
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect in this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution licensed to deal in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your units in New Century REIT, you should at once hand this circular, together with the accompanying form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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HUGE HARVEST INTERNATIONAL LIMITED
浩豐國際有限公司
(incorporated in the British Virgin Islands with limited liability)


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

CIRCULAR

**(1) PROPOSED VERY SUBSTANTIAL DISPOSAL AND
CONNECTED PARTY TRANSACTION;
(2) PROPOSED TERMINATION, PROPOSED LIQUIDATION,
PROPOSED DELISTING AND PROPOSED DEAUTHORISATION OF
NEW CENTURY REIT;
(3) PROPOSED INTERIM DISTRIBUTION;
(4) APPLICATION OF NOTE 7 TO RULE 2 OF THE TAKEOVERS CODE;
AND
(5) EXTRAORDINARY GENERAL MEETING AND
CLOSURE OF REGISTER OF UNITHOLDERS**

Financial Adviser to
HUGE HARVEST INTERNATIONAL LIMITED
China Galaxy International Securities (Hong Kong) Co., Limited



Independent Financial Adviser to the Independent Board Committee, the Independent Unitholders and the Trustee



A letter to the Unitholders containing details of the Proposed Disposal, the Proposed Termination, the Proposed Liquidation, the Proposed Delisting, the Proposed Interim Distribution and other related matters (including, but not limited to, a timetable listing the relevant dates of the Proposals) is set out on pages 17 to 50 of this circular.

A notice convening the extraordinary general meeting to be held at Portion 2, 12/F., The Center, 99 Queen's Road Central, Central, Hong Kong, (Conference Room 1-6) on 12 April 2021 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you are able to attend and vote at the meeting in person, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return it to the Unit Registrar of New Century REIT, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for holding the extraordinary general meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the meeting or any adjournment thereof (as the case may be) should you so wish.

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

Please see pages ii to iii of this document for measures being taken to try to prevent and control the spread of the coronavirus disease 2019 ("COVID-19") at the extraordinary general meeting, including:

- compulsory wearing of face masks and attendees who do not wear face masks may be requested to leave or denied entry into the extraordinary general meeting venue
- compulsory hand sanitizing at the entrance of extraordinary general meeting venue
- compulsory body temperature checks at the entrance of the extraordinary general meeting venue
- no distribution of refreshments and gift coupons

The Manager wishes to remind Unitholders that they may, by using proxy forms with voting instructions inserted, appoint the Chairman of the meeting as their proxy to vote on the relevant resolutions at the extraordinary general meeting as an alternative to attending the extraordinary general meeting in person. Completion and return of the proxy forms will not preclude the Unitholders from attending and voting in person at the meeting or any adjournment thereof should they subsequently so wish, and in such case, the proxy forms previously submitted shall be deemed to be revoked.

19 March 2021

CONTENTS

	<i>Pages</i>
PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING	ii
CORPORATE INFORMATION	1
INDICATIVE TIMETABLE	3
DEFINITIONS	6
LETTER TO UNITHOLDERS	17
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	51
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	53
APPENDIX I – FINANCIAL INFORMATION RELATING TO NEW CENTURY REIT	I-1
APPENDIX IIA – ACCOUNTANT’S REPORT ON THE TARGET GROUP	IIA-1
APPENDIX IIB – ACCOUNTANT’S REPORT ON THE STRONG TOWER GROUP	IIB-1
APPENDIX IIC – ACCOUNTANT’S REPORT ON THE NEW CENTURY REIT HONG KONG I GROUP	IIC-1
APPENDIX III – UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP	III-1
APPENDIX IVA – LETTER FROM PRICEWATERHOUSECOOPERS RELATING TO THE LOSS ESTIMATE	IVA-1
APPENDIX IVB – REPORT FROM SOMERLEY ON THE LOSS ESTIMATE ..	IVB-1
APPENDIX V – PROPERTY VALUATION REPORT	V-1
APPENDIX VI – RECONCILIATION STATEMENT PURSUANT TO RULE 5.7 OF THE LISTING RULES	VI-1
APPENDIX VII – GENERAL INFORMATION	VII-1
NOTICE OF EXTRAORDINARY GENERAL MEETING	EGM-1

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

In view of the ongoing COVID-19 pandemic and recent recommendations for prevention and control of its spread, the Manager will implement the following precautionary measures at the EGM to protect attending Unitholders, staff and other persons from the risk of infection:

- (i) all attendees must wear face masks inside the EGM venue at all times and the attendees who do not wear face masks may be requested to leave or denied entry into the EGM venue;
- (ii) all attendees must wash their hands with alcohol-based hand sanitizer before entering the EGM venue;
- (iii) compulsory body temperature checks will be conducted on all attendees at the entrance of the EGM venue. Any person with a body temperature of over 37.2 degrees Celsius may be denied entry into the EGM venue or be required to leave the EGM venue; and
- (iv) no refreshments or gift coupons will be distributed.

Unitholders who (i) are feeling unwell, (ii) are themselves close contacts, or (iii) have close contact with persons subject to quarantine in relation to COVID-19 are advised not to attend the EGM. The Manager seeks the understanding and cooperation of all Unitholders to minimise the risk of community spread of COVID-19 pandemic.

In the interest of all stakeholders' health and safety and in view of the recent COVID-19 guidelines for prevention and control, the Manager wishes to remind all Unitholders that physical attendance at the EGM is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions inserted, Unitholders may appoint the Chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM instead of attending the EGM in person. Completion and return of the proxy forms will not preclude the Unitholders from attending and voting in person at the meeting or any adjournment thereof should they subsequently so wish, and in such case, the proxy forms previously submitted shall be deemed to be revoked.

The proxy form is attached to this circular for Unitholders who opt to receive physical circulars. Alternatively, the proxy form can be downloaded from the "Investor Relations" section of New Century REIT's website at <http://www.ncreit.com> and the Stock Exchange's website at www.hkexnews.hk. If you are not a registered Unitholder (if your Units are held via banks, brokers or custodians), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of a proxy.

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

If Unitholders choosing not to attend the EGM in person have any questions about the arrangements regarding the EGM or other administrative matters, they are welcome to contact the Manager via the following means:

Email: ir@ncreit.com

Tel: (852) 2153 3582

Fax: (852) 3488 6403

Unitholders are reminded that the Manager will not provide any advice or additional information regarding the Proposals. Unitholders who are in doubt as to the action they should take should consult their stockbroker, licensed securities dealer, registered institution in securities, bank manager, solicitor or other professional advisers.

CORPORATE INFORMATION

New Century REIT	New Century Real Estate Investment Trust, a collective investment scheme constituted as a unit trust authorised under section 104 of the SFO subject to applicable conditions from time to time, the units of which are listed on the Stock Exchange
Manager	New Century Asset Management Limited
Directors of the Manager	<i>Chairman and Non-executive Director</i> Mr. Jin Wenjie <i>Executive Director</i> Ms. Ho Wai Chu <i>Non-executive Directors</i> Mr. Zhang Guanming <i>Independent Non-executive Directors</i> Mr. Angelini Giovanni Mr. Yu Hon To David Professor He Jianmin
Trustee	DB Trustees (Hong Kong) Limited Level 60, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
Independent Financial Adviser to the Independent Board Committee, the Independent Unitholders and the Trustee	Somerley Capital Limited 20th Floor, China Building 29 Queen's Road Central Hong Kong
Legal Adviser to the Manager	Dechert 31/F Jardine House One Connaught Place Central Hong Kong
Legal Adviser to the Trustee	Baker & McKenzie 14th Floor, One Taikoo Place 979 King's Road, Quarry Bay Hong Kong

CORPORATE INFORMATION

Unit Registrar

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Reporting Accountant and Auditor

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
22/F, Prince's Building
Central
Hong Kong

Independent Property Valuer

Cushman & Wakefield Limited
27/F, One Island East
Taikoo Place
18 Westlands Road
Quarry Bay
Hong Kong

INDICATIVE TIMETABLE

Event	Date and Time
Latest date and time for lodging transfers of Units to qualify for attending the EGM	1 April 2021 at 4:30 p.m.
Book closure period of New Century REIT's register of Unitholders (both days inclusive) to determine Unitholders that qualified to attend the EGM	7 April 2021 to 12 April 2021
Latest time and date for lodging proxy forms for the EGM	10 April 2021 at 10:00 a.m.
EGM Record Date	12 April 2021
EGM	12 April 2021 at 10:00 a.m.
Announcement of the results of the EGM	12 April 2021
Last trading date of the Units on the Stock Exchange	13 April 2021
Latest date and time for lodging transfers of Units to qualify for entitlement to (i) receive the Proposed Interim Distribution and the 2020 Annual Distribution (if any) and (ii) receive the final payment of proceeds (if any) derived from the Proposed Liquidation	15 April 2021 at 4:30 p.m.
Commencement of book closure period of New Century REIT's register of Unitholders to determine Unitholders entitled to (i) receive the Proposed Interim Distribution and the 2020 Annual Distribution (if any) and (ii) receive the final payment of proceeds (if any) derived from the Proposed Liquidation	16 April 2021 onwards ^(Note 2)
Final Record Date	16 April 2021
Completion of the Proposed Disposal	On or before 19 April 2021
Despatch of the Proposed Interim Distribution cheques ^(Note 3)	On or before 28 April 2021
Despatch of 2020 Annual Distribution cheques (if any) ^(Note 4)	On or before 28 April 2021

INDICATIVE TIMETABLE

Effective date of the Proposed Termination On or before 29 April 2021,
being the first Business Day following
the expected satisfaction of all the conditions
referred to in section 2.2 of this circular

Completion of the Proposed Liquidation In compliance with Note (2) to 11.8 of
the REIT Code, within 12 months, and
if the Trustee considers it is in the best interests of
Unitholders, for a longer period but no more than
24 months (as the Trustee may deem appropriate),
from the effective date of the Proposed Termination.

Payment of final payment of proceeds (if any) derived
from the Proposed Liquidation to Unitholders In compliance with Note (3) to 11.8 of
the REIT Code, where the Proposed Liquidation
exceeds six months, an interim distribution shall be
made in respect of the proceeds (if any) received
by the end of every six-month period, except
where no sales were made during such period.
Upon completion of the Proposed Liquidation,
a one-off distribution (if any) shall be made within
one month from the date of completion of
the Proposed Liquidation.

The Proposed Delisting and the Proposed
Deauthorisation The Manager expects that
the Proposed Delisting and Proposed Deauthorisation
will take place upon or shortly after completion of
the Proposed Liquidation. The date of deauthorisation and
delisting will be the date on which the SFC and
the Stock Exchange approve the deauthorisation and
delisting respectively.

Notes:

1. The above timetable is an indication only. Further announcement(s) will be made if there are changes to the above indicative timetable.
2. New Century REIT's register of Unitholders will be closed from 16 April 2021 until the effective date of the Proposed Delisting. The effective date and the arrangement of the Proposed Delisting and the Proposed Deauthorisation are subject to approval of the Stock Exchange and the SFC.

INDICATIVE TIMETABLE

3. The aggregate of the Consideration and the Cash Reserves, less the Disposal Costs, will be distributed within seven Business Days after Completion pursuant to Rule 20.1 of the Takeovers Code on a pro rata basis to the Unitholders whose names appear on the register of Unitholders on the Final Record Date in cash by way of the Proposed Interim Distribution (except for the Purchaser and the Manager which have agreed to offset their respective entitlement against the Consideration pursuant to the Agreement) in accordance with the Trust Deed and the REIT Code.

4. The payment of the 2020 Annual Distribution (if any) will not be conditional upon the Unitholders' approval of the Proposals by the Approval Threshold at the EGM. The Board does not currently expect that New Century REIT will declare any final distribution for the year ended 31 December 2020, please refer to the section headed "3 Proposed Interim Distribution and 2020 Annual Distribution" of this circular for further details on the 2020 Annual Distribution.

Further announcements will be made in relation to the details and times of those events which are scheduled to take place after the despatch of the Proposed Interim Distribution cheques, including but not limited to, the Proposed Termination, the Proposed Liquidation, the Proposed Delisting and the Proposed Deauthorisation.

DEFINITIONS

In this circular, 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:

“2020 Annual Distribution”	means an amount equivalent to 90% of New Century REIT’s audited annual net income after tax for the financial year ended 31 December 2020, if any, to be paid to Unitholders as final distribution;
“acting in concert”	has the meaning given to it in the Takeovers Code, and “persons acting in concert” and “concert parties” will be construed accordingly;
“Agreement”	means the sale and purchase agreement dated 26 January 2021 and entered into by the Seller, the Purchaser and the Manager in relation to the disposal of all issued shares in the share capital of the Target Company;
“Approval Threshold”	means the approval (by way of poll) by the Independent Unitholders representing at least 75% of the votes attaching to the Units held by the Independent Unitholders voting either in person or by proxy at the EGM, with the number of votes cast against being not more than 10% of the votes attaching to the Units held by all Independent Unitholders in respect of the resolution relating to the relevant proposal;
“Base Fee”	means a base fee not exceeding 0.3% per annum of the value of the Deposited Property of New Century REIT;
“Board”	means the board of Directors;
“Business Day”	means a day on which the Stock Exchange is open for transaction of business;
“Cash Consideration”	means the remaining balance of the Consideration in the amount of HK\$723,190,672 to be paid by the Purchaser to the Seller at Completion in cash;
“Cash Reserves”	means the cash reserves of New Century REIT in the amount of HK\$70,000,000;

DEFINITIONS

“Consideration”	means the consideration for the Proposed Disposal in the amount of HK\$1,921,018,274, comprising of HK\$1,895,524,145 for the sale of the Sale Shares and HK\$25,494,129 for the sale of the Sale Loan;
“China Galaxy”	means China Galaxy International Securities (Hong Kong) Co., Limited, a corporation licensed to carry out Type 1 (Dealing in Securities), Type 4 (Advising on Securities) and Type 6 (Advising on Corporate Finance) regulated activities under the SFO, the financial adviser to Huge Harvest;
“Completion”	means the completion of the Proposed Disposal in accordance with the Agreement;
“Completion Date”	means the date falling within five Business Days after the date on which the last of the Conditions is satisfied or waived, or such other date as the Purchaser, the Seller and the Manager may agree;
“Conditions”	means the conditions precedent to Completion under the Agreement;
“connected person(s)”	has the meaning ascribed to it in the REIT Code;
“Deposited Property”	means all the assets of New Century REIT, including all the authorised investments for the time being and from time to time held or deemed to be held upon the trusts of the Trust Deed and any interest arising on subscription monies from the issuance of Units;
“Directors”	means the directors of the Manager and each a “Director”;
“Disposal Costs”	means the relevant estimated costs or taxes (if any) incurred or to be incurred by the Seller and the Manager on behalf of New Century REIT in respect of the Proposals, which is estimated to be not exceeding HK\$15.0 million;

DEFINITIONS

“Disposed Group”	means collectively, the Target Company and its subsidiaries immediately after the Reorganisation which, as at the Latest Practicable Date, comprises the Target Group, the New Century REIT Hong Kong I Group and the Strong Tower Group;
“EGM”	means the extraordinary general meeting to be held at Portion 2, 12/F., The Center, 99 Queen’s Road Central, Central, Hong Kong, (Conference Room 1-6) on 12 April 2021 at 10:00 a.m. to consider and approve the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting, the notice of which is set out on pages EGM-1 to EGM-3 of this circular, and any adjournment of such EGM;
“Executive”	means the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director;
“Final Record Date”	means the date to determine the Unitholders who will be entitled to (i) the Proposed Interim Distribution; (ii) the 2020 Annual Distribution (if any); and (iii) participate on a pro-rata basis in the final payment of proceeds (if any) derived from the Proposed Liquidation in compliance with Note 3 to 11.80 of the REIT Code;
“Full Wise”	means Full Wise Industrial Limited, a company incorporated in Hong Kong and is a wholly-owned subsidiary of Strong Tower;
“Group” or “Group Companies”	means New Century REIT and its subsidiaries;
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	means the Hong Kong Special Administrative Region of the People’s Republic of China;
“Hotel 1”	means New Century Grand Hotel Kaifeng* (開封開元名都大酒店);

DEFINITIONS

“Hotel 2”	means New Century Grand Hotel Hangzhou* (杭州開元名都大酒店);
“Hotel 3”	means New Century Hotel Xiaoshan Zhejiang* (浙江開元蕭山賓館);
“Hotel 4”	means New Century Resort Qiandao Lake Hangzhou* (杭州千島湖開元度假村);
“Hotel 5”	means New Century Grand Hotel Ningbo* (寧波開元名都大酒店);
“Hotel 6”	means New Century Grand Hotel Changchun* (長春開元名都大酒店);
“Hotel Properties”	means collectively, the Hotel 1, Hotel 2, Hotel 3, Hotel 4, Hotel 5 and Hotel 6;
“Huge Harvest” or “Purchaser”	means Huge Harvest International Limited (浩豐國際有限公司), a company incorporated in the British Virgin Islands, the issued shares of which are 83.90%, 9.29%, and 6.81% ultimately owned by Mr. Chen Miaolin, Mr. Chen Canrong and Mr. Zhang Guanming, respectively;
“Independent Board Committee”	means an independent board committee of the Directors comprising Mr. Angelini Giovanni, Mr. Yu Hon To David and Professor He Jianmin, all being the Independent Non-executive Directors;
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, a licensed corporation registered under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined in the SFO, which has been appointed as the independent financial adviser to advise the Independent Board Committee, the Independent Unitholders and the Trustee on the Proposals;
“Independent Unitholders”	means Unitholders other than Huge Harvest and the Purchaser Concert Parties;

DEFINITIONS

“Kaifeng Hotel Lease Agreement”	means the hotel lease agreement dated 29 June 2015 entered into between Kaifeng New Century Grand Hotel Limited (開封開元名都大酒店有限公司), New Century Grand Hotel Kaifeng Management Company Limited (開封開元名都酒店管理有限公司), New Century Tourism Group Co., Ltd. (開元旅業集團有限公司) and the REIT Manager;
“Joint Announcement”	means the announcement dated 27 January 2021 jointly issued by Huge Harvest and New Century REIT in connection with the Proposals and the Proposed Deauthorisation and other matters described therein;
“Last Trading Date”	means 26 January 2021, being the last day on which the Units were traded on the Stock Exchange prior to the publication of the Joint Announcement;
“Latest Practicable Date”	means 16 March 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	means The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Loss Estimate”	means the loss estimate statements as disclosed and detailed in the Profit Warning Announcement;
“Manager”	means New Century Asset Management Limited, as manager of New Century REIT;
“Master Hotel Lease and Management Agreement”	means the master hotel lease and management agreement dated 14 June 2013 entered into between Zhejiang New Century Hotel Investment & Management Group Limited, Zhejiang New Century Hotel Management Co., Ltd. (浙江開元酒店管理有限公司), New Century Tourism Group Co., Ltd. (開元旅業集團有限公司) and the Manager;
“New Century Europe”	means New Century Europe I S.à.r.l., a company incorporated in Luxembourg and is a wholly-owned subsidiary of New Century REIT Hong Kong I;

DEFINITIONS

“New Century REIT”	means New Century Real Estate Investment Trust, a Hong Kong collective investment scheme constituted as a unit trust authorised under section 104 of the SFO and subject to applicable conditions from time to time, the units of which are listed on the Stock Exchange (stock code: 1275);
“New Century REIT Hong Kong I”	means New Century REIT Hong Kong I Limited, a company incorporated in Hong Kong, which was a wholly-owned subsidiary of New Century REIT immediately before the Reorganisation, and is currently a wholly-owned subsidiary of the Target Company;
“New Century REIT Hong Kong I Group”	means New Century REIT Hong Kong I and its subsidiaries;
“Notice of EGM”	means the notice despatched with this circular in respect of the EGM to consider and, if thought fit, approve the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting;
“Offer Period”	has the meaning ascribed to it under the Takeovers Code, being the period commencing from the date of the Joint Announcement and ending on the Completion Date or the date on which the Proposals lapse;
“PRC”	means the People’s Republic of China excluding, for the purpose of this circular only, the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan;
“Principal Valuer”	means Cushman & Wakefield Limited, in its capacity as the principal valuer of New Century REIT in compliance with the REIT Code;
“Profit Warning Announcement”	means New Century REIT’s announcement dated 20 January 2021;

DEFINITIONS

“Property Valuation Report”	means the property valuation report prepared by the Principal Valuer which is included as Appendix V to this circular;
“Proposals”	means collectively, the proposals in relation to the Proposed Disposal, the Proposed Termination, the Proposed Liquidation, the Proposed Delisting and the Proposed Interim Distribution;
“Proposed Deauthorisation”	means the proposed deauthorisation of New Century REIT as and when appropriate in accordance with applicable regulatory requirements;
“Proposed Delisting”	means the proposed delisting of Units from trading on the Stock Exchange;
“Proposed Disposal”	means the proposed disposal of the Sale Shares and the Sale Loan by the Seller to the Purchaser pursuant to the Agreement;
“Proposed Interim Distribution”	means the proposed interim distribution to the Unitholders, comprising the aggregate of the Consideration and the Cash Reserves, less the Disposal Costs, further details of which are disclosed in the section headed “3 Proposed Interim Distribution and 2020 Annual Distribution” of this circular;
“Proposed Liquidation”	means the proposed liquidation of New Century REIT, as disclosed in the sub-section headed “2.3 Details of the Proposed Liquidation” of this circular;
“Proposed Termination”	means the proposed termination of New Century REIT in accordance with the REIT Code;
“Purchaser Concert Party(ies)”	means party(ies) acting in concert or presumed to be acting in concert with Huge Harvest, including the Manager, Mr. Jin Wenjie and Ms. Ho Wai Chu;
“REIT”	means the real estate investment trust;

DEFINITIONS

“REIT Code”	means the Code on Real Estate Investment Trust published by the SFC as amended, supplemented or otherwise modified for the time being or, for the purposes of the Trust Deed, from time to time, including but not limited by published practice statements or in any particular case, by specific written guidance issued or exemptions or waivers granted by the SFC;
“Relevant Period”	the period commencing on 27 July 2020, being the date falling six (6) months prior to the date of the Joint Announcement and ending on the Latest Practicable Date;
“Reorganisation”	means the acquisitions of all issued shares in the share capital of each of Strong Tower and New Century REIT Hong Kong I by the Target Company, which has been completed as at the Latest Practicable Date;
“RMB”	means Renminbi, the lawful currency of the PRC;
“Sale Loan”	means the outstanding amount of the loan as at Completion Date (which is estimated to be EUR2,936,677 (equivalent to approximately HK\$25,494,129) which is due and owed by the Target Company to New Century REIT pursuant to an interest-free loan facility of EUR11,000,000 extended by New Century REIT to the Target Company;
“Sale Shares”	means all issued shares in the share capital of the Target Company;
“Seller”	means the Trustee, in its capacity as the seller of the Sale Shares and the Sale Loan;
“SFC”	means the Securities and Futures Commission of Hong Kong;

DEFINITIONS

“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time;
“Sky Town”	means Sky Town Investments Limited, a company incorporated in Hong Kong and is a wholly-owned subsidiary of the Target Company;
“Spearhead Investments”	means Spearhead Investments Limited (銳至投資有限公司), a company incorporated in Hong Kong and is a wholly-owned subsidiary of the Target Company;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“Strong Tower”	Strong Tower Global Limited, a company incorporated in the British Virgin Islands, which was a wholly-owned subsidiary of New Century REIT immediately before the Reorganisation, and is currently a wholly-owned subsidiary of the Target Company;
“Strong Tower Group”	means Strong Tower and its subsidiaries;
“Substantial Holder(s)”	pursuant to 8.1 of the REIT Code, a Unitholder who/ which is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of New Century REIT or any of its subsidiaries;
“Takeovers Code”	means the Hong Kong Code on Takeovers and Mergers;
“Target Company”	Spearhead Global Limited, a company incorporated in the British Virgin Islands and is a wholly-owned subsidiary of New Century REIT;
“Target Group”	means the Target Company and its subsidiaries immediately before the Reorganisation;

DEFINITIONS

“Trust Deed”	means the trust deed dated 10 June 2013 entered into between the Trustee and the Manager constituting New Century REIT and as amended by the supplemental trust deed dated 20 June 2013 and the second supplemental trust deed dated 15 June 2015, as may be further amended and supplemented from time to time;
“Trustee”	means DB Trustees (Hong Kong) Limited, in its capacity as trustee of New Century REIT;
“Unit(s)”	means unit(s) of New Century REIT;
“Unit Registrar”	means Tricor Investor Services Limited, being the Hong Kong branch unit registrar and transfer office and the agent for receiving and processing the acceptance of the Offer, whose address is at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong;
“Unitholder(s)”	means any person registered as holding a Unit including persons so registered as joint holders;
“Variable Fee”	means a variable fee of 4% per annum of the net property income (before deduction therefrom of the Variable Fee) of real estates held by New Century REIT;
“Zhejiang New Century Hotel”	means Zhejiang New Century Hotel Investment & Management Group Limited, a company incorporated in the PRC and is owned as to 60.05% by Spearhead Investments and 39.95% by Sky Town;
“%”	means per centum or percentage; and
“€” or “EUR”	means Euro, the lawful currency of the Euro Zone.

Words importing the singular shall, where applicable, include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine and neuter genders. References to persons shall include corporations.

Any reference in this circular to any enactment is a reference to that enactment for the time being amended or re-enacted.

DEFINITIONS

Any reference to a time of day in this circular shall be a reference to Hong Kong time unless otherwise stated.

Any discrepancies in the tables, graphs and charts between the listed amounts and totals thereof are due to rounding. Where applicable, figures and percentages are rounded to one decimal place.

The English translation of company names in Chinese or another language which are marked with “*” and the Chinese translation of company names in English which are marked with “*” are for identification purposes only.

LETTER TO THE UNITHOLDERS



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**

Directors of the Manager:

Executive Director

Ms. Ho Wai Chu

Non-executive Directors

Mr. Jin Wenjie (*Chairman*)

Mr. Zhang Guanming

Independent Non-executive Directors

Mr. Angelini Giovanni

Mr. Yu Hon To David

Professor He Jianmin

Registered Office of the Manager:

New Century Asset Management Limited

Unit 4706, 47th Floor, The Center

99 Queen's Road Central

Hong Kong

19 March 2021

To: Unitholders of New Century REIT

Dear Sir or Madam,

- (1) PROPOSED VERY SUBSTANTIAL DISPOSAL AND
CONNECTED PARTY TRANSACTION;**
**(2) PROPOSED TERMINATION; PROPOSED LIQUIDATION;
PROPOSED DELISTING AND PROPOSED DEAUTHORISATION OF
NEW CENTURY REIT;**
(3) PROPOSED INTERIM DISTRIBUTION;
**(4) APPLICATION OF NOTE 7 TO RULE 2 OF THE TAKEOVERS CODE;
AND**
**(5) EXTRAORDINARY GENERAL MEETING AND
CLOSURE OF REGISTER OF UNITHOLDERS**

INTRODUCTION

Reference is made to the Joint Announcement. The purpose of this circular is to provide you with, among other things, (i) a letter from the Board to the Unitholders containing details of the Proposals and other related matters (including, but not limited to, a timetable listing the relevant dates of the Proposals); (ii) the opinion of the Independent Financial Adviser with

LETTER TO THE UNITHOLDERS

respect to the Proposals; (iii) the opinion of the Independent Board Committee with respect to the Proposals; (iv) the Property Valuation Report; (v) the accountant's reports on the Target Group, the Strong Tower Group and the New Century REIT Hong Kong I Group; (vi) the unaudited pro forma financial information of the Group; (vii) letter from PricewaterhouseCoopers relating to the Loss Estimate; (viii) report from Somerley on the Loss Estimate; and (ix) a notice convening the EGM.

1 PROPOSED DISPOSAL AND CONNECTED PARTY TRANSACTION

The Board announces that on 26 January 2021, the Trustee (as the seller) and the Manager have respectively entered into the Agreement for the disposal of the Sale Shares and the Sale Loan to the Purchaser. Following Completion, New Century REIT will cease to hold any interest in the Disposed Group.

1.1 Terms of the Agreement

1.1.1 Date: 26 January 2021

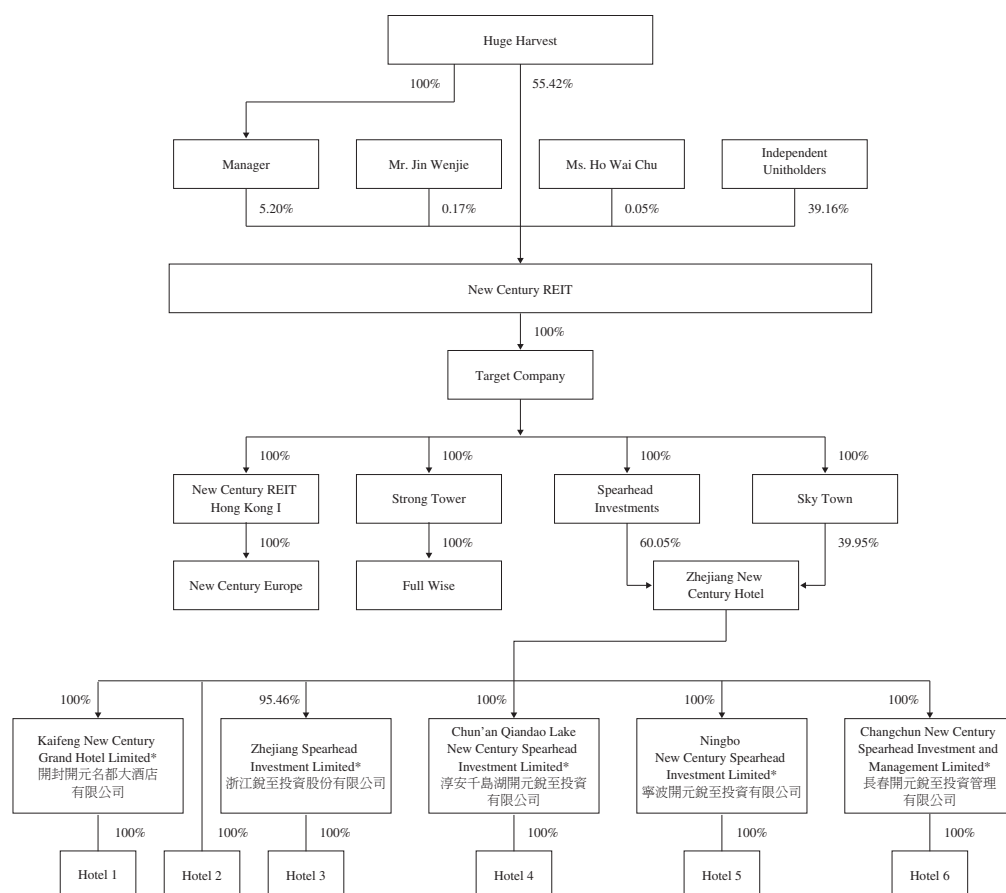
1.1.2 Parties:

- (1) Seller: The Trustee, as trustee of New Century REIT
- (2) Manager: The Manager, as manager of New Century REIT
- (3) Purchaser: Huge Harvest

LETTER TO THE UNITHOLDERS

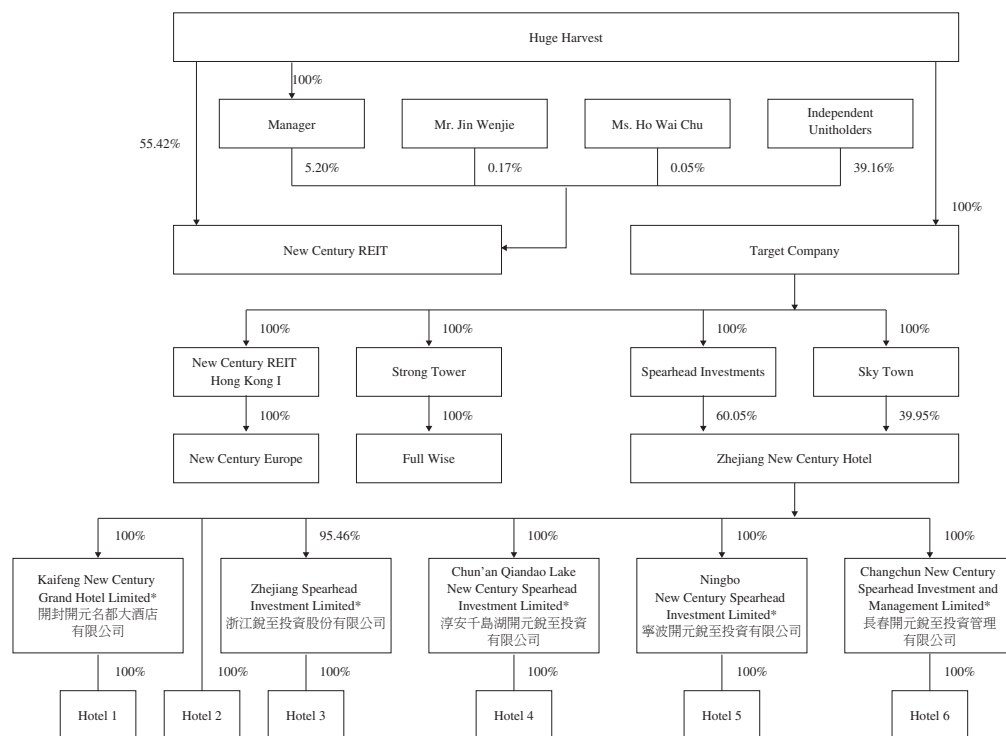
1.2 Unitholding Charts

The chart below shows a simplified unitholding structure of New Century REIT and the Disposed Group after the Reorganisation and as at the Latest Practicable Date:



LETTER TO THE UNITHOLDERS

The chart below shows a simplified unitholding structure of New Century REIT and the Disposed Group after the completion of the Reorganisation and upon Completion:



1.3 Assets being disposed of

1.3.1. Subject assets

Pursuant to the Agreement, the Purchaser has conditionally agreed to purchase and the Seller has conditionally agreed to sell the Sale Shares and the Sale Loan. The outstanding amount of the Sale Loan as at the Latest Practicable Date and the Completion Date shall be EUR2,936,677 (equivalent to approximately HK\$25,494,129).

1.3.2. Reorganisation

The Reorganisation has been implemented in order to consolidate Strong Tower and New Century REIT Hong Kong I under the Target Company. The Reorganisation involved the acquisitions of all issued shares in the share capital of each of Strong Tower and New Century REIT Hong Kong I by the Target Company, and as a result, as at the Latest Practicable Date, the Target Company held all issued shares in the share capital of each of Strong Tower and New Century REIT Hong Kong I and the Disposed Group therefore contains all of the operating businesses and assets of the Group.

LETTER TO THE UNITHOLDERS

1.4 Consideration and payment of Consideration

1.4.1. Consideration

The total consideration for the Proposed Disposal is HK\$1,921,018,274 (equivalent to approximately RMB1,727,686,995), comprising of HK\$1,895,524,145 (equivalent to approximately RMB1,704,758,595) for the sale of the Sale Shares and HK\$25,494,129 (equivalent to approximately RMB22,928,400) for the sale of the Sale Loan.

The Consideration has been determined by arm's length negotiation between the Manager (on behalf of New Century REIT) and the Purchaser with reference to (i) the aggregated unaudited net asset value of the Disposed Group attributable to equity holders of approximately RMB1,646.9 million (equivalent to approximately HK\$1,831.1 million) as at 30 June 2020 (which also comprised the appraised valuation of the investment properties of New Century REIT (i.e. the Hotel Properties) as at 30 June 2020), which was readily available as at the date of the Joint Announcement), (ii) the performance and prospects of the Disposed Group and (iii) the historical Unit price performance of New Century REIT. The Consideration represents (i) a premium of 4.9% over the aggregated unaudited net asset value of the Disposed Group attributable to equity holders as at 30 June 2020; and (ii) a premium of 9.6% over the aggregated audited net asset value of the Disposed Group attributable to equity holders of approximately RMB1,576.4 million (equivalent to approximately HK\$1,752.8 million) as at 30 November 2020 (taking into account of appraised value of New Century REIT's investment properties as at 30 November 2020, which is the same as the appraised value as at 31 December 2020, the Property Valuation Report of which is included in Appendix V to this circular).

Subject to Completion, the amount of HK\$1,197,827,602 (equivalent to approximately RMB1,077,278,232), being the entitlement of Huge Harvest and the Manager to the Proposed Interim Distribution based on their respective unitholding of New Century REIT as at the Latest Practicable Date, shall be deducted by the Purchaser from the total Consideration payable to the Seller at Completion for the purpose of offsetting such entitlement, and the remaining balance in the amount of HK\$723,190,672 (equivalent to approximately RMB650,408,763) shall be paid by the Purchaser to the Seller at Completion in cash. The Purchaser has undertaken that it shall not, and shall procure the Manager not to, change their respective unitholding in New Century REIT during the period commencing on the date of the Agreement and ending on the date of payment of the Proposed Interim Distribution.

LETTER TO THE UNITHOLDERS

1.4.2. Conditions Precedent

Completion is subject to and conditional upon satisfaction of the following Conditions:

- (a) approval having been obtained for (i) the Agreement and the transactions contemplated therein; (ii) the Proposed Termination and the Proposed Liquidation of New Century REIT in accordance with the REIT Code; and (iii) the Proposed Delisting of Units from trading on the Stock Exchange, being approved by the Approval Threshold, in accordance with the requirements of the Trust Deed, the Takeovers Code, the REIT Code and applicable laws;
- (b) all necessary licences, consents, approvals, authorisations, permissions, waivers, orders, exemptions or notifications of, among others, creditors of the Group Companies, other relevant third parties and/or governmental or regulatory authorities or bodies, which are required for the execution and performance of the Agreement and the transactions contemplated thereunder having been obtained and not having been revoked prior to Completion;
- (c) no relevant governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that restricts or prohibits the implementation of the transactions contemplated under the Agreement;
- (d) the supplemental agreement to each of the Master Hotel Lease and Management Agreement and the Kaifeng Hotel Lease Agreement, for the novation of the Manager as a party to the respective agreements to the Purchaser (or its nominee), having been duly entered into;
- (e) the warranties given by the Seller and the Manager remaining true and correct and not misleading in all material respects as if they were repeated at any time prior to Completion by reference to the facts and circumstances then subsisting;
- (f) the warranties given by the Purchaser remaining true and correct and not misleading in all material respects as if they were repeated at any time prior to Completion by reference to the facts and circumstances then subsisting;
- (g) no material adverse change in the business, operations, financial condition of the Group Companies and the Hotel Properties having occurred since the date of the Agreement;

LETTER TO THE UNITHOLDERS

- (h) the Reorganisation having been completed; and
- (i) the waiver from the requirements under Note 1 of 11.8 of the REIT Code having been granted by the SFC and not having been revoked prior to Completion.

The Purchaser may waive all or any of Conditions (d) to (e), and (g) above (either in whole or in part) at any time by notice to the Seller and the Manager, and the Seller and the Manager may waive Condition (f) above at any time by notice to the Purchaser. Each of the parties shall use reasonable endeavours to procure (so far as it is so able to procure) that the Conditions are satisfied on or before 31 May 2021. If all the Conditions are not fulfilled or (where permitted) waived on or before that date, the Agreement shall terminate (except for any accrued rights or liabilities of any party). As at the Latest Practicable Date, save and except for Condition (h) above (being the completion of the Reorganisation), none of the other Conditions has been fulfilled and the Purchaser and the Seller have no intention to waive any of the Conditions.

The Purchaser is not aware of any necessary authorisations, consents and approvals of any government or governmental or regulatory body or court or institution in relation to the Proposed Disposal required as at the Latest Practicable Date.

In addition, to the best knowledge of the Board, save for the consent from Industrial and Commercial Bank of China Limited, Macau Branch (“**ICBC Macau**”) in respect of the facility agreement dated 9 July 2020 entered into between the Target Company as borrower and ICBC Macau as lender, which has already been obtained as at the Latest Practicable Date, no other third party consent in relation to the Proposed Disposal is required pursuant to any agreement to which any member of the Group is a party and there are no other consents, approvals or authorisations as described under paragraph 1.4.2(b) in this circular which are required.

Completion shall take place on the date falling within five Business Days after the date on which all the Conditions are satisfied or, where permitted, waived by the Purchaser or the Seller and the Manager (as the case may be) or at such other time and on such other date as the Seller, the Manager and the Purchaser may agree, but in any event no later than ten Business Days after the date on which all the Conditions are satisfied or, where permitted, waived by the Purchaser or the Seller and the Manager (as the case may be).

LETTER TO THE UNITHOLDERS

1.5 Financial Resources

The total cash payment obligation of New Century REIT in relation to the Proposed Interim Distribution (as to HK\$778,190,672) and payment for the Disposal Costs (as to an estimated amount not exceeding HK\$15.0 million (equivalent to approximately RMB13.5 million)), in aggregate, is expected to be HK\$793,190,672 (equivalent to approximately RMB713,363,963). Out of the total cash payment obligation of HK\$793,190,672 (equivalent to approximately RMB713,363,963), HK\$723,190,672 (equivalent to approximately RMB650,408,763) would be financed by the Cash Consideration and the remaining balance of HK\$70,000,000 (equivalent to approximately RMB62,955,200) would be financed by the Cash Reserves.

Huge Harvest intends to finance the Cash Consideration through term loan facilities made available to Huge Harvest by China Merchant Bank, Bank of Shanghai and internal cash resources of Huge Harvest. As at the Latest Practicable Date, New Century REIT have already deposited the Cash Reserves with an amount of HK\$70,000,000 (equivalent to approximately RMB62,955,200) in a designated bank account in the name of the Trustee with Deutsche Bank AG, Hong Kong Branch.

China Galaxy has been appointed as the financial adviser to Huge Harvest. China Galaxy is satisfied that (i) sufficient financial resources are available to Huge Harvest for the payment of the Cash Consideration for the Proposed Disposal in full, and (ii) taking into account the Cash Consideration (net of the Disposal Costs) and the Cash Reserves, sufficient financial resources are available to New Century REIT for the payment of the Proposed Interim Distribution in full.

1.6 Use of Proceeds from the Proposed Disposal

New Century REIT will distribute the aggregate of the Cash Consideration and the Cash Reserves, less the Disposal Costs, to the Unitholders as part of the Proposed Interim Distribution as described in the section headed “3 Proposed Interim Distribution and 2020 Annual Distribution” of this circular.

LETTER TO THE UNITHOLDERS

2 PROPOSED TERMINATION, PROPOSED LIQUIDATION, PROPOSED DELISTING AND PROPOSED DEAUTHORISATION

2.1 Rationale for the Proposed Termination, the Proposed Liquidation, the Proposed Delisting and the Proposed Deauthorisation

Given the Disposed Group, as at the Latest Practicable Date, contains all of the operating businesses and assets of the Group, the Board is of the view that following completion of the Proposed Disposal and the Proposed Interim Distribution, it is not anticipated that any assets will remain in New Century REIT, save for the remaining cash for the purpose of payment of the Disposal Costs in an estimated amount of not exceeding HK\$15.0 million (equivalent to approximately RMB13.5 million). Accordingly, New Century REIT would have no remaining operating real estate assets to fulfil the criteria for operating as a REIT in accordance with the REIT Code and therefore, New Century REIT should be terminated and liquidated in accordance with the REIT Code and the Units should consequently be delisted from trading on the Stock Exchange and New Century REIT should be deauthorised in accordance with applicable regulatory requirements. As the termination and the consequential liquidation and delisting are natural results of the Proposed Disposal, the Board understands that the Proposed Disposal should be treated as part and parcel of the Proposed Termination, the Proposed Liquidation and the Proposed Delisting. The Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting are subject to the Independent Unitholders' approval by the Approval Threshold at the EGM.

In compliance with the REIT Code, upon Independent Unitholders' approval of the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting, New Century REIT shall cease to create, cancel or sell Units. Trading in the Units on the Stock Exchange will be permitted for a specified period following the EGM, following which the Manager intends to apply for a suspension of trading of Units on the Stock Exchange until New Century REIT is delisted and deauthorised. Details of the trading arrangement, including the last trading day of the Units and the latest date and time for lodging transfers of the Units to qualify for entitlement of the Proposed Interim Distribution are included in the section headed "Indicative Timetable" in this circular.

2.2 Effective date and conditions to the Proposed Termination

Subject to compliance with the REIT Code and the Trust Deed, the date of the Proposed Termination shall be the first Business Day following the satisfaction of all the below conditions:

- (a) the approval of the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting by the Independent Unitholders at the EGM;

LETTER TO THE UNITHOLDERS

- (b) the Completion; and
- (c) the payment of the Proposed Interim Distribution.

2.3 Details of the Proposed Liquidation

The Board proposes, following the Proposed Termination becoming effective, to liquidate New Century REIT in accordance with the Trust Deed and the REIT Code.

In compliance with 11.8 to 11.10 of the REIT Code and the Trust Deed, following termination of New Century REIT, the Trustee shall, as part of the process of liquidation of New Century REIT, oversee the realisation of any remaining assets of New Century REIT by the Manager, and the Trustee shall ensure that, after paying all outstanding liabilities and providing adequate provisions for liabilities, the proceeds from such realisation are distributed to the Unitholders proportionately to their respective interests in New Century REIT at the date of the Proposed Termination, and shall ensure the Manager's management and liquidation of New Century REIT is in accordance with the REIT Code and provisions of the Trust Deed.

All the Unitholders whose names appear on the register of Unitholders on the Final Record Date will be entitled to participate on a pro-rata basis in any proceeds derived from the Proposed Liquidation available for distribution to the Unitholders after any creditors and the costs of the winding up have been paid (including those arising from the realisation of any remaining assets of New Century REIT referred to in the preceding paragraph). Save for the remaining cash for the purpose of payment of the Disposal Costs in an estimated amount of HK\$15.0 million, it is not anticipated that any assets will remain in New Century REIT following the completion of the Proposed Disposal and the Proposed Interim Distribution. In the event that the Disposal Costs exceed HK\$15.0 million, Huge Harvest has undertaken to the Manager and the Trustee to bear any Disposal Costs exceeding such amount of HK\$15.0 million. Please refer to the section headed "Indicative Timetable" in this circular for details of the relevant book closure period to determine Unitholders entitled to receive the final payment of proceeds (if any) derived from the Proposed Liquidation.

In accordance with Note 2 of 11.8 of the REIT Code, the Trustee shall ensure that the liquidation of New Century REIT is completed within 12 months from the effective date of the Proposed Termination. Where the Trustee considers it is in the best interests of the Unitholders, the liquidation of New Century REIT may be completed within such longer period (in total not to exceed 24 months) as the Trustee deems appropriate. Unitholders shall be informed by way of announcement in such event.

LETTER TO THE UNITHOLDERS

In compliance with 11.9 and 11.10 of the REIT Code, while New Century REIT is being wound up, the Manager shall continue to prepare its annual report(s) and semi-annual report(s), and on completion of the liquidation of New Century REIT, the following shall be prepared:

- (a) the Manager's review and comments on the performance of New Century REIT, and an explanation as to how the investment properties have been disposed of, the transaction prices and major terms of the Proposed Disposal;
- (b) a report from the Trustee that the Manager has managed and liquidated New Century REIT in accordance with the REIT Code and the provisions of the Trust Deed (as applicable);
- (c) financial statements of New Century REIT; and
- (d) an auditor's report.

Further, in compliance with 11.11 of the REIT Code, copies of the audited financial statements of New Century REIT shall be distributed to Unitholders within three months of the completion of the liquidation of New Century REIT and a copy shall be filed with the SFC.

2.4 Conditions to the Proposed Delisting

Subject to the condition that the Proposed Termination and the Proposed Liquidation becomes effective, the Manager will make an application to the Stock Exchange to withdraw the listing of the Units on the Stock Exchange for the purpose of the Proposed Delisting.

2.5 Assets Valuation of New Century REIT

For the purpose of complying with Rule 11 of the Takeovers Code and 11.4(e) of the REIT Code, the Property Valuation Report of the investment properties of New Century REIT as at 31 December 2020 is set out in Appendix V to this circular.

2.6 Alternatives available to Unitholders

In the event that the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting are not approved by the Independent Unitholders, the Board will reconsider other strategic investment options for New Century REIT in accordance with its investment policy, objectives and strategy. There are currently no negotiations or agreements relating to another transaction, and there is no certainty that another transaction would be proposed or pursued by the Board.

LETTER TO THE UNITHOLDERS

3 PROPOSED INTERIM DISTRIBUTION AND 2020 ANNUAL DISTRIBUTION

The Board has resolved for the aggregate of the Consideration and the Cash Reserves, less the Disposal Costs, to be distributed within seven Business Days after Completion pursuant to Rule 20.1 of the Takeovers Code on a pro rata basis to the Unitholders whose names appear on the register of Unitholders on the Final Record Date in cash by way of the Proposed Interim Distribution (except for the Purchaser and the Manager which have agreed to offset their respective entitlement against the Consideration pursuant to the Agreement) in accordance with the Trust Deed and the REIT Code. As a result, the Proposed Interim Distribution will amount to HK\$1,976,018,274 (equivalent to approximately RMB1,777,151,795), of which the amount of HK\$1,197,827,602 (equivalent to approximately RMB1,077,278,232) payable by the Seller to the Purchaser and the Manager shall be offset against the Consideration and the balance payment of HK\$778,190,672 (equivalent to approximately RMB699,873,563) in relation to the Proposed Interim Distribution would be distributed in cash to other Unitholders (save for the Purchaser and the Manager).

Pursuant to 7.12 of the REIT Code, New Century REIT shall distribute to its Unitholders as dividends each year an amount not less than 90% of its audited annual net income after tax. As set out in the Profit Warning Announcement, based on the preliminary assessment of the unaudited management accounts of New Century REIT Group, the Board does not currently expect that New Century REIT will record any distributable income or to declare any final distribution for the year ended 31 December 2020. However, in the event where, based on New Century REIT's audited financial statements for the year ended 31 December 2020 (which are expected to be published on or before 31 March 2021), New Century REIT shall have any audited annual net income after tax for the year ended 31 December 2020, the Manager shall declare and pay the 2020 Annual Distribution to Unitholders in compliance with 7.12 of the REIT Code. Under such circumstances, Huge Harvest has undertaken that, should New Century REIT not have sufficient cash to fulfill such obligations under Rule 7.12 of the REIT Code after the payment of the Proposed Interim Distribution and setting aside the Disposal Costs of HK\$15.0 million, it will bear the obligation to pay the 2020 Annual Distribution (if any). For the avoidance of doubt, the 2020 Annual Distribution will not be deducted from the Proposed Interim Distribution in the event that the 2020 Annual Distribution is declared and paid.

Pursuant to the Agreement, save for the Proposed Interim Distribution and the 2020 Annual Distribution (if any), the Manager will not declare, pay or make any other dividends or other distributions to the Unitholders from the date of the Agreement to the Completion Date.

The Proposed Interim Distribution will comprise HK\$2.000 in cash for every Unit.

LETTER TO THE UNITHOLDERS

Settlement of the entitlement to the Proposed Interim Distribution and other payments due to the Unitholders (except for the Purchaser and the Manager which have agreed to offset their respective entitlement against the Consideration pursuant to the Agreement) will be implemented in full in accordance with the terms of the Proposals, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Purchaser may otherwise be, or claim to be, entitled against any of the Unitholders.

For illustrative purposes, the following table sets out further details on and calculations in relation to the Proposed Interim Distributable payable to Unitholders and other cash payment obligations of New Century REIT:

Proposed Interim Distribution payable

	<i>HK\$</i>
Consideration	1,921,018,274
<i>Add:</i> Cash Reserves	70,000,000
<i>Less:</i> Disposal Costs	<u>(15,000,000)</u>
Total Proposed Interim Distribution payable	<u><u>1,976,018,274</u></u> <i>(Notes 1 & 2)</i>

Sources of fund of the Proposed Interim Distribution

(i) From the Consideration:

	<i>HK\$</i>
Entitlement of Huge Harvest and the Manager to the Proposed Interim Distribution	1,197,827,602
Cash Consideration (A)	<u>723,190,672</u>
Sub-total	1,921,018,274
(ii) From Cash Reserves (B)	<u>55,000,000</u>
Total Proposed Interim Distribution payable	<u><u>1,976,018,274</u></u>

LETTER TO THE UNITHOLDERS

Total cash payment obligations of New Century REIT

HK\$

Proposed Interim Distribution payable to Unitholders (other than Huge Harvest and the Manager) (A) + (B)	778,190,672
Disposal Costs	<u>15,000,000</u>
Total cash payment obligations of New Century REIT	<u>793,190,672</u> <i>(Note 3)</i>

Notes:

1. Of the total amount of the Proposed Interim Distribution payable by New Century REIT, Huge Harvest and the Manager are collectively entitled to an aggregate sum of HK\$1,197,827,602, whereas an aggregate sum of HK\$778,190,672 is payable to other Unitholders.
2. Based on there being 988,009,137 outstanding issued Units as at the Latest Practicable Date, the Proposed Interim Distribution shall be HK\$2.000 for every Unit.
3. The total cash payment obligations of New Century REIT arising from the Proposals is therefore expected to be HK\$793,190,672, comprising (i) HK\$778,190,672 Proposed Interim Distribution payable to the Unitholders, other than Huge Harvest and the Manager; and (ii) the Disposal Costs in the estimated amount of HK\$15.0 million.

3.1. Comparisons of Value

The Proposed Interim Distribution of HK\$2.000 in value for each Unit represents:

- a premium of approximately 14.3% over the last trading price of HK\$1.750 per Unit as quoted on the Stock Exchange on the Last Trading Date;
- a premium of approximately 22.7% over the average closing price of approximately HK\$1.630 per Unit as quoted on the Stock Exchange for the past 5 trading days up to and including the Last Trading Date;
- a premium of approximately 34.0% over the average closing price of approximately HK\$1.493 per Unit as quoted on the Stock Exchange for the past 30 trading days up to and including the Last Trading Date;

LETTER TO THE UNITHOLDERS

- a premium of approximately 52.6% over the average closing price of approximately HK\$1.310 per Unit as quoted on the Stock Exchange for the past 60 trading days up to and including the Last Trading Date;
- a premium of approximately 61.6% over the average closing price of approximately HK\$1.238 per Unit as quoted on the Stock Exchange for the past 90 trading days up to and including the Last Trading Date;
- a premium of approximately 73.9% over the average closing price of approximately HK\$1.150 per Unit as quoted on the Stock Exchange for the past 180 trading days up to and including the Last Trading Date;
- a discount of approximately 22.0% to the audited consolidated net assets attributable to the Unitholders of approximately HK\$2.5635 per Unit as at 31 December 2019 (as disclosed in New Century REIT's annual report for the year ended 31 December 2019);
- a discount of approximately 1.8% to the unaudited adjusted consolidated net assets attributable to the Unitholders of approximately HK\$2.0375 per Unit as at 31 December 2019 (based on the unaudited adjusted consolidated net assets attributable to Unitholders of approximately RMB1,772.5 million (equivalent to approximately HK\$1,978.6 million) as at 31 December 2019 (after taking into account the appraised value of New Century REIT's investment properties as at 31 December 2020 netting off the deferred tax impact and non-controlling interests), the total number of Units in issue as at 31 December 2019 and the prevailing exchange rate as at 31 December 2019 of RMB0.8958 to HK\$1);
- a premium of approximately 2.5% over the unaudited consolidated net assets attributable to the Unitholders of approximately HK\$1.9519 per Unit as at 30 June 2020 (based on the unaudited consolidated net assets attributable to the Unitholders of approximately RMB1,734.4 million (equivalent to approximately HK\$1,928.5 million) as at 30 June 2020 and the total number of Units in issue as at the Latest Practicable Date);

LETTER TO THE UNITHOLDERS

- a premium of approximately 7.8% over the unaudited adjusted consolidated net assets attributable to the Unitholders (after taking into account the appraised value of New Century REIT's investment properties as at 31 December 2020 netting off the deferred tax and non-controlling interests (the "**Latest Adjusted NAV**") of approximately HK\$1.8550 per Unit as at 30 June 2020) (based on the Latest Adjusted NAV of RMB1,648.3 million (equivalent to approximately HK\$1,832.8 million) as at 30 June 2020 and the total number of Units in issue as at the Latest Practicable Date);
- a premium of approximately 0.4% over the Latest Adjusted NAV of approximately HK\$1.9919 per Unit as at 30 June 2020 (based on the Latest Adjusted NAV of approximately RMB1,648.3 million as at 30 June 2020, the total number of Units in issue as at the Latest Practicable Date, and the exchange rate of RMB0.83754 to HK\$1, being the central parity rate as quoted by the People's Bank of China, as at the Latest Practicable Date); and
- a premium of approximately 0.5% over the closing price of approximately HK\$1.990 per Unit as quoted on the Stock Exchange on the Latest Practicable Date.

