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**New Century Real Estate Investment Trust**  
**開元產業投資信託基金**

*(a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))*

**(Stock Code: 1275)**

**Managed by**  
**NEW CENTURY ASSET MANAGEMENT LIMITED**

**SUMMARY OF MARKET RENTAL PACKAGE OF**  
**THE INITIAL HOTEL PROPERTIES FOR THE LEASE YEAR OF 2021**

**THE INITIAL HOTEL PROPERTIES**

As disclosed in the Offering Circular, each of the Hotel Lease and Management Agreements is for a term commencing from the Listing Date and expiring on the tenth anniversary of the Listing Date, subject to renewal for a further term of ten years. Pursuant to the Master Hotel Lease and Management Agreement, the Base Rent for each of the relevant years during the First Lease Period (i.e. for the first five years from the commencement of the Master Hotel Lease and Management Agreement) was predetermined, whereas Base Rents in respect of the Subsequent Period (i.e. the sixth to tenth years of the Master Hotel Lease and Management Agreement) will be the Market Base Rent, which is to be determined by a jointly appointed professional independent property valuer. If the Market Base Rent as determined by the Valuer is lower than 85% of the Reference Average Rent, the Base Rent with respect to the Initial Hotel Properties during the Subsequent Period will be 85% of such Reference Average Rent. In addition, in any event, the Base Rent for each year during the Subsequent Period should be no less than RMB183.6 million.

In accordance with the Master Hotel Lease and Management Agreement, the Valuer has been jointly appointed by Zhejiang New Century Hotel and New Century Hotel Management and instructed to conduct a rent review to determine the Market Rental Package for the Lease Year of 2021, including the market rental value of the underlying Initial Hotel Properties, the amount or calculation of the Individual Rents, the amount of security deposit required, and the amount to be covered by irrevocable guarantee(s) to be issued by licensed bank(s) in the PRC.

According to the 2021 Market Rental Package Determination, the aggregate amount payable by the Lessee as Base Rent is RMB183.6 million for the Lease Year of 2021, which is RMB16.4 million lower than that for the Lease Year of 2020. The calculation of the variable Individual Rents remains the same as compared with that for the First Lease Period, Lease Year of 2018, Lease Year of 2019 and Lease Year of 2020. In addition, the security deposit comprised within the 2021 Market Rental Package Determination is RMB20 million (which is the same as the amount of security deposit for the First Lease Period, Lease Year of 2018, Lease Year of 2019 and Lease Year of 2020).

## **GENERAL**

A summary of the 2021 Market Rental Package Determination is set out in this announcement.

The aggregate amount payable by the Lessee as Base Rent for the Lease Year of 2021 is RMB183.6 million, based on the 2021 Market Rental Package Determination, which is RMB16.4 million lower than that for the Lease Year of 2020.

Pursuant to 5.2(f) of the REIT Code, the Valuer's report on the 2021 Market Rental Package Determination is available for inspection by the public during normal office hours at the REIT Manager's place of business at Unit 4706, 47/F, The Center, 99 Queen's Road Central, Hong Kong.

**Given the variables involved, investors should exercise caution in dealing in the units of New Century REIT.**

The Board (including all of the INEDs) is satisfied that the terms of the transactions under the Hotel Lease and Management Agreements are (i) in line with normal business practice for contracts of the relevant type, (ii) conducted in the ordinary and usual course of business of the New Century REIT Group, and (iii) carried out at arm's length on normal commercial terms which are fair and reasonable and in the interests of the Unitholders as a whole. The INEDs confirm that the 2021 Market Rental Package Determination has been conducted in accordance with the terms of the Master Hotel Lease and Management Agreement.

## **BACKGROUND INFORMATION ON LEASE TERM AND RENTAL INCOME STRUCTURE OF THE INITIAL HOTEL PROPERTIES**

Reference is made to the section headed “Material Agreements – Hotel Lease and Management Agreements” in the Offering Circular and the announcement dated 10 January 2020 issued by the REIT Manager (the “**Announcement**”). Unless otherwise defined herein, capitalised terms used in this announcement shall have the same meanings as those defined in the Offering Circular and the Announcement (as the case may be).

