



COMPANY: Huazhu Group | Nasdaq: HTHT | HKEX: 1179
INDUSTRY: Hotel

Price (as of 28Sept2020 close)	Market Cap	Average Daily Value Traded (30-Day)
US\$ 44.26	US\$ ~14 billion	US\$ ~80 million

On September 22, 2020 we published our report (the “Report”) which presented evidence why we believe **Huazhu Group Limited (Nasdaq: HTHT)(HKEX: 1179)** (“Huazhu” or the “Company”) is a real company that lied about the ownership of its hotel portfolio to produce fake financials.

On September 28, 2020 Huazhu filed a clarification announcement (“Huazhu’s Response”) which categorically denied all of our allegations without providing any substantive evidence to refute the facts presented in our Report.

In this Rebuttal we highlight additional evidence showing Huazhu lied about current Huazhu Directors secretly owning and operating Huazhu portfolio hotels. We found Dianping included a link to nearly 100% of the operating license for each Huazhu portfolio hotel. Bonitas Fieldwork confirmed that the displayed on-site operating license matched the Dianping hotel linked image for 100% of our fourteen-hotel sample size.

We counted 1,258 hotels with operating licenses registered to Huazhu subsidiaries and an additional 694 hotels owned and operated by undisclosed current Huazhu employees and other undisclosed related parties (“off-book hotels”).

Huazhu’s Response dismissed the Dianping dataset as outdated and inaccurate.

Huazhu failed to explain away obvious shareholder records that current Huazhu Directors own and operate supposed independent Huazhu franchisee hotels and are listed as approved construction contractors.

Huazhu’s Response dismissed current employees as unrelated parties.

We do not understand how Huazhu denies such obvious connections with current Huazhu Directors.

Chinese State Administration of Industry and Commerce (“SAIC”) records revealed Huazhu understated its SEC reported employee count by at least 16%.

Huazhu’s Response dismissed the SAIC dataset as outdated and inaccurate.

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Our analysis of 47 different credit reports suggested that Huazhu's actual PP&E was significantly lower than reported in Huazhu's filings. We are confident in the accuracy of credit reports and encourage others to obtain them when conducting their own due diligence.

Huazhu's Response simply dismissed the legitimacy of credit reports.

As further smokescreen, Huazhu named its CFO, its Audit Committee Chairman and its Secretary to a "Special Committee" to review our allegations. How does the Company's own Audit Committee conduct any sort of "*independent investigation*" into our allegations?

We believe that Huazhu duped its auditor, Deloitte Touche Tohmatsu (Shanghai & Hong Kong) ("Deloitte"), into using a limited list of relevant consolidated operating entities. Deloitte's audit work failed to verify ownership of Huazhu's hotel portfolio and will remain notorious for its inability to accurately audit a laundry list of US-listed Chinese frauds since 2010.

We encourage the appointment of an independent auditor to simply confirm who owns and operates Huazhu's hotel portfolio.

To us, the facts are clear. We stand by the quality of our work and remain short because we believe Huazhu generated significantly less profit and held significantly less PP&E assets than reported in both its SEC filings and HKEX Global Offering.

Table of Contents:

1. HUAZHU LIED ABOUT THE OWNERSHIP OF ITS HOTEL PORTFOLIO	... p. 3
2. UNDERSTATED EMPLOYEE COUNT	... p. 8
3. APPROVED CONTRACTOR LIST INCLUDES UNDISCLOSED HUAZHU DIRECTORS	... p. 9
a. Huazhu Director Zhang Peisong owns and operates 10 off-book hotels	... p. 10
b. Huazhu Director Liu Jianxiong owns and operates 4 off-book hotels	... p. 12
c. Huazhu Director Xia Suizhi owns and operates 3 off-book hotels	... p. 12
d. Huazhu Director Liu Jianxiao is the shareholder of Shanghai Xianyi	... p. 13
4. MISSING PP&E	... p. 14

HUAZHU LIED ABOUT THE OWNERSHIP OF ITS HOTEL PORTFOLIO

We found Dianping (<http://www.dianping.com/>) included a link to nearly 100% of the operating license for each Huazhu portfolio hotel.