Highest and Lowest Prices

During the Relevant Period, the highest closing price and the lowest closing price of Units as quoted on the Stock Exchange was HK\$2.01 per Unit on 25 February 2021 and HK\$1.020 per Unit on 28 July 2020, respectively.

3.2. Overseas Unitholders

The Proposed Interim Distribution to Unitholders (except for the Purchaser and the Manager) not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Unitholders reside. Such Unitholders should take note of and observe any applicable legal, tax or regulatory requirements.

It is the responsibility of any overseas Unitholders wishing to accept the Proposed Interim Distribution to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection with such acceptance (including the obtaining of any governmental, exchange control or other consents which may be required or the compliance with other necessary formalities) and the payment of any issue, transfer or other taxes due in any such jurisdiction.

LETTER TO THE UNITHOLDERS

4 FINANCIAL INFORMATION AND FINANCIAL IMPACT ON NEW CENTURY REIT IN RELATION TO THE PROPOSED DISPOSAL

4.1. Financial Information on the Disposed Group

Following the Completion, New Century REIT will cease to hold any interest in the Disposed Group which constitutes all of the operating businesses and assets of the Group. A summary of the audited financial information of each of the Target Company, Strong Tower, New Century REIT Hong Kong I and their respective subsidiaries for each of the three financial years ended 31 December 2017, 31 December 2018 and 31 December 2019 and eleven months ended 30 November 2020 are set out below:

Target Group

	Year ended 31 December			11 months ended 30 November
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)	(audited)
Net profit/(losses) (before taxation and extraordinary items)	253,974	89,500	(85,612)	(661,853)
Net profit/(losses) (after taxation and extraordinary items)	166,796	5,216	(113,203)	(554,273)

Strong Tower Group

	Year ended 31 December			11 months ended 30 November
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)	(audited)
Net profit/(losses) (before taxation and extraordinary items)	49,335	(11,158)	7,519	(4,519)
Net profit/(losses) (after taxation and extraordinary items)	2,542	(9,258)	7,519	(4,519)

LETTER TO THE UNITHOLDERS

New Century REIT Hong Kong I Group

	Year ended 31 December			11 months ended 30 November
	2017	2018	2019	2020
	<i>RMB'000</i> (audited)	<i>RMB'000</i> (audited)	<i>RMB'000</i> (audited)	<i>RMB'000</i> (audited)
Net profit/(losses) (before taxation and extraordinary items)	5,211	39,606	70,193	327
Net profit/(losses) (after taxation and extraordinary items)	3,831	29,731	69,000	327

The aggregated financial information of the Disposed Group for each of the three financial years ended 31 December 2017, 31 December 2018 and 31 December 2019 and eleven months ended 30 November 2020 are set out below:

	Year ended/As at 31 December			11 months ended/As at 30 November
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total assets (after intra-group elimination)	5,472,259	5,635,634	5,376,927	4,352,166
Net asset value attributable to equity holders	2,404,023	2,334,110	2,144,196	1,576,358
Net profit/(losses) (before taxation)	308,520	117,948	(7,900)	(666,045)
Net profit/(losses) (after taxation)	173,169	25,689	(36,684)	(558,465)

Please refer to the accountant's reports as set out in Appendix IIA, IIB and IIC to this circular for further financial information on the Disposed Group.

LETTER TO THE UNITHOLDERS

4.2. Financial Impact of the Proposed Disposal

The Manager estimates the Disposal Costs to be not exceeding HK\$15.0 million (equivalent to approximately RMB13.5 million). Based on the Disposal Costs, the Consideration and the aggregated unaudited net asset value of the Disposed Group attributable to equity holders as at 30 June 2020, according to the unaudited pro forma financial information of the Group as set out in Appendix III to this circular, it is estimated that New Century REIT may record an unaudited disposal gain of approximately RMB70.6 million (equivalent to approximately HK\$78.5 million) as if the Proposed Disposal had been completed on 30 June 2020. For further details, please refer to Note 5 to the unaudited pro forma financial information of the Group as set out on page III-10 of this circular. The actual amount of disposal gain or loss to be recognised would be subject to the actual amount of net asset value of the Disposed Group as at the Completion Date.

Upon completion of the Proposed Disposal, the Target Company will cease to be a subsidiary of New Century REIT and the results of the Disposed Group will cease to be consolidated into the accounts of New Century REIT. Accordingly, New Century REIT will no longer have any interests in the Disposed Group.

According to Note 5 to the unaudited pro forma financial information of the Group as set out on page III-10 to this circular, assuming the Proposed Disposal (including the Proposed Interim Distribution) had been completed on 30 June 2020, and taking into account the payment of the Disposal Costs in an estimated amount of not exceeding HK\$15.0 million (equivalent to approximately RMB13.5 million), New Century REIT will not have any remaining assets or liabilities. For further details, please refer to the unaudited pro forma consolidated balance sheet of the Group as set out on pages III-2 to III-3 of this circular. Given New Century REIT would have no remaining operating real estate assets following completion of the Proposed Disposal, New Century REIT is not expected to have any future revenue or source of income. For further details on the unaudited pro forma financial information of the Group, please refer to Appendix III to this circular.

5 INFORMATION ON NEW CENTURY REIT, HUGE HARVEST AND THE DISPOSED GROUP

5.1. New Century REIT

New Century REIT is a Hong Kong collective investment scheme constituted as a unit trust authorised under section 104 of the SFO and was established under the Trust Deed between the Manager and the Trustee. New Century REIT and its subsidiaries are mainly engaged in the leasing of hotel properties in the PRC.

As at the Latest Practicable Date, the Manager and the Trustee are New Century Asset Management Limited and DB Trustees (Hong Kong) Limited, respectively.

LETTER TO THE UNITHOLDERS

Unitholding Structure of New Century REIT

The table below sets out the unitholding structure of New Century REIT as at Latest Practicable Date and immediately upon Completion.

	As at the Latest Practicable Date		Upon Completion	
	Number of Units held	Approximate % of unitholding	Number of Units held	Approximate % of unitholding
<i>Purchaser and Purchaser</i>				
<i>Concert Parties</i>				
Huge Harvest	547,551,164	55.42	547,551,164	55.42
Manager	51,362,637	5.20	51,362,637	5.20
Mr. Jin Wenjie ¹	1,679,000	0.17	1,679,000	0.17
Ms. Ho Wai Chu ²	<u>456,000</u>	<u>0.05</u>	<u>456,000</u>	<u>0.05</u>
Subtotal	601,048,801	60.84	601,048,801	60.84
<i>Independent Unitholders</i>				
Skyline Horizon Consortium Ltd. ("Skyline Horizon") ³	139,450,000	14.11	139,450,000	14.11
Other Independent Unitholders	<u>247,510,336</u>	<u>25.05</u>	<u>247,510,336</u>	<u>25.05</u>
Subtotal	<u>386,960,336</u>	<u>39.16</u>	<u>386,960,336</u>	<u>39.16</u>
Total	<u><u>988,009,137</u></u>	<u><u>100.00</u></u>	<u><u>988,009,137</u></u>	<u><u>100.00</u></u>

Notes:

- As at the Latest Practicable Date, Mr. Jin Wenjie is the chairman and a non-executive Director of the Manager.
- As at the Latest Practicable Date, Ms. Ho Wai Chu is the chief executive officer and executive Director of the Manager.
- As at the Latest Practicable Date, Skyline Horizon is indirectly wholly-owned by Mr. Tong JinQuan ("Mr. Tong"), being a former non-executive Director of the Manager. As set out in New Century REIT's announcement dated 31 July 2020, Mr. Tong had resigned as a non-executive Director of the Manager with effect from 31 July 2020 to focus on his other business and work commitments. Mr. Tong (i) was not nominated by Huge Harvest to act as Director of the Manager, (ii) is a third party independent of Huge Harvest, and (iii) is not a concert party to Huge Harvest or any of the Purchaser Concert Parties.

LETTER TO THE UNITHOLDERS

Save for his unitholding in New Century REIT (through Skyline Horizon), it is considered that Mr. Tong has no additional interest or other involvement in the Proposals other than being a Unitholder and his interests are aligned with that of all other Independent Unitholders. Accordingly, Mr. Tong is regarded as independent for the purposes of voting at the EGM and is not required to abstain from voting (through Skyline Horizon) on the Proposals.

5.2. Huge Harvest

Huge Harvest is a company incorporated in the British Virgin Islands on 11 January 2008. Huge Harvest is an investment holding company and is a Substantial Holder of New Century REIT. Through its subsidiaries, Huge Harvest is principally engaged in hotel operation and management in the PRC. As at the Latest Practicable Date, the board of directors of Huge Harvest comprises Mr. Zhang Guanming and Mr. Yeung Shun Tony.

Mr. Chen Miaolin is the only beneficiary of an irrevocable trust with SCTS Capital Pte. Ltd. as nominee shareholder. This irrevocable trust holds 100% of the interests of Poppytown Group Limited, which in turn holds approximately 83.90% of the interests in the Purchaser. Therefore, Mr. Chen Miaolin is effectively an ultimate beneficial owner of Huge Harvest.

Mr. Chen Canrong is the only beneficiary of an irrevocable trust with SCTS Capital Pte. Ltd. as nominee shareholder. This irrevocable trust holds 100% of the interests of Capitilla Worldwide Limited, which in turn holds approximately 9.29% of the interest in the Purchaser. Therefore, Mr. Chen Canrong is effectively an ultimate beneficial owner of Huge Harvest.

Mr. Zhang Guanming is the only beneficiary of an irrevocable trust with SCTS Capital Pte. Ltd. as nominee shareholder. This irrevocable trust holds 100% of the interests of Litewait Worldwide Limited, which in turn holds approximately 6.81% of the interest in the Purchaser. Therefore, Mr. Zhang Guanming is effectively an ultimate beneficial owner of Huge Harvest.

5.3. The Disposed Group

The Target Company is a limited liability company incorporated in the British Virgin Islands and is wholly-owned by New Century REIT. It is incorporated for the sole purpose of holding the entire issued share capital of Spearhead Investments and Sky Town and has no other business activities. Each of the Spearhead Investments and Sky Town is a limited liability company incorporated in Hong Kong and is a wholly-owned subsidiary of the Target Company. Each of the Spearhead Investments and Sky Town is incorporated for the sole purpose of holding the entire equity interest in Zhejiang New Century Hotel and has no other business activities.

LETTER TO THE UNITHOLDERS

Zhejiang New Century Hotel is a foreign invested company incorporated in the PRC and is owned as to 60.05% by Spearhead Investments and 39.95% by Sky Town. Zhejiang New Century Hotel is incorporated for the sole purpose of holding the legal and beneficial title to the Hotel Properties.

The Hotel Properties are located in the PRC. New Century REIT indirectly through Zhejiang New Century Hotel wholly owns the legal and beneficial interest in Hotel 1, Hotel 2, Hotel 4, Hotel 5 and Hotel 6, and is interested in 95.46% of the entire share capital of Zhejiang Spearhead Investment Limited* 浙江銳至投資股份有限公司, which in turn wholly owns the legal and beneficial interest in the Hotel 3.

Strong Tower is a limited liability company incorporated in the British Virgin Islands and is wholly-owned by New Century REIT. It is incorporated for the sole purpose of holding the entire issued share capital of Full Wise and has no other business activities or any material assets and liabilities except for certain intercompany balances. Full Wise is a limited liability company incorporated in Hong Kong and is wholly-owned by Strong Tower. It currently has no business activities or any material assets and liabilities except for certain intercompany balances.

New Century REIT Hong Kong I is a limited liability company incorporated in Hong Kong and is wholly-owned by New Century REIT. It is incorporated for the sole purpose of holding the entire issued share capital of New Century Europe and has no other business activities or any material assets and liabilities except for certain intercompany balances. New Century Europe is a limited liability company incorporated in Luxembourg and is wholly-owned by New Century REIT Hong Kong I. It currently has no business activities or any material assets and liabilities except for an escrow deposit of EUR1,500,000 (equivalent to approximately RMB11,711,400) in a notary's account to serve as a deposit for tax indemnity relating to the disposal of New Century Netherlands I B.V. by the Group that was completed on 28 November 2019 and certain intercompany balances.

5.4. Huge Harvest's intention with regard to the Disposed Group

Huge Harvest is of the view that the Proposed Disposal represents a good investment opportunity for it to gain absolute control over the Disposed Group (which represents all the operating business and assets of the Group). As a result of the Proposed Disposal, it is more effective for Huge Harvest to leverage its experience and expertise in the PRC hotel industry to push forward and execute business plans and strategies to improve and develop the business of the hotel business of the Disposed Group more efficiently.

LETTER TO THE UNITHOLDERS

Following the completion of the Proposed Disposal, Huge Harvest intends to continue with the existing operations of the Disposed Group. Huge Harvest has no intention or concrete plans for any acquisition or disposal of assets and/or business by the Target Company and has no intention to introduce any major changes to the business and/or assets of the Disposed Group, including (i) any redeployment of fixed assets; or (ii) any plan to discontinue the employment of the employees in the Disposed Group (save for the resignation of Ms. Ho Wai Chu as a director of each group company within the Disposed Group).

The Board is pleased to note that following the completion of the Proposed Disposal, Huge Harvest intends to continue with the existing operations of the Disposed Group and does not intend to introduce any major changes to the business operations of the Disposed Group, including any redeployment of fixed assets or any plan to discontinue the employment of the employees in the Disposed Group (save for the resignation of Ms. Ho Wai Chu as a director of each group company within the Disposed Group).

6 IMPLICATIONS UNDER THE REIT CODE, THE TRUST DEED, THE LISTING RULES AND THE TAKEOVERS CODE

Application of Note 7 to Rule 2 of the Takeovers Code and commencement of the Offer Period

Pursuant to Note 7 to Rule 2 of the Takeovers Code, if a company proposes to dispose of its assets and there is a proposal to withdraw the company's listing on the Stock Exchange, the Executive would normally apply Rule 2.10 and other requirements of the Takeovers Code. Therefore, the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting would need to be approved by the Approval Threshold.

Pursuant to the Takeovers Code, the Offer Period has commenced on the date of the Joint Announcement and will end on the date of the Completion or the date on which the Proposals lapse.

Independent Unitholders' approval required

Clause 15 of the Trust Deed requires any connected party transaction to be carried out in accordance with the provisions of the REIT Code and any conditions (including any conditions of waivers or exemptions from the operation of the REIT Code granted by the SFC from time to time) imposed by the SFC from time to time. Under 8.1 of the REIT Code, connected persons of New Century REIT include, among others, a Substantial Holder and its associated companies. Huge Harvest has an effective interest in more than 10% of the Units and therefore is a Substantial Holder of New Century REIT. Accordingly, the Proposed Disposal constitutes a connected party transaction of New Century REIT under 8.5 of the REIT Code. As such, the Proposed Disposal is subject to the reporting,

LETTER TO THE UNITHOLDERS

announcement and Independent Unitholders' approval requirements under 8.7A of the REIT Code. 8.7A of the REIT Code requires all connected party transactions to be regulated with reference to Chapter 14A of the Listing Rules.

Further, pursuant to 11.1 of the REIT Code, termination of New Century REIT shall be subject to Unitholders' approval by special resolution at the EGM. As the termination and the consequential liquidation and delisting are natural results of the Proposed Disposal, the Proposed Disposal should be treated as part and parcel of the Proposed Termination, the Proposed Liquidation and the Proposed Delisting. Therefore, the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting are subject to the Independent Unitholders' approval by the Approval Threshold at the EGM.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Proposed Disposal is more than 75%, the Proposed Disposal constitutes a very substantial disposal transaction of New Century REIT and accordingly, are subject to the reporting, announcement and Unitholders' approval requirements under 10.10B of the REIT Code and Chapter 14 of the Listing Rules as if applicable to REITs.

Restrictions on voting

8.7F of the REIT Code requires that where a Unitholder has a material interest in the transaction tabled for approval, and that interest is different from that of all other Unitholders, such Unitholder shall abstain from voting at the general meeting. Under paragraph 3.2 of Schedule 1 to the Trust Deed, where a Unitholder has a material interest in the transaction tabled for approval at a meeting of Unitholders, and that interest is different from the interests of other Unitholders, such Unitholder shall be prohibited from voting his/her/its Units at, or being counted in the quorum for, such meeting.

Therefore, in compliance with the REIT Code, the Listing Rules, the Takeovers Code and the Trust Deed, the Board proposes to submit the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting for the Independent Unitholders' approval at the EGM by way of a combined resolution and will apply the Approval Threshold to the combined resolution. Huge Harvest (which held 547,551,164 Units, representing approximately 55.42% of the total number of Units in issue, as at the Latest Practicable Date) and the Purchaser Concert Parties (including the Manager (which held 51,362,637 Units, representing approximately 5.20% of the total number of Units in issue, as at the Latest Practicable Date), Mr. Jin Wenjie (being the chairman and a non-executive Director of the Manager)(who held 1,679,000 Units, representing approximately 0.17% of the total number of Units in issue, as at the Latest Practicable Date) and Ms. Ho Wai Chu (being the chief executive officer and an executive Director of the Manager)(who held 456,000 Units, representing approximately 0.05% of the total number of Units in issue,

LETTER TO THE UNITHOLDERS

as at the Latest Practicable Date)) will abstain from voting at the EGM in respect of the resolution in relation to the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting.

Waiver from public auction requirement under the REIT Code

Note (1) of 11.8 of the REIT Code requires all real estate held by the scheme to be disposed of through public auction or any form of open tender. In accordance with 11.13 of the REIT Code, the Proposed Delisting will be carried out in full compliance of all rules and regulations regarding withdrawal of listing applicable to New Century REIT (which in the circumstances would be the REIT Code, the Takeovers Code and the Listing Rules), amongst which, the Proposed Disposal, Proposed Termination, Proposed Liquidation and Proposed Delisting are subject to the Independent Unitholders' approval by the Approval Threshold. Taking into account that (i) the consideration of the Proposed Disposal will be determined at the time Independent Unitholders are asked to approve the Proposed Disposal, Proposed Termination, Proposed Liquidation and Proposed Delisting; (ii) the consideration of the Proposed Disposal, together with the basis upon which the consideration is determined, have been disclosed in this circular; (iii) the opinions and recommendations of the Independent Board Committee and the Independent Financial Adviser (including the principal factors taken into consideration, and assumptions and qualifications adopted by the Independent Financial Adviser in arriving at such opinion) have been included in this circular; and (iv) the Property Valuation Report is included as Appendix V to this circular for Independent Unitholders' attention and consideration, in satisfying the above conditions (i) to (iii), together with the full compliance of all rules and regulations applicable to New Century REIT in accordance with 11.13 of the REIT Code, the Independent Unitholders would have been provided with the opportunity to reach an informed decision on the Proposed Disposal (and subsequent Proposed Termination, Proposed Liquidation and Proposed Delisting), and as such, the interest of the Unitholders would be sufficiently safeguarded.

Accordingly, an application for a waiver from strict compliance with the aforementioned public auction requirements under Chapter 11 of the REIT Code has been made to the SFC. The the SFC has granted such waiver on 16 March 2021 subject to the following conditions:

- (a) due approval by the Independent Unitholders of the Proposed Disposal, Proposed Termination, Proposed Liquidation and Proposed Delisting by the Approval Threshold at the EGM, without any material amendment thereto, and Completion taking place;
- (b) the consideration for the Proposed Disposal will be determined at the time Independent Unitholders are asked to approve the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting;

LETTER TO THE UNITHOLDERS

- (c) disclosure of the consideration for the Proposed Disposal (including the basis of determining such consideration) will be made in this circular;
- (d) the opinions and recommendations of the Independent Board Committee and the Independent Financial Adviser (including the principal factors taken into consideration, and assumptions and qualifications adopted by the Independent Financial Adviser in arriving at such opinion) will be disclosed in this circular; and
- (e) there shall not be any material change in circumstances as set out or represented to the SFC in the application for waiver dated 26 January 2021 and this circular based on which the waiver is sought and granted.

7 REASONS FOR AND BENEFITS OF THE PROPOSALS

New Century REIT was constituted in June 2013 as the first PRC-based hotel REIT in the world to hold an investment portfolio of hotel assets primarily in the PRC. New Century REIT focused its strategy on investing on a long-term basis in a diversified portfolio of income-producing real estate globally, with the aim of delivering regular, stable and high distributions to the Unitholders and achieving long-term growth in distributions and portfolio valuation while maintaining an appropriate capital structure.

However, the hospitality industry in PRC has been challenging in recent years and is expected to be challenging in the short to medium term given the novel coronavirus pneumonia epidemic. For illustration purpose, the total distributable income for New Century REIT has decreased from approximately RMB108.7 million (equivalent to approximately HK\$120.9 million) for the year ended 31 December 2017 to approximately RMB51.0 million (equivalent to approximately HK\$56.7 million) and approximately RMB68.9 million (equivalent to approximately HK\$76.6 million) for the years ended 31 December 2018 and 2019 respectively. For the six months ended 30 June 2020, New Century REIT recorded an adjusted loss of approximately RMB7.0 million (equivalent to approximately HK\$7.8 million). As a result, total distributions to Unitholders have decreased from approximately RMB130.9 million (equivalent to approximately HK\$145.5 million) for the year ended 31 December 2017 to approximately RMB95.9 million (equivalent to approximately HK\$106.6 million) and approximately RMB62.0 million (equivalent to approximately HK\$68.9 million) for the years ended 31 December 2018 and 2019 respectively, and no distributions were paid for the six months ended 30 June 2020.

Since second half of 2020, the PRC government started to roll out the vaccination programme, but the overall COVID-19 vaccination rate in the PRC was still relatively low as of the end of January 2021. In addition, there were resurgence of COVID-19 cases and the lockdown policy in certain areas in the PRC in early 2021. It follows that the overall economic and business recovery in PRC (especially the hospitality industry) may be negatively affected in the short to medium term.

LETTER TO THE UNITHOLDERS

Further, since the listing of New Century REIT in July 2013, the market price of the Units broadly exhibited a downward trend, from the initial offering price of HK\$3.500 per Unit to a low of HK\$0.950 in March 2020, before an increase from the level of approximately HK\$1.100 in early December 2020 to HK\$1.750 as at the Last Trading Date. During the same period, New Century REIT's market capitalisation decreased from approximately HK\$2.7 billion (equivalent to approximately RMB2.4 billion) on the first trading day to a low of approximately HK\$0.9 billion (equivalent to approximately RMB0.8 billion) before rising back to approximately HK\$1.7 billion (equivalent to approximately RMB1.5 billion) as at the Last Trading Date. As at the Last Trading Date, the market price of the Units was trading at a discount of approximately 10.3% to its net asset value attributable to Unitholders per Unit of approximately RMB1.7555 as at 30 June 2020 (equivalent to approximately HK\$1.9519) based on the total number of Units in issue as at the Last Trading Date. There is also limited liquidity in the Units with an average daily trading value of approximately HK\$158,000, HK\$62,000, HK\$58,000 and HK\$57,000 respectively for the past 30, 90, 180 trading days, and for the past three years up to and including the Last Trading Date, representing approximately 0.011%, 0.005%, 0.005% and 0.004% of the average market capitalisation of New Century REIT during the respective periods. Such low liquidity hinders the ability of the Manager to raise funds from public equity market which no longer serves as a viable source of funding for developing the New Century REIT's business and at the same time deters the Unitholders from realizing its Units on open market.

As such, the Board is of the view that the Proposals will provide the Independent Unitholders with an opportunity to realise their investments in New Century REIT for cash at a premium to the trading price of the Units. The Proposed Interim Distribution of HK\$2.000 per Unit represents (i) a premium of approximately 14.3% over the last trading price of HK\$1.750 per Unit as quoted on the Stock Exchange on the Last Trading Date; (ii) a premium of approximately 34.0%, 61.6% and 73.9% over the average closing prices of HK\$1.493, HK\$1.238 and HK\$1.150 as quoted on the Stock Exchange for the past 30, 90 and 180 trading days up to and including the Last Trading Date respectively; and (iii) a premium of approximately 2.5% over the unaudited consolidated net assets attributable to the Unitholders per Unit of approximately HK\$1.9519 as at 30 June 2020 based on the total number of Units in issue as at Latest Practicable Date.

LETTER TO THE UNITHOLDERS

8 INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee (comprising Mr. Angelini Giovanni, Mr. Yu Hon To David and Professor He Jianmin, being the three independent non-executive directors of the Manager) has been formed to advise the Independent Unitholders as to whether the Proposals are, in each case, fair and reasonable, on normal commercial terms or better, in the ordinary and usual course of business, and in the interests of New Century REIT, the Independent Unitholders and the Unitholders as a whole and to make recommendations to the Independent Unitholders as to voting. Pursuant to Rule 2.8 of the Takeovers Code, the Independent Board Committee should comprise all non-executive Directors who have no direct or indirect interest in the Proposals. Mr. Jin Wenjie (being a non-executive Director) and Mr. Zhang Guanming (being a non-executive Director and a director of Huge Harvest), are presumed to be acting in concert with the Purchaser. Accordingly, they are regarded as being interested in the Proposals for the purpose of Rule 2.8 of the Takeovers Code and are hence not members of the Independent Board Committee. The Independent Board Committee's advice is set out in the "Letter from the Independent Board Committee" in this circular.

The Independent Financial Adviser has been appointed by the REIT Manager to advise the Independent Board Committee, the Independent Unitholders and the Trustee on the Proposals. Such appointment has been approved by the Independent Board Committee pursuant to Rule 2.1 of the Takeovers Code. Details of the Independent Financial Adviser's opinion, together with the principal factors taken into consideration, and assumptions and qualifications in arriving at such opinion and also the Independent Financial Adviser's recommendation, are set out in the "Letter from the Independent Financial Adviser" in this circular.

9 DIRECTORS' AND TRUSTEE'S VIEWS

Opinion of the Board

The Directors (other than members of the Independent Board Committee who have expressed their view in the "Letter from the Independent Board Committee" set out in this circular after receiving advice from the Independent Financial Adviser), having considered various factors, are of the view that the Proposed Disposal, the Proposed Termination, the Proposed Liquidation, the Proposed Delisting and the Proposed Interim Distribution are fair and reasonable and in the interests of New Century REIT, the Independent Unitholders and the Unitholders as a whole.

The Board therefore recommends that the Independent Unitholders to vote at the EGM in favour of the resolution to approve the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting.

LETTER TO THE UNITHOLDERS

Opinion of the Trustee

Based and in sole reliance on: (i) the recommendations and view of the Board in this circular and the information and assurances provided by the Manager; (ii) the Letter from the Independent Financial Adviser; and (iii) the Letter from the Independent Board Committee, the Trustee, having taken into account its duties set out in the Trust Deed and the REIT Code, is of the view that:

- (a) given that the Manager's strategy for New Century REIT is to invest in a diversified portfolio of income-producing real estate assets globally, with the aim of delivering regular, stable and high distributions to the Unitholders and achieving long-term growth in distributions and portfolio valuation while maintaining an appropriate capital structure, the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting are not consistent with the investment policy of New Century REIT;
- (b) although not in the ordinary and usual course of business of New Century REIT, having regard to the analyses and opinions of the Independent Financial Adviser as set out in the "Letter from the Independent Financial Adviser" in this circular, the Proposed Disposal is on normal commercial terms, fair and reasonable so far as the Independent Unitholders are concerned and in the interests of New Century REIT, the Independent Unitholders, and the Unitholders as a whole; and
- (c) save for the public auction requirement under Note (1) of 11.8 of the REIT Code in respect of which an application for a waiver from strict compliance has been granted by the SFC on 16 March 2021, the manner in which the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting will be carried out, as described in this circular, is in compliance with the REIT Code and the Trust Deed.

The Trustee notes that, under the REIT Code, all connected party transactions of New Century REIT shall be consistent with its investment policy. However, notwithstanding that the Proposed Disposal is not consistent with the investment policy of New Century REIT, due to the feature of the Proposals being to dispose all operating businesses and assets of the Group, on the basis of (b) and (c) above, the Trustee has no objection to the entering into of the transactions contemplated under the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting.

LETTER TO THE UNITHOLDERS

10 PAYMENT OF MANAGER'S FEE TO THE MANAGER

Reference is made to the announcements of New Century REIT dated 30 December 2019 and 2020, respectively. In accordance with the terms of the Trust Deed, the Manager had notified the Trustee in writing of its election for the Base Fee and Variable Fee for the year ended 31 December 2020 and the year ending 31 December 2021 to be paid to the Manager wholly in the form of Units. Pursuant to the terms of the Agreement, Huge Harvest shall not, and shall procure the Manager not to, issue any Units or securities convertible into Units, in the period commencing on the date of the Agreement and ending on the date of payment of the Proposed Interim Distribution. Accordingly, the Manager has agreed to waive the Base Fee and Variable Fee for the period from 1 July 2020 to 31 December 2020 and the year ending 31 December 2021 should Completion take place by no later than ten Business Days after 31 May 2021. On the other hand, if Completion does not take place by no later than ten Business Days after 31 May 2021, the Base Fee and Variable Fee for the period from 1 July 2020 to 31 December 2020 and the year ending 31 December 2021 will remain to be paid to the Manager wholly in the form of Units in accordance with the Manager's original elected method.

11 UNITHOLDING STRUCTURE OF NEW CENTURY REIT AND ARRANGEMENTS MATERIAL TO THE PROPOSALS

As at the Latest Practicable Date, New Century REIT has 988,009,137 Units in issue and New Century REIT has no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) other than its issued Units of 988,009,137 Units.

Huge Harvest confirms that as at the Latest Practicable Date:

- (a) Huge Harvest beneficially owns, controls or have direction over 547,551,164 Units, representing approximately 55.42% of the issued Units;
- (b) Huge Harvest and the Purchaser Concert Parties beneficially own, control or have direction over 601,048,801 Units, representing approximately 60.84% of the issued Units;
- (c) save for a total of 601,048,801 Units (representing approximately 60.84% of the total number of issued Units) held by Huge Harvest and the Purchaser Concert Parties, Huge Harvest and the Purchaser Concert Parties do not hold, own, control or direct any Units, options, derivatives, warrants or other securities convertible into Units;
- (d) the Independent Unitholders beneficially own, control or have direction over 386,960,336 Units, representing approximately 39.16% of the issued Units;
- (e) Huge Harvest and the Purchaser Concert Parties have not entered into any arrangements or contracts in relation to the derivatives in respect of securities in New Century REIT;

LETTER TO THE UNITHOLDERS

- (f) there are no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in New Century REIT which Huge Harvest or any Purchaser Concert Parties has borrowed or lent;
- (g) there is no special deal (as defined under Rule 25 of the Takeovers Code) between Huge Harvest and the Purchaser Concert Parties on one hand and the Independent Unitholders on the other hand; and
- (h) other than the Consideration, Huge Harvest and the Purchaser Concert Parties have not paid or will not pay any other consideration, compensations or benefits in whatever form to the Independent Unitholders in relation to the Proposed Disposal.

As at the Latest Practicable Date:

- (a) save for the Proposals, there are no arrangements (whether by way of option, indemnity or otherwise) of the kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the shares of Huge Harvest or the Units it holds which might be material to the Proposed Disposal;
- (b) there is no agreement or arrangement to which Huge Harvest or any Purchaser Concert Party is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Proposed Disposal; and
- (c) Huge Harvest and the Purchaser Concert Parties have not received any irrevocable commitment to vote in favour of the Proposed Disposal.

As at the Latest Practicable Date, New Century REIT has no other outstanding warrants, options, derivatives, convertibles or other securities in issue which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into the Units.

12 DISCLOSURE OF DEALINGS

Save for (i) the disposal of 2,700,000 Units by Huge Harvest on 3 September 2020 for the consideration of HK\$1.100 per Unit; and (ii) the issue of 10,261,304 Units at the price of HK\$1.105 per Unit to the Manager as payment of the Manager's fee for the period from 1 January 2020 to 30 June 2020 on 25 September 2020, Huge Harvest and the Purchaser Concert Parties have not dealt for value in any Units or any options, warrants, derivatives or securities convertible into the Units or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) during the Relevant Period.

LETTER TO THE UNITHOLDERS

13 THE EGM

A notice convening the EGM to be held at Portion 2, 12/F., The Center, 99 Queen's Road Central, Central, Hong Kong, (Conference Room 1-6) on 12 April 2021 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you are able to attend and vote at the meeting in person, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return it to the Unit Registrar of New Century REIT, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the meeting or any adjournment thereof (as the case may be) should you so wish.

Voting at the EGM will be taken by poll as required under the Takeovers Code. New Century REIT will make an announcement in relation to the results of the EGM and, if the resolution is passed at the EGM, further announcements will be made in relation to, among other things, the Completion and the date of withdrawal of listing of the Units from the Stock Exchange in accordance with the requirements of the Takeovers Code, the REIT Code and the Listing Rules (as if applicable to New Century REIT).

14 CLOSURE OF REGISTER OF UNITHOLDERS

The register of Unitholders will be closed from 7 April 2021 to 12 April 2021 (both dates inclusive) for determining the identity of Unitholders who are entitled to attend and vote at the EGM. No transfer of Units will be registered during this period. In order to be eligible to attend and vote at the EGM, unregistered Unitholders should ensure that all share transfer documents accompanied by the relevant share certificates are lodged with the Unit Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 1 April 2021.

LETTER TO THE UNITHOLDERS

The register of Unitholders will also be closed from 16 April 2021 onwards for determining the identity of Unitholders who are entitled to (i) receive the Proposed Interim Distribution and the 2020 Annual Distribution (if any) and (ii) receive the final payment of proceeds (if any) derived from the Proposed Liquidation. No transfer of Units will be registered from 16 April 2021 onwards. In order to be eligible to receive the Proposed Interim Distribution, unregistered Unitholders should ensure that all share transfer documents accompanied by the relevant share certificates are lodged with the Unit Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 15 April 2021.

15 UNTRACEABLE UNITHOLDERS

It is proposed that the Trustee will, until completion of the Proposed Termination and Proposed Liquidation, hold on trust the amount of the Proposed Interim Distribution, the 2020 Annual Distribution (if any) and any previously declared but unclaimed distributions (other than the final distribution of proceeds (if any) derived from the Proposed Liquidation) which have been or would be payable to Unitholders who are untraceable ("**Unclaimed Distributions**").

For this purpose, a Unitholder will be deemed to be untraceable if: (i) on two consecutive occasions on which a cheque for distribution has been sent to such Unitholder, such cheques have been left uncashed for six months; or (ii) where a cheque for distribution has been sent to such Unitholder but such cheque has been returned undelivered after the first occasion.

The Trustee will hold the Unclaimed Distributions until the completion of the Proposed Termination and Proposed Liquidation. During such time, any persons entitled thereto may contact the Registrar to claim such monies from the Trustee. As the obligations of the Manager and Trustee under the Trust Deed shall only continue until the completion of the Proposed Termination and Proposed Liquidation, the Unclaimed Distributions and the balance of any unclaimed monies after the final distribution of proceeds (if any) derived from the Proposed Liquidation (after deduction of any expenses and costs incurred) shall thereafter be paid into court by the Trustee in accordance with section 62 of the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) within one month of the completion of the Proposed Termination and Proposed Liquidation, and the same shall, subject to the rules of court, be dealt with according to the orders of the court. Except as permitted by the rules of the court, Unitholders who are untraceable shall have no right to obtain payment thereafter.

LETTER TO THE UNITHOLDERS

16 ADDITIONAL INFORMATION

Your attention is drawn to (i) the Profit Warning Announcement, (ii) the letter from PricewaterhouseCoopers relating to the Loss Estimate (the text of which is set out in Appendix IVA to this circular) and (iii) the report from Somerley on the Loss Estimate (the text of which is set out in Appendix IVB to this circular). Your attention is also drawn to the information contained in the appendices to this circular.

Yours faithfully,

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 Manager

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the full text of the letter from the Independent Board Committee



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

19 March 2021

To: Independent Unitholders of New Century REIT

Dear Sir or Madam,

- (1) PROPOSED VERY SUBSTANTIAL DISPOSAL AND CONNECTED PARTY TRANSACTION;**
- (2) PROPOSED TERMINATION, PROPOSED LIQUIDATION, PROPOSED DELISTING AND PROPOSED DEAUTHORISATION OF NEW CENTURY REIT;**
- (3) PROPOSED INTERIM DISTRIBUTION;**
- (4) APPLICATION OF NOTE 7 TO RULE 2 OF THE TAKEOVERS CODE;**
AND
- (5) EXTRAORDINARY GENERAL MEETING AND CLOSURE OF REGISTER OF UNITHOLDERS**

We refer to the circular dated 19 March 2021 jointly issued by Huge Harvest and New Century REIT (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

We have been appointed by the Board to form the Independent Board Committee to consider and to advise the Independent Unitholders as to whether the Proposals, details of which are set out in the “Letter to the Unitholders” of the Circular, are fair and reasonable, on normal commercial terms or better, in the ordinary and usual course of business, and in the interests of the New Century REIT, the Independent Unitholders and the Unitholders as a whole and to make recommendation(s) as to what action the Independent Unitholders should take.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise us in respect of the Proposals. The details of its advice and the principal factors taken into consideration in arriving at its recommendations are set out in the “Letter from the Independent Financial Adviser” of the Circular.

Having considered the terms of the Proposals, taking into account the information contained in the Circular and the opinion of the Independent Financial Adviser (together with the principal factors taken into consideration, and assumptions and qualifications in arriving at such opinion and also the Independent Financial Adviser’s recommendation), we are of the opinion that the Proposals, although not being entered into in the ordinary and usual course of business of New Century REIT, are on normal commercial terms or better, which are fair and reasonable so far as the Independent Unitholders are concerned and in the interests of New Century REIT, the Independent Unitholders and the Unitholders as a whole.

Accordingly, we recommend that the Independent Unitholders vote in favour of the resolution to approve the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting at the EGM.

Yours faithfully,

The Independent Board Committee

Mr. Angelini Giovanni
Independent Non-executive
Director

Mr. Yu Hon To David
Independent Non-executive
Director

Professor He Jianmin
Independent Non-executive
Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from Somerley Capital Limited to the Independent Board Committee, the Independent Unitholders and the Trustee, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED

20th Floor

China Building

29 Queen's Road Central

Hong Kong

19 March 2021

To: the Independent Board Committee, the Independent Unitholders and the Trustee

Dear Sirs,

**(1) PROPOSED VERY SUBSTANTIAL DISPOSAL AND
CONNECTED PARTY TRANSACTION;
(2) PROPOSED TERMINATION, PROPOSED LIQUIDATION,
PROPOSED DELISTING AND PROPOSED DEAUTHORISATION OF
NEW CENTURY REIT; AND
(3) PROPOSED INTERIM DISTRIBUTION**

We refer to our appointment to advise the Independent Board Committee, the Independent Unitholders and the Trustee in respect of the Proposals, details of which are set out in the letter to the Unitholders contained in the circular dated 19 March 2021 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 27 January 2021, the Board announced the Proposals, which comprise:

- (i) the Proposed Disposal: a proposal to sell to Huge Harvest (i.e. the Purchaser) (a) all issued shares in the share capital of the Target Company (i.e. the Sale Shares) and (b) the outstanding amount of the loan as at the Completion Date which is due and owed by the Target Company to New Century REIT pursuant to an interest-free loan facility (i.e. the Sale Loan) by the Trustee (in its capacity as the Seller) at the consideration of HK\$1,921,018,274 (i.e. the Consideration), pursuant to the Agreement. As at the Latest Practicable Date, the Target Company held all issued shares of each of Zhejiang New Century Hotel, Strong Tower and New Century REIT Hong Kong I, and the Disposed Group contained all operating businesses and assets of the Group;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) the Proposed Interim Distribution: subject to Completion, a proposal to distribute the aggregate of the Consideration and the Cash Reserves of New Century REIT, less the relevant estimated costs in respect of the Proposals (i.e. the Disposal Costs), to the Unitholders whose names appear on the register of Unitholders on the Final Record Date on a pro-rata basis within seven Business Days after Completion. The Proposed Interim Distribution will comprise HK\$2.0 in cash for every Unit.
- (iii) the Proposed Termination: a proposal to terminate New Century REIT in accordance with the REIT Code;
- (iv) the Proposed Liquidation: a proposal to liquidate New Century REIT in accordance with the Trust Deed and the REIT Code; and
- (v) the Proposed Delisting: a proposal to delist the Units from trading on the Stock Exchange.

Clause 15 of the Trust Deed requires any connected party transaction to be carried out in accordance with the provisions of the REIT Code and any conditions imposed by the SFC from time to time. Under 8.1 of the REIT Code, connected persons of New Century REIT include, among others, a Substantial Holder and its associated companies. Huge Harvest has an effective interest in more than 10% of the Units and therefore is a Substantial Holder of New Century REIT. Accordingly, the Proposed Disposal constitutes a connected party transaction of New Century REIT under 8.5 of the REIT Code. As such, the Proposed Disposal is subject to the reporting, announcement and Independent Unitholders' approval requirements under 8.7A of the REIT Code. 8.7A of the REIT Code requires all connected party transactions to be regulated with reference to Chapter 14A of the Listing Rules.

Further, pursuant to 11.1 of the REIT Code, termination of New Century REIT shall be subject to Unitholders' approval by special resolution at the EGM. As the termination and the consequential liquidation and delisting are natural results of the Proposed Disposal, the Proposed Disposal should be treated as part and parcel of the Proposed Termination, the Proposed Liquidation and the Proposed Delisting. Therefore, the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting are subject to the Independent Unitholders' approval by the Approval Threshold at the EGM.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Proposed Disposal is more than 75%, the Proposed Disposal constitutes a very substantial disposal transaction of New Century REIT, and accordingly is subject to the reporting, announcement and Unitholders' approval requirements under 10.10B of the REIT Code and Chapter 14 of the Listing Rules as if applicable to REITs.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

8.7F of the REIT Code requires that where a Unitholder has a material interest in the transaction tabled for approval, and that interest is different from that of all other Unitholders, such Unitholder shall abstain from voting at the general meeting. Under paragraph 3.2 of Schedule 1 to the Trust Deed, where a Unitholder has a material interest in the transaction tabled for approval at a meeting of Unitholders, and that interest is different from the interests of other Unitholders, such Unitholder shall be prohibited from voting his/her/its Units at, or being counted in the quorum for, such meeting. Therefore, in compliance with the REIT Code, the Listing Rules, the Takeovers Code and the Trust Deed, the Board proposes to submit the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting for the Independent Unitholders' approval at the EGM by way of a combined resolution and will apply the Approval Threshold to the combined resolution. Huge Harvest and the Purchaser Concert Parties (including the Manager, Mr. Jin Wenjie (being the chairman and a non-executive Director of the Manager) and Ms. Ho Wai Chu (being the chief executive officer and an executive Director of the Manager)) will abstain from voting at the EGM in respect of the resolution in relation to the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting.

The Independent Board Committee (comprising Mr. Angelini Giovanni, Mr. Yu Hon To David and Professor He Jianmin, being the three independent non-executive directors of the Manager) has been formed to advise the Independent Unitholders as to whether the Proposals are, in each case, fair and reasonable, on normal commercial terms or better, in the ordinary and usual course of business, and in the interests of New Century REIT, the Independent Unitholders and the Unitholders as a whole, and to make recommendations to the Independent Unitholders as to voting at the EGM. Pursuant to Rule 2.8 of the Takeovers Code, the Independent Board Committee comprises all non-executive Directors who have no direct or indirect interest in the Proposals. Mr. Jin Wenjie (being a non-executive Director) and Mr. Zhang Guanming (being a non-executive Director and a director of Huge Harvest) are presumed to be acting in concert with the Purchaser. Accordingly, they are regarded as being interested in the Proposals for the purpose of Rule 2.8 of the Takeovers Code and are hence not members of the Independent Board Committee. With the approval of the Independent Board Committee pursuant to Rule 2.1 of the Takeovers Code, we have been appointed to advise the Independent Board Committee, the Independent Unitholders and the Trustee in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

During the past two years, Somerley Capital Limited acted as the independent financial adviser to New Century REIT in relation to certain connected party transactions, details of which are set out in the circular of New Century REIT dated 21 May 2019 and the announcements of New Century REIT dated 8 July 2019 and 6 July 2020. In addition, Somerley Capital Limited currently acts as the independent financial adviser to Zhejiang New Century Hotel Management Co., Ltd. (“**Zhejiang New Century**”, an associate of Mr. Chen Miaolin, one of the ultimate beneficial owner of the Purchaser) in relation to a pre-conditional voluntary conditional offer, details of which are set out in the joint announcement of Kunpeng Asia Limited and Zhejiang New Century dated 20 January 2021. The above engagements were/is limited to providing independent advisory services to New Century REIT and Zhejiang New Century pursuant to the then REIT Code and the Takeovers Code respectively, for which Somerley Capital Limited received or will receive normal professional fees. Accordingly, we do not consider the above engagements give rise to any conflict of interest for Somerley Capital Limited in acting as the Independent Financial Adviser in this case.

Notwithstanding the above engagements, as at the Latest Practicable Date, there were no relationships or interests between (a) Somerley Capital Limited, and (b) New Century REIT, the Purchaser and their respective subsidiaries and associates that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser.

Somerley Capital Limited is independent from, and not associated with, (i) New Century REIT; (ii) the Trustee; (iii) the Manager; (iv) each of the Substantial Holders of New Century REIT; (v) the Purchaser; and (vi) their respective associates (as defined in the REIT Code) and parties acting in concert with any of them. Apart from normal professional fees paid or payable to us in connection with this appointment, and except as disclosed above, no arrangements exist whereby we will receive any fees or benefits from the aforementioned parties.

In formulating our opinion and recommendation, we have reviewed, amongst others, (i) the Agreement, (ii) published information on New Century REIT, including its annual reports for the years ended 31 December 2018 and 2019, its interim report for the six months ended 30 June 2020, as well as the Profit Warning Announcement, (iii) the Property Valuation Report, and (iv) other information in the Circular. We have discussed with the Principal Valuer the valuation methodologies and bases and assumptions for the valuation of the Hotel Properties, as detailed in the section below headed “4. Valuation of the Hotel Properties”. We have discussed with the Directors their statements set out in the section headed “5. Material Change” in Appendix I to the Circular that, save as disclosed in that section, there has been no material change in the financial or trading position or outlook of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up, and up to and including the Latest Practicable Date. We have also reviewed the trading performance of the Units on the Stock Exchange.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Manager and have assumed that the information, facts and opinions provided to us are true, accurate and complete. We have also sought and received confirmation from the Directors and management of the Manager that no material factors have been omitted from the information supplied and opinions expressed to us. We have no reason to doubt the truth, accuracy and completeness of the information provided to us or to believe that any material fact or information has been omitted or withheld. We have not, however, conducted an independent investigation into the affairs of New Century REIT, the Purchaser or any associates or party acting in concert with any of them, nor have we carried out any independent verification of the information supplied. We consider that we have been provided with and have reviewed sufficient information to reach an informed view. We have also assumed that all statements and representations made or referred to in the Circular were accurate and not misleading at the time they were made and will continue to be accurate and not misleading at the time of the EGM. Unitholders will be notified of any material changes during the Offer Period as soon as possible.

We have not considered the tax and regulatory implications as regards the Proposals since these depend on individual circumstances. In particular, the Independent Unitholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE PROPOSALS

The Proposals consist of (i) the Proposed Disposal, (ii) the Proposed Interim Distribution, (iii) the Proposed Termination, (iv) the Proposed Liquidation, and (v) the Proposed Delisting. The principal terms of each element of the Proposals are summarised below. For further details, please refer to the sections headed “1. Proposed Disposal and Connected Party Transaction”, “2. Proposed Termination, Proposed Liquidation, Proposed Delisting and Proposed Deauthorisation” and “3. Proposed Interim Distribution and 2020 Annual Distribution” in the letter to the Unitholders.

The Proposed Disposal – Principal terms of the Agreement

Subject matter

On 26 January 2021, the Agreement was entered into between the Trustee (as the Seller), Huge Harvest (as the Purchaser) and the Manager, pursuant to which the Purchaser has conditionally agreed to purchase, and the Seller has conditionally agreed to sell, (a) the Sale Shares and (b) the Sale Loan. As at the Latest Practicable Date, such Sale Loan amounted to EUR2,936,677 (or approximately HK\$25,494,129).

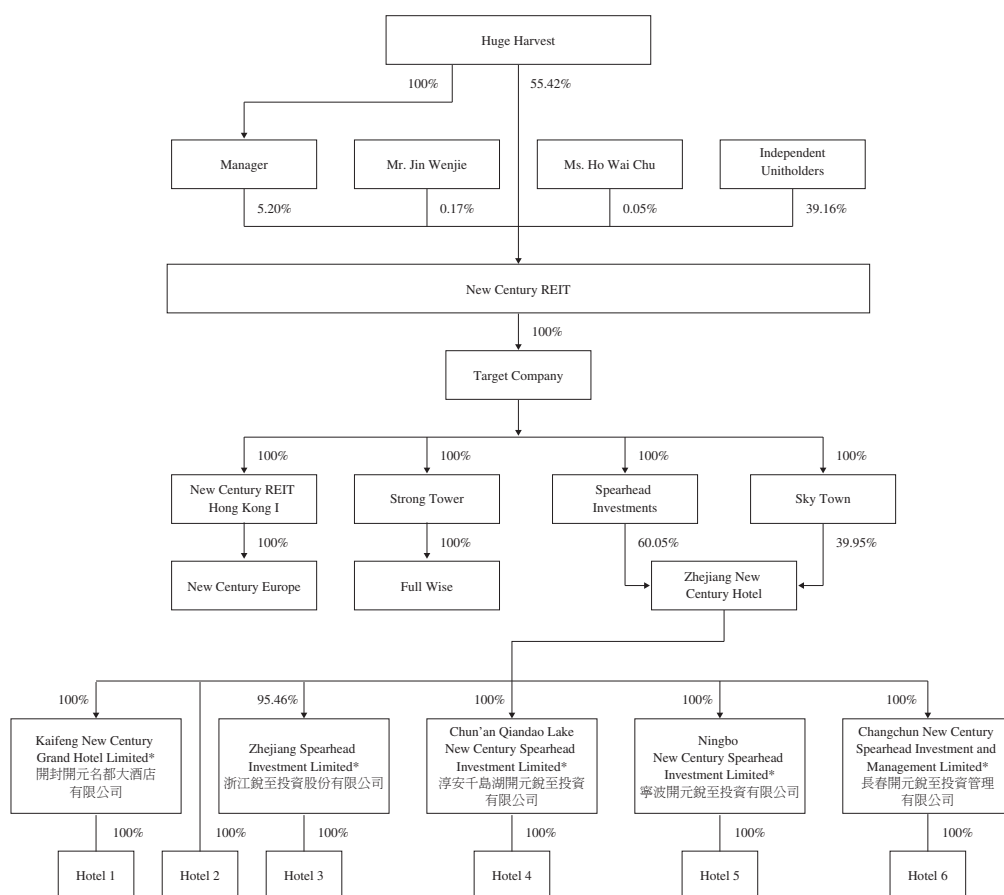
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Reorganisation has been completed, such that the Target Company held all issued shares of each of Strong Tower and New Century REIT Hong Kong I and the Disposed Group contained all operating businesses and assets of the Group as at the Latest Practicable Date.

Holding structure charts

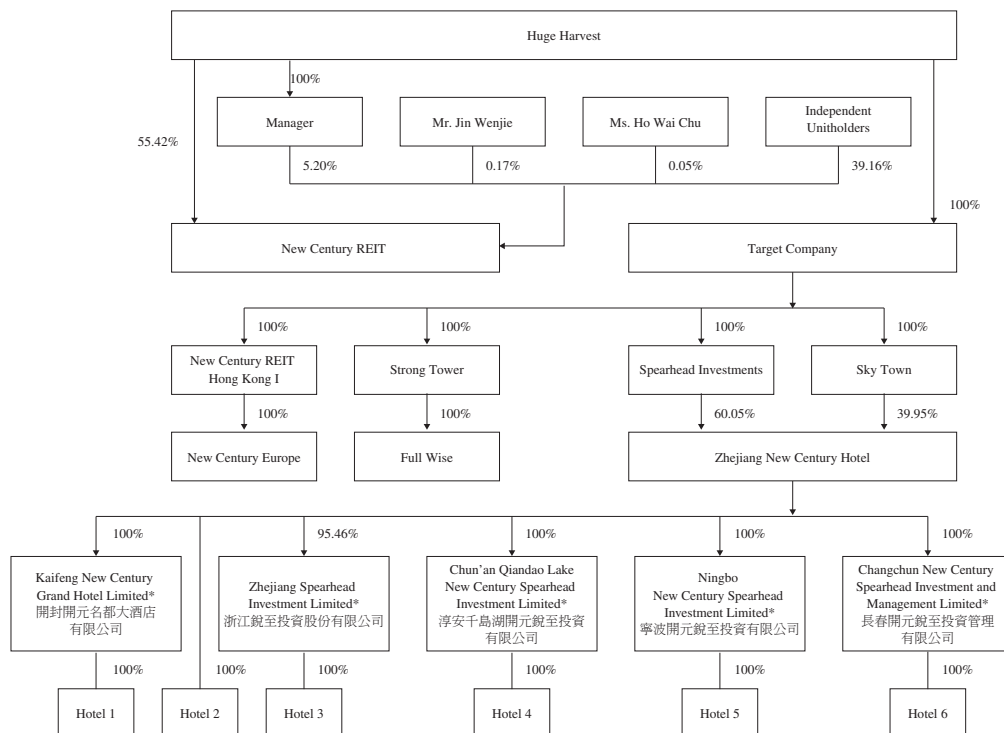
The charts below show simplified holding structures of New Century REIT and the Disposed Group (i) as at the Latest Practicable Date, and (ii) immediately upon Completion.

As at the Latest Practicable Date



LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Immediately upon Completion



Consideration

The total consideration for the Proposed Disposal is HK\$1,921,018,274, comprising of HK\$1,895,524,145 for the sale of the Sale Shares and HK\$25,494,129 for the sale of the Sale Loan.

The Consideration has been determined by arm's length negotiation between the Manager (on behalf of New Century REIT) and the Purchaser with reference to (i) the aggregated unaudited net asset value attributable to equity holders of the Disposed Group of approximately RMB1,646.9 million as at 30 June 2020 (which also comprised the appraised value of the investment properties of New Century REIT (i.e. the Hotel Properties) as at 30 June 2020) which was readily available as at the date of the Joint Announcement, (ii) the performance and prospects of the Disposed Group and (iii) the historical Unit price performance of New Century REIT. Please refer to the section below headed "5. Evaluation of the Proposed Disposal" for further details of our assessment of the Consideration.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Subject to Completion, the amount of HK\$1,197,827,602, being the entitlement of Huge Harvest and the Manager to the Proposed Interim Distribution based on their respective unitholding of New Century REIT as at the Latest Practicable Date, shall be deducted by the Purchaser from the total consideration payable to the Seller at Completion for the purpose of offsetting such entitlement, and the remaining balance of HK\$723,190,672 shall be paid by the Purchaser to the Seller at Completion in cash. The Purchaser has undertaken that it shall not, and shall procure the Manager not to, change their respective unitholding in New Century REIT during the period commencing on the date of the Agreement and ending on the date of payment of the Proposed Interim Distribution.