### **1. Rental Income Structure during the First Lease Period**

As disclosed in the Offering Circular, each of the Hotel Lease and Management Agreements is for a term commencing from the Listing Date and expiring on the tenth anniversary of the Listing Date, subject to renewal for a further term of ten years. Pursuant to the Master Hotel Lease and Management Agreement, the predetermined Base Rent for each of the Lease Years during the First Lease Period is a minimum annual aggregate amount of RMB216 million.

In addition, during the First Lease Period, the rent for each of the Initial Hotel Properties is an Individual Rent which is payable monthly in arrear. The Individual Rent is calculated as 20% of the relevant Initial Hotel Property’s total monthly operating revenue plus 34% of the relevant Initial Hotel Property’s Gross Operating Profit for that month. The aggregate of all Individual Rents (as adjusted) for each year constitute the Total Rent. If the Total Rent (as adjusted based on the audited annual accounts of the Lessee) is less than the agreed amount of the Base Rent, New Century Hotel Management is obligated to make up for any shortfall within 30 days from the issuance of the audited annual accounts of the Lessee.

For the first five years of the Hotel Lease and Management Agreements, Bank of China, Zhejiang Branch provided an irrevocable guarantee in the amount of RMB216 million (being the amount of the Base Rent) per year in favor of the Lessors to cover the payment obligations of the Lessee and the Lessee was required to provide a security deposit in the amount of RMB20 million, which represents over 50% of the difference between the amount of the Base Rent (adjusted for the entire year) and the then forecasted rental payment for the year 2013 (adjusted for the entire year) under the Hotel Lease and Management Agreements.

### **2. Rental Income Structure during the Subsequent Period**

Thereafter, in respect of the Subsequent Period, the Base Rent will be the higher of the Market Base Rent, which is to be determined by a jointly appointed professional independent property valuer, and 85% the Reference Average Rent (as defined below). In addition, in any event, the Base Rent for each year during the Subsequent Period should be no less than RMB183.6 million. The professional independent property valuer shall be appointed at least seven months prior to the commencement of each Lease Year during the Subsequent Period to determine the renewed market rental package (the “**Market Rental Package**”) and the Lessee shall bear the costs and expenses for appointing the independent professional property valuer.

In accordance with the Master Hotel Lease and Management Agreement, the Valuer has been jointly appointed by Zhejiang New Century Hotel and New Century Hotel Management and instructed to conduct a rent review to determine the Market Rental Package for the Lease Year of 2021, including the market rental value of the underlying Initial Hotel Properties in accordance with HKIS valuation standards (which will form the basis of the Market Base Rent), the amount or calculation of the Individual Rents, the amount of security deposit required (which shall not be lower than RMB20 million), and the amount to be covered by irrevocable guarantee(s) to be issued by licensed bank(s) in the PRC (which shall not be lower than the Base Rent for each relevant Lease Year during the Subsequent Period). If the Market Base Rent as determined by the Valuer is lower than 85% of the average annual rent received from the Lessee for the Initial Hotel Properties for the preceding four Lease Years (“**Reference Average Rent**”), the Base Rent with respect to the Initial Hotel Properties during the Subsequent Period will be 85% of such Reference Average Rent. In addition, in any event, the Base Rent for each year during the Subsequent Period should be no less than RMB183.6 million.

As per the rental income structure during the First Lease Period, the rent for each of the Initial Hotel Properties during the Subsequent Period is an Individual Rent which is payable monthly in arrear. The Individual Rent is calculated as 20% of the relevant Initial Hotel Property’s total monthly operating revenue plus 34% of the relevant Initial Hotel Property’s Gross Operating Profit for that month. The aggregate of all Individual Rents (as adjusted) for each year constitute the Total Rent. If the Total Rent (as adjusted based on the audited annual accounts of the Lessee) is less than the agreed amount of the Base Rent, New Century Hotel Management is obligated to make up for any shortfall within 30 days from the issuance of the audited annual accounts of the Lessee.

The Market Rental Package for each Lease Year during the Subsequent Period of the Hotel Lease and Management Agreements will include (i) the market rental value of the underlying Initial Hotel Properties, (ii) the amount or calculation of the Individual Rents, (iii) the amount to be covered by irrevocable guarantee(s) to be issued by licensed bank(s) in the PRC, and (iv) the amount of security deposit required, which shall not be lower than RMB20 million (i.e. the amount of security deposit for the first to fifth years). In the event that New Century Hotel Management is unable to obtain an irrevocable guarantee(s) for any year during the Subsequent Period, the amount of the security deposit shall be adjusted to the amount of the Base Rent so determined for that year, plus the security deposit required for that year.