We counted 1,258 hotels with operating licenses registered to Huazhu subsidiaries, double the 688 self-operated hotels Huazhu disclosed in its SEC filings as of CYE'19. We counted an additional 694 hotels owned and operated by undisclosed current Huazhu employees and other undisclosed related parties ("off-book hotels"). Huazhu's SEC filings reported zero related party franchisee hotels existed.

Huazhu's Response simply stated that the Dianping data was inaccurate.

Bonitas Fieldwork confirmed that the displayed on-site operating license matched the Dianping hotel linked image for 100% of our fourteen-hotel sample size.

Bonitas Fieldwork Confirming Operating Licenses from Dianping

酒店名称 Hotel Name	酒店营运商 Hotel Operator
汉庭优佳上海南京东路酒店 Hanting Hotel Youjia Shanghai East Nanjing Road	上海闲驿酒店管理有限公司 Shanghai Xianyi Hotel Management Co., Ltd.
汉庭上海田子坊酒店 Hanting Hotel Shanghai Tianzifang	上海玮珊酒店管理有限公司 Shanghai Weishan Hotel Management Co., Ltd.
全季上海龙阳路磁悬浮酒店 JI Hotel Shanghai Longyang Road Maglev	上海中贵宝物业管理有限公司 Shanghai Zhongguibao Property Management Co., Ltd.
宜必思尚品上海张江酒店 Ibis Styles Shanghai Zhangjiang Hotel	上海喆涛酒店管理有限公司 Shanghai Zhetao Hotel Management Co., Ltd.
汉庭上海仙霞路酒店 Hanting Hotel Shanghai Xianxia Road	上海璞汉酒店管理有限公司 Shanghai Puhuan Hotel Management Co., Ltd.
海友上海陆家浜路地铁站酒店 Hi Inn Shanghai Lujiabang Road Metro Station	上海大江南娱乐有限公司 Shanghai Dajiangnan Entertainment Co., Ltd.
汉庭上海万体馆龙华西路酒店 Hanting Hotel Shanghai Wantiguan West Longhua Road	上海真谛酒店管理有限公司 Shanghai Zhendi Hotel Management Co., Ltd.
全季北京复兴门白云路酒店 JI Hotel Beijing Fuxingmen Baiyun Road	北京华住云庭酒店管理有限公司 Beijing Huazhu Yunting Hotel Management Co., Ltd.
全季北京前门四合院酒店 JI Hotel Beijing Qianmen Courtyard	北京前门三里河宾馆有限公司 Beijing Qianmen Sanlihe Hotel Co., Ltd.
汉庭北京站酒店 Hanting Hotel Beijing Railway Station	北京爱保酒店管理有限公司劲松店 Beijing Aibao Hotel Management Co., Ltd. Jinsong Branch
汉庭北京东四地铁站酒店 Hanting Hotel Beijing Dongsi Metro Station	北京鸿浩盛世酒店管理有限公司 Beijing Honghao Shengshi Hotel Management Co., Ltd.
漫心·前门四合院 Manxin Hotel Qianmen Siheyuan	北京爱保酒店管理有限公司 Beijing Aibao Hotel Management Co., Ltd.
汉庭北京天坛南门酒店 Hanting Hotel Beijing Temple of Heaven South Gate	北京爱保酒店管理有限公司天坛南门店 Beijing Aibao Hotel Management Co., Ltd. Tiantan South Gate Branch
汉庭北京华贸西大望路酒店 Hanting Hotel Beijing Huamao West Dawang Road	北京乐舒酒店管理有限公司 Beijing Leshu Hotel Management Co., Ltd.

