisees in consideration for the licence of brand name rights and the provision of technical and management services.

Star-rated Hotel Management

The gross segment sales of Star-rated hotel management in 2006 was RMB93.6 million, increased by 3.4%. Such segment's external sales was RMB38.3 million, increased by 4.4%, and represented the management fee received from hotel management services provided to Star-rated hotels not owned by the Group. The increase was mainly contributed by the improved managed hotels' performance under northern regional office.

Management Discussion and Analysis

Restaurants

Revenue of restaurants was mainly derived from fast food chain restaurants, namely New Asia Café de Carol and an up-scale restaurant, namely the Chinoise Story. The former was regarded as a jointly controlled entity of the Group and its results were proportionately consolidated into the consolidated financial statements of the Group. New Asia Café de Carol commenced to be an associated company effective from 1 July 2006. As a result, revenue of restaurants for the second half of the year only represented the revenue of the Chinoise Story which commenced operation in June 2006.

Others

Apart from hotel operation and restaurants investment, the Group also engages in other businesses including provision of inter-group financial services through Jin Jiang International Finance Company, training and education and moon cake production business. This segment of revenue decreased by RMB14.0 million as a result of reduced contribution to turnover from external financing service after Jin Jiang International Finance ceased to provide financing service to subsidiaries of Jin Jiang International (other than the Group) on 31 March 2005, while inter-segment financing services increased.

Cost of Sales

The cost of sales for the year ended 31 December 2006 and 2005 were RMB1,897.3 million and RMB1,730.2 million, respectively. The increase was mainly due to increased turnover following acquisitions and expanded services by Star-rated hotels and Jin Jiang Inn, and includes the increase of business tax and levies, food and beverage expenses, depreciation and amortization costs, energy expenses and labour cost.

Gross Profit

Due to the above reasons, the Group recorded a gross profit of RMB1,133.2 million in 2006, representing an increase of RMB55.7 million or 5.2% compared with year 2005.

Other Income

Other Income consists of dividend receivable from KFC in Suzhou, Wuxi and Hangzhou. In addition, the amount includes a disposal gain of 45% equity interest in Jiu Long Hotel. During year 2006, there was a government subsidy of RMB8.8 million received by the Group and a disposal gain of land use rights of RMB11.7 million.

Selling and Marketing Expenses

This item of expense represents labour cost, travel agents commission and advertising expenses. During 2006, labour cost was reduced due to the non-consolidation of New Asia Café de Coral in the consolidated financial statements. Travel agent commission, advertising expenses and TV channel expenses increased in line with increased business volume in 2006. Commission paid by hotels also increased, including the effect of consolidation of Kunlun Hotel Company since April 2005. TV channel expenses increased mainly due to new channels introduction in Jin Jiang Tower and Galaxy Hotel.

Administrative Expenses

Labour cost for 2006 increased by RMB40.5 million. Pre-operating expenses incurred for Wuhan Jin Jiang and Jin Jiang Inn amounted to RMB6.1 million. Provision for impairment of fixed assets for Peace Hotel, Peace Palace Hotel and Jin Jiang Inn amounted to RMB10.7 million. The increase is also attributable to the increase of decoration expenses, stationery expenses, auditors' remuneration and consultation fee.

Other Expenses

The Group's other expenses primarily consist of bank charges and loss on disposal of property, plant and equipment.

Management Discussion and Analysis

Consolidated Operating Profit

	2006		2005	
		Percentage		Percentage
	RMB million	**of turnover**	RMB million	of turnover
Star-rated Hotel Operation	**467.0**	**15.4%**	406.0	14.5%
Jin Jiang Inn Budget Hotels	**44.9**	**1.5%**	51.4	1.8%
Star-rated Hotel Management	**50.9**	**1.7%**	51.6	1.8%
Restaurants	**12.8**	**0.4%**	18.5	0.7%
Others	**20.8**	**0.7%**	35.9	1.3%
	596.4	**19.7%**	563.4	20.1%

Finance Cost

This item represents interest expenses for the Group's bank borrowings and other borrowings. The interest expenses in 2006 have increased significantly as the Group drew down bank loans for the acquisition of land use rights and repayment of advances from Jin Jiang International in late 2005. The capitalized interest expenses for the construction of Jin Jiang Inn Budget Hotels and Wuhan Jin Jiang have been deducted from the finance cost.

Share of Results of Associated Companies

This item represents share of results of Shanghai Kentucky Fried Chicken Company Limited and the Yangtze Hotel Limited, which are associated companies of the Group. The increase in balance was mainly contributed by improved business operation of Shanghai KFC during 2006.

Taxation

The effective tax rate was 25.2% for the year ended 31 December 2006. The decrease was mainly due to the lower tax rate of 15% for Peace Palace Hotel and Jin Jiang Tower following their conversion as branch companies of the Company and increased share of results from associates.

Net Profit for the Year

As a result of the factors described above, net profit in 2006 was RMB445.7 million, compared with RMB414.2 million in 2005, increased by RMB31.5 million or 7.6%.