### **3. Difference in Base Rent determination methods between the First Lease Period and Subsequent Period**

In contrast to the First Lease Period where the Base Rents for each of the relevant years was predetermined under the Master Hotel Lease and Management Agreement, Base Rents in respect of the Subsequent Period will, as explained above, be determined in accordance with an annual rent review by a jointly appointed professional independent property valuer in each of the Lease Years during the Subsequent Period. If the Market Base Rent as determined by the Valuer is lower than 85% of the Reference Average Rent, the Base Rent with respect to the Initial Hotel Properties during the Subsequent Period will be 85% of such Reference Average Rent. In addition, in any event, the Base Rent for each year during the Subsequent Period should be no less than RMB183.6 million.

Accordingly, the Base Rent receivable by New Century REIT in respect of each of the Lease Years during the Subsequent Period will depend on prevailing market conditions and a number of other factors and uncertainties. Therefore, it is possible that Base Rent from the Initial Hotel Properties for the Subsequent Period may be higher or lower than the Base Rent for the First Lease Period.

#### **APPOINTMENT OF VALUER**

Cushman & Wakefield International Property Advisers (Shanghai) Co Ltd, who has key personnel who is a corporate member of the Hong Kong Institute of Surveyors, was appointed as an independent professional property valuer and was instructed on 4 November 2020 to conduct a rent review to determine the Market Rental Package in respect of the Lease Year of 2021, based on the assumptions and disregard factors provided in the Master Hotel Lease and Management Agreement. Cushman & Wakefield International Property Advisers (Shanghai) Co Ltd and the current Principal Valuer of New Century REIT, being Cushman & Wakefield Limited, are both professional services firms within the Cushman & Wakefield Group.

The Valuer issued its report (the “**Report**”) on the determination of the Market Rental Package for the Lease Year of 2021 (the “**2021 Market Rental Package Determination**”) on 8 January 2021.

#### **THE 2021 MARKET RENTAL PACKAGE DETERMINATION**

The Market Base Rent as determined by the Valuer is RMB180 million. The Reference Average Rent is RMB206.4 million. Given both the Market Base Rent and 85% of the Reference Average Rent (being RMB175.4 million) are lower than RMB183.6 million, the aggregate amount payable by the Lessee as Base Rent is RMB183.6 million for the Lease Year of 2021.

A summary of the 2021 Market Rental Package Determination is as follows:

### **The Initial Hotel Properties**

<b>Market Rental Package</b>	<b>Market Rental Package for Lease Year of 2021</b>
Aggregate amount payable by the Lessee as Base Rent	RMB183.6 million
Variable Individual Rent for the Initial Hotel Properties (receivable by the relevant Lessors)	20% of Revenue plus 34% of Gross Operating Profit <sup>(Note 1)</sup>
Amount of security deposit	RMB20 million
Amount to be covered by irrevocable bank guarantee(s)	RMB183.6 million <sup>(Note 2)</sup>

The Market Rental Package for the Lease Year of 2021 as set out above and all other terms of the Hotel Lease and Management Agreements, including but not limited to the guarantee provided by New Century Tourism in relation to the obligations of the Lessee under the Hotel Lease and Management Agreements and also New Century Tourism's undertaking to maintain a minimum net asset of RMB2 billion, remain the same as those during the Lease Year of 2020.