Source: Dianping, Bonitas Fieldwork

Below we highlight three specific examples whereby Bonitas Fieldwork confirmed the displayed on-site operating license matched the Dianping hotel linked image.

Example #1: JI Hotel Shanghai Longyang Road Maglev (全季上海龙阳路磁悬浮酒店) operated by Shanghai Zhongguibao Property Management Co., Ltd. (上海中贵宝物业管理有限公司).

Dianping Operating License Image



Source: <http://www.dianping.com/shop/H5IyAxl7OHVklKW>

Bonitas Fieldwork On-Site Operating License Image



Source: Bonitas Fieldwork

Example #2: Ibis Styles Shanghai Zhangjiang Hotel (宜必思尚品上海张江酒店) operated by Shanghai Zhetao Hotel Management Co., Ltd. (上海喆涛酒店管理有限公司).

Dianping Operating License Image



Source: <http://www.dianping.com/shop/18P8pVYyv2vTdd6Q>

Bonitas Fieldwork On-Site Operating License Image



Source: Bonitas Fieldwork

Example #3: Hi Inn Shanghai Lujiabang Road Metro Station (海友上海陆家浜路地铁站酒店) operated by Shanghai Dajiangnan Entertainment Co., Ltd. (上海大江南娱乐有限公司).

Dianping Operating License Image



Source: <http://www.dianping.com/shop/11JDxi9gAYWyKKi4>

Bonitas Fieldwork On-Site Operating License Image



Source: Bonitas Fieldwork

Franchisee hotel registration information available from the Chinese Ministry of Commerce (“MOC”) allows anyone to search registration information about franchisors for free. MOC data revealed 3,020 Huazhu hotels were operated by franchisees, 37% fewer than the 4,930 franchised hotels Huazhu disclosed as of CYE’19 in its SEC filings.¹

Huazhu’s Response claimed a lack of classification clarity about whether certain franchise contracts with its manachised hotels are considered “*franchise contracts*” and that “*not all of the Group’s manachised hotels have had their franchise and management agreements registered with MOFCOM*”.²

Huazhu’s SEC filings clearly stated that “*franchisors are required to report to the MOC any franchise contracts they executed, cancelled, renewed or amended in the previous year.*”³

As of CYE’19, Huazhu reported 4,519 “*manachised hotels*” and 411 “*franchised hotels*”.⁴ Why did Huazhu file franchise contracts with 2,600+ of its manachised hotels (3,020 – 411) but somehow not file franchisee contracts for the other locations if registration was not required?

We believe the truth is that Huazhu lied about the ownership of its hotel portfolio and secretly controlled ~35% of its hotel portfolio either via Huazhu subsidiaries or as off-book hotels.

¹ Source: <http://txjy.svggs.mofcom.gov.cn/>

² Source: https://www.sec.gov/Archives/edgar/data/1483994/000110465920109156/a20-31901_1ex99d1.htm

³ Source: Huazhu 2019 20-F – p. 16, 20, 46

⁴ Source: Huazhu 2019 20-F – p. 57

UNDERSTATED EMPLOYEE COUNT

SAIC registration information for Huazhu's 319 listed subsidiaries & branches revealed Huazhu understated its SEC-reported employee count by at least 3,594 (16%). We believe these employees represented staff at undisclosed Huazhu self-operated hotels and Huazhu off-book hotels.

Huazhu's Response claimed the difference in employee counts was because the SAIC registration information "included both existing employees and ex-employees who had resigned".⁵

If true, why does this phenomenon not apply to eight (8) different Huazhu off-book hotels that registered less than 5 employees but Bonitas Fieldwork confirmed to have at least 15 employees on-site?