Minority Interests

Minority interests mainly represent the net profit of Jin Jiang Hotels Development and Jin Jiang Inn for the year ended 31 December 2006, multiplied by the respective equity interests held by third party shareholders. The increase of minority interests in 2006 was mainly due to increased profit generated by Jin Jiang Hotels Development in 2006.

Fixed assets

The Group held equity interests in 122 hotels as at 31 December 2006. Properties of the Group have already been revalued by American Appraisal China Limited during initial public offering in December 2006 but were nevertheless stated at historical cost less accumulated depreciation and accumulated impairment losses, if any, in the balance sheet.

With reference to the valuation of the Group's properties as set out in Appendix V to the Prospectus, there was a revaluation surplus of the Group's property interests of approximately RMB10,594 million. Had the properties been stated at such valuation, an additional depreciation and amortisation charge of approximately RMB347 million per annum would have been incurred.

Borrowings

Please refer to the Note 23 to the Consolidated Financial Statements on pages 108 to 111.

Management Discussion and Analysis

Liquidity and Financial Resources

The Group's principal sources of working capital have been the cash flow from operating activities and bank borrowings. Net cash generated from operating activities decreased by RMB374.7 million to RMB542.8 million from RMB917.5 million in 2005. Excess funds were transferred to Jin Jiang International by its subsidiaries in 2005. From 2006 onwards, subsidiaries have no longer submitted excess funds to Jin Jiang International, and the funds submitted in 2005 were returned to the subsidiaries in full.

Capital Structure

Please refer to Note 20 to Consolidated Financial Statements on page 103.

As at 31 December 2006, Company's outstanding borrowings amounted to RMB1,969.0 million, including borrowings denominated in RMB, amounting to RMB1,925.4 million and borrowings denominated in US$, amounting to approximately US$5.6 million (equivalent to approximately RMB43.6 million). The borrowings ratio of fixed interest rate was approximately 97.8%.

Capital Commitment

Please refer to Note 34 to the Consolidated Financial Statements on pages 121 to 122.

Charges on Fixed Assets

Please refer to Note 23 to Consolidated Financial Statements on pages 108 to 111.

Gearing Ratio

As at 31 December 2006, the Group's gearing ratio (i.e., the ratio of total debt over total assets) was 19.3%, which is lower than the 21.3% for 2005. The lower gearing ratio was mainly attributable to substantial cash balances at the balance sheet date representing proceeds from the H Shares issued in connection with the Listing.

Foreign Exchange Risk and Hedging

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 and part of the cash proceeds from the issue of H Share are kept in HK$. The Group's cash and cash equivalents and borrowings as at 31 December 2006 and 2005 included foreign currencies denominated in either US$ or HK$.

As at 31 December 2006 and 2005, the Group has not used any forward contracts, currency borrowings, or other means to hedge its foreign currency exposure. The exchange rates for RMB against US$ and HK$ have been stable. However, in the event of a substantial appreciation of RMB against US$ in the future, it may in turn adversely affect the operating results of the Group.

RMB is not freely convertible into other foreign currencies. Conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

Projects under Development, Acquisition and Redeployment of Assets

The Group has put forward a major renovation plan to upgrade Jin Jiang Tower. The renovation started from the fourth quarter of year 2006 and the entire project is expected to be completed by 2008. The renovation is an entire upgrade of the property so that it will become a leading Luxury Hotel in the Group's hotel portfolio. The Company plans to commit RMB160 million to this project. The renovation will progress in phases in order to minimize the negative impact to the hotel's daily operation. It is expected the average daily rate will increase substantially from the current level after the completion of renovation.

On 16 April 2007, the Group and Fairmont Hotel Inc. entered into an equity joint venture contract in respect of the establishment of an equity joint venture company, whereby it was agreed that a Sino-foreign equity joint venture named "Shanghai Jin Jiang Fairmont Hotel Management Co., Ltd" (the "Jin Jiang Fairmont") shall be formed with a registered capital of US$500,000 (equivalent to HK$3.9 million) and a total investment of US$700,000 (equivalent to HK$5.5 million). The Group and Fairmont Hotel Inc. shall each contribute US$250,000 (equivalent to HK$2.0 million) or 50% of the registered capital. The equity joint venture shall have a term of 20 years. The scope of operation of Jin Jiang Fairmont shall be the provision of on-site management service which meets the required standards for hotel operations.

The contract is pending the approval of relevant authorities and Jin Jiang Fairmont shall be established on the date of the issuance of its business licence.

Jin Jiang Fairmont shall manage Peace Hotel after its renovation.

Peace Hotel was closed in April 2007 in order to undergo complete renovation which is initially expected to take approximately two years, and the actual duration might be subject to adjustment depending on the progress of the project.

On 16 April 2007, the Group and The Swatch Group (Hong Kong) Ltd entered into a cooperative joint venture contract in respect of the establishment of a cooperative joint venture company, whereby it was agreed that a Sino-foreign cooperative joint venture named "Shanghai Swatch Art Centre Co, Ltd" (the "CJV") shall be formed with a total investment of US$40 million (equivalent to HK$312.6 million) and a registered capital of US$20 million (equivalent to HK$156.3 million). The Group and The Swatch Group Hong Kong Ltd shall contribute US$2 million (equivalent to HK$15.6 million) or 10% of the registered capital and US$18 million (equivalent to HK$140.7 million) or 90% of the registered capital, respectively. The CJV shall have a term of 30 years. The scope of operation of the CJV shall comprise retail, wholesale, repair and maintenance, after-sales services, exhibition, restaurant, accommodation, property leasing, business consultancy (pending final approval of scope by the relevant authorities and operating in compliance with the permit where a permit is required).