Conditions precedent

Completion is subject to and conditional upon satisfaction of all of the Conditions, details of which are set out in the section headed “1.4.2. Conditions Precedent” in the letter to the Unitholders. The main ones are as follows:

- (a) approval having been obtained for:
 - (i) the Agreement and the transactions contemplated therein;
 - (ii) the Proposed Termination and the Proposed Liquidation of New Century REIT in accordance with the REIT Code; and
 - (iii) the Proposed Delisting of Units from trading on the Stock Exchange,being approved by the Approval Threshold, in accordance with the requirements of the Trust Deed, the Takeovers Code, the REIT Code and applicable laws;
- (b) all necessary licences, consents, approvals, authorisations, permissions, waivers, orders, exemptions or notifications of, among others, creditors of the Group Companies, other relevant third parties and/or governmental or regulatory authorities or bodies, which are required for the execution and performance of the Agreement and the transactions contemplated thereunder having been obtained and not having been revoked prior to Completion. As set out in the letter to the Unitholders, except for the consent from Industrial and Commercial Bank of China Limited, Macau Branch in respect of the facility agreement dated 9 July 2020 entered into by the Target Company as borrower which has already been obtained as at the Latest Practicable Date, no other consents, approvals or authorisations are required;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (c) no relevant governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that restricts or prohibits the implementation of the transactions contemplated under the Agreement;
- (d) the supplemental agreement to each of the Master Hotel Lease and Management Agreement and the Kaifeng Hotel Lease Agreement, for the novation of the Manager as a party to the respective agreements to the Purchaser (or its nominee), having been duly entered into;
- (e) the Reorganisation having been completed; and
- (f) the waiver from the requirements under Note 1 of 11.8 of the REIT Code having been granted by the SFC and not having been revoked prior to Completion.

Save for the Condition (d) above which may be waived by the Purchaser, the above Conditions cannot be waived. As at the Latest Practicable Date, save and except for the Condition (e) above relating to completion of the Reorganisation, none of the other Conditions had been fulfilled and the Purchaser and the Seller have no intention to waive any of the Conditions.

Each of the parties shall use reasonable endeavours to procure (so far as it is so able to procure) that the Conditions are satisfied on or before 31 May 2021. If all the Conditions are not fulfilled or (where permitted) waived on or before that date, the Agreement shall terminate (except for any accrued rights or liabilities of any party).

Completion shall take place within five Business Days after all the Conditions are satisfied or, where permitted, waived by the Purchaser or the Seller and the Manager (as the case may be) or at such other time and on such other date as the Seller, the Manager and the Purchaser may agree, but in any event no later than ten Business Days after the date on which all the Conditions are satisfied or, where permitted, waived by the Purchaser or the Seller and the Manager (as the case may be).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Proposed Interim Distribution

New Century REIT will distribute the net proceeds from the Proposed Disposal to the Unitholders as part of the Proposed Interim Distribution, the illustrative calculations of which are set out in the table below.

		<i>(HK\$)</i>
Consideration		1,921,018,274
Add: Cash Reserves		70,000,000
Less: Disposal Costs		<u>(15,000,000)</u>
Sub-total	A	1,976,018,274
Total number of Units in issue as at the Latest Practicable Date	B	988,009,137
Proposed Interim Distribution payable per Unit	A/B	2.0

For further details, please refer to the section headed “3. Proposed Interim Distribution and 2020 Annual Distribution” in the letter to the Unitholders.

The Proposed Termination, the Proposed Liquidation and the Proposed Delisting

According to the letter to the Unitholders, the Board is of the view that following completion of the Proposed Disposal and the Proposed Interim Distribution, it is not anticipated that any assets will remain in New Century REIT, save for the remaining cash for the purpose of payment of the Disposal Costs in an estimated amount of not exceeding HK\$15.0 million. Accordingly, New Century REIT would have no remaining operating real estate assets to fulfil the criteria for operating as a REIT in accordance with the REIT Code and therefore, New Century REIT should be terminated and liquidated in accordance with the REIT Code and the Trust Deed, and the Units should consequently be delisted from trading on the Stock Exchange, and New Century REIT should be deauthorised in accordance with applicable regulatory requirements.

Subject to compliance with the REIT Code and the Trust Deed, the date of the Proposed Termination shall be the first Business Day following the satisfaction of all the below conditions:

- (a) the approval of the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting by the Independent Unitholders at the EGM;
- (b) the Completion; and
- (c) the payment of the Proposed Interim Distribution.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Manager proposes, following the Proposed Termination becoming effective, to liquidate New Century REIT in accordance with the Trust Deed and the REIT Code. In compliance with 11.8 to 11.10 of the REIT Code and the Trust Deed, following termination of New Century REIT, the Trustee shall, as part of the process of liquidation of New Century REIT, oversee the realisation of any remaining assets of New Century REIT by the Manager, and the Trustee shall ensure that, after paying all outstanding liabilities and providing adequate provisions for liabilities, the proceeds from such realisation are distributed to the Unitholders proportionately to their respective interests in New Century REIT at the date of the Proposed Termination, and shall ensure the Manager's management and liquidation of New Century REIT is in accordance with the REIT Code and provisions of the Trust Deed.

All the Unitholders whose names appear on the register of Unitholders on the Final Record Date will be entitled to participate on a pro-rata basis in any proceeds derived from the Proposed Liquidation available for distribution to the Unitholders after any creditors and the costs of the winding up have been paid (including those arising from the realisation of any remaining assets of New Century REIT referred to in the preceding paragraph). Save for the remaining cash for the purpose of payment of the Disposal Costs in an estimated amount of HK\$15.0 million, it is not anticipated that any assets will remain in New Century REIT following the completion of the Proposed Disposal and the Proposed Interim Distribution. In the event that the Disposal Costs exceed HK\$15.0 million, Huge Harvest has undertaken to the Manager and the Trustee to bear any Disposal Costs exceeding such amount of HK\$15.0 million.

In accordance with Note 2 of 11.8 of the REIT Code, the Trustee shall ensure that the liquidation of New Century REIT is completed within 12 months from the effective date of the Proposed Termination. Where the Trustee considers it is in the best interests of the Unitholders, the liquidation of New Century REIT may be completed within such longer period (in total not to exceed 24 months) as the Trustee deems appropriate. Unitholders shall be informed by way of announcement in such event.

Subject to the condition that the Proposed Termination and the Proposed Liquidation becomes effective, the Manager will make an application to the Stock Exchange to withdraw the listing of the Units from the Stock Exchange.

Unitholders should note that according to the letter to the Unitholders, pursuant to 11.1 of the REIT Code, termination of New Century REIT shall be subject to Unitholders' approval by special resolution at the EGM. As the termination and the consequential liquidation and delisting are natural results of the Proposed Disposal, the Proposed Disposal should be treated as part and parcel of the Proposed Termination, the Proposed Liquidation and the Proposed Delisting.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In the event that the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting are not approved by the Independent Unitholders, the Board will reconsider other strategic investment options for New Century REIT in accordance with its investment policy, objectives and strategy. There are currently no negotiations or agreements relating to another transaction, and there is no certainty that another transaction would be proposed or pursued by the Board.

Unitholders should note that following Completion:

- (i) The Unitholders (whose names appear on the register of Unitholders on the Final Record Date, except for the Purchaser and the Manager which have agreed to offset their respective entitlement against the Consideration pursuant to the Agreement) will receive the Proposed Interim Distribution of HK\$2.0 in cash for every Unit;
- (ii) New Century REIT will be terminated and liquidated in accordance with the REIT Code and the Trust Deed; and
- (iii) Subject to the Proposed Termination and the Proposed Liquidation becoming effective, the Manager will make an application for the purpose of the Proposed Delisting. The listing of the Units on the Stock Exchange will be withdrawn and New Century REIT will be deauthorised in accordance with applicable regulatory requirements.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Proposals, we have taken into account the following principal factors and reasons:

1. Background of New Century REIT

1.1 New Century REIT

New Century REIT is a Hong Kong collective investment scheme constituted as a unit trust authorised under section 104 of the SFO and was established under the Trust Deed, the units of which have been listed on the Stock Exchange since 10 July 2013. New Century REIT is managed by the Manager. As set out in New Century REIT's 2020 interim report, the Manager continues its strategy of investing on a long-term basis in a diversified portfolio of income-producing real estate globally, with the aim of delivering regular, stable and high distributions to the Unitholders and achieving long-term growth in distributions and portfolio valuation while maintaining an appropriate capital structure.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pursuant to 7.12 of the REIT Code, New Century REIT shall distribute to its Unitholders as dividends each year an amount not less than 90% of its audited annual net income after tax. The following table set out the distribution by New Century REIT for the three years ended 31 December 2017, 2018 and 2019, and for the six months ended 30 June 2020.

	For the six months 30 June 2020 (RMB'000)	For the year ended 31 December		
		2019 (RMB'000)	2018 (RMB'000)	2017 (RMB'000)
Total (adjusted loss)/ distributable income	(6,990)	68,877	50,975	108,733
Pay-out ratio (excluding special distribution)	<u>–</u>	<u>90%</u>	<u>90%</u>	<u>90%</u>
	–	61,989	45,878	97,860
Add: special distribution	<u>–</u>	<u>–</u>	<u>50,000</u>	<u>33,000</u>
Total distribution	–	61,989	95,878	130,860
Total distribution per Unit	–	RMB0.0640 (or approximately HK\$0.0709)	RMB0.0999 (or approximately HK\$0.1155)	RMB0.1365 (or approximately HK\$0.1636)

As shown in the above table, excluding the special distribution, New Century REIT has been making distributions at a pay-out ratio of 90% between 2017 and 2019, but no distribution was made for the first half of 2020 due to the adjusted loss incurred during the period. In general, the total distributable income and the total distribution per Unit exhibited a downward trend, mainly due to the continued decrease in hotel rental income, and in particular for the first half of 2020 due to the negative impact arising from the outbreak of COVID-19. We are advised by the Manager that the increase in total distributable income (excluding the special distribution) in 2019 as compared to 2018 was mainly due to the absence of losses upon settlement of derivative financial instruments in 2018 outweighing the decrease in hotel rental income and the realised foreign exchange losses in 2019.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Investment properties portfolio

New Century REIT and its subsidiaries are mainly engaged in the leasing of hotel properties in the PRC. Currently, New Century REIT's investment portfolio comprises six hotels, namely (i) New Century Grand Hotel Hangzhou, (ii) New Century Resort Qiandao Lake Hangzhou, (iii) New Century Grand Hotel Ningbo, (iv) New Century Grand Hotel Changchun, (v) New Century Hotel Xiaoshan Zhejiang, and (vi) New Century Grand Hotel Kaifeng. All the Hotel Properties are located in the PRC and are mainly managed through long-term hotel lease and management agreements granting operating leases to lessees in return for rental payments.

As at the Latest Practicable Date, the Disposed Group contained all operating businesses and assets of the Group, including all the Hotel Properties. The aggregated appraised value of the Hotel Properties was RMB4,113 million and RMB3,997 million as at 30 June 2020 and 31 December 2020 respectively. As set out in the announcement of New Century REIT dated 8 January 2021, for the lease year of 2021 (i.e. the period from 10 July 2021 to 9 July 2022), the aggregate amount payable in respect of Hotel 2 to Hotel 6 by the lessee as base rent is RMB183.6 million, which is RMB16.4 million lower than that in the same period of the previous year. The calculation of the variable individual rents remains the same since listing, being 20% of the lessee's total revenue plus 34% of the lessee's gross operating profit of the relevant hotel in each month.

The table below sets out key information and operating highlights, including occupancy rate and average revenue per available room (excluding value-added tax) ("**RevPAR**"), of the Hotel Properties for the three years ended 31 December 2017, 2018 and 2019, and for the six months ended 30 June 2020. Further details of the Hotel Properties are set out in the Property Valuation Report in Appendix V to the Circular.

Hotel	Star Rating	Total gross floor area	Number of rooms	Occupancy rate				RevPAR			
				For the six months ended 30 June 2020	For the year ended 31 December			For the six months ended 30 June 2020	For the year ended 31 December		
				(square meters)	2019	2018	2017	(RMB)	(RMB)	(RMB)	(RMB)
New Century Grand Hotel Hangzhou (Hotel 2)	5	130,105	699	32.4%	67.6%	69.1%	71.0%	144	341	367	373
New Century Hotel Xiaoshan Zhejiang (Hotel 3)	4	39,835	375	23.0%	65.1%	73.4%	75.3%	72	221	251	253
New Century Resort Qiandao Lake Hangzhou (Hotel 4)	5	39,402	227	40.1%	72.8%	66.6%	65.9%	188	476	476	484
New Century Grand Hotel Ningbo (Hotel 5)	5	66,107	392	31.6%	69.6%	73.3%	72.4%	149	363	390	390
New Century Grand Hotel Changchun (Hotel 6)	5	45,625	326	19.0%	66.1%	60.8%	67.4%	76	269	284	326
New Century Grand Hotel Kaifeng (Hotel 1)	5	53,512	356	23.0%	58.4%	56.8%	59.0%	109	303	313	313
Weighted average (Overall)				28.3%	66.5%	67.3%	69.1%	123	323	344	352

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In the past three and half years, the weighted average RevPAR of the Hotel Properties experienced a decreasing trend, from approximately RMB352 in 2017 to approximately RMB323 in 2019, and significantly reduced to approximately RMB123 in the first half of 2020. The weighted average occupancy rate of the Hotel Properties decreased from approximately 69.1% in 2017 to approximately 66.5% in 2019, and significantly reduced to approximately 28.3% in the first half of 2020. Based on our discussions with the Manager, the above deteriorating performance was mainly due to the challenging operating environment and the competition from other hotel operators in the cities where the Hotel Properties are situated, and in particular the negative impact on the hospitality industry arising from the outbreak of COVID-19 and travel restrictions during the first half of 2020.

1.2 Background of the Disposed Group

The Target Company is a limited liability company incorporated in the British Virgin Islands. As at the Latest Practicable Date, it held the entire equity interest in Zhejiang New Century Hotel, Strong Tower and New Century REIT Hong Kong I.

Zhejiang New Century Hotel is a foreign invested company incorporated in the PRC and wholly owns the legal and beneficial interest in Hotel 1, Hotel 2, Hotel 4, Hotel 5 and Hotel 6, and is interested in 95.46% of the entire share capital of 浙江銳至投資股份有限公司 (Zhejiang Spearhead Investment Limited), which in turn wholly owns the legal and beneficial interest in Hotel 3.

Strong Tower is a limited liability company incorporated in the British Virgin Islands. The Strong Tower Group is the vehicle set up originally for the purpose of holding Songjiang New Century Grand Hotel Shanghai (the “**Shanghai Hotel**”) when it was acquired by New Century REIT in 2014. As the Shanghai Hotel was subsequently disposed in July 2017, operation in the Strong Tower Group has been minimal since then. Except for certain intercompany balances within the Group, the Strong Tower Group has no other business activities or any material assets and liabilities.

New Century REIT Hong Kong I is a limited liability company incorporated in Hong Kong. The New Century REIT Hong Kong I Group is the vehicle set up originally for the purpose of holding Holiday Inn Eindhoven (the “**Netherlands Hotel**”) when it was acquired by New Century REIT in 2016. As the Netherlands Hotel was subsequently disposed in November 2019, operation in the New Century REIT Hong Kong I Group has been minimal since then. Except for an escrow deposit and certain intercompany balances within the Group, the New Century REIT Hong Kong I Group has no business activities or any material assets and liabilities.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.3 Financial information the Disposed Group

The historical financial performance and financial position of each of the Target Group, the Strong Tower Group, the New Century REIT Hong Kong I Group are summarised below. For further details, please refer to the accountant's reports on the Target Group, the Strong Tower Group and the New Century REIT Hong Kong I Group in Appendix IIA, IIB and IIC to the Circular respectively.

1.3.1 The Target Group

The following table sets out the financial information extracted from the consolidated financial statements of the Target Group for the three years ended 31 December 2017, 2018 and 2019, and for the eleven months ended 30 November 2019 and 2020 in the accountant's report on the Target Group in Appendix IIA, which are prepared in accordance with International Financial Reporting Standards (“IFRSs”).

Financial performance

	For the eleven months ended 30 November		For the year ended 31 December		
	2020 <i>(audited)</i> RMB'000	2019 <i>(unaudited)</i> RMB'000	2019 <i>(audited)</i> RMB'000	2018 <i>(audited)</i> RMB'000	2017 <i>(audited)</i> RMB'000
Revenue	193,906	220,579	240,371	260,220	256,137
Operating expenses	(38,893)	(46,772)	(51,697)	(50,480)	(49,412)
Other (losses)/gains – net	(48,565)	(13,716)	(9,188)	10,369	(58,159)
Change in fair values of investment properties	<u>(615,093)</u>	<u>(119,379)</u>	<u>(120,172)</u>	<u>47,609</u>	<u>99,204</u>
Operating (loss)/profit	(508,645)	40,712	59,314	267,718	247,770
Finance (costs)/income – net	(153,208)	(144,682)	(144,926)	(178,218)	6,204
Income tax credit/(expense)	<u>107,580</u>	<u>(22,994)</u>	<u>(27,591)</u>	<u>(84,284)</u>	<u>(87,178)</u>
(Loss)/profit after taxation for the period/year	<u>(554,273)</u>	<u>(126,964)</u>	<u>(113,203)</u>	<u>5,216</u>	<u>166,796</u>
(Loss)/profit attributable to equity holders for the period/year	(551,716)	(127,661)	(114,021)	3,785	164,221

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Revenue

Revenue of the Target Group is primarily derived from rental income from the leasing of its investment properties (i.e. the Hotel Properties) under the Master Hotel Lease and Management Agreement and the Kaifeng Hotel Lease Agreement. The Target Group's revenue remained fairly stable in 2018 as compared to that of 2017, but decreased by approximately 7.6% to approximately RMB240.4 million in 2019, primarily due to the decrease in minimum base rent derived from certain hotels.

In the first eleven months of 2020, the Target Group recorded revenue of approximately RMB193.9 million, representing a decrease of approximately 12.1% compared to the same period in 2019, mainly due to the downward adjustment of minimum base rent caused by the suspension of operation at the Hotel Properties (54 days for New Century Grand Hotel Kaifeng and 38 days for other Hotel Properties) in the first quarter of 2020. Such suspension was due to the activation of level I (the highest-level response to major public health emergencies) and the adoption of various strict measures by the relevant provinces and municipalities in the PRC to curb the spread of COVID-19.

Operating expenses

Operating expenses of the Target Group mainly comprised management fee to the Manager and certain PRC taxes and levies. Pursuant to the Trust Deed, the Manager is entitled to receive remuneration for its services as manager of New Century REIT, generally based on the total assets value of New Century REIT and net property income of the investment properties portfolio held by New Century REIT. The Target Group's operating expenses remained stable between 2017 and 2019, and decreased in the first eleven months of 2020 broadly in line with the decline in revenue.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Other losses/gains – net

Other losses/gains of the Target Group mainly represented the fair value losses on derivative financial instruments, arising from the interest rate swaps and capped forward foreign exchange contracts entered into with commercial banks, with the effect of converting interest rate of bank borrowings from floating rates to fixed rates and keeping exchange rate of USD against RMB within the cap rate respectively. In the first eleven months of 2020, the Target Group recorded other losses of approximately RMB48.6 million, of which approximately RMB48.0 million represented the fair value losses on the settlement of derivative financial instruments in relation to the refinancing of its bank borrowings.

Loss/profit attributable to equity holders for the period/year

Loss/profit attributable to equity holders for the period/year fluctuates significantly throughout the periods under review, largely dependent on (i) the changes in fair values of its Hotel Properties, which are all classified as investment properties and are stated at fair value on the balance sheet, with any changes in their fair values recognised in profit or loss, and (ii) the changes in net finance costs, which mainly included interest expenses on bank and other borrowings and realised and unrealised net foreign exchange gains/losses on financing activities. Profit attributable to equity holders decreased by approximately 97.7% from approximately RMB164.2 million in 2017 to approximately RMB3.8 million in 2018, mainly due to the decrease in fair value gains of investment properties and an increase in net finance costs resulting from the weakening of RMB against USD, which led to significant unrealised net foreign exchange losses on the Target Group's USD bank borrowings. For the year 2019 and the first eleven months of 2020, the Target Group recorded a loss attributable to equity holders of approximately RMB114.0 million and RMB551.7 million respectively. This was largely due to the decline in revenue, as explained above, and the decrease in fair values of the Hotel Properties, in particular due to the adoption of lower average daily rate (“ADR”) and occupancy rates for the independent valuation of the Hotel Properties caused by the outbreak of COVID-19.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Financial position

	As at 30 November 2020 <i>(audited)</i> RMB'000	As at 31 December 2019 <i>(audited)</i> RMB'000
Investment properties	3,997,000	4,612,000
Goodwill	7,987	7,987
Other long-term assets	<u>1,812</u>	<u>1,313</u>
Total non-current assets	<u>4,006,799</u>	<u>4,621,300</u>
Trade and other receivables and prepayments	2,926	7,531
Amounts due from related parties	77,193	43,919
Derivative financial instruments	–	6,497
Financial asset at fair value through profit or loss	40,030	–
Restricted cash	180,000	504,978
Cash and cash equivalents	<u>40,710</u>	<u>187,182</u>
Total current assets	<u>340,859</u>	<u>750,107</u>
Trade and other payables	34,904	44,818
Amounts due to related parties	354,633	362,654
Loans due to related parties	145,104	85,884
Current income tax liabilities	17,726	14,641
Deferred income	2,369	2,741
Bank borrowings	<u>883,648</u>	<u>294,434</u>
Total current liabilities	<u>1,438,384</u>	<u>805,172</u>
Bank borrowings	854,750	1,805,789
Deferred income tax liabilities	<u>758,323</u>	<u>896,462</u>
Total non-current liabilities	<u>1,613,073</u>	<u>2,702,251</u>
Net assets attributable to equity holders	<u>1,270,653</u>	<u>1,834,511</u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Investment properties

The Target Group's investment properties comprised the six Hotel Properties, all located in the PRC, with a carrying value of RMB3,997.0 million as at 30 November 2020, which is stated at fair value as determined by the Principal Valuer. Such carrying value of the Hotel Properties represents over 90% of the aggregated audited total assets (after intra-group eliminations) of the Disposed Group (being approximately RMB4,352.2 million) as at 30 November 2020. As confirmed by the Manager and the Principal Valuer, the appraised value of the Hotel Properties and the related valuation methodology, bases and assumptions as at 30 November 2020 and 31 December 2020 are the same. Further details on the appraised value of the Hotel Properties are set out in the section below headed "4. Valuation of the Hotel Properties".

Amounts due from related parties

As at 30 November 2020, the Target Group recorded amounts due from related parties of approximately RMB77.2 million, including (i) trade receivables (i.e. rental income) from Zhejiang New Century and its group members (the "**Hotel Group**") and New Century Grand Hotel Kaifeng Business Company Limited (the "**Kaifeng Hotel Lessee**") of approximately RMB60.1 million and RMB7.9 million pursuant to the Master Hotel Lease and Management Agreement and the Kaifeng Hotel Lease Agreement respectively, which were pledged as collateral for its bank borrowings, and (ii) other receivables mainly due from New Century Europe of approximately RMB8.9 million. As confirmed by the Manager, both the Hotel Group and the Kaifeng Hotel Lessee are associates of the Purchaser.

Bank and cash balances

As at 30 November 2020, the Target Group held (i) restricted cash of approximately RMB180.0 million, mainly represented guarantee deposits held in separate reserve accounts being pledged to banks as security deposits under loan facilities agreements, and (ii) cash at bank of approximately RMB40.7 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Bank borrowings

On 6 July 2020, New Century REIT published an announcement, stating that through the Target Group, New Century REIT would undergo a refinancing plan, *inter alia*, refinancing its offshore HK\$ denominated loan facilities to RMB denominated loan facilities. As at 30 November 2020, the Target Group had bank borrowings of approximately RMB1,738.4 million, out of which approximately 11.5% were repayable due within one year according to the contract payment schedule.

Amounts due to related parties

As at 30 November 2020, the Target Group recorded amounts due to related parties of approximately RMB354.6 million, mainly including (i) payables to the Strong Tower Group and New Century REIT Hong Kong I of approximately RMB298.6 million and RMB3.1 million respectively, (ii) the rental deposits of RMB42.0 million pursuant to the Master Hotel Lease and Management Agreement and the Kaifeng Hotel Lease Agreement, and (iii) other payables due to the Manager of approximately RMB8.6 million.

Loans due to related parties

The Target Group had two loans due to related parties of approximately RMB145.1 million in aggregate as at 30 November 2020, including (i) the unsecured interest free loans provided by New Century REIT of approximately RMB85.1 million, out of which HK\$70 million was settled subsequent to 30 November 2020 as advised by the Manager, and the proceeds received by New Century REIT were deposited into a designated bank account held by the Trustee as the Cash Reserve for the Proposed Disposal, and (ii) the unsecured loans provided by Huge Harvest of RMB60.0 million, bearing an annual interest rate of 3.4%.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.3.2 The Strong Tower Group

The following table sets out the financial information extracted from the consolidated financial statements of the Strong Tower Group for the three years ended 31 December 2017, 2018 and 2019, and for the eleven months ended 30 November 2019 and 2020 in the accountant's report on the Strong Tower Group in Appendix IIB, which are prepared in accordance with IFRSs.

Financial performance

	For the eleven months ended 30 November		For the year ended 31 December		
	2020 <i>(audited)</i> RMB'000	2019 <i>(unaudited)</i> RMB'000	2019 <i>(audited)</i> RMB'000	2018 <i>(audited)</i> RMB'000	2017 <i>(audited)</i> RMB'000
Revenue	-	-	-	-	22,287
Operating expenses	(68)	(82)	(86)	(364)	(10,728)
Other (losses)/gains – net	<u>(4,355)</u>	<u>3,601</u>	<u>3,100</u>	<u>(20,712)</u>	<u>37,337</u>
Operating (loss)/profit	(4,423)	3,519	3,014	(21,076)	48,896
Finance (costs)/income – net	(96)	4,283	4,505	9,918	439
Income tax credit/(expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,900</u>	<u>(46,793)</u>
(Loss)/profit after taxation for the period/year	<u>(4,519)</u>	<u>7,802</u>	<u>7,519</u>	<u>(9,258)</u>	<u>2,542</u>

Revenue of the Strong Tower Group in 2017 was derived from rental income from the leasing of the Shanghai Hotel under a hotel lease agreement. The Shanghai Hotel was disposed of in July 2017, with a gain of approximately RMB24.1 million recorded. In the subsequent years/periods, no revenue was recorded, and the profit/loss after taxation mainly represented the interest income from the intercompany balances and bank deposits and the foreign exchange gains/losses arising from the intercompany balances mainly denominated in USD and Euro.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Financial position

	As at 30 November 2020 (audited) RMB'000	As at 31 December 2019 (audited) RMB'000
Amount due from a related party	298,551	302,903
Cash and cash equivalents	<u>1,622</u>	<u>1,748</u>
Total assets	<u>300,173</u>	<u>304,651</u>
Other payables	244	201
Amounts due to related parties	<u>2</u>	<u>4</u>
Total liabilities	<u>246</u>	<u>205</u>
Total equity	<u>299,927</u>	<u>304,446</u>

As at 30 November 2020, the Strong Tower Group recorded an amount due from the Target Company of approximately RMB298.6 million, and cash at bank and on hand of approximately RMB1.6 million.

1.3.3 The New Century REIT Hong Kong I Group

The following table sets out the financial information extracted from the consolidated financial statements of the New Century REIT Hong Kong I Group for the three years ended 31 December 2017, 2018 and 2019, and for the eleven months ended 30 November 2019 and 2020 in the accountant's report on the New Century REIT Hong Kong I Group in Appendix IIC, which are prepared in accordance with IFRSs.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Financial performance

	For the eleven months ended 30 November		For the year ended 31 December		
	2020	2019	2019	2018	2017
	<i>(audited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	–	14,510	14,510	15,736	14,983
Operating expenses	(258)	(3,340)	(3,352)	(3,016)	(2,632)
Other gains – net	585	69,059	69,002	98	179
Changes in fair value of the investment property	–	78	78	36,150	1,889
	<u>–</u>	<u>78</u>	<u>78</u>	<u>36,150</u>	<u>1,889</u>
Operating profit	327	80,307	80,238	48,968	14,419
Finance costs – net	–	(9,428)	(10,045)	(9,362)	(9,208)
Income tax expenses	–	(1,193)	(1,193)	(9,875)	(1,380)
	<u>–</u>	<u>(1,193)</u>	<u>(1,193)</u>	<u>(9,875)</u>	<u>(1,380)</u>
Profit after taxation attributable to equity holders for the period/year	<u>327</u>	<u>69,686</u>	<u>69,000</u>	<u>29,731</u>	<u>3,831</u>

Revenue of the New Century REIT Hong Kong I Group in the prior years was derived from rental income from the leasing of the Netherlands Hotel under a lease agreement. The Netherlands Hotel was disposed of in November 2019, with a gain of approximately RMB69.7 million recorded in other gains – net. No revenue and material profit or loss were recorded in the subsequent years/periods.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Financial position

	As at 30 November 2020	As at 31 December 2019
	<i>(audited)</i>	<i>(audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Other long-term assets	–	11,723
Other receivables	11,808	–
Cash and cash equivalents	<u>16</u>	<u>5,132</u>
Total assets	<u>11,824</u>	<u>16,855</u>
Other payables	221	1,586
Amounts due to related parties	<u>5,825</u>	<u>10,030</u>
Total liabilities	<u>6,046</u>	<u>11,616</u>
Total equity	<u>5,778</u>	<u>5,239</u>

As at 30 November 2020, the New Century REIT Hong Kong I Group recorded other receivables of approximately RMB11.8 million, representing the escrow deposit of EUR1.5 million in a notary's account, to serve as a tax indemnity relating to the disposal of the Netherlands Hotel for an escrow period of 18 months ending in May 2021, and amounts due to related parties of approximately RMB5.8 million, mostly with the Target Company.

As advised by the Manager, the intercompany balances between members of the Disposed Group upon completion of the Reorganisation would be eliminated in the consolidated accounts of the Disposed Group, without material impact on the aggregated audited net assets value of the Disposed Group, detailed calculations of which are set out in the section below headed "5. Evaluation of the Proposed Disposal".

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Reasons for and benefits of the Proposals

As set out in the letter to the Unitholders, the hospitality industry in PRC has been challenging in recent years and is expected to be challenging in the short to medium term given the COVID-19 pandemic. Total distributable income of New Century REIT decreased from approximately RMB108.7 million in 2017 to approximately RMB51.0 million and RMB68.9 million in 2018 and 2019 respectively. In the first half of 2020, New Century REIT recorded an adjusted loss of approximately RMB7.0 million. As a result of the challenging operating environment, total distributions to the Unitholders have decreased from approximately RMB130.9 million in 2017 to approximately RMB95.9 million and RMB62.0 million in 2018 and 2019 respectively, and no distributions were paid in the first half of 2020.

Since the second half of 2020, the PRC government started to roll out the COVID-19 vaccination programme, but the overall vaccination rate in the PRC is still relatively low. According to the website of the government of China, the Joint Prevention and Control Mechanism of the State Council of China stated that as of 14 March 2021, there were a total of approximately 65.0 million doses of COVID-19 vaccine being administered in the PRC. In addition, there were resurgences of COVID-19 cases and lockdown policy in certain areas in the PRC in early 2021. It follows that the overall economic and business recovery in PRC (especially the hospitality industry) may be negatively affected in the short to medium term.

Since the listing of New Century REIT in July 2013, the market price of the Units broadly exhibited a downward trend, from the initial offering price of HK\$3.50 per Unit to a low of HK\$0.95 in March 2020, before an increase from the level of approximately HK\$1.10 in early December 2020 to HK\$1.75 on the Last Trading Date. During the same period, New Century REIT's market capitalisation decreased from approximately HK\$2.7 billion on the first trading day to a low of approximately HK\$0.9 billion before rising back to approximately HK\$1.7 billion on the Last Trading Date. On the Last Trading Date, the market price of the Units was trading at a discount of approximately 10.3% to its net asset value attributable to Unitholders of approximately RMB1.7555 per Unit as at 30 June 2020 (or approximately HK\$1.9519), based on the total number of Units as at the Last Trading Date. There was also limited liquidity in the Units, with an average daily trading value of approximately HK\$158,000, HK\$62,000, HK\$58,000 and HK\$57,000 respectively for the past 30, 90, 180, trading days and for the past three years up to and including the Last Trading Date, representing approximately 0.011%, 0.005%, 0.005% and 0.004% of the average market capitalisation of New Century REIT during the respective periods. Such low liquidity hinders the ability of the Manager to raise funds from public equity market which no longer serves as a viable source of funding for developing the Group's business and at the same time deters the Unitholders from realising its Units on open market.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered the above, the Board is of the view that the Proposals will provide the Independent Unitholders with an opportunity to realise their investments in New Century REIT for cash, at a premium to the trading price of the Units.

3. Market outlook

It has been stated in the offering circular of New Century REIT, 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 recession could lead to a downturn which in turn may affect hotel business. We have looked into the historical economic growth of the PRC to analyse the macro business environment in which the Disposed Group operates.

According to the statistics released by the National Bureau of Statistics of China, the gross domestic products (“GDP”) of the PRC grew year-on-year by approximately 6.6%, 6.1% and 2.3% in 2018, 2019 and 2020 respectively. The slowdown in GDP growth in 2020 was mainly due to the outbreak of COVID-19 in early 2020. Nevertheless, the overall business and economic recovery in the PRC and the GDP growth rate gradually recovered in the second half of 2020 and expanded at approximately 6.5% in the fourth quarter of 2020, compared to the same period in 2019. According to the same source, the annual disposable income per capita in the PRC was approximately RMB32,000 in 2020, representing an increase of approximately 4.7% compared to that of 2019.

Apart from the growth in PRC economy and the disposable income per capita, we note that the Principal Valuer summarised the tourism statistics in relation to Hangzhou, Ningbo, Changchun, and Kaifeng (the cities in which the Hotel Properties are situated). According to the Property Valuation Report, the number of domestic visitor arrivals in respect of these cities exhibited an increasing trend between 2009 and 2019, with a compound annual growth rate (“CAGR”) in a range from approximately 9.9% to 16.3%, while the total (domestic) tourism revenue followed the same direction, with a CAGR in a range from approximately 16.0% to 22.6%. The above statistics in general indicated positive growth as regards the hotel industry in the PRC before the outbreak of COVID-19 in 2020.

We have researched on statistics regarding performance of 5-star hotels in the PRC, at which most of the Hotel Properties are rated. According to the statistics released by the Ministry of Culture and Tourism of China, the ADR of 5-star hotels in the PRC were approximately RMB623.6 and RMB596.6 in 2018 and 2019 respectively, while the occupancy rate was approximately 62.0% and 60.9% respectively. During the first nine months of 2020, the ADR and occupancy rate of 5-star hotels in the PRC decreased to approximately RMB525.9 and 34.9% respectively, which were impacted negatively by the outbreak of COVID-19 and related travel restrictions.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on our discussions with the Manager, the operations of the Hotel Properties experienced unprecedented challenges due to the outbreak of COVID-19 and operations were suspended for periods ranging from 38 to 54 days in the first quarter of 2020 in response to the activation of level I (the highest-level response to major public health emergencies) and the adoption of various strict measures by the relevant provinces and municipalities in the PRC to curb the spread of COVID-19. In July 2020, the Ministry of Culture and Tourism of China introduced various measures to assist the PRC hotel industry to resume to normal in medium term, such as permitting inter-province group tours and flight and hotel packages. The Manager stated its belief in New Century REIT's 2020 interim report that the occupancy rate would resume to normal level in medium term, and that the room and food and beverage revenues would continue to improve. Further, the Manager believed that the full recovery of hospitality and tourism industry in the PRC would take a period of time to restore to the normal level, and that the performance of New Century REIT would be supported in the medium term by its operating lease structure with guaranteed base rent element, but is still challenging in the short term.

As set out in the announcement of New Century REIT dated 8 January 2021, as affected by COVID-19 pandemic, travelling abroad is still strictly restricted and the number of overseas travellers is still very low in most countries. The Principal Valuer also stated its market overview in the Property Valuation Report that significant drop in the occupancy rate is the main reason for the plunge in revenue per available room. During the post-pandemic period, the average room rates in most areas have not come back to the level in previous years. Given the resurgences of the COVID-19 in northern China in early 2021 and lockdown policy in some areas, the Principal Valuer considers that the hotel performance in future will be impacted by the fluctuated demand of tourism and business. In this respect, we note from the release from National Health Commission of the PRC that in early 2021, there were resurgences of COVID-19 cases across different provinces and municipalities in the PRC, including Zhejiang Province and Jilin Province. The operations of Hotel Properties and financial performance of the Disposed Group may suffer material adverse impacts, if restriction measures are reactivated in the cities where the Hotel Properties are situated in.

Having considered the above and barring unforeseen circumstances, we concur with the Manager's view that the medium to long-term outlook of the hotel industry in the PRC is positive in general assuming the eventual containment of COVID-19. However, the short-term outlook is full of uncertainties and challenges, in particular the possibility of resurgence of COVID-19 in the PRC and the time required for the hotel industry's performance to recover to the pre-pandemic level.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. Valuation of the Hotel Properties

4.1 Valuation methodology

The appraised value of the Hotel Properties (the “**Appraised Value**”) as at 31 December 2020 conducted by the Principal Valuer are set out in the Property Valuation Report, the full text of which is contained in Appendix V to the Circular, which are summarised as follows:

	Market value in existing state as at 31 December 2020 RMB'000	Interest attributable to New Century REIT %	Market value in existing state attributable to New Century REIT as at 31 December 2020 RMB'000	Proportion of total %
New Century Grand Hotel Hangzhou	1,754,000.0	100%	1,754,000.0	44.1
New Century Hotel Xiaoshan Zhejiang	501,000.0	95.46%	478,254.6	12.0
New Century Resort Qiandao Lake Hangzhou	280,000.0	100%	280,000.0	7.0
New Century Grand Hotel Ningbo	757,000.0	100%	757,000.0	19.0
New Century Grand Hotel Changchun	325,000.0	100%	325,000.0	8.2
New Century Grand Hotel Kaifeng	<u>380,000.0</u>	100%	<u>380,000.0</u>	<u>9.6</u>
	<u>3,997,000.0</u>		<u>3,974,254.6</u>	<u>100</u>
Aggregate Appraised Value:				
As at 30 June 2020	4,113,000.0			
As at 31 December 2019	4,612,000.0			

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In arriving at the Appraised Value as shown in the above table, the Principal Valuer adopted the discounted cash flow approach (the “**DCF Approach**”), which is consistent with the valuation methodology adopted for the property valuations reflected in the consolidated financial statements of New Century REIT as at 31 December 2019 and 30 June 2020. The aggregate Appraised Value as at 31 December 2020 was approximately 13.3% and 2.8% lower than that as at 31 December 2019 and 30 June 2020 respectively. As advised by the Principal Valuer, such decrease in the aggregate Appraised Value as at 31 December 2020 was mainly due to the adoption of lower ADR and occupancy rates for the Hotel Properties caused by the outbreak of COVID-19.

We have reviewed the Property Valuation Report and discussed with the Principal Valuer the rationale for adopting the DCF Approach as the valuation methodology for the Hotel Properties, as well as the bases and assumptions adopted in arriving at the Appraised Value using the DCF Approach.

As advised by the Principal Valuer, the DCF Approach is the most common valuation methodology in valuing hotels, and it is an appropriate valuation approach for assessing the market value of the Hotel Properties. Given that there are no recent directly comparable transactions in the surrounding area, the Principal Valuer has not adopted the Market Approach, another common property valuation approach. Therefore, the Principal Valuer relied on the DCF Approach by assessing the long-term return that is likely to be derived from the Hotel Properties, where various assumptions are made which include revenues and expenses, with reference to historical operational data as well as current and anticipated market conditions, resulting in a ten-year discounted cash flow forecast with a terminal value assumption. The Principal Valuer has also reviewed the valuation for each of the Hotel Properties, on a per hotel room basis, and considered they are within a general reasonable range, based on their professional opinion.

The DCF Approach is, in our opinion, a commonly used, reasonable and acceptable approach for establishing the market value of the Hotel Properties, and this approach has been consistently adopted by the Principal Valuer for the valuation of the Hotel Properties for New Century REIT’s financial reporting purpose in prior years.

4.2 Valuation bases and assumptions

In arriving at the Appraised Value using the DCF Approach, the Principal Valuer has adopted a ten-year time frame in the projection of cash flows of the Hotel Properties. In this respect, we note from the property valuation reports contained in the offering circular, acquisition circulars (relating to the Shanghai Hotel and New Century Grand Hotel Kaifeng) and the annual reports of New Century REIT that the hotel properties have been consistently valued based on the DCF Approach with a ten-year period of cash flow projections. In addition, among the Comparable Entities as analysed in the section below headed “8.2.2 Comparable Entities”, we note that Regal Real Estate Investment Trust (stock code: 1881) and Langham Hospitality Investments (stock code: 1270) are principally investing in hotel properties, and as set out in the property valuation reports contained in their respective annual reports, the relevant independent valuer also adopted similar approach and a ten-year period for the valuation purpose. As such, we concur with the Principal Valuer’s view that the ten-year period is the usual market practice and reasonable in valuing hotels.

The Principal Valuer has also taken into account the terms of the Master Hotel Lease and Management Agreement and the Kaifeng Hotel Lease Agreement, such that New Century REIT would receive rental income (mainly the pre-determined base rent and variable individual rent, calculated based on 20% of the lessee’s total revenue plus 34% of the lessee’s gross operating profit) from the relevant lessee of the Hotel Properties during the respective lease periods. Following expiry of the Master Hotel Lease and Management Agreement and the Kaifeng Hotel Lease Agreement, the cash flows of the Hotel Properties in the remainder of the projection period are estimated based on their underlying operating profits.

The Principal Valuer incorporated various key assumptions in the DCF Approach relating to revenues (e.g. ADR and occupancy rates) and expenses (e.g. room, food and beverage costs) of the Hotel Properties, current and anticipated market conditions (e.g. anticipated inflation rate in the PRC to be incorporated in the ADR annual growth rate). The revenue and expense figures are projected with reference to historical operational data trends of the Hotel Properties and adjusted for anticipated market conditions. The Principal Valuer has prepared the cash flows by making reference to the historical operational performance of the Hotel Properties, and its own analysis of relevant general and economic conditions and business prospects of the Hotel Properties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The net cash flows over the ten-year time frame are discounted at (i) a rate of 7.75% during the lease period under the Master Hotel Lease and Management Agreement expiring in July 2023 and a rate of 8.25% for New Century Grand Hotel Kaifeng during the lease period under the Kaifeng Hotel Lease Agreement expiring in July 2025, and (ii) a higher rate of 8.75%, except for a rate of 9.25% for New Century Grand Hotel Kaifeng, for the remaining period in the ten-year time frame, to reflect the higher operational risk as a hotel operator who will no longer enjoy downside protections available under the Master Hotel Lease and Management Agreement and the Kaifeng Hotel Lease Agreement (such as the pre-determined base rent mechanism) after the expiry of the respective lease period. According to the Principal Valuer, the above discount rates and the assumption regarding the expiry of the Master Hotel Lease and Management Agreement and the Kaifeng Hotel Lease Agreement are in line with those employed for valuing the Hotel Properties as at 31 December 2019 and 30 June 2020, for New Century REIT's financial reporting purpose. In respect of New Century Grand Hotel Kaifeng, the adoption of slightly higher discount rates was to reflect the additional geographical risk of New Century Grand Hotel Kaifeng being located in a relatively smaller sized city, as compared with the more established cities in which other Hotel Properties are located.

The terminal growth rate for the Hotel Properties beyond the ten-year projection period is set at 4%, for which the Principal Valuer has mainly taken into account the inflation rate in the PRC and adjusting it for the anticipated future growth. Such growth rate is also the same as the expected ADR annual growth for most of the Hotel Properties during the ten-year time frame. According to the data released by the National Bureau of Statistics of China, between 2014 and 2019, the average inflation rate, as measured by the consumer price index, in the PRC was approximately 2.0%, while the CAGR of business revenue from hotel rooms in the PRC was approximately 6.2%. As confirmed with the Principal Valuer, such terminal growth rate of 4% has been consistently adopted for the valuation of the Hotel Properties for New Century REIT's financial reporting purpose.

The Principal Valuer estimated the above discount and terminal growth rates by making reference to their understanding of the return expected by investors for similar types of properties in the PRC and such rates adopted are reasonable and in line with the market norm.

The Principal Valuer has also carried out inspections and made relevant enquiries and searches for the purpose of the valuation. We have reviewed and discussed the aforesaid projections of cash flows for the Hotel Properties with the Principal Valuer. We are of the view that the bases used and assumptions made in the cash flow projections of the Hotel Properties by the Principal Valuer are reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. Evaluation of the Proposed Disposal

As set out in the section headed “1. Background of New Century REIT”, the Hotel Properties represent the largest asset of the Disposed Group, accounting for over 90% of its aggregated total assets. We consider the Disposed Group to be an asset-based group, and that emphasis should be placed on evaluating the Consideration against the net asset backing of the Disposed Group. For this purpose, we have reviewed the aggregated audited net asset value attributable to equity holders of the Disposed Group as at 30 November 2020 as set out in the table below:

Audited net asset value attributable to equity holders as at 30 November 2020:	<i>(million)</i>	<i>(million)</i>
– Target Group	RMB1,270.7	
– Strong Tower Group	RMB299.9	
– New Century REIT Hong Kong I Group	<u>RMB5.8</u>	
	RMB1,576.4	
	(or	(or
	approximately	approximately
	HK\$1,752.8)	HK\$1,882.2)
	<i>(Note 1)</i>	<i>(Note 2)</i>
Outstanding amount of the Sale Loan as at the Latest Practicable Date and the Completion Date	<u>HK\$25.5</u>	<u>HK\$25.5</u>
Total	<u>HK\$1,778.3</u>	<u>HK\$1,907.7</u>
Consideration	<u>HK\$1,921.0</u>	<u>HK\$1,921.0</u>

Notes:

- (1) *The translation of RMB into HK\$ is based on the exchange rate of RMB0.89936 to HK\$1 adopted in the Circular for illustration purpose*
- (2) *The translation of RMB into HK\$ is based on the exchange rate of RMB0.83754 to HK\$1, being the central parity rate as quoted by the People’s Bank of China as at the Latest Practicable Date*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the above table, the Consideration of approximately HK\$1,921.0 million represents a premium of approximately 8.0%, or approximately 0.7% if the exchange rate as at the Latest Practicable Date is adopted, over the sum of the outstanding amount of the Sale Loan and the aggregated audited net asset value attributable to equity holders of the Disposed Group as at 30 November 2020, which have taken into account the Appraised Value as at 30 November 2020 (which is the same as the Appraised Value as at 31 December 2020) conducted by the Principal Valuer. We consider it fair for the Consideration to be determined at a level similar to or slightly above the relevant net asset value.

6. Financial impact on New Century REIT in relation to the Proposed Disposal

Upon Completion, the Target Company will cease to be a subsidiary of New Century REIT and the results of the Disposed Group will cease to be consolidated into the accounts of New Century REIT. New Century REIT will no longer have any interests in the Disposed Group.

Assuming that the Proposed Disposal and the Proposed Interim Distribution had been completed on 30 June 2020, on a pro forma basis, the Group would record an unaudited disposal gain of approximately RMB70.6 million from the Proposed Disposal. The actual amount of disposal gain or loss to be recognised would be subject to the actual amount of aggregated net asset value attributable to equity holders of the Disposed Group as at the Completion Date.

Assuming that the Proposed Disposal and the Proposed Interim Distribution had been completed on 30 June 2020, on a pro forma basis, and taking into account the payment of the Disposal Costs in an estimated amount of not exceeding HK\$15.0 million, New Century REIT would not have any remaining assets or liabilities. Given New Century REIT would have no remaining operating real estate assets following Completion, New Century REIT is not expected to have any future revenue or source of income.

For further details, please refer to the Unaudited Pro Forma Financial Information of the Group in Appendix III to the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

7. Information on Huge Harvest and its intention with regard to the Disposed Group

Huge Harvest is a company incorporated in the British Virgin Islands on 11 January 2008, and a Substantial Holder of New Century REIT. Through its subsidiaries, Huge Harvest is principally engaged in hotel operation and management in the PRC.

As set out in the letter to the Unitholders, Huge Harvest is of the view that the Proposed Disposal represents a good investment opportunity for it to gain absolute control over the Disposed Group (which represents all the operating business and assets of the Group). As a result of the Proposed Disposal, it is more effective for Huge Harvest to leverage its experience and expertise in the PRC hotel industry to push forward and execute business plans and strategies to improve and develop the business of the Disposed Group more efficiently.

Following the completion of the Proposed Disposal, Huge Harvest intends to continue with the existing operations of the Disposed Group. Huge Harvest has no intention or concrete plans for any acquisition or disposal of assets and/or business by the Target Company and has no intention to introduce any major changes to the business and/or assets of the Disposed Group, including (i) any redeployment of fixed assets; or (ii) any plan to discontinue the employment of the employees in the Disposed Group (save for the resignation of Ms. Ho Wai Chu as a director of each group company within the Disposed Group).

8. Evaluation of the Proposals

The Proposals comprise the Proposed Disposal, the Proposed Termination, the Proposed Liquidation, the Proposed Delisting and the Proposed Interim Distribution. We have in the sections above assessed and evaluated the Proposed Disposal, which will result in New Century REIT having no remaining operating real estate assets to fulfil the criteria for operating as a REIT in accordance with the REIT Code. Accordingly New Century REIT is expected to be terminated and liquidated accordance with the REIT Code and the Trust Deed and the Units should consequently be delisted from trading on the Stock Exchange.

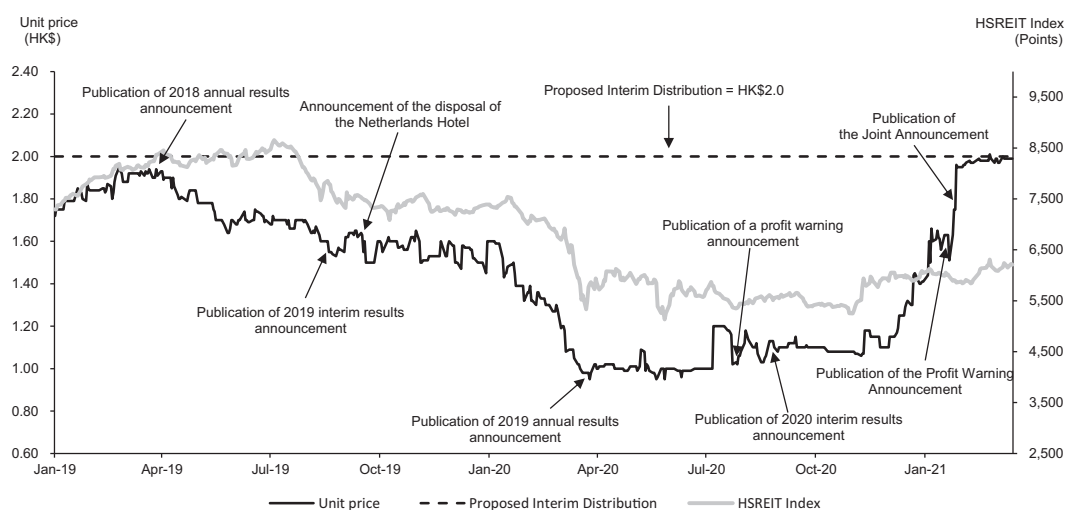
The above natural consequences of the Proposed Disposal, combined with the Proposed Interim Distribution, are in essence a privatisation of New Century REIT. In evaluating the Proposals as a whole, we consider it appropriate to make references to the historical trading of the Units, and similar privatisation precedents and comparable entities in the Hong Kong market, which are common approaches in analysing privatisations.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

8.1 Analysis of price performance and trading liquidity

8.1.1 Historical price performance of the Units

Set out below is the movement of the daily closing prices of the Units during the period from 1 January 2019 to the Latest Practicable Date (the “**Review Period**”), and the comparisons between such historical price performance and (a) the Proposed Interim Distribution of HK\$2.0 per Unit and (b) the Hang Seng Real Estate Investment Trust Index (the “**HSREIT Index**”):



Source: Bloomberg

The chart above illustrates that the Units were trading consistently below the Proposed Interim Distribution of HK\$2.0 per Unit before the publication of the Joint Announcement. Following the publication of the Joint Announcement and up to the Latest Practicable Date, the Units were trading slightly below the Proposed Interim Distribution of HK\$2.0 per Unit, except for two trading days on 25 February 2021 and 8 March 2021. Although the market price of the Units generally tracked the HSREIT Index in the first quarter of 2019, it started to underperform for the rest of 2019 and 2020 until late December 2020, when there was a significant increase in Unit price, as discussed below.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

After reaching a high of HK\$1.95 on 25 February 2019, for which the Manager was not aware of any reasons, the market price of the Units generally trended downward throughout the year 2019. During this period, New Century REIT published its 2018 annual results and 2019 interim results, showing decreases in total distribution of approximately 26.7% and 32.3% respectively, as compared to the corresponding year/period, principally due to the decrease in hotel rental income and foreign exchange losses on repayment of bank borrowings and settlement of derivative financial instruments. In September 2019, New Century REIT announced the disposal of its Netherlands Hotel, which was completed in November 2019 with a gain of approximately RMB69.7 million.

The downward trend continued during the first quarter of 2020. The market price of the Units decreased from about HK\$1.60 in early January 2020 to about HK\$1.30 in late February 2020. During the first half of March 2020, the market price of the Units dropped substantially to a level close to HK\$1.00. On 13 March 2020, New Century REIT published a voluntary announcement, stating that the operations of the Hotel Properties were substantively suspended since 25 January 2020, as a result of the activation of level I (the highest-level response to major public health emergencies) and the adoption of various measures to curb the spread of COVID-19. Most of the hotel operations subsequently resumed in March 2020 following lowering of the response level to level II. The temporary suspension resulted in downward adjustment of the base rent for the Hotel Properties during the suspension period. On 24 March 2020 (after trading hours), New Century REIT published its 2019 annual results, showing year-on-year decreases in revenue by approximately 7.6% and total distribution by approximately 35.3%. The decline in total distribution was mainly due to the fact that no special distribution was declared in 2019. The Unit price remained at HK\$0.98 on the following trading day.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Throughout April to November 2020, the market price of the Units traded within in a narrow range between HK\$0.95 and HK\$1.20. During this period, New Century REIT published its 2020 interim results, showing a year-on-year drop in revenue by approximately 26.8% and an adjusted loss of approximately RMB7.0 million. The revenue drop was mainly due to the disposal of its Netherlands Hotel in November 2019 and the decrease in downward adjustment of its base rent caused by the substantive suspension of hotel operations in February and March 2020 as a result of the COVID-19, and the adjusted loss was mainly caused by the decline in hotel rental income and the increase in interest expenses.