Hotel Name	Hotel Operator	Number of employees listed in Annual Return	Number of Rooms
全季北京复兴门白云路酒店 JI Hotel Beijing Fuxingmen Baiyun Road	北京华住云庭酒店管理有限公司 Beijing Huazhu Yunting Hotel Management Co., Ltd.	5	72
汉庭北京东四地铁站酒店 Hanting Hotel Beijing Dongsi Metro Station	北京鸿浩盛世酒店管理有限公司 Beijing Honghao Shengshi Hotel Management Co., Ltd.	0	146
汉庭北京华贸西大望路酒店 Hanting Hotel Beijing Huamao West Dawang Road	北京乐舒酒店管理有限公司 Beijing Leshu Hotel Management Co., Ltd.	0	108
汉庭上海田子坊酒店 Hanting Hotel Shanghai Tianzifang	上海玮珊酒店管理有限公司 Shanghai Weishan Hotel Management Co., Ltd.	3	35
全季上海龙阳路磁悬浮酒店 JI Hotel Shanghai Longyang Road Maglev	上海中贵宝物业管理有限公司 Shanghai Zhongguibao Property Management Co., Ltd.	4	78
宜必思尚品上海张江酒店 Ibis Styles Shanghai Zhangjiang Hotel	上海皓涛酒店管理有限公司 Shanghai Zhetao Hotel Management Co., Ltd.	1	99
汉庭上海仙霞路酒店 Hanting Hotel Shanghai Xianxia Road	上海璞汉酒店管理有限公司 Shanghai Puhan Hotel Management Co., Ltd.	3	100
汉庭优佳上海南京东路酒店 Hanting Hotel Youjia Shanghai East Nanjing Road	上海闲驿酒店管理有限公司 Shanghai Xianyi Hotel Management Co., Ltd.	1	97

Source: Huazhu website, Dianping, Trip.com, Bonitas fieldwork

Shanghai Xianyi Hotel Management Co. Ltd.'s (上海闲驿酒店管理有限公司, "Shanghai Xianyi") 2019 Annual Return reported only 1 employee for which it paid any type of social insurance. We sent an investigator to see if the Hanting Premium Hotel Shanghai East Nanjing Road (汉庭优佳上海南京东路酒店) had only 1 employee.⁶ Turns out that there are 40 to 50 employees working there whose salaries and insurances are all paid for by Huazhu.⁷

We simply challenge Huazhu to answer why an undisclosed related party Liu Jianxiao (刘建晓), a current Director of multiple Huazhu subsidiaries, owns and operates supposed independent third-party franchisee Hanting Premium Hotel Shanghai East Nanjing Road via Shanghai Xianyi.⁸

⁵ Source: https://www.sec.gov/Archives/edgar/data/1483994/000110465920109156/a20-31901_1ex99d1.htm

⁶ Source: <https://www.gcc.com/firm/72AHOR8.shtml#report>

⁷ Source: Bonitas Report – p. 7

⁸ Source: <http://www.dianping.com/shop/G4kOIYaCWSInJVV8>

Source: <http://hotels.huazhu.com/inthotel/detail/8916694?HotelLevel=0&CheckInDate=2020-07-29&CheckOutDate=2020-07-30>

APPROVED CONTRACTOR LIST INCLUDES UNDISCLOSED HUAZHU DIRECTORS

Our Report included Huazhu's approved contractor list, which included multiple undisclosed related party contractors and off-book hotel operators. Huazhu disclosed in its SEC filings and HKEX Global Offering that none existed.

Below we highlighted entities that acted as both suppliers and franchisee customers to Huazhu.