*Notes:*

- 1. The Valuer has advised that the rental payable for hotel leasing in the PRC is generally calculated on the following modes: (i) profit sharing; (ii) revenue sharing; and (iii) hybrid of profit and revenue sharing. Based on the Valuer's advice, the Variable Individual Rent for the Initial Hotel Properties for the Lease Year of 2021 is in line with the market.*
- 2. The Valuer has advised that the amount to be covered by irrevocable bank guarantee(s) is in line with the market.*

## **SUMMARY OF ASSUMPTIONS AND OUTLINE OF VALUATION METHODOLOGIES**

### **1. Assumptions Contained in the 2021 Market Rental Package Determination**

The 2021 Market Rental Package Determination was based on the following valuation assumptions and disregards:

- (i) that the owners of the Initial Hotel Properties are in possession of legal titles to the properties;
- (ii) that the design and construction of the Initial Hotel Properties are in compliance with the local planning regulations and have been approved by the relevant government authorities;

- (iii) that the rental payable by the Lessee shall be exclusive of utility charges and all other outgoings payable by the Lessee;
- (iv) that the Initial Hotel Properties are fit for immediate occupation and use and incorporate fixtures and fittings which are of a standard commensurate with the nature of the properties;
- (v) that the Initial Hotel Properties are available to let on the open market by a willing landlord to a willing tenant on vacant possession basis;
- (vi) that the duration of the lease would be in line with other leases in the market with similar nature;
- (vii) disregarding any effect on rental that the Lessee has been or is in occupation of the Initial Hotel Properties; and
- (viii) disregarding any goodwill attributable to the Lessee's businesses carried on at the Initial Hotel Properties.

## **2. Outline of Valuation Methodologies**

For the purposes of the 2021 Market Rental Package Determination, as the Valuer was of the view that given that rental transactions of hotels are rare, the Valuer has adopted the direct comparison method to value the Base Rent by making reference to rental comparables of residential units or serviced apartments and retail properties in the localities where the Initial Hotel Properties are located. Due adjustments are then made to reflect the differences between the Initial Hotel Properties and the comparable properties. Besides, the Valuer also adopted a reasonable percentage of the gross revenue as a cross-check for the assessment of the Base Rent after taking into account the historical performance of the Initial Hotel Properties. In addition, the valuer has analysed the composition of variable individual rent in other Asia hotel REITs.

In addition, the Valuer is of the view that the rental payable for hotel leasing in the PRC is generally calculated on the following modes: (i) profit sharing; (ii) revenue sharing; and (iii) hybrid of profit and revenue sharing and has determined that the Variable Individual Rent for the Initial Hotel Properties for the Lease Year of 2021 is in line with the market.

## **3. Manner of Payment**

The manner of payment of the Initial Hotel Properties for the Lease Year of 2021 (including in relation to the Base Rent, the variable Individual Rents and the security deposit) will be consistent with the corresponding manners of payment during the First Lease Period and Lease Year of 2018, Lease Year of 2019 and Lease Year of 2020. In addition, consistent with that during the First Lease Period and Lease Year of 2018, Lease Year of 2019 and Lease Year of 2020, a replacement irrevocable bank guarantee will be issued by (a) licensed bank(s) in the PRC in favour of the Lessors.



## CONSIDERATIONS IN RESPECT OF THE MARKET RENTAL PACKAGE FOR LEASE YEAR OF 2021

### 1. General PRC Hotel Market Conditions

As previously highlighted in the Offering Circular and as set out in the Announcement, the hotel business is cyclical and sensitive to changes in the global, regional or local economy generally. Since demand for hotel services in the PRC is affected by economic growth, a global, regional or local recession could lead to a downturn and any such downturn may affect hotel business.

Affected by the novel coronavirus pneumonia pandemic (“**Pandemic**”), travel abroad is still strictly restricted and the number of overseas travelers is still very low in most countries. During 2020, the global tourism and hospitality industry were in a very difficult operation environment. The PRC Hotel Properties are also experiencing unprecedented challenges. Although the overall business and economic recovery in China are comparatively better than other countries, the market is still uncertain in coming years. China now takes the advantages of its mega market size and strong domestic demand potential, constructing a new domestic and international bi-circular economy. We remain positive in our medium to long-term outlook of China’s hotel industry.

Negatively impacted by the Pandemic and travel restrictions, the performance of PRC Hotel Properties during the six months ended 30 June 2020 with Revenue Per Available Room decreased by 60% Year-on-Year (“**YoY**”) to RMB123 (excluding VAT). Occupancy decreased by approximately 35.9 percentage points to 28.3% and average room rate decreased by 11% YoY to RMB435 (excluding VAT). The overall food and beverage spending per customer and revenue per sq.m. per day of banquet room at the PRC Hotel Properties for the six months ended 30 June 2020 increased by 1% YoY to RMB138 (excluding breakfast customers and VAT) and declined by 36% to RMB23 per sq.m. per day respectively.