In December 2020 and the beginning of 2021, the Unit price exhibited a substantial increase from about the level of HK\$1.10 in the beginning of December 2020 to a high of HK\$1.66 on 7 January 2021, for which the Manager was not aware of any reasons. On 20 January 2021 (after trading hours), New Century REIT published the Profit Warning Announcement, indicating that it was expected that the Group would record an adjusted loss for the year 2020 in the range of approximately RMB185 million to RMB215 million, as compared to the distributable income of approximately RMB69 million for the year 2019. Despite the Profit Warning Announcement, the Unit price continued to increase and closed at HK\$1.75 on 26 January 2021, being the Last Trading Date.

After the publication of the Joint Announcement, the Unit price increased by 12.0% and closed at HK\$1.96 on the next trading day, 28 January 2021. Subsequently, the Unit price generally tracked the Proposed Interim Distribution of HK\$2.0 per Unit and closed at HK\$1.990 on the Latest Practicable Date.

The market price of the Units, in our opinion, is currently influenced by the terms of the Proposals, in particular the Proposed Interim Distribution. If the Proposals fail, other things being equal, the market price of the Units may return to the previous levels before the Joint Announcement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

8.1.2 Trading liquidity of the Units

Set out in the table below are the monthly total trading volume of the Units and the percentages of such monthly total trading volume to the total issued Units and the public float of New Century REIT during the Review Period:

	Monthly total trading volume of the Units	Percentage of the monthly total trading volume of the Units to the total issued Units	Percentage of the monthly total trading volume of the Units to public float of New Century REIT
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Notes 1 and 3)</i>
2019			
January	95,000	0.01%	0.04%
February	389,000	0.04%	0.16%
March	213,000	0.02%	0.09%
April	1,136,200	0.12%	0.47%
May	1,120,000	0.12%	0.46%
June	148,000	0.02%	0.06%
July	142,000	0.01%	0.06%
August	608,000	0.06%	0.25%
September	2,651,000	0.27%	1.09%
October	108,000	0.01%	0.04%
November	680,000	0.07%	0.28%
December	125,000	0.01%	0.05%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	Monthly total trading volume of the Units (Note 1)	Percentage of the monthly total trading volume of the Units to the total issued Units (Note 2)	Percentage of the monthly total trading volume of the Units to public float of New Century REIT (Notes 1 and 3)
2020			
January	245,000	0.03%	0.10%
February	531,000	0.05%	0.22%
March	700,000	0.07%	0.29%
April	189,000	0.02%	0.08%
May	347,000	0.04%	0.14%
June	228,000	0.02%	0.09%
July	429,000	0.04%	0.17%
August	713,000	0.07%	0.29%
September	2,863,000	0.29%	1.16%
October	58,000	0.01%	0.02%
November	257,000	0.03%	0.10%
December	977,000	0.10%	0.39%
2021			
January	5,639,000	0.57%	2.28%
February	1,801,000	0.18%	0.73%
From 1 March to the Latest Practicable Date	464,000	0.05%	0.19%

Notes:

- (1) *Sourced from Bloomberg and New Century REIT*
- (2) *Calculated based on the monthly total trading volume of the Units divided by the total number of the issued Units at the end of each month (or at the Latest Practicable Date for March 2021)*
- (3) *Calculated based on the monthly total trading volume of the Units divided by the total number of the Units held by the public at the end of each month (or at the Latest Practicable Date for March 2021)*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As illustrated in the above table, the monthly total trading volume of the Units during the Review Period represented approximately 0.01% to 0.57% of the total issued Units, or approximately 0.02% to 2.28% of the issued Units constituting the public float of New Century REIT. We consider that the trading of the Units was thin. In particular, during the period from January 2019 and up to the Last Trading Date, (a) the average daily trading volume of the Units was approximately 34,000 Units, representing less than 0.01% of the issued Units as at the date of the Joint Announcement, (b) the average daily trading value was less than HK\$50,000 based on the total number of trading days, and (c) there were 511 trading days in total, out of which 201 trading days have no trading of the Units being conducted on the Stock Exchange. It follows that if the Independent Unitholders wish to sell a significant number of Units in the Stock Exchange, they may not be able to dispose the Units without a downward pressure on the Unit price. The Proposals consequently represent an opportunity for the Independent Unitholders to exit at a fixed cash price (i.e. the Proposed Interim Distribution of HK\$2.0 per Unit), which also represents premiums over the historical average closing price of the Units before the Joint Announcement, as further discussed in the section below.

8.1.3 Comparisons of Value

The Proposed Interim Distribution of HK\$2.0 in value for each Unit represents:

- a) a premium of approximately 0.5% over the last trading price of HK\$1.990 per Unit as quoted on the Stock Exchange on the Latest Practicable Date;
- b) a premium of approximately 14.3% over the last trading price of HK\$1.750 per Unit as quoted on the Stock Exchange on the Last Trading Date;
- c) a premium of approximately 22.7% over the average closing price of approximately HK\$1.630 per Unit as quoted on the Stock Exchange for the past 5 trading days up to and including the Last Trading Date;
- d) a premium of approximately 34.0% over the average closing price of approximately HK\$1.493 per Unit as quoted on the Stock Exchange for the past 30 trading days up to and including the Last Trading Date;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- e) a premium of approximately 52.6% over the average closing price of approximately HK\$1.310 per Unit as quoted on the Stock Exchange for the past 60 trading days up to and including the Last Trading Date;
- f) a premium of approximately 61.6% over the average closing price of approximately HK\$1.238 per Unit as quoted on the Stock Exchange for the past 90 trading days up to and including the Last Trading Date;
- g) a premium of approximately 73.9% over the average closing price of approximately HK\$1.150 per Unit as quoted on the Stock Exchange for the past 180 trading days up to and including the Last Trading Date;
- h) a discount of approximately 22.0% to the audited consolidated net assets attributable to the Unitholders of approximately HK\$2.5635 per Unit as at 31 December 2019 (as disclosed in New Century REIT's 2019 annual report);
- i) a discount of approximately 1.8% to the unaudited adjusted consolidated net assets attributable to the Unitholders (after taking into account the Appraised Value as at 31 December 2020 netting off the deferred tax impact and non-controlling interests) of approximately HK\$2.0375 per Unit as at 31 December 2019 (based on the unaudited adjusted consolidated net assets attributable to the Unitholders (after taking into account the Appraised Value as at 31 December 2020 netting off the deferred tax impact and non-controlling interests) of approximately RMB1,772.5 million, 971,128,484 Units in issue and the exchange rate of RMB0.8958 to HK\$1, being the central parity rate as quoted by the People's Bank of China, as at 31 December 2019);
- j) a premium of approximately 2.5% over the unaudited consolidated net assets attributable to the Unitholders of approximately HK\$1.9519 per Unit as at 30 June 2020 (based on the unaudited consolidated net assets attributable to the Unitholders of approximately RMB1,734.4 million as at 30 June 2020 as set out in New Century REIT's 2020 interim report, 988,009,137 Units in issue as at the Latest Practicable Date, and the exchange rate of RMB0.89936 to HK\$1 adopted in the Circular for illustration purpose);

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- k) a premium of approximately 7.8% over the unaudited adjusted consolidated net assets attributable to the Unitholders (after taking into account the Appraised Value as at 31 December 2020 netting off the deferred tax impact and non-controlling interests) (the “**Latest Adjusted NAV**”) of approximately HK\$1.8550 per Unit as at 30 June 2020 (based on the Latest Adjusted NAV of approximately RMB1,648.3 million as at 30 June 2020, 988,009,137 Units in issue as at the Latest Practicable Date, and the exchange rate of RMB0.89936 to HK\$1 adopted in the Circular for illustration purpose); and
- l) a premium of approximately 0.4% over the Latest Adjusted NAV of approximately HK\$1.9919 per Unit as at 30 June 2020 (based on the Latest Adjusted NAV of approximately RMB1,648.3 million as at 30 June 2020, 988,009,137 Units in issue as at the Latest Practicable Date, and the exchange rate of RMB0.83754 to HK\$1, being the central parity rate as quoted by the People’s Bank of China, as at the Latest Practicable Date).

In summary, the Proposed Interim Distribution of HK\$2.0 per Unit represents (a) premiums in a range of approximately 14.3% to 73.9% over the (average) closing prices of the Units for different periods prior to publication of the Joint Announcement as shown above; (b) premiums of approximately 2.5% to 7.8% over the net assets attributable to the Unitholders per Unit as at 30 June 2020, but discounts of approximately 1.8% and 22.0% to that as at 31 December 2019, as shown above; and (c) a premium of approximately 0.4% over the Latest Adjusted NAV per Unit as at 30 June 2020 if the exchange rate as at the Latest Practicable Date is adopted).

As further analysed in the sub-section above, the market price of the Units increased substantially by approximately 59.1% from HK\$1.10 in the beginning of December 2020 to HK\$1.75 on the Last Trading Date. Due to such significant increase in market price for which the Manager was not aware of any reasons, we consider that emphasis should be placed on the longer term averages when evaluating the premiums over the historical average Unit price, such that the impact from such sudden increase can be reduced. On the basis of last 60, 90 and 180 trading days up to and including the Last Trading Date, the Proposed Interim Distribution represents premiums of between approximately 52.6% and 73.9%.

8.2 Comparisons

8.2.1 Privatisation Precedents

We have compared the Proposed Interim Distribution with privatisation proposals involving property development and/or investment entities listed on the Stock Exchange, announced since 1 January 2011 and up to the Latest Practicable Date (the “**Privatisation Precedents**”), all of which were successfully completed. We consider it appropriate to cover such review period, being approximately ten years, which allows us to obtain a sufficient number of Privatisation Precedents, based on our judgment having considered the balance of factors including comparability of the businesses of the Privatisation Precedents to that of New Century REIT, the size of the Privatisations Precedents and patterns of the information gathered (including the premiums over historical market prices offered under the Privatisation Precedents and premiums/discounts of the offers over/to the respective adjusted NAV). In our view, the Privatisation Precedents represent a fair, representative and exhaustive list that we were able to identify from the Stock Exchange’s website, based on the above selection criteria.

Although the entities listed below may have different market capitalisation, financial performance and position as compared with those of New Century REIT, the reasons behind the privatisation proposals may vary, and some aspects of pricing may be industry-specific, in view of the fact that both the Group and the entities in the Privatisation Precedents are principally engaged in, among others, property development and/or investment and are holding significant property interests, we consider that the Privatisation Precedents can provide us with a meaningful analysis of the market trend of the pricing of property-related privatisations in the Hong Kong equity capital market as well as a meaningful benchmark for the Independent Unitholders when evaluating the premiums provided in the Proposals.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The table below illustrates the premiums/discounts represented by the cancellation consideration or offer price over/to the respective last trading day and last 5, 30, 60, 90 and 180 trading days average share prices, and the adjusted consolidated net asset value (“NAV”) per share in respect of the privatisation proposals:

Date of initial announcement	Company (stock code)	Market capitalisation as implied by the cancellation consideration/offer price (HK\$ billion)	Premium of cancellation consideration or offer price over the closing price/average closing price per share					Premium/(discount) of cancellation price or offer price over/(to) adjusted consolidated NAV per share (Note 1)	
			on the last trading day	for the last 5 trading days	for the last 30 trading days	for the last 60 trading days	for the last 90 trading days		for the last 180 trading days
2 July 2020	Vantage International (Holdings) Limited (15)	1.5	80.0%	90.7%	119.5%	115.0%	104.1%	78.6%	(67.0%)
12 June 2020	Jinmao Hotel and Jinmao (China) Hotel Investments and Management Limited (6139) (“Jinmao Hotel”)	9.6	30.4%	57.8%	82.6%	86.8%	64.6%	38.0%	(21.4%)
20 April 2020	Allied Properties (H.K.) Limited (56) (Note 2)	13.1	34.3%	36.6%	39.5%	33.5%	30.1%	22.7%	(65.8%)
27 February 2020	Wheelock and Company Limited (20) (Note 3)	147.6	52.2%	49.1%	45.2%	43.9%	45.9%	45.2%	(1.8%)
5 December 2018	Hopewell Holdings Limited (54)	33.7	46.7%	48.8%	55.5%	54.1%	49.6%	43.7%	(43.0%)
20 March 2017	Goldin Properties Holdings Limited (283) (“Goldin Properties”) (Note 4)	32.2	36.8%	40.1%	33.9%	30.4%	36.6%	49.4%	28.6%
30 March 2016	Dalian Wanda Commercial Properties Co., Ltd. (3699) (Note 4)	239.0	36.1%	40.1%	50.2%	44.6%	32.7%	16.0%	(10.8%)
6 January 2016	New World China Land Limited (917)	67.8	25.6%	28.5%	40.8%	45.7%	54.0%	57.0%	(29.4%)
27 May 2015	Dorsett Hospitality International Limited (2266) (Note 5)	3.8	32.4%	35.7%	41.3%	43.5%	42.4%	34.3%	(74.6%)
20 January 2011	Shanghai Forte Land Co., Ltd. (2337)	8.9	25.5%	23.2%	34.3%	40.0%	43.0%	52.4%	(26.2%)
	Maximum		80.0%	90.7%	119.5%	115.0%	104.1%	78.6%	28.6%
	Minimum		25.5%	23.2%	33.9%	30.4%	30.1%	16.0%	(74.6%)
	Mean		40.0%	45.1%	54.3%	53.8%	50.3%	43.7%	(31.1%)
	Median		35.2%	40.1%	43.3%	44.3%	44.4%	44.5%	(27.8%)
27 January 2021	New Century REIT (1275)	2.0	14.3%	22.7%	34.0%	52.6%	61.6%	73.9%	0.4% (Note 6)

Source: website of the Stock Exchange and Bloomberg

Notes:

- (1) The adjusted consolidated NAV per share for each of the Privatisation Precedents has been arrived at by making adjustments to the consolidated NAV, principally covering (i) revaluation surplus arising from the valuation of respective property interests; and (ii) relevant tax effects, as disclosed in the relevant privatisation documents
- (2) The relevant premiums of Allied Properties (H.K.) Limited are calculated based on a total price representing the aggregate value of the cash consideration and the special dividend
- (3) The relevant premiums of Wheelock and Company Ltd. are calculated based on a total price representing the aggregate value of the cash consideration and the market price of one share of Wharf Real Estate Investment Company Limited (stock code: 1997) and one share of Wharf (Holdings) Limited (stock code: 4), as quoted on the Stock Exchange as at the last trading day, being received by the scheme shareholders by way of distribution in specie

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (4) *The relevant premiums of Goldin Properties and Dalian Wanda Commercial Properties Co., Ltd. are calculated based on the last trading day and the last 5, 30, 60, 90 and 180 trading days average share prices prior to the date of the respective announcement issued pursuant to Rule 3.7 of the Takeovers Code*
- (5) *The relevant premiums of Dorsett Hospitality International Limited are calculated based on a total price representing the aggregate value of the cash consideration and the market price of 0.28125 share of Far East Consortium International Limited (stock code: 35), as quoted on the Stock Exchange as at the last trading day*
- (6) *Being the Proposed Interim Distribution of HK\$2.0 per Unit divided by the Latest Adjusted NAV of approximately HK\$1.9919 per Unit as at 30 June 2020, based on the total number of Units in issue and the exchange rate of RMB0.83754 to HK\$1, being the central parity rate as quoted by the People's Bank of China, as at the Latest Practicable Date*

As shown in the table above, the mean premiums and median premiums of the Privatisation Precedents over the (average) closing price on the last trading day, and for the last 5, 30, 60, 90 and 180 trading days range from approximately 40.0% to 54.3% and approximately 35.2% to 44.5% respectively. The premiums represented by the Proposed Interim Distribution of HK\$2.0 per Unit over the (average) closing price of the Units on the Last Trading Date and for the last 5 and 30 trading days are lower than the corresponding mean premiums and median premiums of the Privatisation Precedents. This is primarily due to the substantial increase in the market price of the Units from the beginning of December 2020. As discussed above, we consider that emphasis should be put on longer term of the average market prices of the Units. On the basis of periods for the last 60, 90 and 180 trading days, the premiums as represented by the Proposed Interim Distribution are close to, or higher than, the mean premiums and median premiums of the Privatisation Precedents.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

While a premium was offered in the privatisation case of Goldin Properties, the relevant cancellation consideration/offer price of all other Privatisation Precedents represented discounts to the respective consolidated adjusted NAV per share, ranging from approximately 1.8% to 74.6%. The Proposed Interim Distribution represents a premium of approximately 0.4% over the Latest Adjusted NAV per Unit as at 30 June 2020 (based on the exchange rate as at the Latest Practicable Date), which compares favourably to the mean discount and median discount of the Privatisation Precedents, being approximately 31.1% and 27.8% respectively.

8.2.2 Comparable Entities

With the exception of Jinmao Hotel (the directors of which are committed to distribute its 100% distributable income after certain adjustments), other offeree companies under the Privatisation Precedents adopted dividend policies and that are different from New Century REIT, which is required to distribute to its Unitholders not less than 90% of its audited annual net income after tax pursuant to the REIT Code. When evaluating the fairness and reasonableness of the Proposed Interim Distribution, we have also analysed all the REITs and investment trusts (the “**Comparable Entities**”) listed on the Stock Exchange as at the Latest Practicable Date, which (i) have derived a majority of their revenue from the investment in real estate assets, and (ii) have a distribution policy to distribute most of their distributable income after certain adjustments to their unitholders (excluding RREEF China Commercial Trust which has the trading of its units suspended and is in the process of termination and liquidation). In our view, the Comparable Entities represent an exhaustive list that we were able to identify from the Stock Exchange’s website, based on the above selection criteria.

In our opinion, the unitholders of the Comparable Entities and New Century REIT place a high priority on the price to book ratio (the “**P/B Ratio**”) and distribution yield, which we consider to be suitable ratios for comparison, having regard to the business model and objective. On the other hand, net profits of the Comparable Entities are generally influenced by changes in fair values of their investment properties, thus the analysis on the price to earnings ratio may be less relevant. The table below illustrates the P/B Ratios and the distribution yields of New Century REIT and the Comparable Entities:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Comparable Entities (stock code)	Closing price as at the Latest Practicable Date	Market capitalisation as at the Latest Practicable Date <i>(million)</i> <i>(Note 1)</i>	Latest published net assets attributable to unitholders/ holders of share stapled units <i>(million)</i>	2018/2019's distribution per unit	Trailing Twelve Months distribution per unit	P/B Ratio <i>(times)</i>	2018/2019's distribution yield <i>(%)</i>	Trailing Twelve Months distribution yield <i>(%)</i>
	(A)	(B)	(C)	(D)	(E)	(B/C)	(D/A)	(E/A)
Link Real Estate Investment Trust (823)	HK\$71.25	HK\$148,333	HK\$153,853	HK\$2.7117 <i>(Note 2a)</i>	HK\$2.8737 <i>(Note 3a)</i>	0.96	3.8	4.0
Champion Real Estate Investment Trust (2778)	HK\$4.57	HK\$27,061	HK\$50,858	HK\$0.2662 <i>(Note 2b)</i>	HK\$0.2500 <i>(Note 3b)</i>	0.53	5.8	5.5
Fortune Real Estate Investment Trust (778)	HK\$7.38	HK\$14,457	HK\$28,632	HK\$0.5128 <i>(Note 2b)</i>	HK\$0.4716 <i>(Note 3b)</i>	0.50	6.9	6.4
Hui Xian Real Estate Investment Trust (87001)	RMB1.86	RMB11,187	RMB25,052	RMB0.2177 <i>(Note 2b)</i>	RMB0.0866 <i>(Note 3b)</i>	0.45	11.7	4.7
Yuexiu Real Estate Investment Trust (405)	HK\$3.96	RMB10,955	RMB14,585	HK\$0.2707 <i>(Note 2b)</i>	HK\$0.2297 <i>(Note 3b)</i>	0.75	6.8	5.8
Sunlight Real Estate Investment Trust (435)	HK\$4.08	HK\$6,801	HK\$14,350	HK\$0.2730 <i>(Note 2b)</i>	HK\$0.2610 <i>(Note 3b)</i>	0.47	6.7	6.4
Regal Real Estate Investment Trust (1881)	HK\$1.51	HK\$4,919	HK\$12,348	HK\$0.1240 <i>(Note 2b)</i>	HK\$0.1160 <i>(Note 3c)</i>	0.40	8.2	7.7
Prosperity Real Estate Investment Trust (808)	HK\$2.68	HK\$4,098	HK\$7,543	HK\$0.1828 <i>(Note 2b)</i>	HK\$0.1791 <i>(Note 3b)</i>	0.54	6.8	6.7
Spring Real Estate Investment Trust (1426)	HK\$2.75	RMB3,364	RMB6,556	HK\$0.1890 <i>(Note 2b)</i>	HK\$0.1840 <i>(Note 3c)</i>	0.51	6.9	6.7
Langham Hospitality Investments (1270)	HK\$1.18	HK\$3,814	HK\$8,130	HK\$0.1210 <i>(Note 2b)</i>	nil <i>(Note 3b)</i>	0.47	10.3	nil
China Merchants Commercial Real Estate Investment Trust (1503) ("CMC REIT") <i>(Note 4)</i>	HK\$2.58	RMB2,437	RMB3,751	NM <i>(Note 5)</i>	NM <i>(Note 5)</i>	0.65	NM <i>(Note 5)</i>	NM <i>(Note 5)</i>
					Maximum	0.96	11.7	7.7
					Minimum	0.40	3.8	nil
					Mean	0.57	7.4	5.4
					Median	0.51	6.9	6.1
New Century REIT (1275) as implied by the Proposed Interim Distribution	HK\$2.0 <i>(Note 6)</i>	RMB1,646	RMB1,648 <i>(Note 7)</i>	HK\$0.0709	HK\$0.0319	1.00	3.5	1.6

Source: website of the Stock Exchange and public filings by the Comparable Entities

Notes:

- (1) *In respect of the Comparable Entities, being the product of the respective closing price as quoted on the Stock Exchange and the number of issued units, as at the Latest Practicable Date; In respect of New Century REIT, being the product of the Proposed Interim Distribution of HK\$2.0 per Unit and 988,009,137 Unit in issue as at the Latest Practicable Date*
- (2a) *Being the total distribution per unit for the twelve months period ended 30 September 2019, calculated based on the distribution entitlements as available and shown in the Stock Exchange's website as at the Latest Practicable Date*
- (2b) *Being the total distribution per unit for the twelve months period ended 31 December 2019, calculated based on the distribution entitlements as available and shown in the Stock Exchange's website as at the Latest Practicable Date*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (3a) *Being the total distribution per unit for the latest twelve consecutive months (“Trailing Twelve Months”) ended 30 September 2020, calculated based on the distribution entitlements as available and shown in the Stock Exchange’s website as at the Latest Practicable Date*
- (3b) *Being the total distribution per unit for the Trailing Twelve Months ended 31 December 2020, calculated based on the distribution entitlements as available and shown in the Stock Exchange’s website as at the Latest Practicable Date*
- (3c) *Being the total distribution per unit for the Trailing Twelve Months ended 30 June 2020, calculated based on the distribution entitlements as available and shown in the Stock Exchange’s website as at the Latest Practicable Date*
- (4) *We note that the final results and the payment of final distribution of CMC REIT were scheduled to be approved on the Latest Practicable Date. Against this background, we consider that the market price of its unit has not yet reflect the latest 2020 performance and position, and for the purpose of this analysis, the closing price, market capitalisation and the latest published net assets attributable to the unitholders of CMC REIT are based on the information available on the date immediately prior to the Latest Practicable Date*
- (5) *Units of CMC REIT were listed on the Stock Exchange on 10 December 2019, and for this reason, its distributions for the period from the listing date to 31 December 2019 and the six months ended 30 June 2020 are not considered meaningful and excluded from for this analysis*
- (6) *Being the Proposed Interim Distribution of HK\$2.0 per Unit*
- (7) *Being the Latest Adjusted NAV of approximately RMB1,648.3 million as at 30 June 2020, calculated based on the unaudited consolidated net assets attributable to the Unitholders of approximately RMB1,734.4 million as at 30 June 2020, after taking into account the Appraised Value as at 31 December 2020 netting off the deferred tax impact and non-controlling interests*
- (8) *The translation of RMB into HK\$ is based on the exchange rate of RMB0.83754 to HK\$1, being the central parity rate as quoted by the People’s Bank of China as at the Latest Practicable Date*

Our general observations are as follows:

(i) **P/B Ratio**

The P/B Ratio of the Comparable Entities ranges from approximately 0.40 times to 0.96 times, with a mean and median of approximately 0.57 times and 0.51 times respectively. The P/B Ratio of New Century REIT as represented by the Proposed Interim Distribution of approximately 1.00 times is the highest P/B Ratio among the Comparable Entities.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) Distribution yield

The Comparable Entities' distribution yields (based on the distribution per unit for the twelve months period ended on or before 31 December 2019) are in the range of approximately 3.8% to 11.7%, with a mean and median of approximately 7.4% and 6.9% respectively. The distribution yield of New Century REIT as represented by the Proposed Interim Distribution is approximately 3.5% (based on the distribution per Unit for the year 2019 of HK7.09 cent), which is significantly lower than the mean and median distribution yields of the Comparable Entities. For the purpose of reflecting the latest performance of New Century REIT and the Comparable Entities, the Trailing Twelve Months distribution yields of New Century REIT and the Comparable Entities are also presented above. The Trailing Twelve Months distribution yield of New Century REIT as represented by the Proposed Interim Distribution of approximately 1.6% is also significantly lower than the mean and median distribution yields of the Comparable Entities on Trailing Twelve Months basis.

According to the Profit Warning Announcement, it was expected that the Group would record an adjusted loss for the year 2020 in the range of approximately RMB185 million to RMB215 million, and the Manager did not expect to record any distributable income or to declare any final distribution for the year 2020 due to the negative impact arising from the outbreak of COVID-19. The above means that Independent Unitholders who place a high priority on distribution would have ready opportunities to re-invest the proceeds from the Proposed Interim Distribution in similar entities producing a higher yield.

On the basis of the above, in particular the P/B Ratio as represented by the Proposed Interim Distribution being the highest among the Comparable Entities, and the distribution yields as represented by the Proposed Interim Distribution being significant lower than the mean and median of the Comparable Entities, and that the Group was not expect to record any distributable income for the year 2020, we consider the Proposed Interim Distribution to be fair and reasonable.

DISCUSSION

In reaching our opinion and recommendation below, we have taken into account the factors set out under the section headed "Principal factors and reasons considered" above, none of which can be considered in isolation. We would like to draw the attention of the Independent Unitholders in particular to the points summarised below.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Proposals are akin to a privatisation exercise

The Proposals include the disposal of the Disposed Group, which contains all operating businesses and assets of the Group, and the distribution of all the disposal proceeds (together with the Cash Reserves after deducting for the Disposal Costs) to the Unitholders. New Century REIT will then be terminated and liquidated under the REIT Code and the Trust Deed, the Units will be delisted from the Stock Exchange, and New Century REIT will be deauthorised in accordance with applicable regulatory requirements. The effect of the Proposals is akin to a privatisation of a listed company in the Hong Kong market. Unitholders will receive HK\$2.0 for every Unit under the Proposed Interim Distribution.

New Century REIT's performance has been hit hard by the outbreak of COVID-19

New Century REIT holds an investment portfolio of six hotel properties in the PRC, and receives rental income mainly from leasing of the Hotel Properties under certain leases and management agreements with the Hotel Group and the Kaifeng Hotel Lessee. The leasing arrangement includes a minimum base rent which serves as a downside protection mechanism, and a variable individual rent for New Century REIT to share any potential upside in revenue and gross operating profit based on the performance of the hotels.

The outbreak of COVID-19 in 2020, and the resulting substantial reduction in travelling, severely impacted the global travel and tourism industry. The Hotel Properties have substantively suspended operations for about one to two months during the first quarter of 2020, which resulted in a downward adjustment of the base rent, inevitably impacting the performance of New Century REIT. As disclosed in the Profit Warning Announcement, New Century REIT was expected to record an adjusted loss for the year 2020, and was not expected to declare any final distribution for 2020. While the medium to long-term outlook of the PRC hotel industry is generally positive assuming the eventual containment of COVID-19, the short-term outlook is full of uncertainties and challenges, with the time required for the hotel industry's performance to recover to the pre-pandemic level being uncertain.

Disposal consideration represents premium over aggregated audited net assets value attributable to equity holders of the Disposed Group, which has reflected the latest valuation of the Hotel Properties

The Hotels Properties have an aggregate Appraised Value of RMB3,997 million as at 30 November 2020 (which is the same as the Appraised Value as at 31 December 2020), valued by the Principal Valuer based on the DCF Approach, which is a common valuation methodology in valuing such type of properties. As the Disposed Group principally holds the Hotel Properties, the carrying value of which constitute over 90% of its aggregated total assets, we consider it appropriate to evaluate the Consideration against the net asset backing of the Disposed Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Consideration of approximately HK\$1,921.0 million represents a premium of approximately 8.0%, or approximately 0.7% if the exchange rate as at the Latest Practicable Date is adopted, over the sum of the outstanding amount of the Sale Loan and the aggregated audited net asset value attributable to equity holders of the Disposed Group as at 30 November 2020, which has reflected the above Appraised Value. We consider it fair for the Consideration to be determined at a level similar to or slightly over the net asset value per above.

Proposed Interim Distribution represents substantial premiums over historical market prices and are in line with premiums offered by recent privatisations

As the effect of the Proposals is akin to a privatisation, we evaluate the Proposed Interim Distribution of HK\$2.0 per Unit by making reference to historical trading of the Units and other privatisations. The Proposed Interim Distribution per Unit exceeds the closing prices prior to the publication of the Joint Announcement, and represents (i) a premium of approximately 14.3% over the closing price of the Units on the Last Trading Day, and (ii) premiums of between approximately 22.7% to 73.9% over the 5 to 180 trading days average closing prices of the Units before the Joint Announcement. We consider that emphasis should be put on longer term of the average market prices of the Units due to the substantial increase in the market price of the Units since December 2020. On this basis, the premiums over market as represented by the Proposed Interim Distribution are in line with those of the Privatisation Precedents.

We have also compared the cancellation consideration or offer price of the Privatisation Precedents against their respective adjusted NAVs. Except for one Privatisation Precedent which offered a price above the adjusted NAV, other Privatisation Precedents offered prices that represented discounts between approximately 1.8% to 74.6% to the respective adjusted NAVs, with mean and median discounts of approximately 31.1% and 27.8% respectively. The Proposed Interim Distribution represents a premium of approximately 0.4% over the Latest Adjusted NAV per Unit as at 30 June 2020 (based on the exchange rate as at the Latest Practicable Date), which we consider to be fair and reasonable.

Trading of the Units has been thin

We consider the trading of the Units to be thin, with roughly 40% of the trading days between January 2019 and the Last Trading Date without any trading of the Units, and an average daily trading value of less than HK\$50,000 based on the total number of trading days during the period from January 2019 and up to the Last Trading Date. Independent Unitholders may not be able to dispose a significant number of Units without a downward pressure on the Unit price. The Proposals consequently represent an opportunity for the Independent Unitholders to exit at a fixed cash price of HK\$2.0 per Unit.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Distribution yield and P/B Ratio as represented by the Proposed Interim Distribution compare favourably to those of the Comparable Entities

We have identified eleven Comparable Entities which are all mandated to distribute to its unitholders most of their distributable income after certain deductions. The P/B Ratio as represented by the Proposed Interim Distribution compares favourably to those of the Comparable Entities. The lower distribution yields as represented by the Proposed Interim Distribution compared to those of the Comparable Entities means that Independent Unitholders may re-invest the proceeds from the Proposed Interim Distribution in similar entities producing a higher yield. As such, we consider that the Proposed Interim Distribution to be fair and reasonable.

OPINION AND RECOMMENDATION

Having considered the above reasons and factors summarised in the above section headed “Discussion”, we consider that the Proposals, although not being entered into in the ordinary and usual course of business of New Century REIT and not consistent with the investment policy of New Century REIT due to the feature of the Proposals being to dispose all operating businesses and assets of the Group, are on normal commercial terms, which are fair and reasonable so far as the Independent Unitholders are concerned and in the interests of New Century REIT, the Independent Unitholders, and the Unitholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Unitholders to vote in favour of the resolution in respect of the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
John Wong
Director

Mr. John Wong is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over ten years of experience in the corporate finance industry.

APPENDIX I FINANCIAL INFORMATION RELATING TO NEW CENTURY REIT

1. SUMMARY OF FINANCIAL INFORMATION OF NEW CENTURY REIT

The following is a summary of the financial results of New Century REIT for the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2020 as extracted from the relevant annual reports and interim report of New Century REIT:

	Year ended 31 December			Six months ended 30 June 2020
	2017	2018	2019	(Unaudited)
	(Audited)	(Audited)	(Audited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	293,407	275,956	254,881	93,420
Operating expenses	(62,772)	(53,860)	(55,135)	(20,280)
Other (losses)/gains – net	(20,643)	(10,245)	62,914	(45,046)
Change in fair values of investment properties	<u>101,093</u>	<u>83,759</u>	<u>(120,094)</u>	<u>(499,000)</u>
Operating profit/(loss)	311,085	295,610	142,566	(470,906)
Finance income	115,415	14,770	4,913	3,232
Finance costs	<u>(117,980)</u>	<u>(192,432)</u>	<u>(155,379)</u>	<u>(105,957)</u>
Finance costs – net	<u>(2,565)</u>	<u>(177,662)</u>	<u>(150,466)</u>	<u>(102,725)</u>
Profit/(loss) before taxation and transactions with unitholders	308,520	117,948	(7,900)	(573,631)
Income tax (expense)/credit	<u>(135,351)</u>	<u>(92,259)</u>	<u>(28,784)</u>	<u>97,642</u>
Profit/(loss) after taxation for the year, before transactions with unitholders	<u>173,169</u>	<u>25,689</u>	<u>(36,684)</u>	<u>(475,989)</u>
Profit/(loss) attributable to unitholders	170,594	24,258	(37,502)	(473,871)
Profit/(loss) attributable to non-controlling interests	<u>2,575</u>	<u>1,431</u>	<u>818</u>	<u>(2,118)</u>
	<u>173,169</u>	<u>25,689</u>	<u>(36,684)</u>	<u>(475,989)</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO NEW CENTURY REIT

	Year ended 31 December			Six months ended
	2017	2018	2019	30 June
	(Audited)	(Audited)	(Audited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Basic/diluted earnings/(loss) per Unit (RMB)	<u>0.1786</u>	<u>0.0253</u>	<u>(0.0388)</u>	<u>(0.4872)</u>
Interim distribution (including special distribution)	79,591	50,000	33,826	–
Final distribution	<u>51,269</u>	<u>45,878</u>	<u>28,163</u>	<u>–</u>
Total Distribution for the year/ period	<u>130,860</u>	<u>95,878</u>	<u>61,989</u>	<u>–</u>
Final distribution per Unit (RMB)	<u>0.0535</u>	<u>0.0477</u>	<u>0.0290</u>	<u>N/A</u>
Total distribution per Unit (RMB)	<u>0.1365</u>	<u>0.0999</u>	<u>0.0640</u>	<u>–</u>

The consolidated financial statements of New Century REIT for the three years ended 31 December 2017, 2018 and 2019 were audited by PricewaterhouseCoopers. The auditor of New Century REIT, PricewaterhouseCoopers, did not issue any modified opinion nor any emphasis of matter or material uncertainty related to going concern on the respective consolidated financial statements of New Century REIT for the three years ended 31 December 2017, 2018 and 2019, respectively.

2. FINANCIAL INFORMATION OF NEW CENTURY REIT

New Century REIT is required to set out or refer to in this circular the consolidated income statement, consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of cash flows, the consolidated statement of changes in net assets attributable to Unitholders and changes in equity, consolidated distribution statement and any other primary statement as shown in (i) the audited consolidated financial statements of New Century REIT for the year ended 31 December 2017 (the “**2017 Financial Statements**”); (ii) the audited consolidated financial statements of New Century REIT for the year ended 31 December 2018 (the “**2018 Financial Statements**”); (iii) the audited consolidated financial statements of New Century REIT for the year ended 31 December 2019 (the “**2019 Financial Statements**”); and (iv) the unaudited condensed consolidated financial statements of New Century REIT for the six months ended 30 June 2020 (the “**2020 Interim Financial Statements**”), together with the notes to the relevant published accounts which are of major relevance to the appreciation of the above financial information.

The 2017 Financial Statements are set out from pages 138 to 217 in the annual report of New Century REIT for the year ended 31 December 2017 (the “**2017 Annual Report**”) which was published on 27 April 2018 on the websites of the Company (<http://www.ncreit.com>) and the Stock Exchange (<http://www.hkexnews.com>) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0427/ltn20180427622.pdf>

The 2018 Financial Statements are set out from pages 123 to 185 in the annual report of New Century REIT for the year ended 31 December 2018 (the “**2018 Annual Report**”) which was published on 29 April 2019 on the websites of the Company (<http://www.ncreit.com>) and the Stock Exchange (<http://www.hkexnews.com>) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0429/ltn20190429611.pdf>

The 2019 Financial Statements are set out from pages 115 to 177 in the annual report of New Century REIT for the year ended 31 December 2019 (the “**2019 Annual Report**”) which was published on 27 April 2020 on the websites of the Company (<http://www.ncreit.com>) and the Stock Exchange (<http://www.hkexnews.com>) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0427/2020042701494.pdf>

The 2020 Interim Financial Statements are set out from pages 25 to 57 in the interim report of New Century REIT for the six months ended 30 June 2020 (the “**2020 Interim Report**”) which was published on 28 August 2020 on the websites of the Company (<http://www.ncreit.com>) and the Stock Exchange (<http://www.hkexnews.com>) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0828/2020082800698.pdf>

APPENDIX I FINANCIAL INFORMATION RELATING TO NEW CENTURY REIT

The 2017 Financial Statements, 2018 Financial Statements, the 2019 Financial Statements and the 2020 Interim Financial Statements (but not any other part of the 2017 Annual Report, the 2018 Annual Report, the 2019 Annual Report and the 2020 Interim Report in which they respectively appear) are incorporated by reference into this circular and form part of this circular.

3. INDEBTEDNESS

Bank borrowings and loan due to Huge Harvest

As at close of business on 31 January 2021, being the latest practicable date for the purpose of the statement of indebtedness prior to the printing of this circular, New Century REIT had total secured and guaranteed bank borrowings of approximately RMB1,789.6 million and unsecured and unguaranteed loan due to Huge Harvest of approximately RMB60 million.

Pledged assets

As at close of business on 31 January 2021, the bank borrowings with the total amount of RMB1,556.0 million had pledged by all of the investment properties and trade receivables (including trade receivables due from related parties) of New Century REIT; the bank borrowing with the total amount of RMB233.6 million was secured by guaranteed deposits.

Contingent liabilities

Save as aforesaid, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, New Century REIT did not have any other debt securities issued and outstanding, or authorised or otherwise created but unissued, loans or any term loans (secured, unsecured, guaranteed or otherwise), any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and any liabilities under acceptances (other than normal trade bills), acceptance credits or hire purchase commitments (guaranteed, unguaranteed, secured or otherwise), mortgages, charges, other material contingent liabilities or guarantees, as at the close of business on 31 January 2021.

4. LOSS ESTIMATE

Pursuant to Rule 10 of the Takeovers Code, the loss estimates statements as disclosed and detailed in the Profit Warning Announcement (i.e. the Loss Estimate), constitute profit estimates and should be reported on by the reporting accountant and the financial adviser of New Century REIT (the “**Reports**”) under Rule 10.4 of the Takeovers Code. However, due to the practical difficulties to include the Reports in Joint Announcement in terms of the additional time required for the preparation, the Reports issued by the Reporting Accountant of New Century REIT and the Independent Financial Adviser have been included in this circular.

APPENDIX I FINANCIAL INFORMATION RELATING TO NEW CENTURY REIT

For further details, please refer to (i) the letter from PricewaterhouseCoopers relating to the Loss Estimate (the text of which is set out in Appendix IVA to this circular) and (ii) the report from Somerley on the Loss Estimate (the text of which is set out in Appendix IVB to this circular).

5. MATERIAL CHANGE

The Directors and the REIT Manager confirm that save as and except for the below, there was no material change (adverse or otherwise) in the financial or trading position or outlook of New Century REIT since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date:

- (i) on 27 January 2021, New Century REIT and the Purchaser made the Joint Announcement regarding, among others, the Proposals, which include the Proposed Disposal, the Proposed Interim Distribution, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting;
- (ii) on 20 January 2021, New Century REIT published the Profit Warning Announcement, stating that (a) based on the preliminary assessment of the unaudited management accounts of the Group, it was expected that the Group would incur a consolidated net loss attributable to Unitholders for the year ended 31 December 2020 in the range of approximately RMB535 million to RMB565 million (as compared to a consolidated net loss attributable to Unitholders of approximately RMB38 million for the year ended 31 December 2019), which was mainly attributable to the worldwide outbreak of the COVID-19 epidemic (the “**Epidemic**”) in 2020, resulting in: (1) the expected drop in valuation of the Group’s investment properties (net of the deferred tax recognised) by approximately RMB475 million; and (2) the expected drop in revenue by no more than RMB45 million mainly caused by the downward adjustment of the annual base rent for its Hotel Properties as a result of the Epidemic and the disposal of its Holiday Inn Eindhoven in the Netherlands in 2019, and that (b) pursuant to the Trust Deed, after adjusting the material non-cash items, for the purpose of calculating New Century REIT’s distributable income, it was also expected that the Group would record an adjusted loss for the year ended 31 December 2020 in the range of approximately RMB185 million to RMB215 million (as compared to the distributable income of approximately RMB69 million for the year ended 31 December 2019), mainly due to: (1) the expected decline in revenue for the year ended 31 December 2020 as mentioned above; and (2) the accumulated realised foreign exchange losses of approximately RMB195 million during the year ended 31 December 2020 on settlement of certain bank borrowings. As such, the Manager did not expect that New Century REIT would record any distributable income or to declare any final distribution for the year ended 31 December 2020;

APPENDIX I FINANCIAL INFORMATION RELATING TO NEW CENTURY REIT

- (iii) on 8 January 2021, New Century REIT published an announcement, stating that based on the determination of the renewed market rental package of the Hotel 2, Hotel 3, Hotel 4, Hotel 5 and Hotel 6 (collectively the “**Initial Hotel Properties**”) for the period from 10 July 2021 to 9 July 2022 pursuant to the Master Hotel Lease and Management Agreement, the aggregate amount payable by the lessee as base rent is RMB183.6 million, which is RMB16.4 million lower than that for the corresponding period in the previous year;

- (iv) on 6 July 2020, New Century REIT published an announcement, stating that on 6 July 2020, the Group entered into (a) a bridging loan facility with New Century Tourism Group Co., Ltd. with an aggregate commitment amount of RMB788.1 million, and (b) a loan facility with Huge Harvest with an aggregate commitment amount of RMB100 million. In addition, the Group entered into certain term loan facilities with certain third-party financial institutions with an aggregate commitment amount of RMB1,900 million with terms ranging from 1 year to 15 years (collectively, the “**Refinancing**”). As stated in the interim results announcement of New Century REIT dated 25 August 2020, the Refinancing was completed on 10 July 2020, and upon the full repayment of then existing gross bank borrowings, the realised foreign exchange losses of approximately RMB12 million were charged in the consolidated income statement in the second half of 2020 and the accumulated unrealised foreign exchange losses of approximately RMB185 million previously adjusted out from consolidated distribution statement became realised and adjusted back to the consolidated distribution statement for the second half of 2020. In addition, the Group had settled all the existing outstanding interest rate swaps with a total cost of approximately RMB41 million upon completion of the Refinancing, which would also be realised in the consolidated income statement for the second half of 2020. All these would have negative impacts to New Century REIT’s distribution for the second half of 2020; and

- (v) on 13 March 2020 and 20 March 2020, New Century REIT published two announcements, stating that since the outbreak of the Epidemic, the provinces and municipalities in the PRC in which the Hotel Properties are situated have activated level I (the highest-level response to major public health emergencies) and adopted various strict measures to curb the spread of the Epidemic. The lessees of the Hotel Properties have substantively suspended operations (as interpreted under the Master Hotel Lease and Management Agreement and the Kaifeng Hotel Lease Agreement (as applicable) of the Hotel Properties since 25 January 2020. As a result, the force majeure clauses under the Master Hotel Lease and Management Agreement and the Kaifeng Hotel Lease Agreement (as applicable) have been triggered, and accordingly the annual base rent for the Hotel Properties would be adjusted proportionately for the duration of the period of suspension. Operations at the Initial Hotel Properties were suspended for 38 days, which resulted in a downward adjustment of the base rent for the Initial Hotel Properties for the year ended 31 December 2020 by RMB20.77 million in aggregate from RMB200.00 million to RMB179.23 million (representing an

APPENDIX I FINANCIAL INFORMATION RELATING TO NEW CENTURY REIT

approximately 10.39% decrease). Operations at the Hotel 1 were suspended for 54 days, which resulted in a downward adjustment of the base rent for the Hotel 1 for the year ended 31 December 2020 by approximately RMB3.25 million from RMB22 million to approximately RMB18.75 million (representing an approximately 14.8% decrease). In addition, given that operations at the Hotel Properties were substantively suspended, the Group also did not receive any variable individual rents from the Hotel Properties for the respective suspension period.

6. WORKING CAPITAL

Having made due and careful enquiries, the Directors are of the opinion that, after the Proposed Disposal and the Proposed Interim Distribution, New Century REIT has sufficient working capital for its requirements prior to completion of the Proposed Termination and the Proposed Liquidation, which is expected to be completed within 12 months from the effective date of the Proposed Termination (i.e. the first Business Day following the satisfaction of all the conditions referred to in section 2.2 of this circular).

7. FINANCIAL AND TRADING PROSPECTS

Completion of the Proposed Disposal is conditional upon, among other things, (i) the Proposed Interim Distribution, (ii) the Proposed Termination and the Proposed Liquidation of New Century REIT in accordance with the REIT Code; and (iii) the Proposed Delisting of Units from trading on the Stock Exchange, being approved by the Approval Threshold at the EGM.

If the Proposals are not approved by the Approval Threshold at the EGM, the Proposed Disposal will not complete and New Century REIT will remain a Hong Kong collective investment scheme constituted as a unit trust authorised under section 104 of the SFO and subject to applicable conditions from time to time, the units of which are listed on the Stock Exchange.

The Epidemic caused social disruption and fiercely affected worldwide economy especially in developed countries. In addition, the rise of geopolitical risks provoked global political and economic environments which likely remain volatile and the global market is expected to be uncertain. To mitigate the impact to the economy, the China Central Government responded with a series of focused fiscal and monetary policies including tax concessions for companies that are directly affected by the Epidemic, reduction of loan prime interest rates and restoring the market confidence through greater publicity and public scrutiny. China also takes advantage of its mega market size and strong domestic demand potential, constructing a new domestic and international bi-circular economy. Furthermore, numerous countries including the United States of America, United Kingdom, countries in the European Union also gradually resumed economic activities when the Epidemic was fairly under control in its country after the start of the global vaccination campaigns underway across the world.

APPENDIX I FINANCIAL INFORMATION RELATING TO NEW CENTURY REIT

Although the Manager believes that hotel supply and demand dynamics may become more favorable in the future with growth in new demand, the full recovery of hospitality and tourism industry in the PRC would take a period of time to restore to the normal level. Whilst the performance of New Century REIT would be supported in the medium term by its operating lease structure with guaranteed base rent element, the hospitality industry in PRC is expected to remain challenging in the short to medium term given the Epidemic.

In the event that the Proposed Disposal, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting are not approved by the Independent Unitholders, the Board will reconsider other strategic investment options for New Century REIT in accordance with its investment policy, objectives and strategy. There are currently no negotiations or agreements relating to another transaction, and there is no certainty that another transaction would be proposed or pursued by the Board. In order to overcome the aftermath of the Epidemic, the Hotel Properties will continue to strictly execute the epidemic prevention measures, such as health code checking and enhance the hygiene level through disinfection measures throughout the guest rooms, restaurants and all public areas. The Group will continue to improve our service quality and maintain the quality of the assets. In view of the global uncertain market sentiment, the Manager will cautiously pursue global investment opportunities for all asset types that deliver long-term stable income to the Unitholders. The importance of broadening New Century REIT's asset base will remain a paramount consideration. New Century REIT expects to provide our Unitholders a balance between manageable risks and sustainable returns.

If the Proposals are approved by the Independent Unitholders by the Approval Threshold at the EGM, the Proposed Disposal will proceed to completion. Following completion of the Proposed Disposal and the Proposed Interim Distribution, it is not anticipated that any assets will remain in New Century REIT, save for the remaining cash for the purpose of payment of the Disposal Costs in an estimated amount of not exceeding HK\$15.0 million (equivalent to approximately RMB13.5 million). Accordingly, New Century REIT would have no remaining operating real estate assets to fulfil the criteria for operating as a REIT in accordance with the REIT Code and therefore, New Century REIT should be terminated and liquidated in accordance with the REIT Code and the Units should consequently be delisted from trading on the Stock Exchange and New Century REIT should be deauthorised in accordance with applicable regulatory requirements.

8. MANAGEMENT DISCUSSION AND ANALYSIS

As New Century REIT will have no remaining operating real estate assets to fulfil the criteria for operating as a REIT in accordance with the REIT Code after completion of the Proposed Disposal, the Proposed Interim Distribution and 2020 Annual Distribution (if any), save for the remaining cash for the purpose of payment of the Disposal Costs, and therefore, New Century REIT should be terminated and liquidated in accordance with the REIT Code and the Units should consequently be delisted from trading on the Stock Exchange and New Century REIT should be deauthorised in accordance with applicable regulatory requirements. Accordingly, New Century REIT will not include a separate statement containing a discussion and analysis of the remaining Group's performance and the material factors underlying its results and financial position under Rule 14.68(3) of the Listing Rules (as if applicable to New Century REIT).

Set out below is the management discussion and analysis on the Group for the six months ended 30 June 2020 and the year ended 31 December 2019:

Liquidity and Financial Resources

The Group maintains sufficient cash and resources of funding through committed credit facility to manage the liquidity risk, management monitor rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. The Group expects to fund the cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

As at 30 June 2020, the Group had aggregate gross borrowings of RMB1,889 million and approximately HK\$780 million (equivalent to RMB712 million) out of HK\$780 million (equivalent to RMB712 million) revolving loan facilities remained unutilised, providing ample financial resources for the Group.

As at 31 December 2019, the Group had aggregate gross borrowings of RMB2,144 million and approximately HK\$510 million (equivalent to RMB457 million) out of HK\$780 million (equivalent to RMB699 million revolving loan facilities remained unutilised, providing ample financial resources for the Group.

As at 30 June 2020 and 31 December 2019 (the "**Reporting Period**"), all of the Group's borrowings were denominated in RMB and HK\$.

APPENDIX I FINANCIAL INFORMATION RELATING TO NEW CENTURY REIT

In July 2020, the Group had entered into several loan facilities to refinance its gross bank borrowings of RMB1,889 million as at 30 June 2020 including (i) certain term loan facilities with certain third party financial institutions with an aggregate commitment amount of RMB1,900 million with terms ranging from 1 year to 15 years; (ii) a loan facility with Huge Harvest with a commitment amount of RMB100 million; and (iii) a bridging loan facility with New Century Tourism with a commitment amount of RMB788.1 million. The Refinancing allowed the Group to (i) lower its overall interest payment obligations; (ii) lower both onshore and offshore borrowings interest rates; (iii) prolong the loans tenure; and (iv) reduce its foreign exchange exposure (given that these new borrowings and the Group's income are all denominated in RMB).

The Refinancing was completed on 10 July 2020. Upon the full repayment of then existing gross bank borrowings, the realised foreign exchange losses of approximately RMB12 million were charged in the consolidated income statement in the second half of 2020 and the accumulated unrealised foreign exchange losses of approximately RMB185 million previously adjusted out from consolidated distribution statement became realised and adjusted back to the consolidated distribution statement for the second half of 2020. In addition, the Group had settled all the existing outstanding interest rate swaps with a total cost of approximately RMB41 million upon completion of the Refinancing, which will also be realised in the consolidated income statement for the second half of 2020. All these will have a negative impact to the distribution for the second half of 2020.

Gearing Ratio

As at 30 June 2020, the gearing ratio of New Century REIT was approximately 42%, being the ratio of the total gross borrowings of RMB1,889 million over the total assets of RMB4,543 million, which was below the maximum limit of 45% as permitted under the then REIT Code.

As at 31 December 2019, the gearing ratio of New Century REIT was approximately 40%, being the ratio of the total gross borrowings of RMB2,144 million over the total assets of RMB5,377 million, which was below the maximum limit of 45% as permitted under the then REIT Code.

Foreign Currency Exchange Risk and Interest Rate Risk

The Group's exposure to foreign exchange risk relates principally to its cash and cash equivalents and most bank borrowings which were denominated primarily in HK\$. Such existing loan facilities denominated in HK\$ have been fully replaced by new loan facilities denominated in RMB in July 2020. The foreign currency exchange risk will be largely minimized thereafter. To manage our interest rate risk during the Reporting Period, the Group had entered into interest rate swaps with commercial banks, which effectively converted the borrowing interest rates from floating rates to fixed rates. As at 30 June 2020, the notional principal amount of the outstanding interest rate swaps were HK\$250 million and HK\$1,611 million (equivalent to RMB228 million and RMB1,472 million) respectively with the fixed interest rate of 4.870% and 4.845% per annum, respectively.

The remaining borrowings of approximately RMB189 million were at floating interest rates. As at 30 June 2020, total gross borrowings of approximately RMB1,700 million were at fixed interest rates and approximately RMB189 million were at floating interest rates.

As at 31 December 2019, the notional principal amount of the outstanding interest rate swaps were HK\$250 million and HK\$1,661 million (equivalent to RMB224 million and RMB1,488 million), respectively, with the fixed interest rate of 4.870% and 4.845% per annum, respectively. In May 2019, the derivative financial instrument relating to interest rate cap with the notional principal amount of EUR13.1 million (equivalent to RMB103 million) and interest rate capped at 4.4% per annum was unwound upon the early repayment of a bank borrowing denominated in EUR. The remaining borrowings of approximately RMB432 million were at floating rates.

Hedging Activities

The Group has entered into various derivative financial instruments including interest rate swaps and interest rate cap with commercial banks. Nevertheless, they were not accounted for as hedging instruments as the conditions for hedge accounting were not met for the six months ended 30 June 2020 and the year ended 31 December 2019.

Significant Investments Held

The Manager continues its strategy of investing on a long-term basis in a diversified portfolio of income-producing real estate globally, with the aim of delivering regular, stable and high distributions to the Unitholders and achieving long-term growth in distributions and portfolio valuation while maintaining an appropriate capital structure. New Century REIT is sponsored by New Century Tourism Group Co., Ltd. and its subsidiaries, the largest domestic hotel group according to the number of upscale hotel rooms both in operation and under pipeline in the PRC. As at 30 June 2020 and 31 December 2019, New Century REIT's portfolio comprised the Hotel Properties as detailed below:

APPENDIX I FINANCIAL INFORMATION RELATING TO NEW CENTURY REIT

Property	Interest attributable to New Century REIT (%)
New Century Grand Hotel Hangzhou	100
New Century Hotel Xiaoshan Zhejiang	95.46
New Century Resort Qiandao Lake Hangzhou	100
New Century Grand Hotel Ningbo	100
New Century Grand Hotel Changchun	100
New Century Grand Hotel Kaifeng	100

For further details on the historical operating highlights and market value of the Hotel Properties, please refer to the annual report and interim report of New Century REIT for the year ended 31 December 2019 and the six months ended 30 June 2020, respectively.