I类 (加盟总包)		
区域	施工方	公司名称
华东	黄连官	南通市华厦建筑安装工程有限公司
全国	贾可心	上海桐香建筑装饰有限公司
全国	施建忠	上海金鹿建设(集团)有限公司
华东	孙金陵	江苏飞龙装饰工程有限公司
全国	宋玮	上海皇巢装饰工程有限公司
全国	顾秋	杭州四达装饰工程有限公司
华南	梁修品	深圳市蛇口建筑安装工程有限公司
华中/东北	周济	山东德州美达尔装饰工程有限公司
华东/中	尹德忠	上海伊超建筑装饰工程有限公司
华北	黄之顺	北京鸿发之佳装饰有限公司
华北	蒋小璐	山西瑞浩装饰工程有限公司
华北	杨小虎	北京子萌装饰工程有限公司/北京华傲建设发展有限公司
华东	许昌林	昆山禧悦商业投资管理有限公司
华中	李胜超	河南江都装饰安装工程有限公司
全国	李鱼兵	上海渔超建筑装饰工程有限公司/上海晋拓建筑装饰工程有限公司
鲁	桑运龙	山东恒泰伟业建设科技有限公司
东北	张翰军	九江龙达建筑装饰有限公司
东北	杨盛	长春联盛建筑装饰有限公司
沪	鲍国旺	上海申念实业有限公司
苏	何友林	江苏沪港装饰有限公司
滇	周青	云南海天装饰工程有限公司
滇	杨兴元	江苏省建工集团有限公司
豫	袁福君	河南省兴发建设工程有限公司
苏	姚渊	上海润瑾装饰工程有限公司
粤	赵华乐	深圳洲际建筑设计集团有限公司

I类直营总包		
District	Contractor	Company
区域	施工方	公司名称
全国	王春兵	上海海根建筑装饰工程有限公司
全国	杨旭	上海轩鹿建筑装饰有限公司/南通光华建筑工程有限公司
华南	叶广发	深圳市华美达建设工程有限公司
华中/东	顾国军	江苏省双建建设有限公司
全国	宋玮	上海皇巢装饰工程有限公司
华北	王盛清	北京北恒建筑装饰工程有限公司
华中/东	江德民	南京金陵建筑装饰有限责任公司
华东	程永华	浙江鼎坤建设有限公司
华东	张培松	上海晋华建筑工程有限公司
华东	张芦法	南通市万锦建筑安装工程有限公司南京分公司
鲁/华中	白洁	山东浩新建筑装饰工程设计有限公司
全国	张辉	上海舜发建筑安装工程有限公司
西北/华东	陈晓毅	上海领象装饰设计工程有限公司
华东	黄连官	南通市华厦建筑安装工程有限公司

目前，总包资源名单已更新，挑选出更多优质资源给大家更具性价比的选择。
总包联系方式汇总（排名不分先后）

Contractors for Huazhu's
Owned and Leased Hotels

Zhang Peison

Source: <http://www.xyqimoto.cn/n/44524241.htm>

Huazhu's Response claimed that "none of the persons listed on the Alleged Contractor List is currently an employee of the Group" and that "employees are prohibited from being franchisees of the Group".⁹

This is a lie. We simply do not understand how Huazhu denies such obvious connections to current Huazhu Directors.

We highlight 4 current Huazhu Directors as examples:

⁹ Source: https://www.sec.gov/Archives/edgar/data/1483994/000110465920109156/a20-31901_1ex99d1.htm

Dianping revealed that Hanting Shanghai Xianxia Road Hotel (汉庭上海仙霞路酒店) is operated by Shanghai Puhuan Hotel Management Co., Ltd. (上海璞汉酒店管理有限公司, “Shanghai Puhuan”).¹⁰ Bonitas fieldwork investigators were told by the hotel manager that the hotel is operated by Shanghai Puhuan.¹¹ Qichacha revealed that Shanghai Puhuan is owned by 3 individuals: Zhang Peisong (张培松, 40%), Hong Guoming (洪国明, 40%), and Cheng Jun (成军, 20%).¹²

Zhang Peisong is listed as contractor (施工方) on Huazhu’s approved contractor list for Shanghai Zhuhua Construction Engineering Co., Ltd. (上海著华建筑工程有限公司, “Shanghai Zhuhua”). Credit report for Shanghai Zhuhua revealed revenues tripled from RMB 63.5 million in 2017 to RMB 206.3 million in 2019 with minimal net profits and its balance sheet dominated by RMB 78.3 million of receivables and limited cash & inventory which suggests to us their possible use as a front to wash fake cash via construction costs.