Based on the unaudited hotel rental income and total revenue (including other rental income) for the PRC Hotel Properties for the six months ended 30 June 2020, hotel rental income has declined by 22.2% to RMB83.07 million while total revenue (including other rental income) decreased by 21.9% to RMB93.42 million compared to the corresponding period in 2019.



## **2. Market Rental Package for lease year 2021**

The 2021 Market Rental Package Determination has been determined based on the Valuer's professional opinion on the market status (including the assumptions and disregards set out above in this announcement) and of certain factors relating to each of the Initial Hotel Properties, and with reference to the current market conditions of the hotel and tourism industry in the PRC.

In respect of the Market Rental Package for the Initial Hotel Properties for the Lease Year of 2021, the aggregate amount of RMB183.6 million payable by the Lessee as Base Rent for the Lease Year of 2021 is lower than that for the Lease Year of 2020 by RMB16.4 million. The calculation of the variable Individual Rents remains the same as compared with that for the First Lease Period, Lease Year of 2018, Lease Year of 2019 and Lease Year of 2020. In addition, the security deposit comprised within the 2021 Market Rental Package Determination is RMB20 million (which is the same as the amount of security deposit for the First Lease Period, Lease Year of 2018, Lease Year of 2019 and Lease Year of 2020).

## **3. Impact on distribution per Unit ("DPU") and total distributable income**

The DPU and total distributable income available for distribution to unitholders of New Century REIT for each financial year is affected by various factors, including, the Base Rent and variable Individual Rent receivable by New Century REIT for such financial year. Pursuant to the 2021 Market Rental Package Determination, the Base Rent for the Lease Year of 2021 will be lower than that for the Lease Year of 2020. Therefore, it is expected to have a negative impact on the DPU and total distributable income if only the Base Rent comprised within the 2021 Market Rental Package Determination is taken into consideration.

**Given the variables involved in the determination of the Base Rent and the variable individual rent for the Initial Hotel Properties from year to year, investors should exercise caution in dealing in the units of New Century REIT.**

## **INSPECTION OF VALUER'S REPORT**

Pursuant to 5.2(f) of the REIT Code, the Valuer's report on the 2021 Market Rental Package Determination is available for inspection by the public during normal office hours at the REIT Manager's place of business at Unit 4706, 47/F, The Center, 99 Queen's Road Central, Hong Kong.

## **CONFIRMATION BY THE BOARD**

The Board (including all of the INEDs) is satisfied that the terms of the transactions under the Hotel Lease and Management Agreements are (i) in line with normal business practice for contracts of the relevant type, (ii) conducted in the ordinary and usual course of business of the New Century REIT Group, and (iii) carried out at arm's length on normal commercial terms which are fair and reasonable and in the best interests of the Unitholders as a whole.

## **CONFIRMATION BY THE INEDS**

The INEDs confirm that the 2021 Market Rental Package Determination has been conducted in accordance with the terms of the Master Hotel Lease and Management Agreement.

This announcement is made pursuant to Chapter 10 of the REIT Code.

## **GENERAL**

A summary of and/or information regarding the 2021 Market Rental Package Determination in relation to the Initial Hotel Properties will be set out in New Century REIT's annual reports for each of the three years ending 31 December 2022 and interim reports for the six months ending 30 June 2021 and 30 June 2022, respectively.

## **DEFINITIONS**

In this announcement, the following definitions apply throughout unless otherwise stated. Also, where terms are defined and used in only one section of this document, these defined terms are not included in the table below:

“Lease Year” means the period from 10 July in the relevant year to 9 July the following year

By order of the Board  
**New Century Asset Management Limited**  
as manager of New Century Real Estate Investment Trust  
**Mr. Jin Wenjie**  
*Chairman of the REIT Manager*

Hong Kong, 8 January 2021

*As at the date of this announcement, the executive Director of the REIT Manager is Ms. Ho Wai Chu, the non-executive Directors of the REIT Manager are Mr. Jin Wenjie and Mr. Zhang Guanming and the independent non-executive Directors of the REIT Manager are Mr. Angelini Giovanni, Mr. Yu Hon To David and Professor He Jianmin.*