Material Acquisition and Disposal of Subsidiaries and Associated Companies

On 28 November 2019, New Century REIT (through New Century Europe) completed the disposal of the entire issued share capital of New Century Netherlands I B.V. to the purchasers, namely, Somerset Real Estate VI B.V. Horizons III B.V., Zoutelust B.V. and Caerdydd Beheer B.V., at the purchase price of €39.8 million (equivalent to approximately RMB307.8 million).

Save as otherwise disclosed in this circular, the Group had no other material acquisitions and disposals of subsidiaries and associated companies during the year ended 31 December 2019 and up to the Latest Practicable Date.

Pledge of Assets

As at 30 June 2020, the Hotel Properties of New Century REIT with an aggregate carrying value of RMB4,113 million, guaranteed deposits, bank deposits and trade receivables (including trade receivables due from related parties) with an aggregate value of RMB193 million, certain corporate guarantees and equity interests of certain subsidiaries were pledged to secure bank loan borrowings with an aggregate principal amount of RMB1,889 million.

As at 31 December 2019, the Hotel Properties of New Century REIT with an aggregate carrying value of RMB4,612 million, bank deposits and trade receivables (including trade receivables due from related parties) with an aggregate value of RMB538 million, certain corporate guarantees and equity interests of certain subsidiaries were pledged to secure bank loan borrowings with an aggregate principal amount of RMB2,144 million.

Employees and Remuneration Policy

New Century REIT is managed by the Manager. By contracting out such services, New Century REIT, through its subsidiaries, had three employees in its own right as at 30 June 2020 and as at 31 December 2019, and such costs are reimbursed by the Manager.

New Century REIT provides competitive salary packages and bonuses for its employees, as well as other benefits, including participation in retirement schemes, medical insurance schemes, accident insurance schemes, unemployment insurance schemes, and maternity insurance schemes. The salary levels are regularly reviewed against market standards.

Segmental Information and Outlook

Due to the outbreak of the Epidemic since the start of 2020 and as the health and safety of employees and hotel guests are considered as top priority, Hotel Properties have substantively suspended operations when response level 1 (the highest-level response to major public health emergencies) was activated in the provinces where they are situated. At the same time, local authorities adopted various strict measures to curb the spread of the Epidemic. The substantive suspension of operation of the Hotel Properties has triggered the force majeure clauses under the hotel lease agreements and resulting in a downward adjustment of the base rent for the Hotel Properties during the suspension period.

Since March 2020, China gradually lifted confinement restrictions and resumed normal living after the ease up of the Epidemic situation. In July 2020, the Ministry of Culture and Tourism released a notice permitting interprovince group tours and flight and hotel packages. Also, the cap on traffic at tourist spots has been raised to 50% of the maximum capacity. To confront the Epidemic, New Century REIT had further enhanced the quality of services and hygiene level in our hotels and strictly follow the epidemic prevention measures like health code checking to provide a pleasant experience and healthy environment to guests and staff. New Century REIT believes the occupancy will resume to normal level in medium term and the room and food and beverage revenues will continue to improve in the second half of 2020.

New Century REIT believes the governmental supportive measures will assist the hotel industry to resume to normal in medium term. Comparatively, the impact of the Epidemic on New Century REIT is manageable, benefitting from our operating lease structure with guaranteed base rent, which are positive structural attributes that help support New Century REIT's performance in the medium term but still challenging in the short term.

APPENDIX I FINANCIAL INFORMATION RELATING TO NEW CENTURY REIT

As disclosed in the Profit Warning Announcement, based on the then preliminary assessment of the unaudited management accounts of the Group for the year ended 31 December 2020, it was expected that the Group will incur a consolidated net loss attributable to Unitholders for the year ended 31 December 2020 in the range of approximately RMB535 million to RMB565 million (as compared to a consolidated net loss attributable to unitholders of approximately RMB38 million for the year ended 31 December 2019), which was mainly attributable to the worldwide outbreak of the Epidemic in 2020, resulting in: (a) the expected drop in valuation of the Group's investment properties (net of the deferred tax recognised) by approximately RMB475 million; and (b) the expected drop in revenue by no more than RMB45 million mainly caused by the downward adjustment of the annual base rent for its Hotel Properties as a result of the Epidemic and the disposal of Holiday Inn Eindhoven in the Netherlands in 2019.

In addition, pursuant to the Trust Deed, after adjusting the material non-cash items, for the purpose of calculating New Century REIT's distributable income, it is also expected that the Group will record an adjusted loss for the year ended 31 December 2020 in the range of approximately RMB185 million to RMB215 million (as compared to the distributable income of approximately RMB69 million for the year ended 31 December 2019) mainly due to: (i) the expected decline in revenue for the year ended 31 December 2020 as mentioned above; and (ii) the accumulated realised foreign exchange losses of approximately RMB195 million during the year ended 31 December 2020 on settlement of certain bank borrowings. As such, the Manager does not currently expect that New Century REIT will record any distributable income or to declare any final distribution for the year ended 31 December 2020.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

The following is the text of a report set out on pages IIA-1 to IIA-3, received from New Century REIT's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular. It is prepared and addressed to the directors of New Century Asset Management Limited (as the "Manager" of New Century REIT) with reference to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION OF SPEARHEAD GLOBAL LIMITED TO THE DIRECTORS OF NEW CENTURY ASSET MANAGEMENT LIMITED (AS THE MANAGER OF NEW CENTURY REAL ESTATE INVESTMENT TRUST)

Introduction

We report on the historical financial information of Spearhead Global Limited (the "Target Company") and its subsidiaries (together, the "Target Group") set out on pages IIA-4 to IIA-84, which comprises the company and consolidated balance sheets as at 31 December 2017, 2018 and 2019 and 30 November 2020, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2017, 2018 and 2019 and the eleven months ended 30 November 2020 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages IIA-4 to IIA-84 forms an integral part of this report, which has been prepared for inclusion in the circular of New Century Real Estate Investment Trust (the "New Century REIT") dated 19 March 2021 (the "Circular") in connection with the proposed very substantial disposal of all issued shares in the share capital of the Target Company.

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APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

Directors' responsibility for the Historical Financial Information

The directors of New Century Asset Management Limited (the "Manager") are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design 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. Our work also included 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 Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Target Company as at 31 December 2017, 2018, 2019 and 30 November 2020 and the consolidated financial position of the Target Group as at 31 December 2017, 2018 and 2019 and 30 November 2020 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Note 2.1 to the Historical Financial Information.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target Group which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the eleven months ended 30 November 2019 and other explanatory information (the “Stub Period Comparative Financial Information”). The directors of the Manager are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the International Auditing and Assurance Standards Board (“IAASB”). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant’s report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited**Adjustments**

In preparing the Historical Financial Information, no adjustments to the Historical Financial Statements as defined on page IIA-4 have been made.

PricewaterhouseCoopers*Certified Public Accountants*

Hong Kong, 19 March 2021

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

I HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The Historical Financial Information in this report was prepared by the directors of New Century Asset Management Limited (the "Manager") based on the previously issued financial statements and management accounts of the Target Group for the years ended 31 December 2017, 2018 and 2019 prepared under International Financial Reporting Standards ("IFRS") ("Historical Financial Statements"). The previously issued financial statements for the years ended 31 December 2017, 2018 and 2019 were audited by PricewaterhouseCoopers Zhong Tian LLP in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("IAASB").

The Historical Financial Information is presented in thousand Renminbi ("RMB'000") except when otherwise indicated.

Consolidated Statements of Comprehensive income

	Note	Year ended 31 December			Eleven months ended	
		2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Revenue	5	256,137	260,220	240,371	220,579	193,906
Operating expenses	6	(49,412)	(50,480)	(51,697)	(46,772)	(38,893)
Other (losses)/gains – net	7	(58,159)	10,369	(9,188)	(13,716)	(48,565)
Changes in fair value of the investment properties	10	99,204	47,609	(120,172)	(119,379)	(615,093)
Operating profit/(loss)		247,770	267,718	59,314	40,712	(508,645)
Finance income	8	106,510	13,341	6,715	6,041	3,406
Finance costs	8	(100,306)	(191,559)	(151,641)	(150,723)	(156,614)
Finance income/(costs) – net	8	6,204	(178,218)	(144,926)	(144,682)	(153,208)
Profit/(loss) before taxation		253,974	89,500	(85,612)	(103,970)	(661,853)
Income tax (expense)/credit	9	(87,178)	(84,284)	(27,591)	(22,994)	107,580
Profit/(loss) after taxation for the year/period		<u>166,796</u>	<u>5,216</u>	<u>(113,203)</u>	<u>(126,964)</u>	<u>(554,273)</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

Note	Year ended 31 December			Eleven months ended	
	2017	2018	2019	30 November	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit/(loss) attributable to equity holders	164,221	3,785	(114,021)	(127,661)	(551,716)
Profit/(loss) attributable to non-controlling interests	<u>2,575</u>	<u>1,431</u>	<u>818</u>	<u>697</u>	<u>(2,557)</u>
	<u>166,796</u>	<u>5,216</u>	<u>(113,203)</u>	<u>(126,964)</u>	<u>(554,273)</u>
Other comprehensive income for the year/period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total comprehensive income/(loss) for the year/period	<u>166,796</u>	<u>5,216</u>	<u>(113,203)</u>	<u>(126,964)</u>	<u>(554,273)</u>
– Attributable to equity holders	164,221	3,785	(114,021)	(127,661)	(551,716)
– Attributable to non-controlling interests	<u>2,575</u>	<u>1,431</u>	<u>818</u>	<u>697</u>	<u>(2,557)</u>
	<u>166,796</u>	<u>5,216</u>	<u>(113,203)</u>	<u>(126,964)</u>	<u>(554,273)</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

Consolidated Balance Sheets

		As at 31 December		As at 30 November	
	Note	2017	2018	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Investment properties	10	4,679,000	4,730,000	4,612,000	3,997,000
Goodwill	11	7,987	7,987	7,987	7,987
Other long-term assets	12	6,793	–	1,313	1,812
		<u>4,693,780</u>	<u>4,737,987</u>	<u>4,621,300</u>	<u>4,006,799</u>
Current assets					
Trade and other receivables and prepayments	13	5,692	16,989	7,531	2,926
Amounts due from related parties	26(c)	23,407	24,204	43,919	77,193
Derivative financial instruments	16	22,478	14,223	6,497	–
Financial asset at fair value through profit or loss	17	–	–	–	40,030
Restricted cash	14	155,517	259,779	504,978	180,000
Cash and cash equivalents	14	267,626	224,816	187,182	40,710
		<u>474,720</u>	<u>540,011</u>	<u>750,107</u>	<u>340,859</u>
Total assets		<u><u>5,168,500</u></u>	<u><u>5,277,998</u></u>	<u><u>5,371,407</u></u>	<u><u>4,347,658</u></u>
Current liabilities					
Trade and other payables	15	31,456	34,842	44,818	34,904
Amounts due to related parties	26(c)	176,621	156,085	362,654	354,633
Loans due to related parties	26(c)	–	–	85,884	145,104
Current income tax liabilities		19,528	29,050	14,641	17,726
Derivative financial instruments	16	57,303	–	–	–
Deferred income	18	3,553	3,147	2,741	2,369
Bank borrowings	19	187,494	2,096,048	294,434	883,648
		<u>475,955</u>	<u>2,319,172</u>	<u>805,172</u>	<u>1,438,384</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

		As at 31 December			As at
	Note	2017	2018	2019	30 November
		RMB'000	RMB'000	RMB'000	2020
					RMB'000
Non-current liabilities					
Bank borrowings	19	1,664,252	–	1,805,789	854,750
Deferred tax liabilities	20	<u>888,704</u>	<u>908,841</u>	<u>896,462</u>	<u>758,323</u>
		<u>2,552,956</u>	<u>908,841</u>	<u>2,702,251</u>	<u>1,613,073</u>
Total liabilities		<u><u>3,028,911</u></u>	<u><u>3,228,013</u></u>	<u><u>3,507,423</u></u>	<u><u>3,051,457</u></u>
Equity attributable to equity holders					
Share capital	21	123	123	123	123
Other reserves	22	2,977,341	2,990,191	3,029,971	3,045,992
Accumulated losses	23	<u>(870,692)</u>	<u>(974,577)</u>	<u>(1,195,583)</u>	<u>(1,775,462)</u>
		2,106,772	2,015,737	1,834,511	1,270,653
Non-controlling interests		<u>32,817</u>	<u>34,248</u>	<u>29,473</u>	<u>25,548</u>
Total equity		<u><u>2,139,589</u></u>	<u><u>2,049,985</u></u>	<u><u>1,863,984</u></u>	<u><u>1,296,201</u></u>
Total equity and liabilities		<u><u>5,168,500</u></u>	<u><u>5,277,998</u></u>	<u><u>5,371,407</u></u>	<u><u>4,347,658</u></u>
Net current liabilities		<u><u>(1,235)</u></u>	<u><u>(1,779,161)</u></u>	<u><u>(55,065)</u></u>	<u><u>(1,097,525)</u></u>
Total assets less current liabilities		<u><u>4,692,545</u></u>	<u><u>2,958,826</u></u>	<u><u>4,566,235</u></u>	<u><u>2,909,274</u></u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

Company Balance Sheets

	Notes	As at 31 December			As at
		2017	2018	2019	30 November
		RMB'000	RMB'000	RMB'000	2020
					RMB'000
Non-current assets					
Investments in subsidiaries		1,189,083	1,189,083	1,189,083	1,189,083
Other long-term assets	12	6,793	–	1,313	1,812
		<u>1,195,876</u>	<u>1,189,083</u>	<u>1,190,396</u>	<u>1,190,895</u>
Current assets					
Trade and other receivables and prepayments		1,525	7,274	2,031	–
Amounts due from related parties		1,444	1,777	330	9,182
Derivative financial instruments	16	22,478	14,223	6,497	–
Restricted cash		37,491	52,753	201,585	–
Cash and cash equivalents		25,549	9,894	154,532	24,622
		<u>88,487</u>	<u>85,921</u>	<u>364,975</u>	<u>33,804</u>
Total assets		<u>1,284,363</u>	<u>1,275,004</u>	<u>1,555,371</u>	<u>1,224,699</u>
Current liabilities					
Trade and other payables		13,277	19,268	24,318	6,689
Amounts due to related parties		132,054	111,489	306,907	1,011,756
Loans due to related parties		–	–	85,884	145,104
Derivative financial instruments	16	57,303	–	–	–
Bank borrowings		182,958	1,903,201	291,275	860,988
		<u>385,592</u>	<u>2,033,958</u>	<u>708,384</u>	<u>2,024,537</u>
Non-current liabilities					
Bank borrowings		1,471,405	–	1,620,017	–
Total liabilities		<u>1,856,997</u>	<u>2,033,958</u>	<u>2,328,401</u>	<u>2,024,537</u>
Equity attributable to equity holders					
Share capital	21	123	123	123	123
Other reserves		627,191	633,640	646,139	662,160
Accumulated losses		(1,199,948)	(1,392,717)	(1,419,292)	(1,462,121)
Total equity		<u>(572,634)</u>	<u>(758,954)</u>	<u>(773,030)</u>	<u>(799,838)</u>
Total equity and liabilities		<u>1,284,363</u>	<u>1,275,004</u>	<u>1,555,371</u>	<u>1,224,699</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

Consolidated Statements of Changes in Equity

	Notes	Capital and reserves attributable to equity holders			Attributable to non-controlling interests	Total RMB'000
		Share capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	RMB'000	
As at 1 January 2017		123	2,956,343	(870,031)	30,242	2,116,677
Profit for the year	23	–	–	164,221	2,575	166,796
Issuance of new units of New Century REIT	22	–	15,204	–	–	15,204
Distributions paid to unitholders on behalf of New Century REIT	23	–	–	(159,088)	–	(159,088)
Appropriation to statutory reserve	22	–	5,794	(5,794)	–	–
As at 31 December 2017		<u>123</u>	<u>2,977,341</u>	<u>(870,692)</u>	<u>32,817</u>	<u>2,139,589</u>
As at 1 January 2018		123	2,977,341	(870,692)	32,817	2,139,589
Profit for the year	23	–	–	3,785	1,431	5,216
Issuance of the Units of New Century REIT	22	–	6,449	–	–	6,449
Distributions paid to the unitholders on behalf of New Century REIT	23	–	–	(101,269)	–	(101,269)
Appropriation to statutory reserve	22	–	6,401	(6,401)	–	–
As at 31 December 2018		<u>123</u>	<u>2,990,191</u>	<u>(974,577)</u>	<u>34,248</u>	<u>2,049,985</u>
As at 1 January 2019		123	2,990,191	(974,577)	34,248	2,049,985
(Loss)/profit for the year	23	–	–	(114,021)	818	(113,203)
Issuance of the Units of New Century REIT	22	–	12,914	–	–	12,914
Units bought back for cancellation	22	–	(415)	–	–	(415)
Dividends declared to non-controlling interests		–	–	–	(5,593)	(5,593)
Distributions paid to the unitholders on behalf of New Century REIT	23	–	–	(79,704)	–	(79,704)
Appropriation to statutory reserve	22	–	27,281	(27,281)	–	–
As at 31 December 2019		<u>123</u>	<u>3,029,971</u>	<u>(1,195,583)</u>	<u>29,473</u>	<u>1,863,984</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

	Notes	Capital and reserves attributable to equity holders			Attributable to non-controlling interests	Total
		Share capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	RMB'000	
(Unaudited)						
As at 1 January 2019		123	2,990,191	(974,577)	34,248	2,049,985
(Loss)/profit for the period	23	–	–	(127,661)	697	(126,964)
Issuance of the Units of						
New Century REIT	22	–	12,914	–	–	12,914
Units bought back for cancellation	22	–	(415)	–	–	(415)
Dividends declared to non-controlling interests		–	–	–	(5,593)	(5,593)
Distributions paid to the unitholders on behalf of New Century REIT	23	–	–	(79,704)	–	(79,704)
As at 30 November 2019		<u>123</u>	<u>3,002,690</u>	<u>(1,181,942)</u>	<u>29,352</u>	<u>1,850,223</u>
As at 1 January 2020		123	3,029,971	(1,195,583)	29,473	1,863,984
Loss for the period	23	–	–	(551,716)	(2,557)	(554,273)
Issuance of the Units of						
New Century REIT	22	–	16,021	–	–	16,021
Dividends declared to non-controlling interests		–	–	–	(1,368)	(1,368)
Distributions paid to the unitholders on behalf of New Century REIT	23	–	–	(28,163)	–	(28,163)
As at 30 November 2020		<u>123</u>	<u>3,045,992</u>	<u>(1,775,462)</u>	<u>25,548</u>	<u>1,296,201</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

Consolidated Statements of Cash Flows

	Note	Year ended 31 December			Eleven months ended 30 November	
		2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (Unaudited)	2020 RMB'000
Cash flow from operating activities						
Cash generated from operations	24(a)	453,067	218,125	382,774	318,692	118,039
Interest paid		(68,488)	(73,613)	(84,385)	(77,826)	(100,207)
Income tax paid		(38,578)	(54,625)	(54,379)	(54,379)	(27,474)
Net cash generated from/ (used in) operating activities		<u>346,001</u>	<u>89,887</u>	<u>244,010</u>	<u>186,487</u>	<u>(9,642)</u>
Cash flow from investing activities						
Purchase of financial assets at fair value through profit or loss	17	-	-	-	-	(40,000)
Purchases of investment properties		(1,826)	(3,465)	(2,735)	(1,803)	(360)
Net cash used in investing activities		<u>(1,826)</u>	<u>(3,465)</u>	<u>(2,735)</u>	<u>(1,803)</u>	<u>(40,360)</u>
Cash flows from financing activities						
Change of restricted cash pledged for borrowings		83,300	(104,262)	(245,199)	(110,580)	324,978
Interest received from restricted cash		-	-	8,249	8,249	5,128
Repayment of bank borrowings		(348,813)	(5,908)	(2,111,840)	(2,119,083)	(2,164,377)
Proceeds from bank borrowings, net of transaction costs		262,604	134,689	2,056,921	2,056,921	1,737,088
(Repayment)/proceeds from related parties' loan		(35,000)	-	85,884	-	60,000
Units bought back for cancellation		-	-	(415)	(415)	-
Net proceeds from issuance of units	22	15,204	6,449	12,914	12,914	16,021
Distributions paid to the unitholders on behalf of New Century REIT	23	(159,088)	(101,269)	(79,704)	(79,704)	(28,163)
Dividends paid to non- controlling interests		(98)	(104)	(4,441)	(4,441)	-
Settlement of derivative financial instruments		-	(60,608)	-	-	(41,491)
Payment of other financing cost (including agency fee, commitment fee etc.)		(4,318)	(4,250)	(4,169)	(4,157)	(4,007)
Net cash used in financing activities		<u>(186,209)</u>	<u>(135,263)</u>	<u>(281,800)</u>	<u>(240,296)</u>	<u>(94,823)</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

		Year ended 31 December		Eleven months ended 30 November		
	Note	2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Net increase/(decrease) in cash and cash equivalents		157,966	(48,841)	(40,525)	(55,612)	(144,825)
Cash and cash equivalents at beginning of the year/period	14	111,161	267,626	224,816	224,816	187,182
Exchange (losses)/gains on cash and cash equivalents		<u>(1,501)</u>	<u>6,031</u>	<u>2,891</u>	<u>2,325</u>	<u>(1,647)</u>
Cash and cash equivalents at end of the year/period	14	<u><u>267,626</u></u>	<u><u>224,816</u></u>	<u><u>187,182</u></u>	<u><u>171,529</u></u>	<u><u>40,710</u></u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1 General information**

Spearhead Global Limited (the “Target Company”) was incorporated in British Virgin Islands on 8 March 2013 as a limited liability company under the Company Law of British Virgin Islands. The address of the Target Company’s registered office is Jayla Place, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands.

On 10 July 2013 (date of listing), New Century REIT, a Hong Kong collective investment scheme constituted as a unit trust authorised under section 104 of the Securities and Futures Ordinance In Hong Kong and established under a trust deed dated 10 June 2013 and as amended by the supplemental trust deed dated 20 June 2013 and 15 June 2015 (the “Trust Deed”) made between New Century Asset Management Limited (the “Manager”) and DB Trustees (Hong Kong) Limited (the “Trustee”), was listed on The Stock Exchange of Hong Kong Limited. The entire interest of the Target Company was acquired by New Century REIT on the date of listing.

The principal activity of the Target Company and its subsidiaries (the “Target Group”) is the leasing of hotel properties.

The Historical Financial Information is presented in thousand Renminbi (“RMB’000”), unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to the Track Record Period presented, except for the changes in accounting policies as disclosed in Note 2.1.1.

2.1 Basis of preparation

The Historical Financial Information of the Target Group have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRS”) issued by International Accounting Standards Board (“IASB”). The Target Group has adopted IFRS 9, “Financial Instruments” and IFRS 15, “Revenue from contracts with customers” for reporting period beginning on or after 1 January 2018, and IFRS 16, “Leases” for the reporting period beginning on or after 1 January 2019.

The Historical Financial Information of the Target Group have been prepared under the historical cost convention, as modified by the revaluation of investment properties and derivative financial instruments, which are carried at fair value.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

The preparation of the Historical Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

For the eleven months ended 30 November 2020, the Target Group had a net loss after taxation of RMB554,273,000 and a net operating cash outflow of RMB9,642,000. The net loss of the Target Group was mainly due to the non-cash fair value losses of the investment properties (netting of deferred tax liabilities) amounted to RMB472,982,000 (Note 10 and 20). As at 30 November 2020, the Target Group's current liabilities exceeded its current assets by RMB1,097,525,000, which was mainly due to a long-term bank borrowings of RMB684,587,000 being classified as current liability as the loan has a repayable on demand clause (Note 19) and short-term loans and amount due to related parties of RMB499,737,000. The management of the Target Group had obtained written confirmation in December 2020 from the bank that the bank will not execute the early repayment demand within 13 months after the balance sheet date and the Target Group could repay the bank borrowings in accordance with the contract payment schedule.

In addition, the Target Group will subsequently acquire all the issued shares of Strong Tower Global Limited ("Strong Tower") and New Century REIT Hong Kong I Limited ("New Century REIT Hong Kong I") and most of the loans and amount due to related parties will be eliminated after the acquisition. Taking into consideration of the bank borrowing repayment schedule, the subsequent settlement of the related parties balances pursuant to the post balance sheet date event (Note 29), and the stable operating cash inflow generated from rental income, the management believes that the Target Group has sufficient funds for its normal operation and commitments when they fall due, and adopt the going concern basis in preparing the Historical Financial Information.

2.1.1 Changes in accounting policies

There had a number of new or revised IFRS which are relevant to the Target Group and become effective during the respective year. Changes in accounting policies of application on IFRS 9, IFRS 15 and IFRS 16 are set out below. Impacts resulting from the adoption of these new standards on the performance results and financial position of the Target Group is not significant.

(i) IFRS 9, "Financial instruments"

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairments of financial assets and hedging accounting.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

IFRS 9 is effective for reporting periods beginning on or after 1 January 2018 and the Target Group have applied the standard from its mandatory adoption date of 1 January 2018. The new accounting policies are set out in Note 2.8 below. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), the cumulative impact of the adoption (if any) will be recognised in retained earnings as at 1 January 2018 and that the comparatives will not be restated.

The financial instruments of the Target Group include cash and cash equivalents, restricted cash, trade and other receivables, amount due to/from related parties, other payables, derivative financial instruments, financial assets at fair value through profit or loss, loans due to related parties and borrowings. The trade and other receivables will always be collected within credit period and the expected credit losses of such receivables were quite low. The Target Group also held a derivative financial instrument which had already been classified as financial liability at fair value through profit or loss and the accounting treatment is same as the new accounting policy.

(a) Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the financial instruments of the Target Group were as follows, with any reclassification noted:

	Measurement category		Carrying amount		
	Original (IAS 39)	New (IFRS 9)	Original	New	Difference
Current financial assets					
Trade and other receivables	Loan and receivables	Financial assets at amortised cost	<u>4,134</u>	<u>4,134</u>	<u>-</u>

(b) Impairment of financial assets

The Target Group has trade and other receivables (excluding prepayments) that are subject to IFRS 9's new expected credit loss model, and the Target Group was required to revise its impairment methodology under IFRS 9 for these receivables. The Target Group assessed the transition to IFRS 9 for trade and other receivables as a result of applying the new expected credit loss model was insignificant.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

(ii) *IFRS 15, "Revenue from contracts with customers"*

The Target Group does not expect the new guidance to have impact on the recognition of revenue as the nature of the Target Group's business is the leasing of hotel properties in the PRC as a lessor. IFRS 15 is not applicable and the recognition of revenue of the Target Group applies for IFRS 16 "Leases".

(iii) *IFRS 16, "Leases"*

IFRS 16, "Leases" provides updated guidance on the definition of leases, and the guidance on the combination and separation of contracts. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 requires lessees to recognise lease liability reflecting future lease payments and a "right-of-use-asset" for almost all lease contracts, with an exemption for certain short-term leases and leases of low value assets. The lessors accounting stays almost the same as under IAS 17 "Leases", and lessors should provide additional disclosures and information which allows users of the financial statements to assess the effect that leases have on the lessors' financial position, financial performance and cash flows:

- the nature of the entity's leasing activities;
- the management of the risks associated with any rights retained in the underlying assets;
- lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate;
- maturity analysis of lease payments for a minimum of each of the first five years plus a total amount for the remaining years;
- where applicable, the disclosure required by IAS 36, IAS 38, IAS 40 and IAS 41, etc.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

IFRS 16 is effective for reporting periods beginning on or after 1 January 2019 and the Target Group has applied the standard from its mandatory adoption date of 1 January 2019. Since the nature of the Target Group's business is leasing the hotel properties as a lessor, the Target Group did not need to make any adjustments to the accounting for asset held as lessor in accordance with IFRS 16.

2.1.2 New standards and amendments of IFRS issued but are not yet effective for the financial period beginning on 1 January 2020 and have not been early adopted by the Target Group:

		Effective for annual periods beginning on or after
IFRS 17	Insurance contracts	1 January 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non- current	1 January 2022
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
	Annual Improvements to IFRS Standards 2018- 2020	1 January 2022
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	Not applicable

The Target Group has assessed the impact of adopting this new standard. According to the preliminary assessment, this standard is not expected to have a material impact on the Target Group's operating results and financial position.

2.2 Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Target Group has control. The Target Group controls an entity when the Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Target Group. They are deconsolidated from the date that control ceases.

(a) Business Combinations

The Target Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Target Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Target Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in the consolidated statement of comprehensive income.

Any contingent consideration to be transferred by the Target Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in the consolidated statement of comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income.

Intra-company transactions, balances and unrealised gains on transactions between Target Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Target Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior executive management who makes strategic decisions. During the Track Record Period, the Target Group only have one segment.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Target Group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The Historical Financial Information are presented in RMB, which is the Target Group's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 recognised in the consolidated statement of comprehensive income, except when deferred in OCI as qualifying cash flow hedges and qualifying net investment hedges.

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

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the consolidated statement of comprehensive income as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as fair value through other comprehensive income ("FVOCI") are recognised in other comprehensive income.

(c) Group companies

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

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each consolidated statement of comprehensive income 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 rate on the dates of the transactions); and
- (iii) all resulting currency translation differences are recognised in OCI.

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. Currency translation differences arising are recognised in OCI.

2.5 Investment properties

Investment properties, principally comprising freehold land, buildings and related equipment, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Target Group. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Target Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the consolidated statement of comprehensive income.

2.6 Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (“CGU”), or groups of CGU, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2.7 Impairment of non-financial assets

Intangible assets that have an indefinite useful life, for example goodwill or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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 of disposal 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.

2.8 Financial assets

2.8.1 Classification

From 1 January 2018, the Target Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (“OCI”) or through profit or loss);
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Target Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (“FVOCI”).

The Target Group reclassifies debt instruments investments when and only when its business model for managing those assets changes.

2.8.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Target Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Target Group has transferred substantially all the risks and rewards of ownership.

2.8.3 Measurement

At initial recognition, the Target Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

(a) Debt instruments

Subsequent measurement of debt instruments depends on the Target Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Target Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other (losses)/gains. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other (losses)/gains and impairment expenses are presented as separate line item in the consolidated statement of comprehensive income.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

(b) *Equity instruments*

The Target Group subsequently measures all equity investments at fair value. Where the Target Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Target Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.8.4 Impairment

From 1 January 2018, the Target Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Target Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, the identified impairment loss was immaterial, while cash and cash equivalents are also subject to the impairment requirements of IFRS 9 and the identified loss was immaterial.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.8.5 Accounting policies applied until 31 December 2017

The Target Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Target Group's previous accounting policy.

(a) Classification

Until 31 December 2017, the Target Group classified its financial assets in the following categories:

- financial assets at FVPL; and
- loans and receivables

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at FVPL

Financial assets at FVPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(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 the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Target Group's loans and receivables comprise "trade and other receivables", "cash and cash equivalents" and "restricted cash" in the balance sheet (Notes 2.11, 2.12 and 2.13).

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date – the date on which the Target Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at FVPL. Financial assets carried at FVPL are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Target Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at FVPL are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at FVPL' category are presented in the consolidated statement of comprehensive income within "Other (losses)/gains – net" in the period in which they arise. Dividend income from financial assets at FVPL is recognised in the consolidated statement of comprehensive income as part of other income when the Target Group's right to receive payments is established.

(c) Impairment

Assets carried at amortised cost

The Target Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Target Group could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Target Group or the counterparty.

2.10 Derivatives financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

During the Track Record Period, the Target Group did not designate any derivatives as hedging instruments.

2.11 Trade and other receivables

Trade and other receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value and subsequently measured at amortised cost using the effective interest method. See Note 2.8.4 and Note 13 for the Target Group's impairment policies.

2.12 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less. Restricted cash is excluded from cash and cash equivalents.

2.13 Restricted cash

Restricted cash represents guaranteed deposits in a separate reserve account to be pledged to the bank as security deposits under bank borrowing agreement. Such restricted cash will be released when the Target Group repays the related bank loan.

2.14 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.

2.15 Trade and other payables

Trade payables are obligations to pay for construction or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.16 Borrowings and borrowings cost

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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

Borrowings are classified as current liabilities if the loan agreements include an overriding repayment on demand clause, which gives the lender the right to demand repayment at any time at their sole discretion, irrespective of whether a default event has occurred and notwithstanding any other terms and maturity stated in the loan agreement.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

All other borrowing costs are recognised in the consolidated statement of comprehensive income in the period in which they are incurred.

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statements of comprehensive income, except to the extent that it relates to items recognised in OCI or directly in equity. In this case the tax is also recognised in OCI or directly in equity, respectively.

(a) Current income tax

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 jurisdictions where the Target Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

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 financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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 end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment properties that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Target Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in OCI or directly in equity. In this case, the tax is also recognised in OCI or directly in equity, respectively.

(c) Investment allowances and similar tax incentives

Companies within the Target Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure. The Target Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

2.18 Provisions

Provisions are recognised when the Target Group has a present legal or constructive obligation as a result of past events; it is probable 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 recognised 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 recognised as interest expense.

2.19 Revenue recognition – lease income

Lease income from operating leases where the Target Group is a lessor is recognised in income on a straight line basis over the lease term (Note 5). The respective leased assets are included in the consolidated balance sheets in the “investment properties”.

Rental income of the Target Group is measured on the following bases:

- Minimum annual rent (“Base Rent”) from hotel properties and other rental income are recognised in the period in which the properties are leased and on a straight-line basis over the periods of the respective leases;
- Actual annual rent (“Total Rent”) from hotel properties is recognised in the period in which they are earned in accordance with the terms of respective agreements.

2.20 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains/ (losses) on these assets.

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.21 Dividend income

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

2.22 Government grants

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

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

Government grants relating to assets are included in non-current liabilities as deferred income and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected useful lives of the related asset.

3 Financial risk management

3.1 Financial risk factors

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

Risk management is carried out by the Manager, who manages and monitors these risk exposures to ensure appropriate measures are implemented in a timely and effective manner.

APPENDIX IIA ACCOUNTANT’S REPORT ON THE TARGET GROUP

(a) Market risk

(i) Foreign exchange risk

The Target Group’s exposure to foreign exchange risk relates principally to its cash and cash equivalents and bank borrowings, denominated primarily in United States dollar (“USD”), Euro (“EUR”) and Hong Kong dollar (“HK\$”).

For the years ended 31 December 2017, 2018, 2019 and eleven months ended 30 November 2019 and 2020, if RMB had weakened/strengthened by 1% against USD and HK\$ with all other variables held constant, the post-tax profit for each year/period would have changed mainly as a result of foreign exchange gains/losses on translation of USD and HK\$ denominated bank borrowings, which are partially offsetting by USD and HK\$ denominated cash and cash equivalents:

	Year ended 31 December			Eleven months ended	
	2017	2018	2019	30 November	2020
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Post-tax profit					
(decrease)/increase					
- USD	(16,033)	(18,428)	4	4	1
- EUR	-	-	2,334	1,538	-
- HK\$	<u>3</u>	<u>1</u>	<u>(17,899)</u>	<u>(18,462)</u>	<u>242</u>

(Unaudited)

(ii) Cash flow interest rate risk

The Target Group has no significant interest-bearing assets except for cash and cash equivalents and restricted cash. Therefore, the Target Group’s interest rate risk mainly arises from borrowings, cash and cash equivalents and restricted cash. Borrowings, cash and cash equivalents and restricted cash obtained at variable rates expose the Target Group to cash flow interest rate risk. Borrowings, cash and cash equivalents and restricted cash obtained at fixed rates expose the Target Group to fair value interest rate risk.

The Target Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Target Group agrees with other parties to exchange the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

For the years ended 31 December 2017, 2018, 2019 and eleven months ended 30 November 2019 and 2020, if the interest rate had been higher/lower by 25 basis points, with all other variables held constant, the post-tax profit for each year/period would have changed mainly as a result of higher/lower interest expenses as follows:

	Year ended 31 December			Eleven months ended	
				30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Post-tax profit					
(decrease)/increase					
- 25 basis points higher	(671)	(1,105)	(686)	(688)	(311)
- 25 basis points lower	<u>671</u>	<u>1,105</u>	<u>686</u>	<u>688</u>	<u>311</u>

(Unaudited)

(b) Credit risk

Credit risk arises from cash and cash equivalents, restricted cash, as well as trade and other receivables included in the balance sheets.

Credit risk is managed on a group basis. As at 31 December 2017, 2018, 2019 and 30 November 2020, all cash and cash equivalents and restricted cash were deposited in the major financial institutions in China and Hong Kong, or high reputation regional bank in China, Hong Kong and Europe, which the management believed are of high credit quality.

While cash and cash equivalents and restricted cash are also subject to impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The Target Group established policies in place to ensure that the rental income from hotel properties is made to the customers with an appropriate credit term and the Target Group assesses the credit worthiness and financial strength of its customers as well as considering prior dealing history with the customers. The Target Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit loss rates based on the corresponding historical credit losses experienced is immaterial.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

(c) *Liquidity risk*

The Target Group's objective is to maintain sufficient cash and sources of funding through committed credit facility. To manage the liquidity risk, management monitors rolling forecasts of the Target Group's liquidity reserve and cash and cash equivalents on the basis of expected cash flow. The Target Group expects to fund the future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions or related party, if necessary.

The table below analyses the Target Group's financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at each balance sheet date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows:

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
As at 31 December 2017					
Borrowings	188,866	1,696,450	-	-	1,885,316
Interest payable on borrowings	55,990	39,266	-	-	95,256
Derivative financial instruments	57,303	-	-	-	57,303
Trade and other payables and amounts due to related parties	<u>187,093</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>187,093</u>
	<u>489,252</u>	<u>1,735,716</u>	<u>-</u>	<u>-</u>	<u>2,224,968</u>
As at 31 December 2018					
Borrowings	2,108,417	-	-	-	2,108,417
Interest payable on borrowings	49,207	-	-	-	49,207
Trade and other payables and amounts due to related parties	<u>163,828</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>163,828</u>
	<u>2,321,452</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,321,452</u>
As at 31 December 2019					
Borrowings	314,147	72,286	1,757,893	-	2,144,326
Loans due to related parties	85,884	-	-	-	85,884
Interest payable on borrowings	103,646	94,128	70,242	-	268,016
Trade and other payables and amounts due to related parties	<u>373,789</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>373,789</u>
	<u>877,466</u>	<u>166,414</u>	<u>1,828,135</u>	<u>-</u>	<u>2,872,015</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
As at 30 November 2020					
Borrowings	887,400	10,000	10,010	867,490	1,774,900
Loans due to related parties	60,000	-	-	85,104	145,104
Interest and other transaction cost payable on borrowings	81,980	44,189	43,707	272,139	442,105
Trade and other payables and amounts due to related parties	<u>367,484</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>367,484</u>
	<u>1,396,864</u>	<u>54,189</u>	<u>53,717</u>	<u>1,224,733</u>	<u>2,729,503</u>

The interest payments on borrowings are calculated based on borrowings held as at 31 December 2017, 2018, 2019 and 30 November 2020 without taking into account future borrowings. Floating-rate interest is estimated using the relevant interest rates as at 31 December 2017, 2018 and 2019, respectively.

3.2 Capital risk management

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

Consistent with others in the industry, the management monitors capital on the basis of the gearing ratio. This ratio is calculated as total gross borrowings excluding transaction costs divided by total asset value.

The gearing ratio calculated based on the gross borrowings excluding transaction costs over total asset value as at 31 December 2017, 2018, 2019 and 30 November 2020 is as follows:

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020 RMB'000
Total gross interest-bearing bank borrowings and loans due to related parties excluding transaction costs	1,885,316	2,108,417	2,144,326	1,819,900
Total asset value	5,168,500	5,277,998	5,371,407	4,347,658
Gearing ratio	<u>36%</u>	<u>40%</u>	<u>40%</u>	<u>42%</u>

3.3 Fair value estimation

(a) *Fair value hierarchy*

The table below analyses financial instruments carried at fair value as at 31 December 2017, 2018, 2019 and 30 November 2020 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Level 1:** The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Target Group is the current bid price. These instruments are included in level 1;
- Level 2:** The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2; and
- Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

See Note 10 for disclosures of the investment properties that is measured at fair value. The following table presents the Target Group's financial assets and liabilities that are measured at fair value as at 31 December 2017, 2018, 2019 and 30 November 2020, mainly represent the derivative financial instruments (Note 16) and financial asset at fair value through profit or loss (Note 17).

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at FVPL				
As at 31 December 2017	–	22,478	–	22,478
As at 31 December 2018	–	14,223	–	14,223
As at 31 December 2019	–	6,497	–	6,497
As at 30 November 2020	–	–	40,030	40,030
Financial liability at FVPL				
As at 31 December 2017	–	57,303	–	57,303
As at 31 December 2018	–	–	–	–
As at 31 December 2019	–	–	–	–
As at 30 November 2020	–	–	–	–

There were no transfers among different levels and no change in valuation technique during the Track Record Period.

The following table presents the changes in Level 3 instruments during the Track Record Period:

	Year ended 31 December			Eleven months ended 30 November	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000	2020 RMB'000
Opening balance at 1 January	–	–	–	–	–
Additions (Note 17)	–	–	–	–	40,000
Recognised in profit or loss	–	–	–	–	30
Recognised in other comprehensive income	–	–	–	–	–
Closing balance at 31 December	–	–	–	–	40,030

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

(b) Valuation techniques used to determine fair values

The fair value of financial instrument that is not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair values of interest rate cap are calculated as the present value of the estimated future cash flows based on market observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

(c) Fair value measurements using significant unobservable inputs (level 3)

The addition of financial assets at FVPL represents a wealth management product, denominated in RMB, with expected rate of return from 2.1% to 2.25% per annum.

	Fair value as at 30 November 2020	Valuation technique	Unobservable input	Range (weighted average)
Financial assets at FVPL	<u>40,030</u>	DCF	Expect rate of return	2.1% to 2.25%

4 Critical accounting estimates and judgements

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

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

The Target 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 addressed below.

(a) Estimation of fair value of investment properties

The fair value of investment properties are determined at each reporting date by independent valuers by using valuation technique. The independent valuers have relied on the income capitalisation approach as their primary methods, cross-referenced to the direct comparison method where applicable. Details of the judgement and assumptions have been disclosed in Note 10.

(b) Current income taxes and deferred tax

There are many transactions and calculations for which the ultimate tax determination is uncertain. The Target Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

5 Revenue

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Rental income from lease of the Initial Hotel Properties (a)	207,712	213,977	192,325	175,991	156,067
Rental income from lease of the Kaifeng Hotel (a)	21,156	21,332	21,156	19,359	16,243
Other rental income (b)	<u>27,269</u>	<u>24,911</u>	<u>26,890</u>	<u>25,229</u>	<u>21,596</u>
	<u>256,137</u>	<u>260,220</u>	<u>240,371</u>	<u>220,579</u>	<u>193,906</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

- (a) For the eleven months ended 30 November 2020, the rental income received from all hotel properties, including New Century Grand Hotel Hangzhou (杭州開元名都大酒店), New Century Hotel Xiaoshan Zhejiang (浙江開元蕭山賓館), New Century Grand Hotel Ningbo (寧波開元名都大酒店), New Century Grand Hotel Changchun (長春開元名都大酒店) and New Century Resort Qiandao Lake Hangzhou (杭州千島湖開元度假村)(collectively, the “Initial Hotel Properties”) and New Century Grand Hotel Kaifeng (開封開元名都大酒店, the “Kaifeng Hotel”) of RMB172,310,000 was derived from the minimum pro-rated base rent of RMB179,186,000 (as adjusted mentioned below) less value-added taxes of RMB6,876,000.

Since the outbreak of the novel coronavirus pneumonia epidemic (the “Epidemic”), the provinces and municipalities in the PRC in which the Initial Hotel Properties and the Kaifeng Hotel are situated had activated level I (the highest level response to major public health emergencies) and adopted various strict measures to minimise the spread of the Epidemic. As a result of the Epidemic and the substantive suspension of operations of the Initial Hotel Properties and the Kaifeng Hotel, the force majeure clauses under the master hotel lease and management agreement and its individual underlying hotel lease and management agreements and the Kaifeng Hotel lease agreement were triggered, and accordingly the annual base rent for the Initial Hotel Properties and the Kaifeng Hotel was adjusted proportionately for the duration of the period of suspension. Operations at the Initial Hotel Properties and the Kaifeng Hotel were suspended for 38 days and 54 days respectively which resulted in a downward adjustment of the minimum pro-rated base rent for the eleven months ended 30 November 2020 by RMB24,011,000 in aggregate.

For the eleven months ended 30 November 2019, the rental income received from the Initial Hotel Properties and the Kaifeng Hotel of RMB195,350,000 was derived from the minimum pro-rated base rent of RMB203,145,000 less value-added taxes of RMB7,795,000.

For the year ended 31 December 2019, the rental income received from the Initial Hotel Properties and the Kaifeng Hotel of RMB213,481,000 was derived from the minimum Base Rent of RMB222,000,000 less value-added taxes of RMB8,519,000.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

For the year ended 31 December 2018, the rental income received from the Initial Hotel Properties and the Kaifeng Hotel of RMB235,309,000 was derived from the total rent of RMB244,699,000 less value-added taxes of RMB9,390,000.

For the year ended 31 December 2017, the rental income received from all hotel properties, including the Initial Hotel Properties and the Kaifeng Hotel of RMB228,868,000 was derived from the minimum base rent of RMB238,000,000 less value-added taxes of RMB9,132,000.

- (b) Other rental income represented the rental income from the lease of commercial space, primarily office, shopping and recreational areas in hotel properties and was recognised on a straight-line basis over the periods of the respective leases.

6 Operating expenses

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Management fee (<i>Note 26(b)</i>)	24,233	24,703	23,424	21,754	18,525
Urban real estate and land use tax	18,011	18,664	17,560	15,531	14,070
Legal and other professional fees	1,214	1,273	4,357	3,709	2,193
Business tax and surcharges, stamp duty	2,194	2,346	2,244	1,935	1,323
Auditor's remuneration	1,646	1,566	1,568	1,467	1,126
Trustee fee	1,033	1,055	1,020	952	794
Maintenance and repairs	50	–	559	513	91
Valuation fees	561	518	510	510	399
Miscellaneous	470	355	455	401	372
	<u>49,412</u>	<u>50,480</u>	<u>51,697</u>	<u>46,772</u>	<u>38,893</u>
Total operating expenses	<u>49,412</u>	<u>50,480</u>	<u>51,697</u>	<u>46,772</u>	<u>38,893</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

7 Other (losses)/gains – net

	Year ended 31 December			Eleven months ended	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Fair value losses on derivative financial instruments (<i>Note 16</i>)	(56,613)	(8,255)	(7,726)	(11,365)	–
Fair value gains on financial asset at FVPL (<i>Note 17</i>)	–	–	–	–	30
Government grants (a)	10,943	881	2,439	1,850	455
Net foreign exchange (losses)/gains	(12,255)	20,759	(3,300)	(3,605)	(351)
Fair value losses on the settlement of derivative financial instruments	–	(3,305)	–	–	(47,988)
Gains on waived account payable balances	–	767	–	–	–
Others	(234)	(478)	(601)	(596)	(711)
	<u>(58,159)</u>	<u>10,369</u>	<u>(9,188)</u>	<u>(13,716)</u>	<u>(48,565)</u>

(a) Government grants

Government grants mainly represented subsidy income from the government. There are no unfulfilled conditions or other contingencies attaching to these grants. The Target Group did not benefit directly from any other forms of government assistance.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

8 Finance costs – net

	Year ended 31 December			Eleven months ended	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Finance income					
– Interest income derived from bank deposits	3,854	13,341	4,102	3,518	3,406
– Interest income from loan to a related party	–	–	2,613	2,523	–
– Net foreign exchange gains	102,656	–	–	–	–
	<u>106,510</u>	<u>13,341</u>	<u>6,715</u>	<u>6,041</u>	<u>3,406</u>
Finance costs					
– Interest expense on bank borrowings and loans to related parties	(68,479)	(74,801)	(84,641)	(79,711)	(81,483)
– Net foreign exchange losses	–	(91,886)	(35,782)	(41,854)	(21,200)
– Amortisation of transaction costs of bank borrowings	(29,626)	(23,135)	(27,944)	(26,163)	(48,158)
– Other financing cost	(2,201)	(1,737)	(3,274)	(2,995)	(5,773)
	<u>(100,306)</u>	<u>(191,559)</u>	<u>(151,641)</u>	<u>(150,723)</u>	<u>(156,614)</u>
Finance income/(costs) – net	<u>6,204</u>	<u>(178,218)</u>	<u>(144,926)</u>	<u>(144,682)</u>	<u>(153,208)</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

9 Income tax (expense)/credit

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax					
– Corporate income tax	40,111	58,522	39,970	36,657	26,419
Deferred income tax					
– Corporate income tax (<i>Note 20</i>)	<u>47,067</u>	<u>25,762</u>	<u>(12,379)</u>	<u>(13,663)</u>	<u>(133,999)</u>
Income tax expense/(credit)	<u><u>87,178</u></u>	<u><u>84,284</u></u>	<u><u>27,591</u></u>	<u><u>22,994</u></u>	<u><u>(107,580)</u></u>

The tax on the Target Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profit of the statements of comprehensive income as follows:

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit/(loss) before taxation	<u>253,974</u>	<u>89,500</u>	<u>(85,612)</u>	<u>(103,970)</u>	<u>(661,853)</u>
Tax calculated at statutory tax rates applicable to each group entity	83,029	71,893	22,771	18,608	(115,814)
Withholding tax on earnings of subsidiaries	5,625	12,095	4,140	3,707	8,992
Prior year adjustment	(244)	296	680	679	(758)
Adjustments for withholding tax of prior period	<u>(1,232)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Income tax expense/(credit)	<u><u>87,178</u></u>	<u><u>84,284</u></u>	<u><u>27,591</u></u>	<u><u>22,994</u></u>	<u><u>(107,580)</u></u>

(a) Hong Kong profits tax

Enterprises incorporated in the Hong Kong are subject to income tax rate of 16.5% during the Track Record Period. No Hong Kong profits tax has been provided for as the Target Group has no assessable profits in Hong Kong during the Track Record Period.

(b) China corporate income tax

Enterprises incorporated in China are subject to income tax rate of 25% during the Track Record Period.

The income tax provision of the Target Group in respect of its operations in China has been calculated at the applicable tax rate on the estimated assessable profits based on existing legislations, interpretations and practices.

(c) China withholding income tax

Pursuant to China Corporate Income Tax Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Target Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in China in respect of their earnings generated from 1 January 2008.

Pursuant to “Arrangement between the mainland of China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income”, a lower 5% withholding tax rate will be applied to a qualifying company, if it can be considered as a beneficial owner of the dividend and that it holds directly at least 25% of the capital of the mainland enterprise. Given the above, in October 2017, Spearhead Investments Limited and Sky Town Investments Limited had successfully obtained certificates of the resident status of the Hong Kong Special Administrative Region with the effective period of three years. On 14 April 2020, Spearhead Investments Limited and Sky Town Investments Limited successfully renewed the certificates of the resident status of the Hong Kong Special Administrative Region with the effective period of three years. Given the above, the local tax authority of China had granted a 5% tax adjustment payment on the withholding tax relating to the dividends declared by Zhejiang New Century Hotel Investment & Management Group Limited (浙江開元酒店投資管理集團有限公司, “Zhejiang New Century Hotel”) and applied a 5% withholding tax rate during the Track Record Period.

During the eleven months ended 30 November 2020, apart from declared dividend in 2019, Zhejiang New Century Hotel has also declared and paid an additional dividend with the total amount of RMB110,817,502 to its parent companies outside China. No deferred tax liabilities in respect of the withholding tax on unremitted earnings have been recognised for such earnings in previous period. Accordingly, the related withholding tax with the total amount of RMB5,541,000 has been recognised under the current income tax.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

10 Investment properties

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020
Investment properties	<u>4,679,000</u>	<u>4,730,000</u>	<u>4,612,000</u>	<u>3,997,000</u>

The investment properties of the Target Group as at 31 December 2017, 2018, 2019 and 30 November 2020 were located in China and were held on land use rights with lease periods of 35 to 40 years.

	Year ended 31 December			Eleven months ended	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
At fair value					
Opening balance	4,580,000	4,679,000	4,730,000	4,730,000	4,612,000
(Disposals)/additions	(204)	3,391	2,172	1,379	93
Fair value gains/(losses) (a)	<u>99,204</u>	<u>47,609</u>	<u>(120,172)</u>	<u>(119,379)</u>	<u>(615,093)</u>
Closing balance	<u>4,679,000</u>	<u>4,730,000</u>	<u>4,612,000</u>	<u>4,612,000</u>	<u>3,997,000</u>

(a) The independent valuation of the Target Group's investment properties in China were performed by Savills Valuation and Professional Services Limited ("Savills") and Cushman & Wakefield Limited ("Cushman & Wakefield") to determine the fair value of the investment properties as at 31 December 2017, 2018 and 2019 and 30 November 2020, respectively.

As at 31 December 2017, 2018, 2019 and 30 November 2020, investment properties were pledged as collateral for the Target Group's bank borrowings (Note 19).

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

The fair value measurement information for the investment properties in accordance with IFRS is given below:

Description	Fair value measurements using		
	Quoted prices in active markets for identical assets (Level 1) <i>RMB'000</i>	Significant other observable inputs (Level 2) <i>RMB'000</i>	Significant unobservable inputs (Level 3) <i>RMB'000</i>
Recurring fair value measurements			
Investment properties:			
– The Initial Hotel Properties	–	–	4,249,000
– The Kaifeng Hotel	–	–	430,000
As at 31 December 2017	<u>–</u>	<u>–</u>	<u>4,679,000</u>
– The Initial Hotel Properties	–	–	4,300,000
– The Kaifeng Hotel	–	–	430,000
As at 31 December 2018	<u>–</u>	<u>–</u>	<u>4,730,000</u>
– The Initial Hotel Properties	–	–	4,192,000
– The Kaifeng Hotel	–	–	420,000
As at 31 December 2019	<u>–</u>	<u>–</u>	<u>4,612,000</u>
– The Initial Hotel Properties	–	–	3,617,000
– The Kaifeng Hotel	–	–	380,000
As at 30 November 2020	<u>–</u>	<u>–</u>	<u>3,997,000</u>

During the Track Record Period, there were no transfers between Levels 1, 2 and 3.

Valuation processes of the Target Group

The Target Group's investment properties were valued by Savills as at 31 December 2017 and 2018, and valued by Cushman & Wakefield as at 31 December 2019 and 30 November 2020, who are all qualified independent professional valuers and hold recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued.

The Manager reviews the valuations performed by the independent valuers for financial reporting purposes and reports directly to the Finance and Investment Committee ("FIC") of the Manager. Discussions of valuation processes and results are held between the Manager and the independent valuers at least once a year, in line with the Target Group's reporting period.

At each reporting period end, the management:

- verifies all major inputs to the independent valuation report;
- assesses property market conditions and property valuations movements as compared to the prior year valuation reports; and
- holds discussions with the independent valuers.

Changes in level 3 fair values are analysed at each reporting date during the annual valuation discussions between the Manager and FIC.

Valuation techniques

For the Initial Hotel Properties and the Kaifeng Hotel, the valuation was determined using discounted cash flow approach based on significant unobservable inputs. These inputs include:

Future rental cash inflows	Based on the actual location, type and quality of the properties and supported by the terms of any existence lease, other contracts and external evidence such as current market rents for similar properties;
Discount rates	Reflecting current market assessments of the uncertainty in the amount and timing of cash flows;

APPENDIX IIA ACCOUNTANT’S REPORT ON THE TARGET GROUP

Maintenance costs	Including necessary investments to maintain functionality of the property for its expected useful life;
Terminal growth rate	Taking into account assumptions regarding vacancy rates and market rents.