Income Statement		利润表		
<i>RMB'000</i>	人民币 千元	2017	2018	2019
Revenue	主营业务收入	63,526	130,121	206,278
Cost of goods sold	减:主营业务成本	(57,955)	(118,403)	(184,067)
Business taxes and surcharges	减:主营业务税金及附加	(317)	(456)	(890)
Gross profit	主营业务利润	5,254	11,262	21,321
Other business income	加:其它业务利润	0	0	0
Operating expenses	减:营业费用	(3,147)	(8,268)	(17,858)
Administrative expenses	减:管理费用	(570)	(779)	(913)
Finance costs	减:财务费用	(302)	(428)	(501)
Operating profit	营业利润	1,235	1,787	2,049
Investment gains and losses	加:投资损益	0	0	0
Subsidized income	加:补贴收入	0	0	0
Asset impairment loss	减:资产减值损失	0	0	0
Non-operating income	加:营业外收入	0	0	0
Non-operating expenses	减:营业外支出	0	0	0
Profit before tax	利润总额	1,235	1,787	2,049
Income tax	减:所得税	(8)	(300)	(454)
Net profit	净利润	1,227	1,487	1,595
Net profit margin	净利润率	1.9%	1.1%	0.8%

Balance Sheet		资产负债表		
<i>RMB'000</i>	人民币 千元	CYE2017	CYE2018	CYE2019
Cash and cash equivalents	货币资金	3,370	5,081	7,831
Short-term investments	短期投资	0	0	0
Bills receivable	应收票据	0	0	0
Accounts receivable	应收账款	16,050	38,015	66,345
Other receivables	其他应收款	2,079	7,535	11,909
Prepayments	预付款项	2,965	8,211	11,233
Inventory	存货	1,446	3,064	5,434
Prepaid expenses	待摊费用	0	0	0
Other current assets	其他流动资产	0	0	0
Total current assets	流动资产合计	25,910	61,906	102,752

Source: Credit Reports

¹⁰ Source: <http://hotels.huazhu.com/inthotel/detail/2000517?HotelLevel=0&CheckInDate=2020-07-28&CheckOutDate=2020-07-29>

¹¹ Source: <http://www.dianping.com/shop/G9dAbMMOroiH6a2s>

¹² Source: <https://www.qcc.com/firm/30OGRBS.shtml#base>

b. Huazhu Director Liu Jianxiong owns and operates 4 off-book hotels

Liu Jianxiong (刘建雄) is a Director and Supervisor respectively of Huazhu's subsidiaries Shanghai Ruiji Hotel Management Co., Ltd. (上海瑞季酒店管理有限公司) and Shanghai Mingxin Hotel Management Co., Ltd. (上海铭欣酒店管理有限公司).

We counted Liu Jianxiong as shareholder of at least 4 Huazhu off-book hotels.

Franchisees that are owned by Liu Jianxiong

Hotel Name	Hotel Operator
汉庭北京华贸西大望路酒店 Hanting Hotel Beijing Huamao West Dawang Road	北京乐舒酒店管理有限公司 Beijing Leshu Hotel Management Co., Ltd.
汉庭杭州四季青服装市场酒店 Hanting Hotel Hangzhou Sijiqing Clothing Market	杭州凯硕酒店管理有限公司 Hangzhou Kaishuo Hotel Management Co., Ltd.
全季厦门机场区政府酒店 JI Hotel Xiamen Airport District Government	厦门金凯硕酒店管理有限公司 Xiamen Jinkaishuo Hotel Management Co., Ltd.
汉庭湖州南街酒店 Hanting Hotel Huzhou South Street	湖州凯硕酒店管理有限公司 Huzhou Kaishuo Hotel Management Co., Ltd.