The contract is pending the approval of relevant authorities and the CJV shall be established on the date of the issuance of its business licence.

The CJV shall lease Peace Palace Hotel from the Company and renovate it into an art centre and a flagship store of international brandname watches.

The Group invested approximately RMB475.2 million in 2006 on construction of 19 new Jin Jiang Inn Budget Hotels, with about 3,300 rooms, in major cities, such as Beijing, Tianjin, Shanghai, Wuhan, Guangzhou, Nanjing and Guilin. It covers three municipality cities directly under the PRC central government and six provinces to significantly strengthen market penetration to build up a solid foundation to attract more franchise contracts in future.

The Group owns 75.03% equity interests in Wuhan Jin Jiang, which is expected to be opened in 2007. The hotel is an entirely new hotel of the Group with 400 guestrooms, which will become the flagship hotel in the middle region of the Group's strategic layout plan in Mainland China.

Current and Future Acquisitions

The Company acquired 40% equity interests in Jiangsu Nanjing Hotel, which is under the management of the Group. The Group plans to acquire one to two Star-rated hotels in north-western or southern China to realize the Group's strategic layout plan in Mainland China. The expected source of fund can be internally financed through operation and/or borrowings. The Company currently applies a flexible approach to acquisition of future projects to ensure adequate funding.

Redeployment of Assets

The Group entered into an agreement to dispose of 45% equity interests in Jiu Long Hotel to Shanghai Greenland Commercial (Group) Co., Ltd. on 15 November 2006. The Group plans to further dispose of certain equity interest in Jiu Long Hotel in 2007.

Corporate and Social Responsibility

The Company actively participates in community service, for instance, the Group's employees provided voluntary services to maintain traffic order in peak period, free meals for senior citizens living alone and organization of consultancy service in food and beverage for the hotel industry. Hua Ting Hotel and Jin Jiang Towers joined the Shanghai Leukaemia Treatment Centre to invite 17 children suffering from leukaemia and under treatment at the Paediatrics Hospital of Fudan University to attend the light ceremony on Christmas eve. The hotel guests donated RMB 128,000 in this event.

Management Discussion and Analysis

Environmental Protection

In 2006, the Company implemented a series of energy conservation policies, such as adopting energy saving equipment and products, energy saving technology and environmental protection measures. Such actions have improved the Group's operational efficiency.

Training and education in environmental protection and energy conservation were provided by the Company to its staff members during year 2006. Energy conservation projects and upgrade were implemented in several hotels. Low petroleum consumption additives are now used in boilers of several hotels that improve the usage rate by 5% to 8% and reduce the discharge of toxic substance in the fume and dust, such as sulfur dioxide; Intelligent power conservation device for lightings are installed in hybrid lighting circuit systems of hotels and inns respectively that reduced the electricity consumption by about 15%. Boilers of major hotels were upgraded and converted to become more environmental friendly. For instance, coal-fired boilers and boilers using heavy oil were converted to diesel-fired boilers and boilers using natural gas.

Corporate Strategies

The Company has adopted various strategies to support long term development, namely strategic redeployment of hotel assets, expansion of the budget hotels, upgrade of Landmark Hotels, reinforcement of brand strategies, enhancement of hotel management standards and leadership status in the market.

In terms of hotel operation, the Group plans to upgrade in phases the facilities, interior and exterior decoration of hotel properties of those existing Landmark Hotels and Luxury Hotels of the Group which have been in operation for decades. With regard to budget inns, the Group plans to expand the number of outlets and their coverage in Mainland China through direct operations and franchise contracts.

In terms of hotel management, the Group will enhance its management quality through reinforcing brand strategies and standardizing its personnel recruitment procedures.

Future Business Outlook

The Company will strive to secure more management contracts and franchise contracts. Besides, the Company will continue to increase the number of hotel rooms through expansion of the Jin Jiang Inn network and acquisition and merger of existing hotel properties in the market.

After the initial public offer, the Group obtained a major source of funds. The capital expenditure for major projects is elaborated in the section 'Projects under Development, Acquisition and Redeployment of Assets'.

The Company will focus on enhancing its core competitive strengths by upgrading its service. A frequent patron programme will be launched in 2007 to consolidate and expand the pool of loyal customers.

As more and more hotels have been opened in recent years, the hotel industry is becoming more competitive. Moreover, the tourism industry has also been subject to the outbreak of epidemic diseases in China and other parts of the world in recent years, such as SARS, mad cow disease and bird flu. However, the upcoming of 2008 Beijing Olympic Games and 2010 Shanghai World Exposition will create more business opportunities for PRC tourism. With the strategies adopted by the Group and its brand, the Group is confident that it will maintain its leading position in the PRC.