There were no changes to the valuation techniques for the investment properties during the Track Record Period.

Information about fair value measurements using significant unobservable inputs (Level 3):

Description	Valuation technique	Unobservable inputs	Range of unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
The Initial Hotel Properties and the Kaifeng Hotel	Discounted cash flow	Rental value	<p>For rental income from the Initial Hotel Properties and the Kaifeng Hotel during the Track Record Period:</p> <p>Base rent of the Initial Hotel Properties and the Kaifeng Hotel are calculated as 20% of the lessees’ total revenue, plus 34% of the lessees’ gross operating profit from operating the Initial Hotel Properties and the Kaifeng Hotel, respectively. If the total rent is less than the base rent for that year, the lessee shall pay the difference.</p> <p>For other rental income, total monthly rental income ranging from:</p> <p>For 2017: RMB14,167 to RMB1,319,750;</p> <p>For 2018: RMB9,000 to RMB1,270,000;</p> <p>For 2019: RMB36,400 to RMB1,521,021;</p> <p>For the eleven months ended 30 November 2020: RMB33,367 to RMB1,281,436;</p>	The higher the input value, the higher the fair value

APPENDIX IIA ACCOUNTANT’S REPORT ON THE TARGET GROUP

Description	Valuation technique	Unobservable inputs	Range of unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
		Average daily room rate (“ADR”)	<p>As at 31 December 2017: 2018 – Range from RMB371 to RMB869</p> <p>As at 31 December 2018: 2019 – Range from RMB371 to RMB901</p> <p>As at 31 December 2019: 2020 – Range from RMB365 to RMB670</p> <p>As at 30 November 2020: 2021 – Range from RMB325 to RMB560</p>	The higher the input rate, the lower the fair value
		Annual growth in ADR	Stabilised at 4% during the Track Record Period	
		Occupancy rate on available room basis	<p>As at 31 December 2017: 2018 – Range from 56% to 65% Stabilised at range from 65% to 73%</p> <p>As at 31 December 2018: 2019 – Range from 59% to 67% Stabilised at range from 67% to 74%</p> <p>As at 31 December 2019: 2020 – Range from 60% to 74% Stabilised at range from 68% to 76%</p> <p>As at 30 November 2020: 2021 – Range from 55% to 70% Stabilised at range from to 68% to 75%</p>	

APPENDIX IIA ACCOUNTANT’S REPORT ON THE TARGET GROUP

Description	Valuation technique	Unobservable inputs	Range of unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
The Initial Hotel Properties and the Kaifeng Hotel	Discounted cash flow	Food and beverage ("F&B") revenue	As at 31 December 2017: 2018 – Range from 31% to 72% of gross revenue Stabilised at range from 32% to 74%	The higher the input rate, the lower the fair value
			As at 31 December 2018: 2019 – Range from 31% to 72% of gross revenue Stabilised at range from 32% to 74%	
			As at 31 December 2019: 2020 – Range from 25% to 64% of gross revenue, Stabilised at range from 25% to 68%	
			As at 30 November 2020: 2021 – Range from 26% to 63% of gross revenue Stabilised at range from 26% to 66%	
		Terminal growth rate	4% during the Track Record Period	
		Furniture, fixtures and equipment ("FF&E") provision	2% of gross revenue during the Track Record Period	The higher the input rate, the lower the fair value
		Discount rate	The Kaifeng Hotel: 9.25%; and the Initial Hotel Properties: 8.75% during the Track Record Period	

There are inter-relationships between unobservable inputs. An increase in future rental income may be linked with change of costs. If the remaining lease term increases, the yield may change.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

11 Goodwill

	Goodwill <i>RMB'000</i>
Year/period ended 31 December 2017, 2018, 2019 and 30 November 2020	
Opening and closing net book amount	<u><u>7,987</u></u>
As at 31 December 2017, 2018, 2019 and 30 November 2020	
Cost	7,987
Accumulated impairment	<u>—</u>
Net book amount	<u><u>7,987</u></u>

Impairment tests for goodwill

For the purpose of impairment review, the recoverable amount of goodwill is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budget.

Key assumptions used in the cash flow projections during the Track Record Period are as follows:

	Year ended 31 December		Eleven months ended		
	2017	2018	2019	30 November 2019	2020
	(Unaudited)				
Key assumptions used for rental income					
– Annual growth rate in ADR	4%	4%	4%	4%	4%
– Occupancy rate on available room basis	65%	67%	68%	68%	68%
Long term growth rate per annum	4%	4%	4%	4%	4%
Discount rate per annum	9.25%	9.25%	9.25%	9.25%	9.25%

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

These assumptions have been used for the analysis of CGU. Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Management estimates the discount rate using pre-tax rates that reflect market assessments of the time value of money and the specific risks relating to the CGU. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

Based on the assessment, no goodwill was impaired as at 31 December 2017, 2018, 2019 and 30 November 2020.

12 Other long-term assets

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2020</i>
Fee paid for undrawn bank facilities	6,793	–	1,313	1,812

13 Trade and other receivables and prepayments

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2020</i>
Trade receivables (a)	4,134	1,941	2,621	2,926
Other receivables	621	8,237	3,130	–
Prepayments	937	6,811	1,780	–
Trade and other receivables and prepayments	5,692	16,989	7,531	2,926

As at 31 December 2017, 2018, 2019 and 30 November 2020, the carrying amounts of the trade and other receivables of the Target Group, approximated their fair value.

APPENDIX IIA ACCOUNTANT’S REPORT ON THE TARGET GROUP

(a) As at 31 December 2017, 2018, 2019 and 30 November 2020, the trade receivables represented the rental income receivables from the lessee. The aging analysis of trade receivables based on the invoice date was as follows:

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020
Trade receivables, gross				RMB'000
– Within 30 days	<u>4,134</u>	<u>1,941</u>	<u>2,621</u>	<u>2,926</u>

Credit period granted to customers is normally 30 days. No interest is charged on the trade receivables. The Target Group applies the simplified approach, which requires expected lifetime losses to be recognised from the initial recognition of the receivables. During the Track Record Period, the Target Group believes that there were no significant financial difficulty of their customers and based on the past experience, there were no significant change in the credit quality of their customers. The identified impairment loss was immaterial.

All carrying amounts of the Target Group’s trade receivables were denominated in RMB.

As at 31 December 2017, 2018, 2019 and 30 November 2020, all the trade receivables were pledged as collateral for the Target Group’s bank borrowings (Note 19).

14 Cash and cash equivalents and restricted cash

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020
Cash at banks (a)	423,143	484,595	692,160	220,710
Less: Restricted cash (b)	<u>(155,517)</u>	<u>(259,779)</u>	<u>(504,978)</u>	<u>(180,000)</u>
Cash and cash equivalents	<u>267,626</u>	<u>224,816</u>	<u>187,182</u>	<u>40,710</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

Cash and cash equivalents and restricted cash were denominated in the following currencies:

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash at bank and in hand:				
• RMB	371,123	422,277	336,959	196,446
• USD	51,030	60,427	366	101
• HK\$	240	148	121,402	24,162
• EUR	750	1,743	233,433	1
	<u>423,143</u>	<u>484,595</u>	<u>692,160</u>	<u>220,710</u>

- (a) All cash at bank are deposits with original maturity within 3 months. The Target Group earns interest on cash at bank, including restricted cash, at floating bank deposit rates.
- (b) Restricted cash represents guarantee deposits held in reserve accounts and bank deposits to the banks as security deposits under loan facilities (Note 19).

15 Trade and other payables

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables (a)	1,555	1,493	941	685
Other payables	7,986	5,423	8,215	8,819
Advances from customers	1,369	1,769	1,532	2,435
Interest payables	14,753	20,584	24,433	5,709
Accrued taxes other than income tax	4,862	4,746	7,718	13,909
Dividend payable	931	827	1,979	3,347
	<u>31,456</u>	<u>34,842</u>	<u>44,818</u>	<u>34,904</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

(a) The aging analysis of the trade payables was as follows:

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020 <i>RMB'000</i>
Trade payables				
– Within 90 days	8	10	86	14
– Over 90 days and within 360 days	106	806	40	6
– Over 360 days and within 720 days	15	35	255	78
– Over 720 days	<u>1,426</u>	<u>642</u>	<u>560</u>	<u>587</u>
	<u>1,555</u>	<u>1,493</u>	<u>941</u>	<u>685</u>

As at 31 December 2017, 2018, 2019 and 30 November 2020, all other payables of the Target Group were non-interest bearing. Their fair values approximate their carrying amounts due to their short maturities.

16 Derivative financial instruments

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020 <i>RMB'000</i>
Financial assets				
Interest rate swaps	<u>22,478</u>	<u>14,223</u>	<u>6,497</u>	<u>–</u>
Financial Liabilities				
Capped forward foreign exchange contracts	<u>(57,303)</u>	<u>–</u>	<u>–</u>	<u>–</u>

The Target Group has entered into interest rate swaps and capped forward foreign exchange contracts with commercial banks. The interest rate swaps have the economic effect of converting interest rate of borrowings from floating rates to fixed rates. The capped forward foreign exchange contracts have the economic effect of keeping exchange rate of USD against RMB within the cap rate. Nevertheless, they were not accounted for as hedging instruments as the conditions for hedge accounting were not met during the Track Record Period. Gains and losses arising from the fair value change and the settlement of these derivative financial instruments were recognised in the consolidated statement of comprehensive income in “Other (losses)/gains – net” (Note 7).

APPENDIX IIA ACCOUNTANT’S REPORT ON THE TARGET GROUP

- (a) As at 31 December 2017 and 2018, the notional principal amount of the outstanding interest rate swaps was USD230,000,000 and the fixed interest rate was 3.11% per annum. As at 31 December 2019, the notional principal amounts of the outstanding interest rate swaps were HK\$250,000,000 and HK\$1,661,000,000 with the fixed interest rates of 4.87% and 4.845% per annum respectively. The settlement losses of this interest rate swap derivative financial instruments with the total amount of RMB47,988,000 were recognised in the consolidated statement of comprehensive income in “Other (losses)/gains – net” (Note 7) for the eleven months ended 30 November 2020.
- (b) As at 31 December 2017, the notional principal amounts of the outstanding capped forward foreign exchange contracts were USD120,000,000 which were settled with the payment of USD9,332,928 (equivalent to RMB60,608,000) in January 2018. The fair value losses arising from these foreign exchange contracts before settlement for the year ended 31 December 2018 of RMB3,305,000 were recognised in the consolidated statement of comprehensive income .

17 Financial asset at FVPL

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Current asset				
Financial asset at FVPL				
– Principle	–	–	–	40,000
– Fair value change (Note 7)	–	–	–	30
	<u>–</u>	<u>–</u>	<u>–</u>	<u>40,030</u>

The financial asset at FVPL is a wealth management product, denominated in RMB, with expected rates of return ranging from 2.10% to 2.25% per annum for eleven months ended 30 November 2020. The return on the wealth management product is not guaranteed, hence its contractual cash flow does not qualify for solely payments of principle and interest. Therefore, it is measured at FVPL and the principal and return of the wealth management product had been received in December 2020.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

18 Deferred income

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Government grants relating to assets	<u>3,553</u>	<u>3,147</u>	<u>2,741</u>	<u>2,369</u>

Deferred income represents government grants relating to certain assets, which is deferred and recognised in the consolidated statement of comprehensive income on a straight-line basis over the expected useful lives of the related assets. The movements of deferred income are as below:

	Year ended 31 December			Eleven months ended	
	2017	2018	2019	30 November	2020
	RMB'000	RMB'000	RMB'000	2019	2020
				RMB'000	RMB'000
				(Unaudited)	
Opening balance	2,669	3,553	3,147	3,147	2,741
Additions	1,200	–	–	–	–
Credited to profit or loss	<u>(316)</u>	<u>(406)</u>	<u>(406)</u>	<u>(372)</u>	<u>(372)</u>
Closing balance	<u>3,553</u>	<u>3,147</u>	<u>2,741</u>	<u>2,775</u>	<u>2,369</u>

19 Bank borrowings

	As at 31 December			As at
	2017	2018	2019	30
	RMB'000	RMB'000	RMB'000	November
				2020
				RMB'000
Non-current				
Principal of bank borrowings – secured (a)	1,702,358	1,772,120	1,902,465	897,500
Less: Transaction costs	(33,570)	(12,369)	(44,103)	(20,090)
Current portion of non-current bank borrowings	<u>(4,536)</u>	<u>(1,759,751)</u>	<u>(52,573)</u>	<u>(22,660)</u>
	<u>1,664,252</u>	<u>–</u>	<u>1,805,789</u>	<u>854,750</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

	As at 31 December			As at 30 November 2020
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Current				
Bank borrowings – secured (a)	182,958	336,297	241,861	860,988
Current portion of non-current bank borrowings	<u>4,536</u>	<u>1,759,751</u>	<u>52,573</u>	<u>22,660</u>
	<u>187,494</u>	<u>2,096,048</u>	<u>294,434</u>	<u>883,648</u>

The Target Group's borrowings were denominated in the following currencies:

	As at 31 December			As at 30 November 2020
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
• RMB	197,383	192,847	188,932	1,738,398
• USD	1,654,363	1,903,201	–	–
• HK\$	<u>–</u>	<u>–</u>	<u>1,911,291</u>	<u>–</u>
	<u>1,851,746</u>	<u>2,096,048</u>	<u>2,100,223</u>	<u>1,738,398</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

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

	6 months or less <i>RMB'000</i>	Between 6 and 12 months <i>RMB'000</i>	Over 1 years <i>RMB'000</i>	Total <i>RMB'000</i>
As at 31 December 2017	<u>380,341</u>	<u>–</u>	<u>1,471,405</u>	<u>1,851,746</u>
As at 31 December 2018	<u>339,251</u>	<u>1,756,797</u>	<u>–</u>	<u>2,096,048</u>
As at 31 December 2019	<u>243,445</u>	<u>50,989</u>	<u>1,805,789</u>	<u>2,100,223</u>
As at 30 November 2020	<u>17,408</u>	<u>866,239</u>	<u>854,751</u>	<u>1,738,398</u>

The maturity of borrowings were as follows:

	As at 31 December			As at 30 November
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
On demand or within 1 year	187,494	2,096,048	294,434	883,648
Between 1 and 2 years	1,664,252	–	55,759	7,578
Between 2 and 3 years	–	–	1,750,030	7,489
Between 3 and 5 years	–	–	–	131,192
Over 5 years	<u>–</u>	<u>–</u>	<u>–</u>	<u>708,491</u>
	<u>1,851,746</u>	<u>2,096,048</u>	<u>2,100,223</u>	<u>1,738,398</u>

As at 30 November 2020, a long-term bank borrowing of RMB684,587,000 (with a principal amount of RMB686,000,000 after netting off the transaction cost) was classified as a current liability due to the “Repayment on Demand” clause in the agreement, despite the repayment date is after one year. As the Target Group has obtained written confirmation from the bank in December 2020 that it will not execute the early repayment demand within 13 months after the balance sheet date, the principal amount due for repayment within 1 year for the Target Group is RMB200,120,000.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

The weighted average effective interest rates during the Track Record Period were as follows:

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020 <i>RMB'000</i>
Borrowings – current				
– USD	2.94%	4.69%	3.95%	–
– HK\$	–	–	3.90%	3.28%
– RMB	–	6.10%	–	3.98%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Borrowings – non-current				
– USD	4.99%	–	–	–
– HK\$	–	–	6.22%	8.54%
– RMB	6.35%	–	6.25%	5.47%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The fair values of current borrowings equal their carrying amounts as the discounting impact is not significant.

The carrying amounts and fair values of the non-current borrowings were as follows:

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020 <i>RMB'000</i>
Carrying amounts				
Bank borrowings	1,664,252	–	1,805,789	854,750
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fair values				
Bank borrowings	1,596,386	–	1,782,192	839,453
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The fair values are based on cash flows discounted using the market interest rates prevailing at each balance sheet date and are within level 2 of the fair value hierarchy.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

(a) Bank borrowings – secured

Bank borrowings of the Target Group as at 31 December 2017, 2018 and 2019 are secured by the following:

- Investment properties (Note 10), guaranteed deposits (Note 14) and trade receivables (Note 13 and Note 26(c)) and guaranteed by Zhejiang New Century Hotel, Spearhead Investments Limited and Sky Town Investments Limited, subsidiaries of the Target Group; and
- Equity interest of Zhejiang New Century Hotel, 浙江銳至投資股份有限公司 (Zhejiang Spearhead Investment Limited), 寧波開元銳至投資有限公司 (Ningbo New Century Spearhead Investment Limited), 長春開元銳至投資管理有限公司 (Changchun New Century Spearhead Investment and Management Limited), 淳安千島湖開元銳至投資有限公司 (Chun'an Qiandao Lake New Century Spearhead Investment Limited), 開封開元名都大酒店有限公司 (Kaifeng New Century Grand Hotel Limited), Spearhead Investments Limited and Sky Town Investments Limited, subsidiaries of the Target Group.

On-shore bank borrowings of the Target Group as at 30 November 2020 is secured by the investment properties (Note 10) and trade receivables (Note 13 and Note 26(c)) of Zhejiang New Century Hotel.

Off-shore bank borrowing of the Target Group as at 30 November 2020 are secured by the guaranteed deposits (Note 14) of Zhejiang New Century Hotel, investment properties (Note 10) and trade receivables (Note 13 and Note 26(c)) of Zhejiang Spearhead Investment Limited, Ningbo New Century Spearhead Investment Limited, Changchun New Century Spearhead Investment and Management Limited, Chun'an Qiandao Lake New Century Spearhead Investment Limited and Kaifeng New Century Grand Hotel Limited.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

The Target Group had the following undrawn bank borrowing facilities:

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020
Expiring within one year	196,026	-	-	-
Expiring beyond one year	<u>601,146</u>	<u>487,287</u>	<u>456,848</u>	<u>701,963</u>
	<u><u>797,172</u></u>	<u><u>487,287</u></u>	<u><u>456,848</u></u>	<u><u>701,963</u></u>

20 Deferred income tax assets and deferred income tax liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes related to the same tax authority. The net deferred income tax balances after offsetting were as follows:

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020
Deferred income tax liabilities				
- to be recovered after more than 12 months	883,138	908,597	891,653	754,136
- to be recovered within 12 months	<u>5,566</u>	<u>244</u>	<u>4,809</u>	<u>4,187</u>
	<u><u>888,704</u></u>	<u><u>908,841</u></u>	<u><u>896,462</u></u>	<u><u>758,323</u></u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

The movements on the net deferred income tax liabilities were as follows:

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening balance	844,102	888,704	908,841	908,841	896,462
Charged/(credited) to profit or loss (Note 9)	47,067	25,762	(12,379)	(13,663)	(133,999)
Payment	<u>(2,465)</u>	<u>(5,625)</u>	<u>–</u>	<u>–</u>	<u>(4,140)</u>
Closing balance	<u>888,704</u>	<u>908,841</u>	<u>896,462</u>	<u>895,178</u>	<u>758,323</u>

Movements in deferred income tax assets and liabilities during the Track Record Period, without taking into consideration the offsetting of balance within the same tax jurisdiction, are as follows:

Deferred income tax assets	Tax losses carried forward <i>RMB'000</i>	Deferred income <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2017	1,361	667	2,028
(Charged)/credited to profit or loss	<u>(734)</u>	<u>221</u>	<u>(513)</u>
As at 31 December 2017 and 1 January 2018	627	888	1,515
Charged to profit or loss	<u>(627)</u>	<u>(102)</u>	<u>(729)</u>
As at 31 December 2018 and 1 January 2019	–	786	786
Charged to profit or loss	<u>–</u>	<u>(100)</u>	<u>(100)</u>
As at 31 December 2019 and 1 January 2020	–	686	686
Charged to profit or loss	<u>–</u>	<u>(93)</u>	<u>(93)</u>
As at 30 November 2020	<u>–</u>	<u>593</u>	<u>593</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

Deferred income tax liabilities	Difference between tax book and accounting book in respect of investment properties RMB'000	Amortisation of transaction cost for the bank borrowings RMB'000	Withholding tax in respect of unremitted earnings of subsidiaries RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2017	841,768	1,254	2,465	643	846,130
Charged/(credited) to profit or loss	41,113	(628)	5,625	444	46,554
Payment	–	–	(2,465)	–	(2,465)
As at 31 December 2017 and 1 January 2018	882,881	626	5,625	1,087	890,219
Charged/(credited) to profit or loss	25,950	(441)	–	(476)	25,033
Payment	–	–	(5,625)	–	(5,625)
As at 31 December 2018 and 1 January 2019	908,831	185	–	611	909,627
(Credited)/charged to profit or loss	(17,025)	330	4,140	76	(12,479)
As at 31 December 2019 and 1 January 2020	891,806	515	4,140	687	897,148
(Credited)/charged to profit or loss	(142,111)	4,509	3,451	59	(134,092)
Payment	–	–	(4,140)	–	(4,140)
As at 30 November 2020	<u>749,695</u>	<u>5,024</u>	<u>3,451</u>	<u>746</u>	<u>758,916</u>

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2017, 2018, 2019 and 30 November 2020, the Target Group did not recognise deferred income tax assets of RMB19,000, RMB17,000, RMB22,000 and RMB0 in respect of losses amounting to RMB117,000, RMB104,000, RMB135,000 and RMB0 that can be carried forward against future taxable income, respectively.

21 Share capital

The total number of authorised share capital is 50,000 ordinary shares with a par value of USD1 per share. As at 31 December 2017, 2018, 2019 and 30 November 2020, the total paid up capital is USD20,000 (equivalent to RMB123,000) representing 20,000 ordinary shares in issue at a par value of USD 1 per share.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

22 Other reserves

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2020</i>
Statutory reserve (1)	59,629	66,030	93,311	93,311
Merger and other reserve (2)	2,908,467	2,914,916	2,927,415	2,943,436
Share based payments reserve	<u>9,245</u>	<u>9,245</u>	<u>9,245</u>	<u>9,245</u>
	<u><u>2,977,341</u></u>	<u><u>2,990,191</u></u>	<u><u>3,029,971</u></u>	<u><u>3,045,992</u></u>

(1) Statutory reserve

	Year ended 31 December			Eleven months ended	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)					
Opening balance	53,835	59,629	66,030	66,030	93,311
Transferred from retained earnings (Note 23)	<u>5,794</u>	<u>6,401</u>	<u>27,281</u>	<u>–</u>	<u>–</u>
Closing balance	<u><u>59,629</u></u>	<u><u>66,030</u></u>	<u><u>93,311</u></u>	<u><u>66,030</u></u>	<u><u>93,311</u></u>

In accordance with the Articles of Association of the Company and the statutory regulation in China, certain subsidiaries incorporated in China are required to transfer certain percentage of their annual statutory net profits, after offsetting any prior years' losses as determined under the China accounting standards, to the statutory reserve before the declaration of dividend. The statutory reserve can be used to offset prior years' losses, if any.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

(2) Merger and other reserve

	<i>RMB'000</i>
At 1 January 2017	2,893,263
Issuance of units (i)	<u>15,204</u>
At 31 December 2017 and 1 January 2018	2,908,467
Issuance of units (i)	<u>6,449</u>
At 31 December 2018 and 1 January 2019	2,914,916
Issuance of units (i)	12,914
Unit bought back for cancellation (ii)	<u>(415)</u>
At 31 December 2019 and 1 January 2020	2,927,415
Issuance of units (i)	<u>16,021</u>
At 30 November 2020	<u><u>2,943,436</u></u>

Merger reserve represents capital contributed by the controlling shareholders to the Company comprising the Target Group.

(i) Issuance of Units by New Century REIT

On 8 June 2017, 7,199,487 units were issued to the Manager at an issue price of HK\$2.4207 per Unit (equivalent to RMB15,204,000) as payment of Manager fee for the six months ended 31 December 2016.

On 28 September 2018, 3,963,569 units were issued to the Manager at an issue price of HK\$1.8581 per unit (equivalent to RMB6,449,000) as payment of 50% of the Manager fee for the six months ended 30 June 2018.

On 24 May 2019, 4,470,745 units were issued to the Manager at an issue price of HK\$1.7088 per unit (equivalent to RMB6,712,000) as payment of 50% of the Manager fee for the six months ended 31 December 2018.

On 27 September 2019, 4,486,341 units were issued to the Manager at an issue price of HK\$1.5315 per unit (equivalent to RMB6,202,000) as payment of 50% of the Manager fee for the six months ended 30 June 2019.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

On 22 May 2020, 6,619,349 units were issued to the Manager at an issue price of HK\$1.0069 per unit (equivalent to RMB6,100,000) as payment of 50% of the Manager fee for the six months ended 31 December 2019.

On 25 September 2020, 10,261,304 units were issued to the Manager at an issue price of HK\$1.1050 per unit (equivalent to RMB9,921,000) as payment of 100% of the Manager fee for the six months ended 30 June 2020.

(ii) From August to November 2019, New Century REIT had repurchased and cancelled a total of 293,000 units on The Stock Exchange of Hong Kong Limited at the prevailing market price with the aggregate consideration of HK\$461,000 (equivalent to RMB415,000).

All units bought back were cancelled during the year ended 31 December 2019.

23 Accumulated Losses

	<i>RMB'000</i>
At 1 January 2017	(870,031)
Profit for the year	164,221
Distributions paid to the unitholders on behalf of New Century REIT (i)	(159,088)
Transferred to statutory reserve (<i>Note 22</i>)	<u>(5,794)</u>
At 31 December 2017 and 1 January 2018	(870,692)
Profit for the year	3,785
Distributions paid to the unitholders on behalf of New Century REIT (ii)	(101,269)
Transferred to statutory reserve (<i>Note 22</i>)	<u>(6,401)</u>
At 31 December 2018 and 1 January 2019	(974,577)
Loss for the year	(114,021)
Distributions paid to the unitholders on behalf of New Century REIT (iii)	(79,704)
Transferred to statutory reserve (<i>Note 22</i>)	<u>(27,281)</u>
At 31 December 2019 and 1 January 2020	(1,195,583)
Loss for the period	(551,716)
Distributions paid to the unitholders on behalf of New Century REIT (iv)	<u>(28,163)</u>
At 30 November 2020	<u><u>(1,775,462)</u></u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

- (i) The distributions with amount of RMB159,088,000 paid to the Unitholders on behalf of New Century REIT during the year ended 31 December 2017 comprises:
- Final distribution for the period from 1 July 2016 to 31 December 2016 with a total amount of RMB79,497,000, which was paid to the Unitholders on 26 May 2017; and
 - Interim distribution for the period from 1 January 2017 to 30 June 2017 with a total amount of RMB79,591,000, which was paid to the Unitholders on 29 September 2017.
- (ii) The distributions with amount of RMB101,269,000 paid to the Unitholders on behalf of New Century REIT during the year ended 31 December 2018 comprises:
- Final distribution for the period from 1 July 2017 to 31 December 2017 with a total amount of RMB51,269,000, which was paid to the Unitholders on 25 May 2018; and
 - Interim distribution (including special distribution) for the period from 1 January 2018 to 30 June 2018 with a total amount of RMB50,000,000 which was paid to the Unitholders on 28 September 2018.
- (iii) The distributions with amount of RMB79,704,000 paid to the unitholders on behalf of New Century REIT during the year ended 31 December 2019 comprises:
- Final distribution for the period from 1 July 2018 to 31 December 2018 with a total amount of RMB45,878,000, which was paid to the unitholders on 24 May 2019; and
 - Interim distribution for the period from 1 January 2019 to 30 June 2019 with a total amount of RMB33,826,000 which was paid to the unitholders on 27 September 2019.
- (iv) Final distribution for the period from 1 July 2019 to 31 December 2019 with a total amount of RMB28,163,000, which was paid to the unitholders on 22 May 2020 on behalf of New Century REIT.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

24 Note to the consolidated statements of cash flows

(a) Reconciliation of profit/(loss) before taxation to cash generated from operations

	Year ended 31 December			Eleven months ended 30 November	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (Unaudited)	2020 RMB'000
Profit/(loss) before taxation for the year/period	253,974	89,500	(85,612)	(103,970)	(661,853)
Adjustments for:					
- Net foreign exchanges (gains)/ losses on financing activities	(102,656)	91,886	35,782	41,854	21,200
- Interest expense on bank borrowings and other borrowings (Note 8)	68,479	74,801	84,641	79,711	81,483
- Interest income from a loan to a related party (Note 8)	-	-	(2,613)	(2,523)	-
- Amortisation of transaction costs of bank borrowings (Note 8)	29,626	23,135	27,944	26,163	48,158
- Fair value losses on derivative financial instruments (Note 7)	56,613	8,255	7,726	11,365	-
- Fair value losses on the settlement of derivative financial instruments (Note 7)	-	3,305	-	-	47,988
- Other financing cost (Note 8)	2,201	1,737	3,274	2,995	5,773
- Amortisation of deferred income (Note 18)	(316)	(406)	(406)	(372)	(372)
- Fair value gains on the financial asset at FVPL (Note 7)	-	-	-	-	(30)
- Gains on waived account payable balances (Note 7)	-	(767)	-	-	-
- Fair value (gains)/losses on investment properties (Note 10)	(99,204)	(47,609)	120,172	119,379	615,093
Changes in working capital:					
- Decrease in trade and other receivables and Prepayments	(1,422)	(5,603)	(3,639)	(3,495)	(5,035)
- Increase/(decrease) in amounts due from related parties	538,775	(636)	(16,602)	(3,984)	(33,274)
- (Decrease)/increase in amounts due to related parties	(294,451)	(20,525)	206,580	148,365	(8,790)
- Increase in trade and other payables	1,448	1,052	5,527	3,204	7,698
Cash generated from operations	<u>453,067</u>	<u>218,125</u>	<u>382,774</u>	<u>318,692</u>	<u>118,039</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

(b) Net cash and liabilities relating to financing activities

	As at 31 December			As at
	2017	2018	2019	30 November 2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents	267,626	224,816	187,182	40,710
Restricted cash	155,517	259,779	504,978	180,000
Borrowings – repayable				
within one year	(187,494)	(2,096,048)	(294,434)	(883,648)
Borrowings – repayable				
after one year	(1,664,252)	–	(1,805,789)	(854,750)
Loans due to related				
parties	–	–	(85,884)	(145,104)
Dividend payable	(931)	(827)	(1,979)	(3,347)
	<u>(1,429,534)</u>	<u>(1,612,280)</u>	<u>(1,495,926)</u>	<u>(1,666,139)</u>
Cash at bank	423,143	484,595	692,160	220,710
Borrowings – fixed				
interest rates	(1,471,405)	(1,566,903)	(1,944,246)	(1,883,502)
Borrowings – variable				
interest rates	(380,341)	(529,145)	(241,861)	–
Dividend payable	(931)	(827)	(1,979)	(3,347)
	<u>(1,429,534)</u>	<u>(1,612,280)</u>	<u>(1,495,926)</u>	<u>(1,666,139)</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

	Other assets		Liabilities from financing activities				Total RMB'000
	Cash and cash equivalents RMB'000	Restricted cash RMB'000	Borrowings due within 1 year RMB'000	Borrowings due after 1 year RMB'000	Loan due to a related party RMB'000	Dividend payable RMB'000	
As at 1 January 2017	111,161	238,817	(191,279)	(1,827,765)	(35,000)	(1,029)	(1,705,095)
Cash flows	157,966	(83,300)	(3,791)	90,000	35,000	98	195,973
Foreign exchange adjustments	(1,501)	-	14,042	90,115	-	-	102,656
Amortisation of transaction costs of the bank borrowings	-	-	(1,930)	(21,138)	-	-	(23,068)
Reclassification	-	-	(4,536)	4,536	-	-	-
As at 31 December 2017 and 1 January 2018	267,626	155,517	(187,494)	(1,664,252)	-	(931)	(1,429,534)
Cash flows	(48,841)	104,262	(128,781)	-	-	104	(73,256)
Foreign exchange adjustments	6,031	-	(18,650)	(74,787)	-	-	(87,406)
Amortization of transaction cost of the bank borrowings	-	-	(1,372)	(20,712)	-	-	(22,084)
Reclassification	-	-	(1,759,751)	1,759,751	-	-	-
As at 31 December 2018 and 1 January 2019	224,816	259,779	(2,096,048)	-	-	(827)	(1,612,280)
Cash flows	(40,525)	245,199	1,875,701	(1,822,788)	(85,884)	4,441	176,144
Dividend declared	-	-	-	-	-	(5,593)	(5,593)
Foreign exchange adjustments	2,891	-	(9,287)	(26,293)	-	-	(32,689)
Amortization of transaction cost of the bank borrowings	-	-	(12,227)	(9,281)	-	-	(21,508)
Reclassification	-	-	(52,573)	52,573	-	-	-
As at 31 December 2019 and 1 January 2020	187,182	504,978	(294,434)	(1,805,789)	(85,884)	(1,979)	(1,495,926)
Cash flows	(144,825)	(324,978)	(489,195)	915,603	(60,000)	-	(103,395)
Dividend declared	-	-	-	-	-	(1,368)	(1,368)
Foreign exchange adjustments	(1,647)	-	(5,532)	(11,276)	780	-	(17,675)
Amortization of transaction cost of the bank borrowings	-	-	(34,065)	(13,710)	-	-	(47,775)
Reclassification	-	-	(60,422)	60,422	-	-	-
As at 30 November 2020	40,710	180,000	(883,648)	(854,750)	(145,104)	(3,347)	(1,666,139)

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

25 Commitments

Capital commitments

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020
In respect of investment properties, contracted but not provided for	348	185	2,462	1,892

26 Related party transactions and balances

In addition to the transactions and balances detailed elsewhere in this report, the Target Group had the following material transactions with related parties during the Track Record Period:

(a) Nature of relationship with related parties

Related party	Relationship with the Target Group
Chen Miaolin	Significant unitholder of New Century REIT
Jin Wenjie	Chairman and non-executive director of Manager ("Director")
Zhang Guanming	Director
Huge Harvest International Limited	Significant holder of New Century REIT
New Century REIT	Shareholder of the Company
New Century Tourism Group Limited	Associated corporation of significant holders of New Century REIT and Director
Hangzhou New Century Real Estate Group Limited	Associated corporation of significant holders of New Century REIT and Director
Hangzhou New Century Zhijiang Cleaning Chain Limited (i)	Associated corporation of significant holders of New Century REIT and Director
Hangzhou New Century Decorating Limited	Associated corporation of significant holders of New Century REIT

APPENDIX IIA ACCOUNTANT’S REPORT ON THE TARGET GROUP

Related party	Relationship with the Target Group
Hangzhou New Century Senbo Tourism Investment Limited	Associated corporation of significant holders of New Century REIT and Director
Zhejiang New Century Hotel Management Co., Ltd. and other members of its group (the “Hotel Group”)	Associated corporation of significant holder of New Century REIT
New Century Grand Hotel Kaifeng Business Company Limited	Associated corporation of significant holder of New Century REIT
Strong Tower	Subsidiary of New Century REIT
New Century Europe I S.à.r.l.	Subsidiary of New Century REIT
New Century REIT Hong Kong I	Subsidiary of New Century REIT
New Century Netherlands I B.V.	Subsidiary of New Century REIT till 28 November 2019
Shanghai Songjiang Hui Wei Asset Management Limited (ii)	Subsidiary of New Century REIT
Full Wise Industrial Limited	Subsidiary of New Century REIT
Hangzhou New Century International Tourism Limited	Associated corporation of significant holders of New Century REIT and Director
(i)	On 14 August 2019, Hangzhou New Century Zhijiang Cleaning Chain Limited ceased to be a connected and related party of the Target Group.
(ii)	Shanghai Songjiang Hui Wei Asset Management Limited was a related party of the Target Group before June 2017 and after December 2019.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

(b) Transactions with related parties

Rental income received/receivable from:

	Year ended 31 December			Eleven months ended	
	2017	2018	2019	30 November	2020
	RMB'000	RMB'000	RMB'000	2019	2020
				(Unaudited)	
The Hotel Group (i)	219,296	226,569	204,106	186,853	165,503
New Century Grand Hotel					
Kaifeng Business					
Company Limited	22,000	22,183	22,000	20,132	16,891
New Century Tourism Group					
Limited	1,999	1,999	1,999	1,924	1,640
Hangzhou New Century Real					
Estate Group Limited	1,861	1,861	1,861	1,791	1,515
Hangzhou New Century					
Senbo Tourism					
Investment Limited	361	361	361	347	369
Hangzhou New Century					
Decorating Limited	133	122	122	112	112
Hangzhou New Century					
Zhijiang Cleaning Chain					
Limited	122	133	82	75	-
Hangzhou New Century					
International Tourism					
Limited	210	-	-	-	-
	<u>245,982</u>	<u>253,228</u>	<u>230,531</u>	<u>211,234</u>	<u>186,030</u>

(i) The net rental income from the Hotel Group for the eleven months ended 30 November 2020 amounted to RMB159,123,000 which was calculated by gross rental income of RMB165,503,000 netting of value-added taxes of RMB6,380,000.

The net rental income from the Hotel Group for the eleven months ended 30 November 2019 amounted to RMB 179,647,000 which was calculated by gross rental income of RMB186,853,000 netting of value-added taxes of RMB7,206,000.

The net rental income from the Hotel Group for the year ended 31 December 2019 amounted to RMB 196,235,000 which was calculated by gross rental income of RMB204,106,000 netting of value-added taxes of RMB7,871,000.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

The net rental income from the Hotel Group for the year ended 31 December 2018 amounted to RMB 217,837,000 which was calculated by gross rental income of RMB226,569,000 netting of value-added taxes of RMB8,732,000.

The net rental income from the Hotel Group for the year ended 31 December 2017 amounted to RMB 210,851,000 which was calculated by gross rental income of RMB219,296,000 netting of value-added taxes of RMB8,445,000.

Rental deposit received from/(refund to):

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
The Hotel Group	469	109	(2)	(2)	77
Hangzhou New Century Senbo Tourism Investment Limited	<u>67</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>536</u>	<u>109</u>	<u>(2)</u>	<u>(2)</u>	<u>77</u>

Other related party transactions:

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Management fee to the Manager (a)	24,233	24,703	23,424	21,754	18,525
Interest expense paid to Shanghai Songjiang Hui Wei Asset Management Limited	603	-	-	-	-
Interest income received from New Century Netherlands I B.V.	<u>-</u>	<u>-</u>	<u>(2,613)</u>	<u>(2,523)</u>	<u>-</u>
	<u>24,836</u>	<u>24,703</u>	<u>20,811</u>	<u>19,231</u>	<u>18,525</u>

APPENDIX IIA ACCOUNTANT’S REPORT ON THE TARGET GROUP

(a) The Target Group was charged a management fee from the Manager for its services as asset manager every half year, which is the aggregate of:

- a base fee (the “Base Fee”) of 0.3% per annum of the value of the deposited property as at each balance sheet date; and
- a variable fee (the “Variable Fee”) of 4% per annum of net property income, which is defined in the Trust Deed for each of the year.

(c) ***Balances with related parties***

Trade receivables due from:

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2020</i>
				<i>RMB'000</i>
The Hotel Group	19,920	21,148	28,689	60,105
New Century Grand Hotel Kaifeng Business Company Limited	<u>1,833</u>	<u>1,351</u>	<u>2,113</u>	<u>7,872</u>
	<u>21,753</u>	<u>22,499</u>	<u>30,802</u>	<u>67,977</u>

As at 31 December 2017, 2018, 2019 and 30 November 2020, all the trade receivables due from related parties were pledged as collateral for the Target Group’s bank borrowings (Note 19).

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

Other receivables due from:

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020 <i>RMB'000</i>
New Century Europe I S.à.r.l.	1,092	1,185	13,083	8,938
New Century REIT	–	–	–	244
The Manager	29	35	34	34
New Century REIT Hong Kong I	255	483	–	–
New Century Netherlands I B.V.	–	2	–	–
Huge Harvest International Limited	278	–	–	–
	<u>1,654</u>	<u>1,705</u>	<u>13,117</u>	<u>9,216</u>

Trade payables due to:

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020 <i>RMB'000</i>
Hangzhou New Century Decorating Limited	11	–	–	–

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

Advances from customers:

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
The Hotel Group	316	163	155	5
New Century Tourism Group Limited	–	167	148	141
Hangzhou New Century Real Estate Group Limited	155	155	138	138
Hangzhou New Century Senbo Tourism Investment Limited	30	30	27	–
Hangzhou New Century Decorating Limited	10	10	10	10
Hangzhou New Century Zhijiang Cleaning Chain Limited	11	11	–	–
Hangzhou New Century International Tourism Limited	20	–	–	–
	<u>542</u>	<u>536</u>	<u>478</u>	<u>294</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

Other payables due to:

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Strong Tower Global (i)	119,603	99,042	220,556	213,816
Full Wise Industrial Limited (i)	–	–	82,347	84,735
New Century Grand Hotel Kaifeng Business Company Limited (ii)	22,000	22,000	22,000	22,000
The Hotel Group (ii)	20,916	21,028	21,026	21,059
The Manager	12,452	12,447	11,675	8,630
New Century REIT Hong Kong I	–	–	3,574	3,122
New Century Tourism Group Limited	466	466	466	466
Hangzhou New Century Real Estate Group Limited	434	434	434	413
Hangzhou New Century Senbo Tourism Investment Limited	67	67	67	67
Hangzhou New Century Decorating Limited	31	31	31	31
Hangzhou New Century Zhijiang Cleaning Chain Limited	34	34	–	–
Hangzhou New Century International Tourism Limited	65	–	–	–
	<u>176,068</u>	<u>155,549</u>	<u>362,176</u>	<u>354,339</u>

(i) The balances mainly represented the interest-free payables provided by Strong Tower Global Limited and Full Wise Industrial Limited.

(ii) The balances mainly represented the rental deposits of RMB22,000,000 and RMB20,000,000 due to New Century Grand Hotel Kaifeng Business Company Limited and the Hotel Group.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

Loans due to related parties:

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020
New Century REIT (iii)	-	-	85,884	85,104
Huge Harvest International Limited				
(iv)	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,000</u>
	<u>-</u>	<u>-</u>	<u>85,884</u>	<u>145,104</u>

(iii) The balance represented the unsecured interest free loans provided by New Century REIT as at 31 December 2019 and 30 November 2020, with the original amount of EUR11,000,000.

(iv) The balances mainly represented the unsecured loans due to Huge Harvest International Limited, with the total amount of RMB60,000,000 and interest rate of 3.4% per annum.

(d) Key management compensation

During the Track Record Period, there was no key management compensation for the Target Group.

(e) Director's emoluments

No directors' emoluments were paid or payable by the Target Group during the Track Record Period.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

27 Subsidiaries

Particulars of the principal subsidiaries during the Track Record Period were as follows:

Name	Date of incorporation and type of legal entity (for China subsidiaries)	Issued and paid up capital/registered capital RMB	Effective interests held by the Target Group as at (%)					Principal activities and place of operations
			31 Dec 2017	31 Dec 2018	31 Dec 2019	30 Nov 2020	the report date	
Incorporated in the China:								
浙江開元酒店投資管理集團有限公司 (Zhejiang New Century Hotel Investment & Management Group Limited)	30 November 2001, limited liability company	111,000,000	100%	100%	100%	100%	100%	Investment holding and hotel properties leasing in China
浙江銳至投資股份有限公司 (Zhejiang Spearhead Investment Limited)	8 September 1994, limited liability company	102,571,739	95.46%	95.46%	95.46%	95.46%	95.46%	Hotel properties leasing in China
寧波開元銳至投資有限公司 (Ningbo New Century Spearhead Investment Limited)	1 December 2004, limited liability company	170,488,723	100%	100%	100%	100%	100%	Hotel properties leasing in China
長春開元銳至投資管理有限公司 (Changchun New Century Spearhead Investment and Management Limited)	13 November 2007, limited liability company	120,000,000	100%	100%	100%	100%	100%	Hotel properties leasing in China
淳安千島湖開元銳至投資有限公司 (Chun'an Qiandao Lake New Century Spearhead Investment Limited)	15 January 2001, limited liability company	30,000,000	100%	100%	100%	100%	100%	Hotel properties leasing in China
開封開元名都大酒店有限公司 (Kaifeng New Century Grand Hotel Limited)	25 December 2013, limited liability company	50,000,000	100%	100%	100%	100%	100%	Hotel properties leasing services in China
Incorporated in Hong Kong:								
Spearhead Investments Limited	25 March 2013	1 ordinary share of HK\$1 each	100%	100%	100%	100%	100%	Investment holding in Hong Kong
Sky Town Investments Limited	22 May 2007	438,334,995 ordinary shares of HK\$1 each	100%	100%	100%	100%	100%	Investment holding in Hong Kong

APPENDIX IIA ACCOUNTANT'S REPORT ON THE TARGET GROUP

28 Future minimum rental receivables

As at 31 December 2017, 2018, 2019 and 30 November 2020, the Target Group had future minimum rental receivables under non-cancellable leases as follow:

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Within one year	258,017	240,233	236,544	220,610
Between one year and five years	878,090	754,422	577,301	419,457
Over five years	<u>154,717</u>	<u>35,032</u>	<u>33,727</u>	<u>33,553</u>
	<u>1,290,824</u>	<u>1,029,687</u>	<u>847,572</u>	<u>673,620</u>

29 Event occurring after the balance sheet date

On 27 January 2021, New Century REIT announced that on 26 January 2021, DB Trustees (Hong Kong) Limited (in its capacity as the trustee of New Century REIT, and as the seller) and New Century Assets Manager (as the manager of New Century REIT) have respectively entered into a sale and purchase agreement for the disposal of the Target Company and its outstanding loan due to New Century REIT (the "Proposed Disposal") after the reorganisation (the "Reorganisation") to Huge Harvest International Limited (as the purchaser) for a consideration of approximately HK\$1,921,018,274. The Reorganisation involved the acquisitions of all issued shares in the share capital of each of Strong Tower and New Century REIT Hong Kong I by the Target Company prior to the completion of the Proposed Disposal. The Proposed Disposal is subject to the approval of the independent unitholders of New Century REIT at the extraordinary general meeting.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of its subsidiaries in respect of any period subsequent to 30 November 2020 and up to the date of this report. Save as disclosed in this report, no dividend had been declared, made or paid by the Target Company or any of its subsidiaries in respect of any period subsequent to 30 November 2020.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

The following is the text of a report set out on pages IIB-1 to IIB-4, received from the New Century REIT's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular. It is prepared and addressed to the directors of New Century Asset Management Limited (as the "Manager" of New Century Real Estate Investment Trust) with reference to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION OF STRONG TOWER GLOBAL LIMITED TO THE DIRECTORS OF NEW CENTURY ASSET MANAGEMENT LIMITED (AS THE MANAGER OF NEW CENTURY REAL ESTATE INVESTMENT TRUST)

Introduction

We report on the historical financial information of Strong Tower Global Limited ("Strong Tower") and its subsidiaries (together, the "Strong Tower Group") set out on pages IIB-5 to IIB-49, which comprises the company and consolidated balance sheets as at 31 December 2017, 2018 and 2019 and 30 November 2020, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2017, 2018 and 2019 and the eleven months ended 30 November 2020 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages IIB-5 to IIB-49 forms an integral part of this report, which has been prepared for inclusion in the circular of New Century Real Estate Investment Trust (the "New Century REIT") dated 19 March 2021 (the "Circular") in connection with the proposed very substantial disposal of all issued shares in the share capital of Spearhead Global Limited.

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APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

Directors' responsibility for the Historical Financial Information

The directors of New Century Asset Management Limited (the "Manager") are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Notes 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Notes 2.1 to the Historical Financial Information in order to design 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. Our work also included 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 Historical Financial Information.

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

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of Strong Tower as at 31 December 2017, 2018, 2019 and 30 November 2020 and the consolidated financial position of Strong Tower Group as at 31 December 2017, 2018 and 2019 and 30 November 2020 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Notes 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Strong Tower Group which comprises the consolidated statements of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the eleven months ended 30 November 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Manager are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Notes 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the International Auditing and Assurance Standards Board ("IAASB"). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Notes 2.1 to the Historical Financial Information.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited**Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page IIB-5 have been made.

PricewaterhouseCoopers*Certified Public Accountants*

Hong Kong, 19 March 2021

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

I HISTORICAL FINANCIAL INFORMATION OF THE STRONG TOWER GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The consolidated financial statements of the Strong Tower Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers Zhong Tian LLP in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("IAASB") ("Underlying Financial Statements").

The Historical Financial Information is presented in thousand Renminbi ("RMB'000") except when otherwise indicated.

Consolidated Statements of Comprehensive Income

	Note	Year ended 31 December			Eleven months ended	
		2017	2018	2019	30 November	2020
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note*)			(Unaudited)	
Revenue	5	22,287	-	-	-	-
Operating expenses	6	(10,728)	(364)	(86)	(82)	(68)
Other gains/(losses) – net	7	<u>37,337</u>	<u>(20,712)</u>	<u>3,100</u>	<u>3,601</u>	<u>(4,355)</u>
Operating profit/(loss)		48,896	(21,076)	3,014	3,519	(4,423)
Finance income	8	12,350	10,307	5,508	5,273	-
Finance costs	8	<u>(11,911)</u>	<u>(389)</u>	<u>(1,003)</u>	<u>(990)</u>	<u>(96)</u>
Finance income/(costs) – net	8	<u>439</u>	<u>9,918</u>	<u>4,505</u>	<u>4,283</u>	<u>(96)</u>
Profit/(loss) before taxation		49,335	(11,158)	7,519	7,802	(4,519)
Income tax (expenses)/credit	9	<u>(46,793)</u>	<u>1,900</u>	<u>-</u>	<u>-</u>	<u>-</u>
Profit/(loss) after taxation for the year/period		<u>2,542</u>	<u>(9,258)</u>	<u>7,519</u>	<u>7,802</u>	<u>(4,519)</u>
Other comprehensive income for the year/period		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

	Year ended 31 December			Eleven months ended	
	2017	2018	2019	30 November	2020
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(<i>Note*</i>)			(Unaudited)	
Total comprehensive income/(loss) for the year/period	<u>2,542</u>	<u>(9,258)</u>	<u>7,519</u>	<u>7,802</u>	<u>(4,519)</u>

*Note**: the Strong Tower Group disposed Lishui Full Wise Hotel Management Limited together with its subsidiary (the "Lishui Disposal Group") with effect from 1 June 2017 (Note 15). As a result, the operating result of Lishui Disposal Group met the definition of a discontinued operation. The profit after taxation of the Lishui Disposal Group for the year ended 31 December 2017 was RMB16,483,000.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

Consolidated Balance Sheets

		As at 31 December			As at
	Note	2017	2018	2019	30 November
		RMB'000	RMB'000	RMB'000	2020
					RMB'000
Non-current assets					
Loan due from a related party	17(c)	107,390	107,390	–	–
Current assets					
Other receivables	10	120	377	–	–
Amounts due from related parties	17(c)	122,140	100,501	302,903	298,551
Cash and cash equivalents	11	77,209	89,086	1,748	1,622
		<u>199,469</u>	<u>189,964</u>	<u>304,651</u>	<u>300,173</u>
Total assets		<u>306,859</u>	<u>297,354</u>	<u>304,651</u>	<u>300,173</u>
Current liabilities					
Other payables	12	32	163	201	244
Amounts due to related parties	17(c)	642	264	4	2
Total current and total liabilities		<u>674</u>	<u>427</u>	<u>205</u>	<u>246</u>
Equity attributable to equity holders					
Share capital	13	61	61	61	61
Other reserves	14	(125,284)	(125,284)	(125,284)	(125,284)
Retained earnings		431,408	422,150	429,669	425,150
Total equity		<u>306,185</u>	<u>296,927</u>	<u>304,446</u>	<u>299,927</u>
Total equity and liabilities		<u>306,859</u>	<u>297,354</u>	<u>304,651</u>	<u>300,173</u>
Net current assets		<u>198,795</u>	<u>189,537</u>	<u>304,446</u>	<u>299,927</u>
Total assets less current liabilities		<u>306,185</u>	<u>296,927</u>	<u>304,446</u>	<u>299,927</u>

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

Company Balance Sheets

	Note	As at 31 December			As at
		2017	2018	2019	30 November
		RMB'000	RMB'000	RMB'000	2020
					RMB'000
Non-current assets					
Loan due from a related party		107,390	107,390	–	–
Investment in a subsidiary	18	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>
		<u>107,398</u>	<u>107,398</u>	<u>8</u>	<u>8</u>
Current assets					
Other receivables		–	25	–	–
Amounts due from related parties		122,140	100,501	220,556	213,816
Cash and cash equivalents		<u>363</u>	<u>7,172</u>	<u>408</u>	<u>384</u>
		<u>122,503</u>	<u>107,698</u>	<u>220,964</u>	<u>214,200</u>
Total assets		<u><u>229,901</u></u>	<u><u>215,096</u></u>	<u><u>220,972</u></u>	<u><u>214,208</u></u>
Current liabilities					
Other payables		<u>631</u>	<u>1,117</u>	<u>894</u>	<u>945</u>
Equity					
Share capital		61	61	61	61
Retained earnings		<u>229,209</u>	<u>213,918</u>	<u>220,017</u>	<u>213,202</u>
Total equity		<u><u>229,270</u></u>	<u><u>213,979</u></u>	<u><u>220,078</u></u>	<u><u>213,263</u></u>
Total equity and liabilities		<u><u>229,901</u></u>	<u><u>215,096</u></u>	<u><u>220,972</u></u>	<u><u>214,208</u></u>
Net current assets		<u><u>121,872</u></u>	<u><u>106,581</u></u>	<u><u>220,070</u></u>	<u><u>213,255</u></u>
Total assets less current liabilities		<u><u>229,270</u></u>	<u><u>213,979</u></u>	<u><u>220,078</u></u>	<u><u>213,263</u></u>

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

Consolidated Statements of Changes in Equity

	Capital and reserves attributable to equity holders			
	Share capital	Other	Retained	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2017	61	(125,284)	428,866	303,643
Profit for the year	<u>–</u>	<u>–</u>	<u>2,542</u>	<u>2,542</u>
As at 31 December 2017	<u><u>61</u></u>	<u><u>(125,284)</u></u>	<u><u>431,408</u></u>	<u><u>306,185</u></u>
As at 1 January 2018	61	(125,284)	431,408	306,185
Loss for the year	<u>–</u>	<u>–</u>	<u>(9,258)</u>	<u>(9,258)</u>
As at 31 December 2018	<u><u>61</u></u>	<u><u>(125,284)</u></u>	<u><u>422,150</u></u>	<u><u>296,927</u></u>
As at 1 January 2019	61	(125,284)	422,150	296,927
Profit for the year	<u>–</u>	<u>–</u>	<u>7,519</u>	<u>7,519</u>
As at 31 December 2019	<u><u>61</u></u>	<u><u>(125,284)</u></u>	<u><u>429,669</u></u>	<u><u>304,446</u></u>
(unaudited)				
As at 1 January 2019	61	(125,284)	422,150	296,927
Profit for the period	<u>–</u>	<u>–</u>	<u>7,802</u>	<u>7,802</u>
As at 30 November 2019	<u><u>61</u></u>	<u><u>(125,284)</u></u>	<u><u>429,952</u></u>	<u><u>304,729</u></u>
As at 1 January 2020	61	(125,284)	429,669	304,446
Loss for the period	<u>–</u>	<u>–</u>	<u>(4,519)</u>	<u>(4,519)</u>
As at 30 November 2020	<u><u>61</u></u>	<u><u>(125,284)</u></u>	<u><u>425,150</u></u>	<u><u>299,927</u></u>

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

Consolidated Statements of Cash Flows

	Note	Year ended 31 December			Eleven months ended 30 November	
		2017	2018	2019	2019	2020
		RMB'000 (Note*)	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cash flow (used in)/from operating activities						
Cash (used in)/generated from operations	16	(263,898)	409	(139,877)	(86,335)	(30)
Interest paid		(10,761)	-	-	-	-
Income tax (paid)/received		(10,724)	1,900	-	-	-
Net cash (used in)/generated from operating activities		<u>(285,383)</u>	<u>2,309</u>	<u>(139,877)</u>	<u>(86,335)</u>	<u>(30)</u>
Cash flow from investing activities						
Loan to a related party		(107,390)	-	-	-	-
Proceeds of loan from related party		-	-	52,264	-	-
Proceeds from disposal of subsidiaries		781,759	-	-	-	-
Interest income received from related parties		3,140	6,867	1,278	-	-
Net cash from investing activities		<u>677,509</u>	<u>6,867</u>	<u>53,542</u>	<u>-</u>	<u>-</u>
Cash flows used in financing activities						
Repayment of borrowings		(406,464)	-	-	-	-
Changes of restricted cash pledged for borrowings		12,066	-	-	-	-
Net cash used in financing activities		<u>(394,398)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net (decrease)/increase in cash and cash equivalents						
Cash and cash equivalents at beginning of the year/period	11	81,298	77,209	89,086	89,086	1,748
Exchange (losses)/gains on cash and cash equivalents		(1,817)	2,701	(1,003)	(990)	(96)
Cash and cash equivalents at end of the year/period	11	<u><u>77,209</u></u>	<u><u>89,086</u></u>	<u><u>1,748</u></u>	<u><u>1,761</u></u>	<u><u>1,622</u></u>

Note*: for the year ended 31 December 2017, the cash flow from operating activities, net cash generated from investing activities and net cash used in financing activities of the Lishui Disposal Group is RMB10,712,000, RMB447,000 and RMB38,000,000 respectively.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1 General information**

Strong Tower Global Limited (“Strong Tower”) was incorporated in British Virgin Islands on 13 January 2014 as a limited liability company under the Company Law of British Virgin Islands. The address of Strong Tower’s registered office is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

Prior to the incorporation of Strong Tower and the completion of the reorganisation as described below (the “Reorganisation”), Shanghai Songjiang Shengyang Real Estate Co., Ltd. (上海松江晟陽房地產有限公司, “Songjiang Shengyang”), a limited liability company established in the People’s Republic of China (“PRC”) on 17 April 2013, was engaged in leasing (the “Leasing Business”) of the hotel properties of Songjiang New Century Grand Hotel Shanghai (the “Shanghai Hotel”). The Shanghai Hotel was leased to and operated by Shanghai Songjiang New Century Grand Hotel Limited (上海松江開元名都大酒店有限公司), Songjiang Shengyang and Shanghai Songjiang New Century Grand Hotel Limited are both ultimately owned and controlled by Mr. Chen Miaolin, Mr. Chen Canrong, Mr. Kong Weiliang and Mr. Zhang Guanming (collectively, the “Controlling Shareholders”).