Source: SAIC, Dianping

c. Huazhu Director Xia Suizhi owns and operates 3 off-book hotels

Xia Suizhi (夏碎智) is the Legal Representative and Director of Huazhu's subsidiary Shanghai Yuxin Hotel Management Co., Ltd. (上海煜欣酒店管理有限公司), which operates Hanting Hotel Shanghai Jiangning Road (汉庭上海江宁路新店).¹³ Dianping operator license analysis revealed that Xia Suizhi owns and operates 3 Huazhu off-book hotels.

Franchisees that are owned by Xia Suizhi

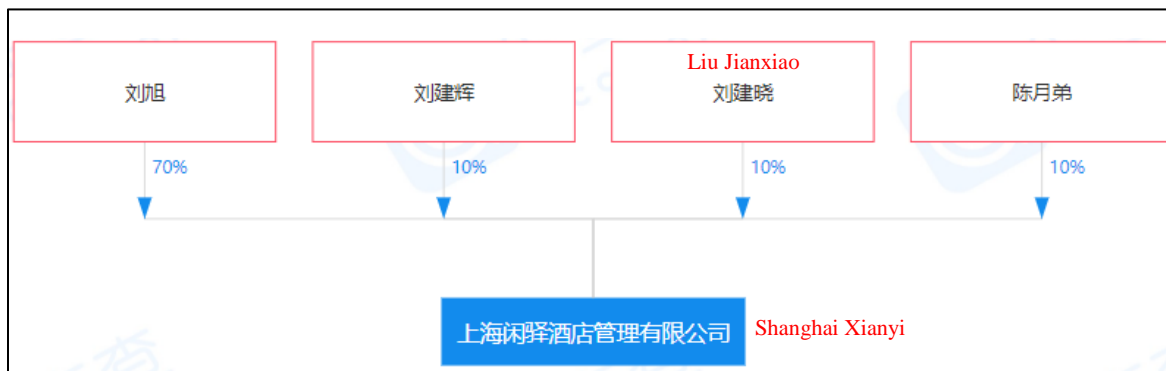
Hotel Name	Hotel Operator
汉庭上海田子坊酒店 Hanting Hotel Shanghai Tianzifang	上海玮珊酒店管理有限公司 Shanghai Weishan Hotel Management Co., Ltd.
汉庭上海虹口足球场地铁站酒店 Hanting Hotel Shanghai Hongkou Football Stadium Metro Station	上海家华酒店管理有限公司 Shanghai Jiahua Hotel Management Co., Ltd.
汉庭上海华师大酒店 Hanting Hotel Shanghai East China Normal University	上海煜云酒店管理有限公司 Shanghai Yuyun Hotel Management Co., Ltd.

Source: SAIC, Dianping

¹³ Source: <https://www.qcc.com/firm/14BVCVA.shtml>

d. Huazhu Director Liu Jianxiao is the shareholder of Shanghai Xianyi

Shanghai Xianyi's shareholder list includes undisclosed related party Liu Jianxiao (刘建晓), a current Director of multiple Huazhu subsidiaries together with Liu Jianxiong, and Supervisor of a Huazhu equity investee.



Source: <https://www.qcc.com/firm/72AHOR8.shtml>

查企信用查询系统 官方备案企业征信机构		Shanghai Kaicheng Hotel Management Co., Ltd., an equity investee of Huazhu 上海凯丞酒店管理有限公司		查一下
信息 28	法律诉讼 0	经营状况 10	经营风险 0	企业发展 2
刘	刘建雄	Liu Jianxiong, Director of multiple Huazhu subsidiaries		关联35家企业 > 董事
陈	陈安东	Chen Andong, Chairman of 100+ Huazhu subsidiaries and branches		关联239家企业 > 监事
刘	刘建晓	Liu Jianxiao		关联10家企业 > 监事