Strong Tower and its subsidiaries (collectively, the “Strong Tower Group”) were owned by Mr. Liang Wei-Chieh, a close family member of one of the Controlling Shareholders and ultimately controlled by the Controlling Shareholders. The Strong Tower Group underwent the Reorganisation which principally involved the following:

- In August 2013, Shanghai Songjiang Huiwei Property Management Co., Ltd. (上海松江輝維資產管理有限公司, “Songjiang Huiwei”), which was established by Mr. Liang Wei-Chieh, acquired the Leasing Business from Songjiang Shengyang for a consideration of RMB463,860,000, tax inclusive.
- In April 2014, Strong Tower acquired all equity interest in Songjiang Huiwei via its subsidiary for a consideration of HK\$ 10,000. Thereafter, Strong Tower became the holding company of the companies now comprising the Strong Tower Group.
- On 31 July 2014, the entire interest of Strong Tower was acquired by New Century Real Estate Investment Trust (“New Century REIT”), a Hong Kong collective investment scheme constituted as a unit trust authorised under section 104 of the Securities and Futures Ordinance and was established under the trust deed made between the New Century Asset Management Limited (the “Manager”) and DB Trustees (Hong Kong) Limited (the “Trustee”), and was listed on the Stock Exchange of Hong Kong Limited on 10 July 2013. The purchase consideration for the acquisition was RMB235,611,000. Thereafter, New Century REIT became the holding entity of the Company.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

With effect from 1 June 2017 (the “Lishui Disposal Date”), the Strong Tower Group disposed the entire registered capital of Lishui Full Wise Hotel Management Limited, together with its subsidiary, which owns the Shanghai Hotel.

The names of the Company's subsidiaries are set out in Note 18. The English names of the subsidiaries incorporated in the PRC disclosed therein represent management's best efforts in translating the Chinese names of the companies as no English names have been registered.

The Historical Financial Information is presented in thousand Renminbi (“RMB'000”), unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to the Track Record Period presented, except the changes in accounting policies as disclosed in Note 2.1.1.

2.1 Basis of preparation

The Historical Financial Information of the Strong Tower Group has been prepared in accordance with all applicable International Financial Reporting Standards (“IFRS”) issued by International Accounting Standards Board (“IASB”). The Strong Tower Group has adopted IFRS 9, “Financial Instruments” and IFRS 15, “Revenue from contracts with customers” for reporting period beginning on or after 1 January 2018, and IFRS 16, “Leases” for the reporting period beginning on or after 1 January 2019.

The Historical Financial Information of the Strong Tower Group has been prepared under the historical cost convention, as modified by the revaluation of investment properties and derivative financial instruments, which are carried at fair value.

The preparation of the Historical Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Strong Tower Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

2.1.1 Changes in accounting policies

There had a number of new or revised IFRS which are relevant to the Strong Tower Group and became effective during the respective year. Changes in accounting policies of application on IFRS 9, IFRS 15 and IFRS 16 are set out below. Impacts resulting from the adoption of these new standards on the performance results and financial position of the Strong Tower Group is not significant.

(i) IFRS 9, "Financial instruments"

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairments of financial assets and hedging accounting.

IFRS 9 is effective for reporting periods beginning on or after 1 January 2018 and the Strong Tower Group have applied the standard from its mandatory adoption date of 1 January 2018. The new accounting policies are set out in Note 2.6 below. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), the cumulative impact of the adoption (if any) will be recognised in retained earnings as at 1 January 2018 and that the comparatives will not be restated.

The financial instruments of the Strong Tower Group includes cash and cash equivalents, other receivables, amounts due from related parties, loan due from a related party, amount due to related parties, other payables. The majority loan and receivables are due from related parties and the expected credit losses of such loan and receivables were insignificant.

(a) Classification and measurement

	Measurement category		Carrying amount		
	Original (IAS 39)	New (IFRS 9)	Original	New	Difference
Amounts due from related parties	Loan and receivables	Financial assets at amortised cost	122,140	122,140	-
Loan due from a related party	Loan and receivables	Financial assets at amortised cost	107,390	107,390	-

(b) Impairment of financial assets

The Strong Tower Group has other receivables (excluding prepayments), amounts due from related parties and loan due from a related party that are subject to IFRS 9's new expected credit loss model, and the Strong Tower Group was required to revise its impairment

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

methodology under IFRS 9 for these receivables. The Strong Tower Group assessed the transition to IFRS 9 for these receivables as a result of applying the new expected credit loss model was insignificant.

(ii) *IFRS 15, "Revenue from contracts with customers"*

The Strong Tower Group does not expect the new guidance to have impact on the recognition of revenue as the nature of the Strong Tower Group's business is investment holding. IFRS 15 is not applicable.

(iii) *IFRS 16, "Leases"*

IFRS 16, "Leases" provides updated guidance on the definition of leases, and the guidance on the combination and separation of contracts. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 requires lessees to recognise lease liability reflecting future lease payments and a "right-of-use-asset" for almost all lease contracts, with an exemption for certain short-term leases and leases of low value assets. The lessors accounting stays almost the same as under IAS 17 "Leases", and lessors should provide additional disclosures and information which allows users of the financial statements to assess the effect that leases have on the lessors' financial position, financial performance and cash flows:

- the nature of the entity's leasing activities;
- the management of the risks associated with any rights retained in the underlying assets;
- lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate;
- maturity analysis of lease payments for a minimum of each of the first five years plus a total amount for the remaining years;
- where applicable, the disclosure required by IAS 36, IAS 38, IAS 40 and IAS 41, etc.

IFRS 16 is effective for reporting periods beginning on or after 1 January 2019 and the Strong Tower Group has applied the standard from its mandatory adoption date of 1 January 2019. Since the nature of the Strong Tower Group's business is investment holding, IFRS 16 is not applicable for the Strong Tower Group.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

2.1.2 New standards and amendments of IFRS issued but are not yet effective for the financial year beginning on 1 January 2020 and have not been early adopted by the Strong Tower Group:

		Effective for annual periods beginning on or after
IFRS 17	Insurance contracts	1 January 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2022
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRS Standards 2018-2020		1 January 2022
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	Not applicable

The Strong Tower Group has assessed the impact of adopting this new standard. According to the preliminary assessment, this standard is not expected to have a material impact on the Strong Tower Group's operating results and financial position.

2.2 Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Strong Tower Group has control. The Strong Tower Group controls an entity when the Strong Tower Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Strong Tower Group. They are deconsolidated from the date that control ceases.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

(a) Business Combinations

The Strong Tower Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Strong Tower Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Strong Tower Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in the consolidated statement of comprehensive income.

Any contingent consideration to be transferred by the Strong Tower Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in the consolidated statements of comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statements of comprehensive income.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

Intra-company transactions, balances and unrealised gains on transactions between the Strong Tower Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Strong Tower Group's accounting policies.

(b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) *Disposal of subsidiaries*

When the Strong Tower Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in consolidated statement of comprehensive income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Strong Tower Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to consolidated statement of comprehensive income or transferred to another category of equity as specified/permitted by applicable IFRS.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior executive management who makes strategic decisions. During the Track Record Period, the Strong Tower Group only have one segment.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Strong Tower Group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The Historical Financial Information are presented in RMB, which is the Strong Tower Group’s functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 recognised in the consolidated statements of comprehensive income, except when deferred in OCI as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statements of comprehensive income within “finance income or finance costs”. All other foreign exchange gains and losses are presented in the consolidated statements of comprehensive income within “Other (losses)/gains – net”.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the consolidated statements of comprehensive income as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as fair value through other comprehensive income (“FVOCI”) are recognised in other comprehensive income.

(c) Group companies

The results and financial position of all the Strong Tower Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each consolidated statements of comprehensive income 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 rate on the dates of the transactions); and
- (iii) all resulting currency translation differences are recognised in OCI.

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. Currency translation differences arising are recognised in OCI.

2.5 Investment property

Investment property, principally comprising freehold land, buildings and related equipment, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Strong Tower Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Strong Tower Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the consolidated statements of comprehensive income.

2.6 Financial assets

2.6.1 Classification

From 1 January 2020, the Strong Tower Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (“OCI”) or through profit or loss);
- those to be measured at amortised cost.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Strong Tower Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (“FVOCI”).

The Strong Tower Group reclassifies debt instruments investments when and only when its business model for managing those assets changes.

2.6.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Strong Tower Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Strong Tower Group has transferred substantially all the risks and rewards of ownership.

2.6.3 Measurement

At initial recognition, the Strong Tower Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVPL”), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

(a) *Debt instruments*

Subsequent measurement of debt instruments depends on the Strong Tower Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Strong Tower Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other (losses)/gains. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other (losses)/gains and impairment expenses are presented as separate line item in the consolidated statement of comprehensive income.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

(b) *Equity instruments*

The Strong Tower Group subsequently measures all equity investments at fair value. Where the Strong Tower Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Strong Tower Group's right to receive payments is established.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.6.4 Impairment

From 1 January 2018, the Strong Tower Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Strong Tower Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, the identified impairment loss was immaterial, while cash and cash equivalents are also subject to the impairment requirements of IFRS 9 and the identified loss was immaterial.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.6.5 Accounting policies applied until 31 December 2017

The Strong Tower Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Strong Tower Group's previous accounting policy.

(a) Classification

Until 31 December 2017, the Strong Tower Group classified its financial assets in the following categories:

- financial assets at FVPL; and
- loans and receivables

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

(i) Financial assets at FVPL

Financial assets at FVPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(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 the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Strong Tower Group's loans and receivables comprise "other receivables" and "cash and cash equivalents" in the balance sheet (Notes 2.9 and 2.10).

(b) *Recognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade date – the date on which the Strong Tower Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at FVPL. Financial assets carried at FVPL are initially recognised at fair value, and transaction costs are expensed in the consolidated statements of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Strong Tower Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at FVPL are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at FVPL' category are presented in the consolidated statements of comprehensive income within "Other (losses)/gains – net" in the period in which they arise. Dividend income from financial assets at FVPL is recognised in the consolidated statements of comprehensive income as part of other income when the Strong Tower Group's right to receive payments is established.

(c) *Impairment*

Assets carried at amortised cost

The Strong Tower Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Strong Tower Group could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

2.7 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.8 Derivatives financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

During the Track Record Period, the Strong Tower Group did not designate any derivatives as hedging instruments.

2.9 Other receivables

Other receivables mainly represent amount due from related parties. If collection of other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value and subsequently measured at amortised cost using the effective interest method. See Note 2.6.4 for the Company's impairment policies.

2.10 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less.

2.11 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.

2.12 Other payables

Other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.13 Borrowings and borrowing cost

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Strong Tower Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period

Borrowings are classified as current liabilities if the loan agreements include an overriding repayment on demand clause, which gives the lender the right to demand repayment at any time at their sole discretion, irrespective of whether a default event has occurred and notwithstanding any other terms and maturity stated in the loan agreement.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

All other borrowing costs are recognised in the consolidated statements of comprehensive income in the period in which they are incurred.

2.14 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statements of comprehensive income, except to the extent that it relates to items recognised in OCI or directly in equity. In this case the tax is also recognised in OCI or directly in equity, respectively.

(a) Current income tax

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 jurisdictions where the Strong Tower Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

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 financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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 end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Strong Tower Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in OCI or directly in equity. In this case, the tax is also recognised in OCI or directly in equity, respectively.

(c) *Investment allowances and similar tax incentives*

Companies within the Strong Tower Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure. The Strong Tower Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

2.15 Provisions

Provisions are recognised when the Strong Tower Group has a present legal or constructive obligation as a result of past events; it is probable 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 recognised 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 recognised as interest expense.

2.16 Revenue recognition – lease income

Lease income from operating leases where the Strong Tower Group is a lessor is recognised in income on a straight line basis over the lease term (Note 5). The respective leased assets are included in the balance sheets in the “investment property”.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

Rental income of the Strong Tower Group is measured on the following bases:

- Minimum annual rent (“Base Rent”) from hotel properties and other rental income are recognised in the period in which the properties are let and on a straight-line basis over the periods of the respective leases;
- Actual annual rent (“Total Rent”) from hotel properties is recognised in the period in which they are earned in accordance with the terms of respective agreements.

2.17 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains/ (losses) on these assets.

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

3 Financial risk management

3.1 Financial risk factors

The Strong Tower Group’s activities expose it to a variety of financial risks: market risk (including cash flow interest rate risk), credit risk and liquidity risk. The Strong Tower Group’s overall risk management programme focuses on the unpredictability of financial markets and seek to minimise potential adverse effects on the Strong Tower Group’s financial performance.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

(a) Market risk

(i) Foreign exchange risk

The Strong Tower Group's exposure to foreign exchange risk relates principally to its cash and cash equivalents and bank borrowings, denominated primarily in United States dollar ("USD") and Hong Kong dollar ("HKD"). The Strong Tower Group has not specifically hedged this exposure in 2020, 2019, 2018 and 2017.

As at 30 November 2020, if RMB had weakened/strengthened by 1% against USD with all other variables held constant, post-tax profit for the year ended 31 December 2019 would have been approximately RMB16,000 (2019: RMB17,000) lower/higher respectively, mainly as a result of foreign exchange losses/gains on translation of USD denominated cash and cash equivalents.

(b) Credit risk

Credit risk arises from cash and cash equivalents, amounts due from related parties, as well as other receivables included in the balance sheet.

Credit risk is managed on a group basis. As at 31 December 2017, 2018, 2019 and 30 November 2020, all cash and cash equivalents and restricted cash were deposited in the major financial institutions in China and Hong Kong, or high reputation regional bank in China, Hong Kong and Europe, which the management believed are of high credit quality.

While cash and cash equivalents are also subject to impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The Strong Tower Group established policies in place to ensure that the rental income from hotel properties is made to the customers with an appropriate credit term and the Strong Tower Group assesses the credit worthiness and financial strength of its customers as well as considering prior dealing history with the customers. The Strong Tower Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit loss rates based on the corresponding historical credit losses experienced is immaterial.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

(c) *Liquidity risk*

The Strong Tower Group's objective is to maintain sufficient cash and sources of funding through committed credit facility. To manage the liquidity risk, management monitors rolling forecasts of the Strong Tower Group's liquidity reserve and cash and cash equivalents on the basis of expected cash flow. The Strong Tower Group expects to fund the future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions or related party, if necessary.

The table below analyses the Strong Tower Group's financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at each balance sheet date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows:

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
As at 31 December 2017					
Other payables and amounts due to related parties	674	-	-	-	674
As at 31 December 2018					
Other payables and amounts due to related parties	427	-	-	-	427
As at 31 December 2019					
Other payables and amounts due to related parties	205	-	-	-	205
As at 30 November 2020					
Other payables and amounts due to related parties	246	-	-	-	246

3.2 Capital risk management

The Strong Tower Group's objectives when managing capital are to safeguard the Strong Tower Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The management considers that the capital risk of the Strong Tower Group is not significant.

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value as at 31 December 2017, 2018, 2019 and 30 November 2020 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Level 1:** The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Strong Tower Group is the current bid price. These instruments are included in level 1;
- Level 2:** The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2; and
- Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

The Strong Tower Group did not have significant financial instruments carrying at fair value as at 31 December 2018, 2019 and 30 November 2020.

4 Critical accounting estimates and judgements

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

The Strong Tower 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 addressed below.

APPENDIX IIB ACCOUNTANT’S REPORT ON THE STRONG TOWER GROUP

(a) Current income taxes and deferred tax

The Strong Tower Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes in various jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Strong Tower Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

5 Revenue

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Rental income from					
Shanghai Hotel (a)	18,088	–	–	–	–
Other rental income (b)	<u>4,199</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u><u>22,287</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>

(a) On 25 June 2014, the Strong Tower Group entered into a hotel lease agreement in respect of Shanghai Hotel and supplemental agreements dated 5 September 2014 and 23 March 2015 (collectively, “Lease Agreement”) with Shanghai Songjiang New Century Grand Hotel Limited (the “Lessee”), pursuant to which the Strong Tower Group was entitled to receive an annual rent (“Total Rent”) which was calculated as 25% of Shanghai Hotel’s total operating revenue plus 34% of Shanghai Hotel’s gross operating profit from the operation of Shanghai Hotel by the Lessee for a term of 10 years.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

Under the terms of the Lease Agreement, the Lessee has guaranteed a minimum aggregate annual rent of RMB45,580,540 (“Base Rent”) for the first five years from the commencement of the Lease Agreement. If the Total Rent is less than the Base Rent for that year, the shortfall would be paid by the Lessee to the Strong Tower Group. For the subsequent sixth to tenth years, the Base Rent for each of the subsequent years will be the market Base Rent (“Market Base Rent”) determined by an independent professional property valuer. If the Market Base Rent as determined is lower than 85% of the average annual rent received from the Lessee for the first four full financial years (the “Reference Average Rent”), the Base Rent for each subsequent year should be 85% of the Reference Average Rent, instead of the Market Base Rent.

For the year ended 31 December 2017, the Strong Tower Group has received the Base Rent in an aggregated amount of RMB18,991,892, within which a shortfall between the Base Rent and the Total Rent with amount of RMB2,195,839 should be paid by the Lessee to the Strong Tower Group in accordance with the Lease Agreement. The total rental income of RMB18,088,000 was derived from total Base Rent of RMB18,991,892 less value-added tax of RMB903,892.

- (b) Other rental income represents the rental income from the lease of commercial space, primarily office, shopping and recreational areas in hotel properties and was recognised on a straight-line basis over the periods of the respective leases.
- (c) The rental income represented the rent for the period from 1 January 2017 to 1 June 2017, disposal date of Shanghai Hotel.

6 Operating expenses

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Management fee (<i>Note 17(b)</i>)	6,464	268	5	5	4
Legal and other professional fee	1,913	22	16	16	18
Urban real estate and land use tax	1,874	–	–	–	–
Trustee fee	150	18	–	–	–
Business tax and surcharges	124	–	–	–	–
Property insurance	115	–	–	–	–
Auditor's remuneration	81	56	56	52	36
Miscellaneous	7	–	9	9	10
	<u>10,728</u>	<u>364</u>	<u>86</u>	<u>82</u>	<u>68</u>

APPENDIX IIB ACCOUNTANT’S REPORT ON THE STRONG TOWER GROUP

7 Other gains/(losses) – net

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Fair value gains on derivative financial instruments (i)	1,273	–	–	–	–
Net foreign exchange gains/(losses)	12,172	(20,709)	3,104	3,605	(4,353)
Gains on disposal of subsidiaries (Note 15)	24,147	–	–	–	–
Others	(255)	(3)	(4)	(4)	(2)
	<u>37,337</u>	<u>(20,712)</u>	<u>3,100</u>	<u>3,601</u>	<u>(4,355)</u>

- (i) The Strong Tower Group entered into interest rate swaps with a commercial bank, which have the economic effect of converting interest rate of borrowings from floating rates to fixed rates. Nevertheless, the interest rate swap was not accounted for as hedging instruments as the conditions for hedge accounting were not met during the year ended 31 December 2017. As at 31 December 2016, the notional principal amounts of the outstanding interest rate swaps were USD60,000,000 and the fixed interest rate was 3.7% per annum. In 2017, the interest rate swaps were settled due to the prepayment of the borrowings. Gains and losses arising from the fair value change of the interest rate swaps were recognised in the consolidated statement of comprehensive income in “Other gains/(losses) – net”.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

8 Finance income/(costs) – net

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Finance income					
– Interest income derived from bank deposits	982	1,429	1,605	1,605	–
– Interest income derived from loans to related parties	3,140	5,788	3,768	3,668	–
– Net foreign exchange gains on financing/investing activities	8,228	3,090	135	–	–
	<u>12,350</u>	<u>10,307</u>	<u>5,508</u>	<u>5,273</u>	<u>–</u>
Finance costs					
– Interest expense on bank borrowings	(7,904)	–	–	–	–
– Net foreign exchange losses on investing activities	(342)	(389)	(1,003)	(990)	(96)
– Amortisation of transaction costs of the bank borrowings	(3,665)	–	–	–	–
	<u>(11,911)</u>	<u>(389)</u>	<u>(1,003)</u>	<u>(990)</u>	<u>(96)</u>
Finance income/(costs) – net	<u>439</u>	<u>9,918</u>	<u>4,505</u>	<u>4,283</u>	<u>(96)</u>

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

9 Income tax expenses/(credit)

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax					
– PRC corporate income tax	45,239	(1,900)	–	–	–
Deferred income tax					
– PRC corporate income tax	<u>1,554</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u><u>46,793</u></u>	<u><u>(1,900)</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>

(Unaudited)

The income tax expense/(credit) on the Strong Tower Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profit of the consolidated statement of comprehensive income as follows:

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit/(loss) before taxation	49,335	(11,158)	7,519	7,802	(4,519)
Tax calculated at statutory tax rates applicable to each group entity	10,731	682	234	289	379
Expenses not deductible for tax purpose	(2,877)	–	–	–	–
Withholding tax on unremitted earnings of subsidiaries	15	–	–	–	–
Withholding tax refund	–	(1,900)	–	–	–
Corporate tax on the disposal of subsidiaries	38,924	–	–	–	–
Utilisation of previous unrecognised tax losses	<u>–</u>	<u>(682)</u>	<u>(234)</u>	<u>(289)</u>	<u>(379)</u>
	<u><u>46,793</u></u>	<u><u>(1,900)</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>

(Unaudited)

The Company was incorporated in the British Virgin Islands as a limited liability company under the Company Law of British Virgin Islands and, accordingly, is exempted from payment of British Virgin Islands income tax.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

(a) Hong Kong profits tax

Enterprises incorporated in the Hong Kong are subject to income tax rate of 16.5% during the Track Record Period. No Hong Kong profits tax has been provided for as the Strong Tower Group has no assessable profits in Hong Kong during the Track Record Period.

(b) China corporate income tax

Enterprises incorporated in China are subject to income tax rate of 25% during the Track Record Period.

The income tax provision of the Strong Tower Group in respect of its operations in China has been calculated at the applicable tax rate on the estimated assessable profits based on existing legislations, interpretations and practices.

Since the deferred income tax assets and liabilities shall be measured at the tax rates that are expected to apply to the year/period when the assets is realised or the liability is settled, the change in the applicable tax rate will affect the determination of the carrying values of deferred tax assets and liabilities of the Strong Tower Group's subsidiaries located in China.

(c) China withholding income tax

Pursuant to China Corporate Income Tax Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Strong Tower Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in China in respect of their earnings generated from 1 January 2008.

Pursuant to "Arrangement between the mainland of China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income", a lower 5% withholding tax rate will be applied to a qualifying company, if it can be considered as a beneficial owner of the dividend and that it holds directly at least 25% of the capital of the mainland enterprise. Given the above, in February 2018, Full Wise Industrial Limited had successfully obtained certificate of the resident status of the Hong Kong Special Administrative Region with the effective period of two years. Whereby the local tax authority of China had granted a 5% tax adjustment payment on the withholding tax relating to the dividends declared by Lishui Full Wise Hotel Management Limited (麗水惠富酒店管理有限公司) in 2017.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

10 Other receivables

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
Other receivables	120	377	–	–

The Strong Tower Group applies the simplified approach, which requires expected lifetime losses to be recognised from the initial recognition of the receivables. During the Track Record Period, the Strong Tower Group believes that there were no significant financial difficulty of their customers and based on the past experience, there were no significant change in the credit quality. The identified impairment loss was immaterial.

11 Cash and cash equivalents

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
Cash at bank and on hand	77,209	89,086	1,748	1,622

Cash and cash equivalents were denominated in the following currencies:

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
Cash at bank and in hand:				
• RMB	305	39,980	30	29
• USD	76,868	49,092	1,660	1,564
• HKD	36	14	58	29
	77,209	89,086	1,748	1,622

All cash at bank were deposits with original maturity within 3 months.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

12 Other payables

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
Other payables	32	163	201	244

As at 31 December 2017, 2018, 2019 and 30 November 2020, all other payables of the Strong Tower Group were non-interest bearing. Their fair values approximate their carrying amounts due to their short maturities.

13 Share capital

The total number of authorised share capital is 50,000 ordinary shares with a par value of USD1 per share.

As at 30 November 2020, 31 December 2019, 2018 and 2017, the total paid up capital was USD10,000 (equivalent to RMB61,000) representing 10,000 ordinary shares in issue at a par value of USD1 per share.

14 Other reserves

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
Statutory reserve (1)	5,056	5,056	5,056	5,056
Merger and other reserve (2)	(130,340)	(130,340)	(130,340)	(130,340)
	(125,284)	(125,284)	(125,284)	(125,284)

(1) Statutory reserve

In accordance with the Articles of Association of the Company and the statutory regulation in China, certain subsidiaries incorporated in China are required to transfer certain percentage of their annual statutory net profits, after offsetting any prior years' losses as determined under the China accounting standards, to the statutory reserve before the declaration of dividend. The statutory reserve can be used to offset prior years' losses, if any.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

(2) Merger reserve*RMB'000***At 31 December 2017, 2018, 2019 and at 30 November 2020** (130,340)

Merger reserve represents capital contributed by the Controlling Shareholders to the companies comprising the Strong Tower Group. Merger reserve mainly comprised (1) paid-in capital and capital surplus of companies now comprising the Strong Tower Group; and (2) the distribution to and contribution by the Controlling Shareholders.

In August 2013, the Strong Tower Group acquired the Leasing Business from Songjiang Shengyang for a cash consideration of RMB463,860,000 (Note 1). The book value of net assets and considerations are as follows:

RMB'000

Book value of net assets	333,520
Total considerations paid	<u>(463,860)</u>
Transaction difference	<u><u>(130,340)</u></u>

The transaction difference above was recorded in “Other reserves”.

15 Disposal of subsidiaries

With effect from 1 June 2017, the Strong Tower Group disposed the entire registered capital of Lishui Full Wise Hotel Management Limited together with its subsidiary as the “Lishui Disposal Group”), which owns the Shanghai Hotel. The following table summarises the consideration received and the carrying value of net assets disposed at the Lishui Disposal Date, as well as the net cash flow arising from the disposal. The difference between the carrying value of net assets disposed and the total consideration in relation to the disposal has been included in “Other gains/(losses) – net” of the consolidated statements of comprehensive income for the year ended 31 December 2017.

The expenses and income tax incurred in connection with the disposal have been charged to the “Operating expenses” and “Income tax expense” in the consolidated statements of comprehensive income for the year ended 31 December 2017, with amount of RMB1,923,000 and RMB41,338,000 respectively.

APPENDIX IIB ACCOUNTANT’S REPORT ON THE STRONG TOWER GROUP

The Divestment Fee paid to the Manager and the Trustee with amounts of RMB4,386,000 and RMB62,000 respectively, have also been charged to the “Operating expenses” in the consolidated statements of comprehensive income for the year ended 31 December 2017.

	Carrying value RMB’000
Net assets of the Lishui Disposal Group at the Lishui Disposal Date	
Investment property	880,000
Amounts due from related parties (i)	91,332
Trade and other receivables and prepayments	527
Property, plant and equipment	1
Cash and cash equivalents	54,184
Amounts due to related parties	(47,575)
Trade and other payables	(1,287)
Current income tax liabilities	(1,738)
Deferred income tax liabilities	<u>(122,310)</u>
Net assets disposed	853,134
Gains on disposal of subsidiaries (Note 7)	<u>24,147</u>
Total consideration for the disposal satisfied by cash	<u><u>877,281</u></u>
Net cash inflow arising on the disposal:	
Cash consideration	877,281
The income tax incurred from the disposal which was withheld and paid by the buyer	(41,338)
Cash and cash equivalents in the Lishui Disposal Group	<u>(54,184)</u>
	<u><u>781,759</u></u>

The Lishui Disposal Group was acquired by the Strong Tower Group on 31 July 2014, on which the fair value of the investment property held by the Lishui Disposal Group was amounted to RMB810,000,000. The accumulated fair value gains of investment property between 31 July 2014 and the Lishui Disposal Date with amount of RMB70,000,000 and the related deferred tax liabilities with amount of RMB17,500,000 were added back in the distribution statement for the year ended 31 December 2017, as those items were all adjusted as unrealised gains in previous years’ distribution statements.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

- (i) It included an intercompany loan due from Zhejiang New Century Hotel for a period of one year with amount of RMB35,000,000 at an interest rate of 4.35% per annum. The loan was unsecured and due in December 2017. The related interest receivable of the Lishui Disposal Group on the Lishui Disposal Date is RMB258,000. The Strong Tower Group has repaid the borrowing and interest after the disposal in 2017.

It also included an intercompany loan from the Company, for a period of two years with amount of RMB48,000,000 at an interest rate of 2.50% per annum. The loan was unsecured and due in August 2017. The related interest receivable of Lishui Disposal Group on the Disposal Date is RMB2,103,000. The loan and interest has been fully repaid in June 2017.

16 Note to the consolidated statements of cash flows

(a) **Reconciliation of profit/(loss) before taxation to cash (used in)/generated from operations**

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit/(loss) before taxation for the year/period	49,335	(11,158)	7,519	7,802	(4,519)
Adjustments for:					
- Unrealised net foreign exchange losses on investing activities (Note 8)	342	389	1,003	990	96
- Interest expense on bank borrowings repayable within five years (Note 8)	7,904	-	-	-	-
- Interest income on loan to related parties (Note 8)	(3,140)	(5,788)	(3,768)	(3,668)	-
- Amortisation of transaction costs of bank borrowings (Note 8)	3,665	-	-	-	-
- Fair value gains on derivative financial instruments (Note 7)	(1,273)	-	-	-	-
- Realised net foreign exchange losses/(gains) on financing/investing activities (Note 8)	(8,228)	(3,090)	(135)	-	-
- Gains on disposal of subsidiaries (Note 7)	(24,147)	-	-	-	-

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Changes in working capital:					
- (Decrease)/increase in other receivables	(85,767)	(257)	377	377	-
- (Increase)/decrease in amounts due from related parties	(87,383)	20,560	(144,651)	(91,612)	4,352
- Decrease in amounts due to related parties	(166,822)	(378)	(260)	(261)	(2)
- Increase in other payables	<u>51,616</u>	<u>131</u>	<u>38</u>	<u>37</u>	<u>43</u>
Cash (used in)/generated from operations	<u>(263,898)</u>	<u>409</u>	<u>(139,877)</u>	<u>(86,335)</u>	<u>(30)</u>

17 Related party transactions and balances

In addition to the transactions and balances detailed elsewhere in the historical financial statements information, the Strong Tower Group had the following material transactions with related parties during the years and period:

(a) *Nature of relationship with related parties*

Related party	Relationship with the Strong Tower Group
Mr. Chen Miaolin, Mr. Chen Canrong, Mr. Kong Weiliang and Mr. Zhang Guanming	Controlling Shareholders and significant holders of the Strong Tower Group
Liang Wei-Chieh	Close family member of one of the Controlling Shareholders
Shanghai New Century Enterprise Operation Management Limited	Associated corporation of significant holders of the Strong Tower Group
Shanghai Songjiang New Century Grand Hotel Limited	Associated corporation of significant holders of the Strong Tower Group
Spearhead Global Limited	Subsidiary of New Century REIT

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

Related party	Relationship with the Strong Tower Group
Zhejiang New Century Hotel Investment & Management Group Limited	Subsidiary of New Century REIT
New Century Europe I S.à.r.l.	Subsidiary of New Century REIT

(b) Transactions with related parties

Rental income received/receivable from:

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Shanghai Songjiang New Century Grand Hotel Limited	18,992	-	-	-	-
Shanghai New Century Enterprise Operation Management	<u>2,706</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>21,698</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

Interest income on loans from related parties:

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
New Century Europe I S.à.r.l.	2,537	5,788	3,768	3,668	-
Zhejiang New Century Hotel Investment & Management Group Limited	<u>603</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>3,140</u></u>	<u><u>5,788</u></u>	<u><u>3,768</u></u>	<u><u>3,668</u></u>	<u><u>-</u></u>

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

Other related party transactions:

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Management fee to the Manager (<i>Note 6</i>)	<u>6,464</u>	<u>268</u>	<u>5</u>	<u>5</u>	<u>4</u>

The Strong Tower Group was charged a management fee from the Manager for its services as asset manager every half year, which is the aggregate of:

- a base fee (the “Base Fee”) of 0.3% per annum of the value of the deposited property as at each balance sheet date;
- a variable fee (the “Variable Fee”) of 4% per annum of net property income, which is defined in the Trust Deed for each of the year; and
- a divestment fee (the “Divestment Fee”) calculated by 0.5% of the sales price of any real estate disposed of by New Century REIT.

(c) Balances with related parties

Other receivables due from:

	As at 31 December			As at 30 November
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Spearhead Global Limited	<u>119,603</u>	<u>99,042</u>	<u>302,903</u>	<u>298,551</u>

Loan and interest receivables due from a related party:

	As at 31 December			As at 30 November
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
New Century Europe I S.à.r.l. (<i>i</i>)	<u>109,927</u>	<u>108,849</u>	<u>–</u>	<u>–</u>

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

- (i) The balances as at 31 December 2018 represented a related party loan of RMB107,390,242 and interest receivables of RMB1,458,977 (as at 31 December 2017: represented a related party loan of RMB107,390,242 and interest receivables of RMB2,537,352) due from New Century Europe I S.à.r.l. with effective interest rates of 5.4% per annum from 25 July 2017. And the terminate date will be 5 years and 6 months from the date of initial utilization. New Century Europe I S.à.r.l. has repaid the loan of RMB52,263,897 and interest of RMB1,277,869 and settled the remaining loan and interest receivable amounting to RMB59,075,366 by fund transfer to Spearhead Global Limited on behalf of the Strong Tower Group in 2019.

Other payables due to:

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
The Manager	<u>642</u>	<u>264</u>	<u>4</u>	<u>2</u>

(d) Key management compensation

During the Track Record Period, there was no key management compensation.

(e) Director's emoluments

No directors' emoluments were paid or payable by the Strong Tower Group during the Track Record Period.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

18 Subsidiaries

Particulars of the principal subsidiaries were as follows:

Name	Date of incorporation and type of legal entity	Issued and paid up capital/registered capital	Effective interests held by the Group (%)				Principal activities and place of operations	
			As at 31 December		As at 30 November	As at the report date		
			2017	2018	2019	2020		
Incorporated in the PRC:								
麗水惠富酒店管理有限公司 (Lishui Full Wise Hotel Management Limited)	25 February 2013, limited liability company (disposed on 1 June 2017)	RMB463,901,200	-	-	-	-	-	Hotel management and consultancy services in the PRC
上海松江輝維資產管理有限公司 (Shanghai Songjiang Hui Wei Asset Management Limited)	17 April 2013, limited liability company (disposed on 1 June 2017)	RMB463,000,000	-	-	-	-	-	Hotel properties leasing in the PRC
杭州惠富盛投資管理有限公司 (Hangzhou Hui Fu Sheng Investment Management Limited)	2 May 2017, limited liability company (closed on 8 December 2017)	USD100,000	-	-	-	-	-	Investment holding
Incorporated in Hong Kong:								
Full Wise Industrial Limited	20 September 2012	10,000 ordinary shares of HKD 1 each	100	100	100	100	100	Investment holding in Hong Kong

19 Event occurring after the balance sheet date

On 27 January 2021, New Century REIT announced that on 26 January 2021, DB Trustees (Hong Kong) Limited (in its capacity as the trustee of New Century REIT, and as the seller) and New Century Assets Manager (as the manager of New Century REIT) have respectively entered into a sale and purchase agreement for the disposal of Spearhead Global Limited (the “Target Company”) and its outstanding loan due to New Century REIT (the “Proposed Disposal”) after the reorganisation (the “Reorganisation”) to Huge Harvest International Limited (as the purchaser) for a consideration of approximately HK\$1,921,018,274. The Reorganisation involved the acquisitions of all issued shares in the share capital of each of Strong Tower and New Century REIT Hong Kong I Limited by the Target Company prior to the completion of the Proposed Disposal. The Proposed Disposal is subject to the approval of the independent unitholders of New Century REIT at the extraordinary general meeting.

APPENDIX IIB ACCOUNTANT'S REPORT ON THE STRONG TOWER GROUP

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Strong Tower or any of its subsidiaries in respect of any period subsequent to 30 November 2020 and up to the date of this report. Save as disclosed in this report, no dividend had been declared, made or paid by the Strong Tower or any of its subsidiaries in respect of any period subsequent to 30 November 2020.

**APPENDIX IIC ACCOUNTANT’S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

The following is the text of a report set out on pages IIC-1 to IIC-4, received from New Century REIT’s reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular. It is prepared and addressed to the directors of New Century Asset Management Limited (as the “Manager” of the New Century REIT) with reference to the requirements of HKSIR 200 Accountant’s Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

**ACCOUNTANT’S REPORT ON HISTORICAL FINANCIAL INFORMATION OF NEW
CENTURY REIT HONG KONG I LIMITED TO THE DIRECTORS OF NEW CENTURY
ASSET MANAGEMENT LIMITED (AS THE MANAGER OF NEW CENTURY REAL
ESTATE INVESTMENT TRUST)**

Introduction

We report on the historical financial information of New Century REIT Hong Kong I Limited (the “New Century REIT Hong Kong I”) and its subsidiaries (together, the “New Century REIT Hong Kong I Group”) set out on pages IIC-5 to IIC-67, which comprises the company and consolidated balance sheets as at 31 December 2017, 2018 and 2019 and 30 November 2020, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2017, 2018 and 2019 and the eleven months ended 30 November 2020 (the “Track Record Period”) and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages IIC-5 to IIC-67 forms an integral part of this report, which has been prepared for inclusion in the circular of New Century Real Estate Investment Trust (the “New Century REIT”) dated 19 March 2021 (the “Circular”) in connection with the proposed very substantial disposal of all issued shares in the share capital of Spearhead Global Limited.

*PricewaterhouseCoopers, 22/F Prince’s Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

Directors’ responsibility for the Historical Financial Information

The directors of New Century Asset Management Limited (the “Manager”) are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant’s responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants’ Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant’s judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design 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. Our work also included 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 Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant’s report, a true and fair view of the financial position of the New Century REIT Hong Kong I as at 31 December 2017, 2018, 2019 and 30 November 2020 and the consolidated financial position of the New Century REIT Hong Kong I Group as at 31 December 2017, 2018 and 2019 and 30 November 2020 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the New Century REIT Hong Kong I Group which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the eleven months ended 30 November 2019 and other explanatory information (the “Stub Period Comparative Financial Information”). The directors of the Manager are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the International Auditing and Assurance Standards Board (“IAASB”). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant’s report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page IIC-5 have been made.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 19 March 2021

**APPENDIX IIC ACCOUNTANT’S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

**I HISTORICAL FINANCIAL INFORMATION OF THE NEW CENTURY REIT HONG
KONG I GROUP**

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant’s report.

The consolidated financial statements of the New Century REIT Hong Kong I Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers Zhong Tian LLP in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (“IAASB”) (“Underlying Financial Statements”).

The Historical Financial Information is presented in thousand Renminbi (“RMB’000”) except when otherwise indicated.

Consolidated Statements of Comprehensive Income

	<i>Note</i>	Year ended 31 December		Eleven months ended		
				30 November		
		2017	2018	2019	2019	2020
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
				<i>Note*</i>	(Unaudited)	
Revenue	5	14,983	15,736	14,510	14,510	–
Operating expenses	6	(2,632)	(3,016)	(3,352)	(3,340)	(258)
Other gains – net	7	179	98	69,002	69,059	585
Changes in fair value of the investment property	10	<u>1,889</u>	<u>36,150</u>	<u>78</u>	<u>78</u>	<u>–</u>
Operating profit		14,419	48,968	80,238	80,307	327
Finance costs	8	<u>(9,208)</u>	<u>(9,362)</u>	<u>(10,045)</u>	<u>(9,428)</u>	<u>–</u>
Finance costs – net	8	<u>(9,208)</u>	<u>(9,362)</u>	<u>(10,045)</u>	<u>(9,428)</u>	<u>–</u>

**APPENDIX IIC ACCOUNTANT’S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

		Year ended 31 December			Eleven months ended	
	Note	2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				Note*	(Unaudited)	
Profit before taxation		5,211	39,606	70,193	70,879	327
Income tax expenses	9	<u>(1,380)</u>	<u>(9,875)</u>	<u>(1,193)</u>	<u>(1,193)</u>	<u>–</u>
Profit after taxation for the year/period attributable to equity holders		<u>3,831</u>	<u>29,731</u>	<u>69,000</u>	<u>69,686</u>	<u>327</u>
Other comprehensive income for the year/period	19	<u>6,216</u>	<u>649</u>	<u>677</u>	<u>677</u>	<u>212</u>
Total comprehensive income for the year/period		<u>10,047</u>	<u>30,380</u>	<u>69,677</u>	<u>70,363</u>	<u>539</u>

*Note**: the New Century REIT Hong Kong I Group acquired the entire equity interest of New Century Netherlands I B.V. (the “NC Netherlands”) on 9 August 2016. On September 2019, the New Century REIT Hong Kong I Group entered into an agreement with an independent third party to dispose the entire equity interest of NC Netherlands. The disposal was completed on 28 November 2019. As a result, the operating result of NC Netherlands met the definition of a discontinued operation and the majority of the consolidated financial performance of the New Century REIT Hong Kong I Group for the year ended 31 December 2019 was generated from the discontinued operation.

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

Consolidated Balance Sheets

		As at 31 December			As at 30
	Note	2017	2018	2019	November
		RMB'000	RMB'000	RMB'000	2020
					RMB'000
Non-current assets					
Investment property	10	211,598	249,073	–	–
Other long-term assets	11	–	–	11,723	–
Total non-current assets		<u>211,598</u>	<u>249,073</u>	<u>11,723</u>	<u>–</u>
Current assets					
Trade and other receivables and prepayments	12	188	337	–	11,808
Restricted cash	13	–	1,962	–	–
Cash and cash equivalents	13	15,991	18,471	5,132	16
Total current assets		<u>16,179</u>	<u>20,770</u>	<u>5,132</u>	<u>11,824</u>
Total assets		<u><u>227,777</u></u>	<u><u>269,843</u></u>	<u><u>16,855</u></u>	<u><u>11,824</u></u>
Current liabilities					
Other payables	14	1,433	3,052	1,586	221
Amounts due to related parties	24(c)	4,496	3,842	10,030	5,825
Derivative financial instruments	15	112	8	–	–
Total current liabilities		<u>6,041</u>	<u>6,902</u>	<u>11,616</u>	<u>6,046</u>
Non-current liabilities					
Bank borrowings	16	112,925	113,787	–	–
Loan due to a related party	24(c)	107,390	107,390	–	–
Deferred tax liabilities	17	10,355	20,318	–	–
Total non-current liabilities		<u>230,670</u>	<u>241,495</u>	<u>–</u>	<u>–</u>
Total liabilities		<u><u>236,711</u></u>	<u><u>248,397</u></u>	<u><u>11,616</u></u>	<u><u>6,046</u></u>

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

		As at 31 December			As at 30 November
	Note	2017	2018	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000
Equity attributable to equity holders					
Share capital	18	–	–	–	–
Other reserves	19	5,172	5,821	6,498	6,710
(Accumulated losses)/ retained earnings		<u>(14,106)</u>	<u>15,625</u>	<u>(1,259)</u>	<u>(932)</u>
Total equity		<u>(8,934)</u>	<u>21,446</u>	<u>5,239</u>	<u>5,778</u>
Total equity and liabilities		<u>227,777</u>	<u>269,843</u>	<u>16,855</u>	<u>11,824</u>
Net current assets/(liabilities)		<u>10,138</u>	<u>13,868</u>	<u>(6,484)</u>	<u>5,778</u>
Total assets less current liabilities		<u>221,736</u>	<u>262,941</u>	<u>5,239</u>	<u>5,778</u>

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

Company Balance Sheets

	As at 31 December			As at 30
	2017	2018	2019	November
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Assets				
Non-current assets				
Investment in a subsidiary	<u>92</u>	<u>92</u>	<u>92</u>	<u>92</u>
Current asset				
Amount due from a related party	<u>543</u>	<u>610</u>	<u>3,574</u>	<u>3,122</u>
Total assets	<u><u>635</u></u>	<u><u>702</u></u>	<u><u>3,666</u></u>	<u><u>3,214</u></u>
Equity				
Share capital	-	-	-	-
(Accumulated losses)/retained earnings	<u>(294)</u>	<u>(578)</u>	<u>3,053</u>	<u>3,124</u>
Total equity	<u><u>(294)</u></u>	<u><u>(578)</u></u>	<u><u>3,053</u></u>	<u><u>3,124</u></u>
Liabilities				
Current liabilities				
Other payables	58	84	91	81
Amount due to related parties	<u>871</u>	<u>1,196</u>	<u>522</u>	<u>9</u>
Total liabilities	<u><u>929</u></u>	<u><u>1,280</u></u>	<u><u>613</u></u>	<u><u>90</u></u>
Total equity and liabilities	<u><u>635</u></u>	<u><u>702</u></u>	<u><u>3,666</u></u>	<u><u>3,214</u></u>

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

Consolidated Statements of Changes in Equity

	<i>Notes</i>	Capital and reserves attributable to equity holders			Total <i>RMB'000</i>
		Share capital <i>RMB'000</i>	Other reserves <i>RMB'000</i>	(Accumulated losses)/ retained earnings <i>RMB'000</i>	
As at 1 January 2017		–	(1,044)	(17,937)	(18,981)
Profit for the year		–	–	3,831	3,831
Exchange gains on translation of financial statements		–	6,216	–	6,216
As at 31 December 2017		<u>–</u>	<u>5,172</u>	<u>(14,106)</u>	<u>(8,934)</u>
As at 1 January 2018		–	5,172	(14,106)	(8,934)
Profit for the year		–	–	29,731	29,731
Exchange gains on translation of financial statements		–	649	–	649
As at 31 December 2018		<u>–</u>	<u>5,821</u>	<u>15,625</u>	<u>21,446</u>
As at 1 January 2019		–	5,821	15,625	21,446
Profit for the year		–	–	69,000	69,000
Exchange gains on translation of financial statements		–	677	–	677
Dividend declared and paid	20	–	–	(85,884)	(85,884)
As at 31 December 2019		<u>–</u>	<u>6,498</u>	<u>(1,259)</u>	<u>5,239</u>

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

	Capital and reserves attributable to equity holders				
			(Accumulated losses)/		
	<i>Notes</i>	Share capital	Other reserves	retained earnings	Total
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)					
As at 1 January 2019		–	5,821	15,625	21,446
Profit for the period		–	–	69,686	69,686
Exchange gains on translation of financial statements		–	677	–	677
As at 30 November 2019		<u>–</u>	<u>6,498</u>	<u>85,311</u>	<u>91,809</u>
As at 1 January 2020		–	6,498	(1,259)	5,239
Profit for the period		–	–	327	327
Exchange gains on translation of financial statements		–	212	–	212
As at 30 November 2020		<u>–</u>	<u>6,710</u>	<u>(932)</u>	<u>5,778</u>

APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY REIT HONG KONG I GROUP

Consolidated Statements of Cash Flows

	Notes	Year ended 31 December			Eleven months ended 30 November	
		2017 RMB'000	2018 RMB'000	2019 RMB'000 Note*	2019 RMB'000 (Unaudited)	2020 RMB'000
Cash flow from operating activities						
Cash generated from/(used in) operations	22(a)	13,938	14,665	9,492	10,678	(5,098)
Interest paid		(9,591)	(10,234)	(9,370)	(8,102)	–
Income tax paid		–	–	(10)	(10)	–
Net cash generated from/(used in) operating activities		<u>4,347</u>	<u>4,431</u>	<u>112</u>	<u>2,566</u>	<u>(5,098)</u>
Cash flow from investing activities						
Proceeds from disposal of a subsidiary	21	–	–	292,710	146,640	–
Net cash generated from investing activities		<u>–</u>	<u>–</u>	<u>292,710</u>	<u>146,640</u>	<u>–</u>
Cash flows from financing activities						
Proceeds from loan from related parties	24(c)	107,390	–	151,334	–	–
Repayment of loan from related parties	24(c)	(106,044)	–	(259,229)	(55,261)	–
Repayments of bank borrowings		–	–	(114,375)	(114,375)	–
Dividend declared and paid	20	–	–	(85,884)	–	–
Changes of restricted cash		–	(1,962)	1,962	1,962	–
Net cash generated from/(used in) financing activities		<u>1,346</u>	<u>(1,962)</u>	<u>(306,192)</u>	<u>(167,674)</u>	<u>–</u>
Net increase/(decrease) in cash and cash equivalents		<u>5,693</u>	<u>2,469</u>	<u>(13,370)</u>	<u>(18,468)</u>	<u>(5,098)</u>
Cash and cash equivalents at beginning of the year/period	13	10,134	15,991	18,471	18,471	5,132
Exchange gains/(losses) on cash and cash equivalents		<u>164</u>	<u>11</u>	<u>31</u>	<u>138</u>	<u>(18)</u>
Cash and cash equivalents at end of the year/period	13	<u><u>15,991</u></u>	<u><u>18,471</u></u>	<u><u>5,132</u></u>	<u><u>141</u></u>	<u><u>16</u></u>

Note:* the New Century REIT Hong Kong I Group acquired the entire equity interest of NC Netherlands on 9 August 2016. On September 2019, the New Century REIT Hong Kong I Group entered into an agreement with an independent third party to dispose the entire equity interest of NC Netherlands. The disposal was completed on 28 November 2019. As a result, the cash flows of NC Netherlands met the definition of a discontinued operation and the majority of the consolidated cash flows of the New Century REIT Hong Kong I Group for the year ended 31 December 2019 was generated from the discontinued operation.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 General information

New Century REIT Hong Kong I Limited (the “New Century REIT Hong Kong I”) is a limited liability company incorporated in Hong Kong on 3 August 2016. The address of the New Century REIT Hong Kong I’s registered office is Unit 4706, 47th Floor, The Center, 99 Queen’s Road Central, Hong Kong.

New Century REIT Hong Kong I is an investment holding company, which is wholly owned by New Century Real Estate Investment Trust (stock code: 1275.HK) (the “New Century REIT”). On 10 July 2013 (date of listing), New Century REIT, a Hong Kong collective investment scheme constituted as a unit trust authorised under section 104 of the Securities and Futures Ordinance in Hong Kong and established under a trust deed dated 10 June 2013 and as amended by the supplemental trust deed dated 20 June 2013 and 15 June 2015 (the “Trust Deed”) made between New Century Asset Management Limited (the “Manager”) and DB Trustees (Hong Kong) Limited (the “Trustee”), was listed on The Stock Exchange of Hong Kong Limited.

The principal activities of New Century REIT Hong Kong I and its subsidiaries (the “New Century REIT Hong Kong I Group”) was leasing the hotel property of Holiday Inn Eindhoven (the “Netherlands Hotel”) in Netherlands. On 28 November 2019 (the “Disposal Date”), New Century REIT Hong Kong I disposed the entire registered capital of the New Century Netherlands I B.V. (the “NC Netherlands”), which owns the Netherlands Hotel to an independent third party.

The names of the New Century REIT Hong Kong I’s subsidiaries are set out in Note 25. The Historical Financial Information are presented in thousand Renminbi (“RMB’000”), unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to the Track Record Period presented, except for the changes in accounting policies as disclosed in Note 2.1.1.

2.1 Basis of preparation

The Historical Financial Information of the New Century REIT Hong Kong I Group have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRS”) issued by International Accounting Standards Board (“IASB”). The New Century REIT Hong Kong I Group has adopted IFRS 9, “Financial Instruments” and IFRS 15, “Revenue from contracts with customers” for reporting period beginning on or after 1 January 2018, and IFRS 16, “Leases” for the reporting period beginning on or after 1 January 2019. The Historical Financial Information of the New Century REIT Hong Kong I Group contained in this circular does not constitute the New Century REIT Hong Kong I’s statutory annual consolidated financial statements during the Track Record Period but is derived from those financial statements.

The Historical Financial Information of the New Century REIT Hong Kong I Group contained in this circular does not constitute the New Century REIT Hong Kong I’s statutory annual consolidated financial statements during the Track Record Period but is derived from those financial statements.

The Historical Financial Information of the New Century REIT Hong Kong I Group have been prepared under the historical cost convention, as modified by the revaluation of investment property and derivative financial instruments, which are carried at fair value.

The preparation of the Historical Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the New Century REIT Hong Kong I Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

2.1.1 Changes in accounting policies

There had a number of new or revised IFRS which are relevant to the New Century REIT Hong Kong I Group and became effective during the respective year. Changes in accounting policies of application on IFRS 9, IFRS 15 and IFRS 16 are set out below. Impacts resulting from the adoption of these new standards on the performance results and financial position of the New Century REIT Hong Kong I Group is not significant.

(i) IFRS 9, “Financial instruments”

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairments of financial assets and hedging accounting.