Source: <https://www.qcc.com/firm/5765b8999dbbfe04700b01bd9681d3b6.html>

查企信用查询系统 官方备案企业征信机构		Shanghai Kaicheng Hotel Management Co., Ltd., an equity investee of Huazhu 上海凯丞酒店管理有限公司		查一下
信息 22	法律诉讼 0	经营状况 2	经营风险 0	企业发展 2
刘	刘建晓	Liu Jianxiao		关联10家企业 > Supervisor 监事
华	华浩锋			关联11家企业 > 监事

Source: <https://www.qcc.com/firm/fa0e7b2dce14201daba6e27b661ac6c9.html>

MISSING PP&E

Huazhu's Response claimed that our net PP&E (ex. buildings) per room balance calculation was inaccurate because we failed to include buildings and should have used gross versus net.

Using Huazhu's preferred calculation of gross PP&E per room, Huazhu's reported balance was 62% and 164% larger than those reported by its direct Chinese-listed competitors Shanghai Jinjiang International Hotels Development Co., Ltd. (上海锦江国际酒店股份有限公司, SHSE_900934, "Shanghai Jinjiang" or "SH Jinjiang") and BTG Hotels (Group) Co., Ltd. (北京首旅酒店(集团)股份有限公司, SHSE_600258, "BTG").

RMB '000	The Company	Shanghai Jinjiang	BTG Hotels
Buildings	247,000	3,679,037	2,601,513
Leasehold improvements	8,414,000	387,166	247,559
Furniture, fixtures and equipment	1,270,000	2,184,851	1,486,619
Motor vehicles	1,000	21,221	73,859
Gross PP&E	9,932,000	6,272,275	4,409,550
Number of rooms in leased and owned hotels	87,465	89,634	102,684
Gross PP&E per room (in RMB)	113,554	69,977	42,943

Source: Huazhu Response

Huazhu Response claimed that its higher PP&E per room comparing to SH Jinjiang and BTG was due to its "*relatively large portion of mid-to-upscale leased and owned hotels*". This is categorically not true and contradicts Huazhu's previous disclosure about its economy hotel mix.

Huazhu's CYE'19 Earnings Presentation reported that it had at least 409 (59%) economy hotels in its self-operated hotel portfolio. Huazhu's proportion of economy hotel was lower than BTG but significantly larger than SH Jinjiang.

Number of hotels in operation As of December 31,		
	2018	2019
Economy hotels	2,467	2,467
Leased and owned hotels	409	409
Managed and franchised hotels	2,058	2,058
Midscale and upscale hotels	950	950
Leased and owned hotels	199	199
Managed and franchised hotels	751	751
Total	3,417	3,417

Source: Huazhu CYE'19 Earnings Presentation

% Self-Operated Economy Hotels as of CYE2019

Huazhu	SH Jinjiang	BTG
59.4%	12.5%	78.4%

Source: Huazhu CYE'19 Earnings Presentation, SH Jinjiang Annual Report, BTG Annual Report

We believe that Huazhu's fake profits manifested as at least RMB 2 billion of fake net PP&E on Huazhu's CYE'19 balance sheet.

A comparison of 47 different credit reports revealed significantly lower PP&E assets versus Huazhu's CYE'19 SEC-reported figure.

Huazhu's Response simply dismissed the legitimacy of credit reports.

Net PP&E (ex. buildings) per room of Huazhu and Franchisees as of CYE2019		
<i>RMB</i>	Net PP&E (ex. Building) per hotel room	% difference
Huazhu Self-Operated Hotels (Reported Min.)	54,502	
Huazhu Self-Operated Hotels (Credit Reports)	24,283	124.4%
Cosolidated from Huazhu Secretly Owned Off-Book Hotels (Credit Reports)	4,599	1,085.0%
Independent Franchisees (Credit Reports)	11,460	375.6%
Shanghai Jinjiang (Reported)	33,373	63.3%
BTG Hotels (Reported)	29,246	86.4%

Source: Annual Reports, Credit Reports

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