**APPENDIX IIC ACCOUNTANT’S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

IFRS 9 is effective for reporting periods beginning on or after 1 January 2018 and the New Century REIT Hong Kong I Group have applied the standard from its mandatory adoption date of 1 January 2018. The new accounting policies are set out in Note 2.7 below. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), the cumulative impact of the adoption (if any) will be recognised in retained earnings as at 1 January 2018 and that the comparatives will not be restated.

The financial instruments of the New Century REIT Hong Kong I Group includes cash and cash equivalents, restricted cash, trade and other receivables, amount due to related parties, other payables, derivative financial instruments, loan due to a related party and borrowings. The trade and other receivables will always be collected within credit period and the expected credit losses of such receivables were insignificant. The New Century REIT Hong Kong I Group also held a derivative financial instrument which had already been classified as financial liability at fair value through profit or loss and the accounting treatment is same as the new accounting policy.

(a) Classification and measurement

	Measurement category		Carrying amount		
	Original (IAS 39)	New (IFRS 9)	Original	New	Difference
Current financial assets					
Trade and other receivables	Loan and receivables	Financial assets at amortised cost	<u>7</u>	<u>7</u>	<u>-</u>

(b) Impairment of financial assets

The New Century REIT Hong Kong I Group has trade and other receivables (excluding prepayments) that are subject to IFRS 9’s new expected credit loss model, and the New Century REIT Hong Kong I Group was required to revise its impairment methodology under IFRS 9 for these receivables. The New Century REIT Hong Kong I Group assessed the transition to IFRS 9 for trade and other receivables as a result of applying the new expected credit loss model was insignificant.

(ii) IFRS 15, “Revenue from contracts with customers”

The New Century REIT Hong Kong I Group does not expect the new guidance to have impact on the recognition of revenue as the nature of the New Century REIT Hong Kong I Group’s business is the leasing of a hotel property in Netherlands as a lessor. IFRS 15 is not applicable and the recognition of revenue of the New Century REIT Hong Kong I Group applies for IFRS 16 “Leases”.

(iii) IFRS 16, “Leases”

IFRS 16, “Leases” provides updated guidance on the definition of leases, and the guidance on the combination and separation of contracts. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 requires lessees to recognise lease liability reflecting future lease payments and a “right-of-use-asset” for almost all lease contracts, with an exemption for certain short-term leases and leases of low value assets. The lessors accounting stays almost the same as under IAS 17 “Leases”, and lessors should provide additional disclosures and information which allows users of the financial statements to assess the effect that leases have on the lessors’ financial position, financial performance and cash flows:

- the nature of the entity’s leasing activities;
- the management of the risks associated with any rights retained in the underlying assets;
- lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate;
- maturity analysis of lease payments for a minimum of each of the first five years plus a total amount for the remaining years;
- where applicable, the disclosure required by IAS 36, IAS 38, IAS 40 and IAS 41, etc.

**APPENDIX IIC ACCOUNTANT’S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

IFRS 16 is effective for reporting periods beginning on or after 1 January 2019 and the New Century REIT Hong Kong I Group has applied the standard from its mandatory adoption date of 1 January 2019. Since the nature of the New Century REIT Hong Kong I Group’s business is leasing a hotel property as a lessor, the New Century REIT Hong Kong I Group did not need to make any adjustments to the accounting for asset held as lessor in accordance with IFRS 16.

2.1.2 New standard and amendments of IFRSs issued but is not yet effective for the financial period beginning on 1 January 2020 and has not been early adopted by the New Century REIT Hong Kong I Group

		Effective for annual periods beginning on or after
IFRS 17	Insurance contracts	1 January 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2022
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
	Annual Improvements to IFRS Standards 2018-2020	1 January 2022
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	Not applicable

The New Century REIT Hong Kong I Group has assessed the impact of adopting this new standard. According to the preliminary assessment, this standard is not expected to have a material impact on the New Century REIT Hong Kong I Group’s operating results and financial position.

2.2 Subsidiaries

A subsidiary is an entity (including a structured entity) over which the New Century REIT Hong Kong I Group has control. The New Century REIT Hong Kong I Group controls an entity when the New Century REIT Hong Kong I Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the New Century REIT Hong Kong I Group. They are deconsolidated from the date that control ceases.

(a) Business Combinations

The New Century REIT Hong Kong I Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the New Century REIT Hong Kong I Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The New Century REIT Hong Kong I Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in the consolidated statement of comprehensive income.

Any contingent consideration to be transferred by the New Century REIT Hong Kong I Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in the consolidated statement of comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income.

Intra-company transactions, balances and unrealised gains on transactions between the New Century REIT Hong Kong I Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the New Century REIT Hong Kong I Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior executive management who makes strategic decisions. During the Track Record Period, the New Century REIT Hong Kong I Group only have one segment.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of the New Century REIT Hong Kong I Group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The Historical Financial Information are presented in RMB while the functional currency of the subsidiaries NC Netherlands and New Century Europe I S.à.r.l. (the “NC Europe”) is EUR and the functional currency of New Century REIT Hong Kong I is RMB.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 recognised in the consolidated statement of comprehensive income, except when deferred in OCI as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within “finance income or finance costs”. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within “Other gains – net”.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the consolidated statement of comprehensive income as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as fair value through other comprehensive income (“FVOCI”) are recognised in other comprehensive income.

(c) Group companies

The results and financial position of all the New Century REIT Hong Kong I Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each consolidated statement of comprehensive income 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 rate on the dates of the transactions); and
- (iii) all resulting currency translation differences are recognised in OCI.

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. Currency translation differences arising are recognised in OCI.

2.5 Investment property

Investment property, principally comprising freehold land, buildings and related equipment, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the New Century REIT Hong Kong I Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the New Century REIT Hong Kong I Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the statements of comprehensive income.

2.6 Impairment of non-financial assets

Intangible assets that have an indefinite useful life, for example goodwill or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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 of disposal 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.

2.7 Financial assets

2.7.1 Classification

From 1 January 2018, the New Century REIT Hong Kong I Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (“OCI”) or through profit or loss), and;
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the New Century REIT Hong Kong I Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (“FVOCI”).

The New Century REIT Hong Kong I Group reclassifies debt instruments investments when and only when its business model for managing those assets changes.

2.7.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the New Century REIT Hong Kong I Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the New Century REIT Hong Kong I Group has transferred substantially all the risks and rewards of ownership.

2.7.3 Measurement

At initial recognition, the New Century REIT Hong Kong I Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

(a) Debt instruments

Subsequent measurement of debt instruments depends on the New Century REIT Hong Kong I Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the New Century REIT Hong Kong I Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains together with foreign exchange gains and losses. Impairment losses are presented as separate line item in profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains and impairment expenses are presented as separate line item in the consolidated statement of comprehensive income.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains in the period in which it arises.

(b) *Equity instruments*

The New Century REIT Hong Kong I Group subsequently measures all equity investments at fair value. Where the New Century REIT Hong Kong I Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the New Century REIT Hong Kong I Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.7.4 Impairment

From 1 January 2018, the New Century REIT Hong Kong I Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the New Century REIT Hong Kong I Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, the identified impairment loss was immaterial, while cash and cash equivalents are also subject to the impairment requirements of IFRS 9 and the identified loss was immaterial.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.7.5 Accounting policies applied until 31 December 2017

The New Century REIT Hong Kong I Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the New Century REIT Hong Kong I Group's previous accounting policy.

(a) Classification

Until 31 December 2017, the New Century REIT Hong Kong I Group classified its financial assets in the following categories:

- loans and receivables

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) 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 the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The New Century REIT Hong Kong I Group's loans and receivables comprise "trade and other receivables", "cash and cash equivalents" and "restricted cash" in the balance sheet (Notes 2.10, 2.11 and 2.12).

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date – the date on which the New Century REIT Hong Kong I Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at FVPL. Financial assets carried at FVPL are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the New Century REIT Hong Kong I Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at FVPL are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the ‘financial assets at FVPL’ category are presented in the consolidated statement of comprehensive income within “Other gains – net” in the period in which they arise. Dividend income from financial assets at FVPL is recognised in the consolidated statement of comprehensive income as part of other income when the New Century REIT Hong Kong I Group’s right to receive payments is established.

(c) Impairment

Assets carried at amortised cost

The New Century REIT Hong Kong I Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the New Century REIT Hong Kong I Group could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

2.8 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the New Century REIT Hong Kong I Group or the counterparty.

2.9 Derivatives financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

During the Track Record Period, the New Century REIT Hong Kong I Group did not designate any derivatives as hedging instruments.

2.10 Trade and other receivables

Trade and other receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value and subsequently measured at amortised cost using the effective interest method. See Note 2.7.4 and Note 12 for the New Century REIT Hong Kong I Group's impairment policies.

2.11 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less. Restricted cash is excluded from cash and cash equivalents.

2.12 Restricted cash

Restricted cash represents guaranteed deposits in a separate reserve account to be pledged to the bank as security deposits under bank borrowing agreement. Such restricted cash will be released when the New Century REIT Hong Kong I Group repays the related bank loan.

2.13 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.

2.14 Other payables

Other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.15 Borrowings and borrowings cost

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the New Century REIT Hong Kong I Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Borrowings are classified as current liabilities if the loan agreements include an overriding repayment on demand clause, which gives the lender the right to demand repayment at any time at their sole discretion, irrespective of whether a default event has occurred and notwithstanding any other terms and maturity stated in the loan agreement.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

All other borrowing costs are recognised in the consolidated statements of comprehensive income in the period in which they are incurred.

2.16 Current and deferred income tax

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

(a) Current income tax

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 jurisdictions where the New Century REIT Hong Kong I Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

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 financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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 end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the New Century REIT Hong Kong I Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in OCI or directly in equity. In this case, the tax is also recognised in OCI or directly in equity, respectively.

(c) *Investment allowances and similar tax incentives*

Companies within the New Century REIT Hong Kong I Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure. The New Century REIT Hong Kong I Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

2.17 Provisions

Provisions are recognised when the New Century REIT Hong Kong I Group has a present legal or constructive obligation as a result of past events; it is probable 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 recognised 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 recognised as interest expense.

2.18 Revenue recognition – lease income

Lease income from operating leases where the New Century REIT Hong Kong I Group is a lessor is recognised in income on a straight-line basis over the lease term (*Note 5*). The respective leased assets are included in the consolidated balance sheet in the “investment property”.

Rental income of the New Century REIT Hong Kong I Group is measured on the following bases:

- Minimum annual rent (“Base Rent”) from Netherlands Hotel property and other rental income are recognised in the period in which the properties are leased and on a straight-line basis over the periods of the respective leases;
- Actual annual rent (“Total Rent”) from Netherlands Hotel property is recognised in the period in which they are earned in accordance with the terms of respective agreements.

2.19 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains/ (losses) on these assets.

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.20 Dividend income

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

3 Financial risk management

3.1 Financial risk factors

The New Century REIT Hong Kong I Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk. The New Century REIT Hong Kong I Group's overall risk management programme focuses on the unpredictability of financial markets and seek to minimise potential adverse effects on the New Century REIT Hong Kong I Group's financial performance.

Risk management is carried out by the REIT Manager, who manages and monitors these risk exposures to ensure appropriate measures are implemented in a timely and effective manner.

(a) Market risk

Foreign exchange risk

The New Century REIT Hong Kong I Group's foreign exchange risks mainly arises from net investment in foreign operation. The New Century REIT Hong Kong I Group has an investment in Europe, whose net assets are exposed to foreign currency translation risk for EUR. Currency exposure arising from the net assets of the New Century REIT Hong Kong I Group's foreign operation is managed primarily through NC Netherlands's borrowings denominated in EUR.

Cash flow interest rate risk

The New Century REIT Hong Kong I Group has no significant interest-bearing assets. The New Century REIT Hong Kong I Group's interest rate risk mainly arises from bank borrowings and loan due to a related party. Bank borrowings obtained at variable rates exposes the New Century REIT Hong Kong I Group to cash flow interest rate risk. Loan due to a related party obtained at fixed rate exposes the New Century REIT Hong Kong I Group to fair value interest rate risk.

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

The New Century REIT Hong Kong I Group manages its cash flow interest rate risk by using interest rate cap. Interest rate cap has the economic effect of keeping floating interest rate of borrowing within the cap rate. Under the interest rate cap, the New Century REIT Hong Kong I Group agrees with other party to limit floating interest rate within the cap rate by reference to the agreed notional amount.

During the Track Record Period, if the interest rate had been higher/lower by 25 basis points, with all other variables held constant, the net profit for each year/period would have changed mainly as a result of higher/lower interest expenses as follows:

	Year ended 31 December			Eleven months ended	
	2017	2018	2019	30 November 2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Net profit (decrease)/ increase					
- 25 basis points higher	(274)	(214)	(67)	(67)	N/A
- 25 basis points lower	<u>274</u>	<u>214</u>	<u>67</u>	<u>67</u>	<u>N/A</u>

(b) Credit risk

Credit risk arises from cash and cash equivalents, restricted cash, as well as trade and other receivables included in the consolidated balance sheets.

Credit risk is managed on a group basis. As at 31 December 2017, 2018, 2019 and 30 November 2020, all cash and cash equivalents and restricted cash were deposited in the major financial institutions in Hong Kong and Europe, or high reputation regional bank in Hong Kong and Europe, which the management believed are of high credit quality.

While cash and cash equivalents and restricted cash are also subject to impairment requirements of IFRS 9, the identified impairment loss was immaterial.

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

The New Century REIT Hong Kong I Group established policies in place to ensure that the investment property is leased to the customers with an appropriate credit term and the New Century REIT Hong Kong I Group assesses the credit worthiness and financial strength of its customers as well as considering prior dealing history with the customers. The New Century REIT Hong Kong I Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit loss rates based on the corresponding historical credit losses experienced is immaterial.

(c) Liquidity risk

The New Century REIT Hong Kong I Group's objective is to maintain sufficient cash and sources of funding through committed credit facility. To manage the liquidity risk, management monitors rolling forecasts of the New Century REIT Hong Kong I Group's liquidity reserve and cash and cash equivalents on the basis of expected cash flow. The New Century REIT Hong Kong I Group expects to fund the future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions or related party, if necessary.

The table below analyses the New Century REIT Hong Kong I Group's financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at each balance sheet date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows:

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
As at 31 December 2017					
Bank borrowings	–	–	–	113,720	113,720
Loan due to a related party	–	–	–	107,390	107,390
Interest payable to a related party	8,326	3,768	2,956	5,812	20,862
Interest payable on bank borrowings	3,830	3,363	3,363	4,509	15,065
Derivative financial instruments	112	–	–	–	112
Other payables and amount due to related parties	2,392	–	–	–	2,392
	<u>14,660</u>	<u>7,131</u>	<u>6,319</u>	<u>231,431</u>	<u>259,541</u>

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
As at 31 December 2018					
Bank borrowings	–	–	114,375	–	114,375
Loan due to a related party	–	–	–	107,390	107,390
Interest payable to a related party	5,227	2,956	2,810	3,002	13,995
Interest payable on bank borrowings	3,824	3,363	4,509	–	11,696
Derivative financial instruments	8	–	–	–	8
Other payables and amount due to related parties	2,909	–	–	–	2,909
	<u>11,968</u>	<u>6,319</u>	<u>121,694</u>	<u>110,392</u>	<u>250,373</u>
As at 31 December 2019					
Other payables and amount due to related parties	11,616	–	–	–	11,616
	<u>11,616</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>11,616</u>
As at 30 November 2020					
Other payables and amount due to related parties	6,046	–	–	–	6,046
	<u>6,046</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>6,046</u>

The interest payments on borrowings are calculated based on borrowings held as at 31 December 2017 and 2018 without taking into account future borrowings. Floating-rate interest is estimated using the relevant interest rates as at 31 December 2017 and 2018.

3.2 Capital risk management

The New Century REIT Hong Kong I Group's objectives when managing capital are to safeguard the New Century REIT Hong Kong I Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

Consistent with others in the industry, the management monitors capital on the basis of the gearing ratio. This ratio is calculated as total gross borrowings excluding transaction costs divided by total asset value.

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

The gearing ratio calculated based on the gross bank borrowings excluding transaction costs and loan due to a related party over total asset value as at 31 December 2017, 2018, 2019 and 30 November 2020 is as follows:

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Total gross borrowings excluding transaction costs (Note 16 and 24(c))	221,110	221,765	–	–
Total asset value	227,777	269,843	16,855	11,824
Gearing ratio	<u>97%</u>	<u>82%</u>	<u>N/A</u>	<u>N/A</u>

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value as at 31 December 2017, 2018, 2019 and 30 November 2020 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the New Century REIT Hong Kong I Group is the current bid price. These instruments are included in level 1;
- Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2; and
- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

See Note 10 for disclosures of the investment property that is measured at fair value.

	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
Financial liability at FVPL				
Derivative financial instruments				
As at 31 December 2017	<u>–</u>	<u>112</u>	<u>–</u>	<u>112</u>
As at 31 December 2018	<u>–</u>	<u>8</u>	<u>–</u>	<u>8</u>

The New Century REIT Hong Kong I Group did not hold derivative financial instruments as at 31 December 2019 and 30 November 2020.

There were no transfers among different levels and no change in valuation technique during the Track Record Period.

The fair value of financial instrument that is not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair values of interest rate cap are calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

4 Critical accounting estimates and judgements

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

The New Century REIT Hong Kong I 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 addressed below.

(a) Estimation of fair value of investment property

The fair value of investment property is determined at each reporting date by independent valuers by using valuation technique. The independent valuers have relied on the income capitalisation approach as their primary methods, cross-referenced to the direct comparison method where applicable. Details of the judgement and assumptions have been disclosed in Note 10.

(b) Current income taxes and deferred tax

There are many transactions and calculations for which the ultimate tax determination is uncertain. The New Century REIT Hong Kong I Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

5 Revenue

	Year ended 31 December			Eleven months ended	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Rental income from lease of					
Netherlands Hotel (a)	14,844	15,590	14,366	14,366	–
Other rental income (b)	<u>139</u>	<u>146</u>	<u>144</u>	<u>144</u>	<u>–</u>
	<u>14,983</u>	<u>15,736</u>	<u>14,510</u>	<u>14,510</u>	<u>–</u>

- (a) During the Track Record Period, the revenue represented the rental income received from the Netherlands Hotel based on a lease agreement with a term of 25 years. Pursuant to the lease agreement, the New Century REIT Hong Kong I Group is entitled to receive a Total Rent, which is calculated as 24% of the total operating revenue of the Netherlands Hotel.

Under the terms of the lease agreement, the Lessee has guaranteed a Base Rent, which is adjusted annually based on the consumer price index published by the Central Bureau of Statistics of the Netherlands which is capped at 3% per annum. If the Total Rent is less than the Base Rent, the shortfall would be paid by the Lessee to the New Century REIT Hong Kong I Group.

- (b) Other rental income represented the rental income from the lease of antennas in investment property and was recognised on a straight-line basis over the periods of the respective leases.

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

6 Operating expenses

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Management fee <i>(Note 24(b))</i>	1,205	1,350	1,174	1,181	72
Legal and other professional fees	572	706	1,268	1,267	110
Auditor's remuneration	138	142	133	133	56
Urban real estate and land use tax	275	317	350	350	–
Trustee fee	46	54	46	29	2
Insurance fees	346	396	344	344	–
Miscellaneous	50	51	37	36	18
	<u>2,632</u>	<u>3,016</u>	<u>3,352</u>	<u>3,340</u>	<u>258</u>
Total operating expenses	<u>2,632</u>	<u>3,016</u>	<u>3,352</u>	<u>3,340</u>	<u>258</u>

7 Other gains – net

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Gain on disposal of a subsidiary <i>(Note 21)</i>	–	–	69,653	69,653	–
Bank charges	(90)	(117)	(664)	(649)	(54)
Fair value changes of derivative financial instruments <i>(Note 15)</i>	148	104	8	8	–
Net foreign exchange gains	121	111	5	47	639
	<u>179</u>	<u>98</u>	<u>69,002</u>	<u>69,059</u>	<u>585</u>
	<u>179</u>	<u>98</u>	<u>69,002</u>	<u>69,059</u>	<u>585</u>

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

8 Finance costs – net

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Finance cost					
– Interest expense on bank borrowings	(3,237)	(3,362)	(1,169)	(1,169)	–
– Interest expense on related party loans	(5,773)	(5,788)	(6,281)	(6,191)	–
– Foreign exchange losses on related party loan	–	–	(2,009)	(1,482)	–
– Amortisation of transaction costs of the bank borrowings	(198)	(212)	(586)	(586)	–
	<u>(9,208)</u>	<u>(9,362)</u>	<u>(10,045)</u>	<u>(9,428)</u>	<u>–</u>
Finance costs – net	<u>(9,208)</u>	<u>(9,362)</u>	<u>(10,045)</u>	<u>(9,428)</u>	<u>–</u>

9 Income tax expense

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Current income tax	–	–	10	10	–
Deferred income tax (<i>Note 17</i>)	1,380	9,875	1,183	1,183	–
	<u>1,380</u>	<u>9,875</u>	<u>1,193</u>	<u>1,193</u>	<u>–</u>
Income tax expense	<u>1,380</u>	<u>9,875</u>	<u>1,193</u>	<u>1,193</u>	<u>–</u>

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

The tax on the New Century REIT Hong Kong I Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profit of the consolidated statements of comprehensive income as follows:

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit before taxation	<u>5,211</u>	<u>39,606</u>	<u>70,193</u>	<u>70,879</u>	<u>327</u>
Tax calculated at each applicable tax rate to each group entity	1,298	9,922	19,346	19,462	83
Capital gains not taxable	-	-	(18,809)	(18,809)	(133)
Usage of tax losses that not recognised deferred tax assets in previous years	(116)	(175)	-	-	-
Unrecognised tax losses carried forward	<u>198</u>	<u>128</u>	<u>656</u>	<u>540</u>	<u>50</u>
Income tax expense	<u><u>1,380</u></u>	<u><u>9,875</u></u>	<u><u>1,193</u></u>	<u><u>1,193</u></u>	<u><u>-</u></u>

(a) Hong Kong profits tax

Enterprises incorporated in the Hong Kong are subject to income tax rate of 16.5% during the Track Record Period. No Hong Kong profits tax has been provided for as the New Century REIT Hong Kong I Group has no assessable profits in Hong Kong during the Track Record Period.

(b) Luxembourg corporate income tax

Enterprises incorporated in Luxembourg are subject to local applicable progressive tax rate during the Track Record Period. No Luxembourg corporate income tax has been provided for as the New Century REIT Hong Kong I Group has no taxable income in Luxembourg during the Track Record Period.

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

In addition, pursuant to Luxembourg corporate income tax law, there is no taxation on the capital gains derived by a disposal of equity investment by virtue of application of the participation exemption. The capital gains refer to the balance of equity transfer price after deducting the cost of equity investment.

(c) Netherlands corporate income tax

Enterprises incorporated in the Netherlands are subject to income tax rate of 20% for the first EUR200,000 taxable income and 25% for the taxable income exceeds EUR200,000 during the Track Record Period.

10 Investment property

	As at 31 December			As at 30 November
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Investment property	<u>211,598</u>	<u>249,073</u>	<u>-</u>	<u>-</u>

The investment property of the New Century REIT Hong Kong I Group was located in Netherlands and with freehold interest.

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
At fair value					
Opening balance	196,334	211,598	249,073	249,073	-
Fair value gains	1,889	36,150	78	78	-
Disposal of a subsidiary (Note 21)	-	-	(245,535)	(245,535)	-
Translation reserve	<u>13,375</u>	<u>1,325</u>	<u>(3,616)</u>	<u>(3,616)</u>	<u>-</u>
Closing balance	<u>211,598</u>	<u>249,073</u>	<u>-</u>	<u>-</u>	<u>-</u>

**APPENDIX IIC ACCOUNTANT’S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

In November 2019, the New Century REIT Hong Kong I Group disposed NC Netherlands, which held the Group’s investment property located in the Netherlands (*Note 21*).

- (a) The independent valuation of the New Century REIT Hong Kong I Group’s investment property in the Netherlands as at 31 December 2017 and 2018 was performed by Savills Consultancy B.V. (“Savills”).

As at 31 December 2017 and 2018, the investment property was pledged as collateral for the New Century REIT Hong Kong I Group’s bank borrowings (*Note 16*). The pledge was released after the early repayment of the bank borrowings in May 2019.

The fair value measurement information for the investment property in accordance with IFRS was given below:

Description	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurements			
As at 31 December 2017	<u>–</u>	<u>–</u>	<u>211,598</u>
As at 31 December 2018	<u>–</u>	<u>–</u>	<u>249,073</u>

The New Century REIT Hong Kong I Group had no investment property as at 31 December 2019 and 30 November 2020.

During the Track Record Period, there were no transfers between Levels 1, 2 and 3.

Valuation processes of the New Century REIT Hong Kong I Group

The New Century REIT Hong Kong I Group’s investment property was valued at 31 December 2017 and 2018 by the qualified independent professional valuers, Savills, who hold recognised relevant professional qualification and have recent experience in the locations and segments of the investment property valued.

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

The management reviews the valuations performed by the principal valuer for financial reporting purposes. Discussions of valuation processes and results are held between the management and principal valuer at least once every year, in line with the New Century REIT Hong Kong I Group's annual reporting dates.

As at 31 December 2017 and 2018, the Manager:

- verified all major inputs to the independent valuation report;
- assessed property market conditions and property valuations movements as compared to the prior year valuation reports; and
- held discussions with the independent valuers.

Changes in level 3 fair values are analysed at each reporting date during the annual valuation discussions between the management and the principal valuer.

Valuation techniques

The valuation was determined using income capitalisation approach based on significant unobservable inputs. These inputs include:

Capitalisation rate	Reflecting the nature, location and tenancy profile of the properties together with the current market investment criteria; and
Rental income	Based on analysis of recent lettings and achievable rentals of the hotel properties and other benchmark performance derived from comparable hotel properties in the locality.

There were no changes to the valuation techniques for the investment property during the years ended 31 December 2017 and 2018.

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

Information about fair value measurements using significant unobservable inputs (Level 3):

Description	Valuation technique	Unobservable inputs	Range of unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
The Netherlands Hotel	Income capitalisation	Rental income	For rental income from the Netherlands Hotel during the Track Record Period: Base Rent of the Netherlands Hotel is a fixed amount adjusted annually based on consumer price index published by the Central Bureau of Statistics of the Netherlands which is capped at 3% per annum. Total Rent of the Netherlands Hotel is calculated as 24% of the lessee's total operating revenue. If the Total Rent of the Netherlands Hotel is less than the Base Rent of the Netherlands Hotel for that year/period, the lessee shall pay the difference.	The higher the input value, the higher the fair value
		Capitalisation rate	As at 31 December 2017: 5% to the core rent plus 22.5% to the top slice component of the rent passing As at 31 December 2018: 4.75% to the core rent plus 20% to the top slice component of the rent passing	The higher the input rate, the lower the fair value

There are inter-relationships between unobservable inputs. An increase in future rental income may be linked with change of costs. If the remaining lease term increases, the yield may change.

11 Other long-term assets

	As at 31 December			As at
	2017	2018	2019	30 November 2020
	RMB'000	RMB'000	RMB'000	RMB'000
Escrow deposit (a)	—	—	11,723	—

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

- (a) It represented an escrow deposit of EUR1,500,000 (equivalent to RMB11,600,000 as at the Disposal Date (Note 21), RMB11,723,000 as at 31 December 2019 and RMB11,807,850 as at 30 November 2020 (Note 12)) in a notary's account, to serve as a tax indemnity relating to the disposal of NC Netherlands for an escrow period of 18 months after the Disposal Date.

12 Trade and other receivables and prepayments

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Trade receivables (a)	7	14	-	-
Other receivables (Note 11)	-	-	-	11,808
Prepayments	<u>181</u>	<u>323</u>	<u>-</u>	<u>-</u>
Trade and other receivables and prepayments – net	<u><u>188</u></u>	<u><u>337</u></u>	<u><u>-</u></u>	<u><u>11,808</u></u>

As at 31 December 2017, 2018 and 30 November 2020, the carrying amounts of the trade and other receivables of the New Century REIT Hong Kong I Group approximated their fair values.

- (a) As at 31 December 2017 and 2018, the trade receivables represented the rental income receivables from the lessee. The aging analysis of trade receivables based on invoice date was as follows:

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Trade receivables, gross				
- Within 30 days	<u><u>7</u></u>	<u><u>14</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

**APPENDIX IIC ACCOUNTANT’S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

Credit period granted to customers is normally 30 days. No interest is charged on the trade receivables. The New Century REIT Hong Kong I Group applies the simplified approach, which requires expected lifetime losses to be recognised from the initial recognition of the receivables. During the Track Record Period, the New Century REIT Hong Kong I Group believes that there were no significant financial difficulty of their customers and based on the past experience, there were no significant change in the credit quality of their customers. The identified impairment loss was immaterial.

All carrying amounts of the New Century REIT Hong Kong I Group’s trade receivables were denominated in EUR.

As at 31 December 2017 and 2018, all the trade receivables were pledged as collateral for the New Century REIT Hong Kong I Group’s bank borrowings (Note 16).

13 Cash and cash equivalents and restricted cash

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB’000	RMB’000	RMB’000	2020
				RMB’000
Cash at banks (a)	15,991	20,433	5,132	16
Less: Restricted cash (b)	<u>–</u>	<u>(1,962)</u>	<u>–</u>	<u>–</u>
Cash and cash equivalents	<u>15,991</u>	<u>18,471</u>	<u>5,132</u>	<u>16</u>

Cash and cash equivalents and restricted cash were all denominated in EUR.

- (a) All cash at banks are deposits with original maturity within 3 months. The New Century REIT Hong Kong I Group earned interest on cash at bank, including restricted cash, at floating bank deposit rates.
- (b) Restricted cash represented guarantee deposits held in reserve accounts and bank deposits to the banks as security deposits under the New Century REIT Hong Kong I Group’s bank borrowings (Note 16).

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

14 Other payables

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
				<i>RMB'000</i>
Other payables	433	526	1,586	221
Advances from customers	8	1,277	–	–
Interest payables	467	461	–	–
Accrued taxes other than income tax	<u>525</u>	<u>788</u>	<u>–</u>	<u>–</u>
	<u>1,433</u>	<u>3,052</u>	<u>1,586</u>	<u>221</u>

During the Track Record Period, all other payables of the New Century REIT Hong Kong I Group were non-interest bearing. Their fair values approximate their carrying amounts due to their short maturities.

15 Derivative financial instruments

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
				<i>RMB'000</i>
Financial liabilities				
Interest rate caps	<u>112</u>	<u>8</u>	<u>–</u>	<u>–</u>

The New Century REIT Hong Kong I Group has entered into interest rate cap with a commercial bank. The interest rate cap has the economic effect of keeping floating interest rate of borrowing within the cap rate. Nevertheless, the interest rate cap was not accounted for as hedging instruments as the conditions for hedge accounting were not met during the Track Record Period. As at 31 December 2017 and 2018, the notional principal amount of the outstanding interest rate cap was EUR13,117,500 and the interest rate was capped at 4.4%. In May 2019, the interest rate cap was unwinded upon the early repayment of bank borrowings. Gains and losses arising from the fair value change of the interest rate cap were recognised in the consolidated statements of comprehensive income in “Other gains-net” (Note 7).

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

16 Bank borrowings

	As at 31 December			As at 30 November
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Principal of bank				
borrowings – secured	113,720	114,375	–	–
Less: Transaction costs	<u>(795)</u>	<u>(588)</u>	<u>–</u>	<u>–</u>
	<u>112,925</u>	<u>113,787</u>	<u>–</u>	<u>–</u>

The New Century REIT Hong Kong I Group's bank borrowings were all denominated in EUR.

The exposure of the New Century REIT Hong Kong I Group's borrowings to interest rate changes and the contractual repricing dates or maturity date whichever is earlier were as follows:

	6 months or less	Between 6 and 12 months	Over 1 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2017	<u>112,925</u>	<u>–</u>	<u>–</u>	<u>112,925</u>
As at 31 December 2018	<u>113,787</u>	<u>–</u>	<u>–</u>	<u>113,787</u>

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

The maturity of borrowings was as follows:

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
				<i>RMB'000</i>
On demand or within 1 year	–	–	–	–
Between 1 and 3 years	–	113,787	–	–
Between 3 and 5 years	112,925	–	–	–
Over 5 years	–	–	–	–
	<u>112,925</u>	<u>113,787</u>	<u>–</u>	<u>–</u>

The weighted average effective interest rates during the Track Record Period were as follows:

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
				<i>RMB'000</i>
Borrowings – non-current				
– EUR	<u>3.12%</u>	<u>3.13%</u>	<u>4.36%</u>	<u>–</u>

The fair values of current borrowings equaled their carrying amounts as the discounting impact is not significant.

The carrying amounts and fair values of the non-current borrowings were as follows:

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
				<i>RMB'000</i>
Carrying amounts				
Bank borrowings	<u>112,925</u>	<u>113,787</u>	<u>–</u>	<u>–</u>
Fair values				
Bank borrowings	<u>116,884</u>	<u>111,166</u>	<u>–</u>	<u>–</u>

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

The fair values are based on cash flows discounted using the market interest rates prevailing at each balance sheet date and are within level 2 of the fair value hierarchy.

17. Deferred income tax assets and deferred income tax liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes related to the same tax authority. The net deferred income tax balances after offsetting were as follows:

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Deferred income tax liabilities				
– to be recovered after more than 12 months	10,355	20,318	–	–
– to be recovered within 12 months	–	–	–	–
	<u>10,355</u>	<u>20,318</u>	<u>–</u>	<u>–</u>

The movements on the net deferred income tax liabilities were as follows:

	Year ended 31 December			Eleven months ended	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Opening balance	8,364	10,355	20,318	20,318	–
Charged to profit or loss (Note 9)	1,380	9,875	1,183	1,183	–
Translation reserve	611	88	(293)	(293)	–
Disposal of a subsidiary (Note 21)	–	–	(21,208)	(21,208)	–
Closing balance	<u>10,355</u>	<u>20,318</u>	<u>–</u>	<u>–</u>	<u>–</u>

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

Movements in deferred income tax assets and liabilities during the Track Record Period, without taking into consideration the offsetting of balance within the same tax jurisdiction, are as follows:

Deferred income tax assets	Tax losses carried forward RMB'000	Derivative financial instrument RMB'000	Total RMB'000
As at 1 January 2017	474	–	474
Credited to profit or loss	–	24	24
Translation reserve	<u>32</u>	<u>2</u>	<u>34</u>
As at 31 December 2017 and 1 January 2018	506	26	532
Credited/(charged) to profit or loss	240	(24)	216
Translation reserve	<u>4</u>	<u>–</u>	<u>4</u>
As at 31 December 2018 and 1 January 2019	750	2	752
Charged to the profit or loss	(416)	(2)	(418)
Translation reserve	(61)	–	(61)
Disposal of a subsidiary (<i>Note 21</i>)	<u>(273)</u>	<u>–</u>	<u>(273)</u>
As at 31 December 2019, 1 January 2020 and 30 November 2020	<u>–</u>	<u>–</u>	<u>–</u>

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

Deferred income tax liabilities	Amortisation of transaction cost for the bank borrowings RMB'000	Valuation of investment property RMB'000	Total RMB'000
As at 1 January 2017	187	8,651	8,838
(Credited)/charged to profit or loss	(50)	1,454	1,404
Translation reserve	<u>11</u>	<u>634</u>	<u>645</u>
As at 31 December 2017 and 1 January 2018	148	10,739	10,887
(Credited)/charged to profit or loss	(3)	10,094	10,091
Translation reserve	<u>1</u>	<u>91</u>	<u>92</u>
As at 31 December 2018 and 1 January 2019	146	20,924	21,070
(Credited)/charged to profit or loss	(146)	911	765
Translation reserve	–	(354)	(354)
Disposal of a subsidiary (<i>Note 21</i>)	<u>–</u>	<u>(21,481)</u>	<u>(21,481)</u>
As at 31 December 2019, 1 January 2020 and 30 November 2020	<u>–</u>	<u>–</u>	<u>–</u>

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at each end of the Track Record Period, the New Century REIT Hong Kong I Group did not recognise deferred income tax assets of RMB198,000, RMB128,000, RMB656,000 and RMB50,000 in respect of losses amounting to RMB774,000, RMB598,000, RMB1,753,000 and RMB224,000 that can be carried forward against future taxable income, respectively.

**APPENDIX IIC ACCOUNTANT’S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

18 Share capital

Ordinary shares, issued and fully paid:

	Number of shares	Share capital RMB
As at 31 December 2017, 2018 and 2019 and 30 November 2020	<u>1</u>	<u>7</u>

1 ordinary share was issued and fully paid with a value of EUR 1 per share.

19 Other reserves

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening balance	(1,044)	5,172	5,821	5,821	6,498
Translation reserve	<u>6,216</u>	<u>649</u>	<u>677</u>	<u>677</u>	<u>212</u>
Closing balance	<u>5,172</u>	<u>5,821</u>	<u>6,498</u>	<u>6,498</u>	<u>6,710</u>

(Unaudited)

20 Dividends

The board of directors has resolved to declare and paid a dividend of RMB85,883,600 (EUR11,000,000 in equivalent) to the shareholder on 11 December 2019.

21 Disposal of a subsidiary

On the Disposal Date, New Century REIT Hong Kong I disposed of the entire registered capital of NC Netherlands, which owns the Netherlands Hotel. The difference between the carrying value of net assets being disposed of and the total consideration in relation to the disposal was included in “Other gains – net” (Note 7) of the consolidated statement of comprehensive income.

The expenses incurred directly related to the disposal of RMB13,263,000 (the “Disposal Cost”), among which comprises divestment fee to Manager and the Trustee’s additional fee to the Trustee with amounts of RMB1,537,000 and RMB72,000 respectively and the valuation fee of RMB51,000, were netted against the total cash consideration for the disposal.

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

The following table summarises the carrying value of net assets disposed of at the Disposal Date and the consideration received, as well as the net cash flow arising from the disposal (using the exchange rate of EUR vs RMB as at the completion date: 7.7334).

	Carrying value as at the Disposal Date RMB'000
Net assets of NC Netherlands at the Disposal Date	
Investment property (<i>Note 10</i>)	245,535
Trade and other receivables and prepayments	492
Cash and cash equivalents	2,392
Amounts due to related parties	(505)
Current income tax liabilities	(494)
Other payables	(1,993)
Loan due to a related party (i)	(148,675)
Deferred income tax liabilities	<u>(21,208)</u>
Net assets disposed	75,544
Total consideration for the disposal	158,619
Less: Disposal Cost	<u>(13,263)</u>
Net consideration for the disposal	145,356
Less: net assets disposed	(75,544)
Less: accumulated realised exchange differences on translation of financial statements	<u>(159)</u>
Gain on disposal of a subsidiary (<i>Note 7</i>)	69,653
Net cash inflow arising on the disposal:	
Net consideration for the disposal	145,356
Settlement of loan and amounts due to related parties by the buyer	149,180
Add: excess payment repayable from the buyer	<u>225</u>
Subtotal	294,761
Less: escrow deposit (<i>Note 11</i>)	(11,600)
Cash and cash equivalents of the NC Netherlands	<u>(2,392)</u>
Net proceeds to receive from this disposal transaction	<u><u>280,769</u></u>

**APPENDIX IIC ACCOUNTANT’S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

As at 31 December 2019, part of the Disposal Cost, with the total amount of RMB11,941,000 had been paid by Spearhead Global Limited on behalf of the New Century REIT Hong Kong I Group, the net proceeds received by the New Century REIT Hong Kong I Group from this transaction was:

	Carrying value as at the Disposal Date RMB'000
The total net proceeds to receive from this transaction	280,769
Disposal Cost paid on behalf by Spearhead Global Limited	<u>11,941</u>
 The net proceeds received by the New Century REIT Hong Kong I Group as at 31 December 2019	 <u><u>292,710</u></u>

As at 30 November 2019, part of the consideration with the total amount of RMB147,392,000 of this disposal transaction had not been received and the Disposal Cost of RMB13,263,000 had not been paid by the New Century REIT Hong Kong I Group, the net proceeds received by the New Century REIT Hong Kong I Group from this transaction was:

The total net proceeds to be received from this transaction	280,769
Add: Disposal Cost to be paid	13,263
Less: consideration to be received	<u>(147,392)</u>
 The net proceeds received by the New Century REIT Hong Kong I Group as at 31 December 2019	 <u><u>146,640</u></u>

- (i) It represented an intercompany loan due to Spearhead Global Limited with an outstanding principal of EUR19,225,000 at an interest rate of 2.90% per annum. The related interest payables on the Disposal Date was EUR43,000. All were settled upon disposal by the buyer.

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

22 Note to the consolidated statements of cash flows

(a) Reconciliation of profit before taxation to cash generated from operations

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit before taxation for the year/period	<u>5,211</u>	<u>39,606</u>	<u>70,193</u>	<u>70,879</u>	<u>327</u>
Adjustments for:					
– Interest expense on bank borrowings (Note 8)	3,237	3,362	1,169	1,169	–
– Interest expense on related party loans (Note 8)	5,773	5,788	6,281	6,191	–
– Amortisation of transaction costs of bank borrowings (Note 8)	198	212	586	586	–
– Fair value changes on derivative financial instruments (Note 7)	(148)	(104)	(8)	(8)	–
– Gains on disposal of a subsidiary (Note 7)	–	–	(69,653)	(69,653)	–
– Fair value gains on investment property (Note 10)	(1,889)	(36,150)	(78)	(78)	–
Changes in working capital:					
– Decrease/(increase) in trade and other receivables and prepayments	363	(165)	(307)	(155)	–
– Increase/(decrease) in amounts due to related parties	352	420	52	1,382	(4,079)
– Increase/(decrease) in trade and other payables	<u>841</u>	<u>1,696</u>	<u>1,257</u>	<u>365</u>	<u>(1,346)</u>
Cash generated from/(used in) operations	<u><u>13,938</u></u>	<u><u>14,665</u></u>	<u><u>9,492</u></u>	<u><u>10,678</u></u>	<u><u>(5,098)</u></u>

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

(b) Net cash and liabilities relating to financing activities

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020 RMB'000
Cash and cash equivalents	15,991	18,471	5,132	16
Restricted cash	–	1,962	–	–
Borrowings – repayable after one year	(112,925)	(113,787)	–	–
Loan due to a related party	(107,390)	(107,390)	–	–
Interest payables	<u>(3,004)</u>	<u>(1,920)</u>	<u>–</u>	<u>–</u>
	<u>(207,328)</u>	<u>(202,664)</u>	<u>5,132</u>	<u>16</u>
Cash and cash equivalents	15,991	18,471	5,132	16
Restricted cash	–	1,962	–	–
Borrowings – variable interest rates	(112,925)	(113,787)	–	–
Borrowings – fixed interest rates	(107,390)	(107,390)	–	–
Interest payables	<u>(3,004)</u>	<u>(1,920)</u>	<u>–</u>	<u>–</u>
	<u>(207,328)</u>	<u>(202,664)</u>	<u>5,132</u>	<u>16</u>

APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY REIT HONG KONG I GROUP

	Other assets		Liabilities from financing activities				Total RMB'000
	Cash and cash equivalents RMB'000	Restricted cash RMB'000	Borrowings		Interest payables RMB'000		
			due to related party RMB'000	Borrowings due after 1 year RMB'000			
As at 1 January 2017	10,134	-	(106,044)	(105,561)	(3,585)	(205,056)	
Cash flows	5,693	-	(1,346)	-	9,591	13,938	
Foreign exchange adjustments	164	-	-	-	-	164	
Interest expenses	-	-	-	-	(9,010)	(9,010)	
Amortization	-	-	-	(198)	-	(198)	
Translation reserve	-	-	-	(7,166)	-	(7,166)	
As at 31 December 2017 and 1 January 2018	15,991	-	(107,390)	(112,925)	(3,004)	(207,328)	
Cash flows	2,469	1,962	-	-	10,234	14,665	
Foreign exchange adjustments	11	-	-	-	-	11	
Interest expenses	-	-	-	-	(9,150)	(9,150)	
Amortization	-	-	-	(212)	-	(212)	
Translation reserve	-	-	-	(650)	-	(650)	
As at 31 December 2018 and 1 January 2019	18,471	1,962	(107,390)	(113,787)	(1,920)	(202,664)	
Cash flows	(13,370)	(1,962)	107,895	114,375	9,370	216,308	
Interest expenses	-	-	-	-	(7,450)	(7,450)	
Foreign exchange adjustments	31	-	(505)	(2)	-	(476)	
Amortization	-	-	-	(586)	-	(586)	
As at 31 December 2019 and 1 January 2020	5,132	-	-	-	-	5,132	
Cash flows	(5,098)	-	-	-	-	(5,098)	
Foreign exchange adjustments	(18)	-	-	-	-	(18)	
As at 30 November 2020	<u>16</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16</u>	

23 Commitments

Capital commitments

As at 31 December 2017, 2018, 2019 and 30 November 2020, the New Century REIT Hong Kong I Group had no capital commitments.

Contingent liabilities

As at 31 December 2017, 2018, 2019 and 30 November 2020, the New Century REIT Hong Kong I Group did not have any significant contingent liabilities.

**APPENDIX IIC ACCOUNTANT’S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

24 Related party transactions and balances

In addition to the transactions and balances detailed elsewhere in this report, the New Century REIT Hong Kong I Group had the following material transactions with related parties during the Track Record Period:

(a) Nature of relationship with related parties

Related party	Relationship with the New Century REIT Hong Kong I Group
The Manager	The manager of New Century REIT
Celestial Gate Limited	Controlled by the same controlling shareholder
Spearhead Global Limited	Subsidiary of New Century REIT
Strong Tower Global Limited	Subsidiary of New Century REIT

(b) Transactions with related parties

Other related party transactions:

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Management fee to the Manager <i>(Note 6)</i>	1,205	1,350	1,174	1,181	72
	<u>1,205</u>	<u>1,350</u>	<u>1,174</u>	<u>1,181</u>	<u>72</u>

The New Century REIT Hong Kong I Group was charged a management fee from the Manager for its services as asset manager every half year, which is the aggregate of:

- a base fee (the “Base Fee”) of 0.3% per annum of the value of the deposited property as at each balance sheet date; and
- a variable fee (the “Variable Fee”) of 4% per annum of net property income, which is defined in the Trust Deed for each of the year.

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

Interest expenses on loan to related parties:

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Celestial Gate Limited	3,236	-	-	-	-
Spearhead Global Limited	-	-	2,613	2,523	-
Strong Tower Global Limited	<u>2,537</u>	<u>5,788</u>	<u>3,668</u>	<u>3,668</u>	<u>-</u>
	<u>5,773</u>	<u>5,788</u>	<u>6,281</u>	<u>6,191</u>	<u>-</u>

Proceeds of loan from related parties

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Spearhead Global Limited	-	-	151,334	-	-
Strong Tower Global Limited	<u>107,390</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>107,390</u>	<u>-</u>	<u>151,334</u>	<u>-</u>	<u>-</u>

Repayment of loan to related parties

	Year ended 31 December			Eleven months ended 30 November	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Celestial Gate Limited	106,044	-	-	-	-
Spearhead Global Limited	-	-	151,839	55,261	-
Strong Tower Global Limited	<u>-</u>	<u>-</u>	<u>107,390</u>	<u>-</u>	<u>-</u>
	<u>106,044</u>	<u>-</u>	<u>259,229</u>	<u>55,261</u>	<u>-</u>

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

(c) Balances with related parties

Other payables due to:

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Spearhead Global Limited	1,347	1,670	9,509	5,816
The Manager	<u>612</u>	<u>713</u>	<u>521</u>	<u>9</u>
	<u>1,959</u>	<u>2,383</u>	<u>10,030</u>	<u>5,825</u>

Interest payable due to:

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Strong Tower Global Limited	<u>2,537</u>	<u>1,459</u>	<u>-</u>	<u>-</u>

Loan due to related parties:

	As at 31 December			As at
	2017	2018	2019	30 November
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Strong Tower Global Limited	<u>107,390</u>	<u>107,390</u>	<u>-</u>	<u>-</u>

As at 31 December 2017 and 2018, the balances represented a related party loan of RMB107,390,242 due to Strong Tower Global Limited with effective interest rates of 5.4% per annum from 25 July 2017. And the termination date will be 5 years and 6 months from the date of initial utilisation.

**APPENDIX IIC ACCOUNTANT'S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

(d) Key management compensation

During the Track Record Period, there was no key management compensation.

(e) Director's emoluments

No directors' emoluments were paid or payable by the New Century REIT Hong Kong I Group during the Track Record Period.

25 Subsidiaries

Particulars of the principal subsidiaries were as follows:

Name	Place of establishment and operation and date of establishment	Issued and paid up capital RMB	Effective interests held by the Group as at (%)					Principal activities and place of operations	Direct/Indirect
			31 December		30 Nov 2019	The report date	2020		
			2017	2018					
Incorporated in Luxembourg:									
New Century Europe I S.à.r.l.	Luxembourg, 20 May 2016, limited liability company	12,500 ordinary shares of EUR1 each	100	100	100	100	100	Investment holding company	Direct
Incorporated in Netherlands:									
New Century Netherlands I B.V.	Netherlands, 3 February 2012 (disposed on 28 November 2019)	18,000 ordinary shares of EUR1 each	100	100	-	-	-	Hotel property leasing in the Netherlands	Indirect

**APPENDIX IIC ACCOUNTANT’S REPORT ON THE NEW CENTURY
REIT HONG KONG I GROUP**

26 Future minimum rental receivables

As at 31 December 2017, 2018, 2019 and 30 November 2020, the New Century REIT Hong Kong I Group had future minimum rental receivables under non-cancellable leases as follow:

	As at 31 December			As at
	2017	2018	2019	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2020</i>
Within one year	15,627	16,080	-	-
Between one year and five years	62,497	64,188	-	-
Over five years	<u>219,647</u>	<u>209,140</u>	<u>-</u>	<u>-</u>
	<u>297,771</u>	<u>289,408</u>	<u>-</u>	<u>-</u>

27 Event occurring after the balance sheet date

On 27 January 2021, New Century REIT announced that on 26 January 2021, DB Trustees (Hong Kong) Limited (in its capacity as the trustee of New Century REIT, and as the seller) and New Century Assets Manager (as the manager of New Century REIT) have respectively entered into a sale and purchase agreement for the disposal of Spearhead Global Limited (the “Target Company”) and its outstanding loan due to New Century REIT (the “Proposed Disposal”) after the reorganisation (the “Reorganisation”) to Huge Harvest International Limited (as the purchaser) for a consideration of approximately HK\$1,921,018,274. The Reorganisation involved the acquisitions of all issued shares in the share capital of each of Strong Tower Limited and New Century REIT Hong Kong I by the Target Company prior to the completion of the Proposed Disposal. The Proposed Disposal is subject to the approval of the independent unitholders of New Century REIT at the extraordinary general meeting.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by New Century REIT Hong Kong I or any of its subsidiaries in respect of any period subsequent to 30 November 2020 and up to the date of this report. Save as disclosed in this report, no dividend had been declared, made or paid by New Century REIT Hong Kong I or any of its subsidiaries in respect of any period subsequent to 30 November 2020.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The unaudited pro forma financial information of the Group (the “Unaudited Pro Forma Financial Information”) presented below is prepared to illustrate (a) the unaudited pro forma consolidated balance sheet of the Group as if the Proposed Disposal and Proposed Interim Distribution had been completed on 30 June 2020; and (b) the unaudited pro forma consolidated income statement, unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows of the Group for the year ended 31 December 2019 as if the Proposed Disposal and Proposed Interim Distribution had been completed on 1 January 2019. This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not purport to represent the true picture of the Group’s consolidated financial position as at 30 June 2020 or at any future date had the Proposed Disposal and Proposed Interim Distribution been completed on 30 June 2020 or the Group’s consolidated financial performance and consolidated cash flows for the year ended 31 December 2019 or for any future period had the Proposed Disposal and Proposed Interim Distribution been completed on 1 January 2019.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited condensed consolidated balance sheet of the Group as at 30 June 2020, the audited consolidated income statement, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2019, extracted from the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2020 and the audited consolidated financial statements of the Group for the year ended 31 December 2019 as set out in the 2020 Interim Report and 2019 Annual Report of New Century REIT respectively, after giving effect to the pro forma adjustments, which are directly attributable to the Proposed Disposal and Proposed Interim Distribution.

1. Unaudited Pro Forma Consolidated Balance Sheet of the Group

	Unaudited consolidated balance sheet of the Group as at 30 June 2020	Derecognition of aggregated assets and liabilities of the Group	Pro forma Adjustments				Unaudited Pro Forma consolidated balance sheet of the Group as at 30 June 2020
			RMB'000	RMB'000	Other Pro Forma Adjustments		
	Note 1	Note 2	Note 3	Note 4	Note 5	Note 6	RMB'000
Non-current assets							
Investment properties	4,113,000	(4,113,000)					-
Goodwill	7,987	(7,987)					-
Other long-term assets	1,313	(1,313)					-
	<u>4,122,300</u>	<u>(4,122,300)</u>					<u>-</u>
Current assets							
Trade and other receivables and prepayment	15,271	(15,271)			-		-
Amounts due from related parties	52,228	(52,228)	87,571	(64,192)	(23,379)		-
Restricted cash	137,660	(137,660)			-		-
Cash and cash equivalents	215,230	(215,230)		63,934	646,819	(710,753)	-
	<u>420,389</u>	<u>(420,389)</u>					<u>-</u>
Total assets	<u><u>4,542,689</u></u>	<u><u>(4,542,689)</u></u>					<u><u>-</u></u>
Current liabilities							
Trade and other payables	40,711	(40,711)					-
Amounts due to related parties	54,464	(54,464)					-
Current income tax liabilities	11,964	(11,964)					-
Derivative financial instruments	37,084	(37,084)					-
Deferred income	2,538	(2,538)					-
Borrowings	57,735	(57,735)					-
	<u>204,496</u>	<u>(204,496)</u>					<u>-</u>
Net current assets	<u>215,893</u>	<u>(215,893)</u>					<u>-</u>
Total assets less current liabilities	<u>4,338,193</u>	<u>(4,338,193)</u>					<u>-</u>

APPENDIX III

**UNAUDITED PRO FORMA
FINANCIAL INFORMATION OF THE GROUP**

	Unaudited consolidated balance sheet of the Group as at 30 June 2020	Derecognition of aggregated assets and liabilities of the Disposed Group	Pro forma Adjustments				Unaudited Pro Forma consolidated balance sheet of the Group as at 30 June 2020	
			RMB'000	RMB'000	Other Pro Forma Adjustments			
					RMB'000	RMB'000		RMB'000
Note 1	Note 2	Note 3	Note 4	Note 5	Note 6	RMB'000		
Non-current liabilities								
Borrowings	1,802,200	(1,802,200)					-	
Deferred income tax liabilities	<u>775,577</u>	<u>(775,577)</u>					-	
	<u>2,577,777</u>	<u>(2,577,777)</u>					-	
Total liabilities, other than net assets attributable to unitholders	<u>2,782,273</u>	<u>(2,782,273)</u>					-	
Non-controlling interests	<u>25,986</u>	<u>(25,986)</u>					-	
Net assets attributable to unitholders	<u>1,734,430</u>	<u>(1,734,430)</u>	87,571	(258)	623,440	(710,753)	-	

2. Unaudited Pro Forma Consolidated Income Statement of the Group

	Audited consolidated income statement of the Group for the year ended 31 December 2019	Derecognition of aggregated financial performance of the Disposed Group	Pro Forma Adjustments			Unaudited Pro Forma consolidated income statement of the Group for the year ended 31 December 2019
			Other Pro Forma Adjustments			
	RMB'000 Note 9	RMB'000 Note 10	RMB'000 Note 11	RMB'000 Note 12	RMB'000 Note 13	RMB'000
Revenue	254,881	(254,881)				-
Operating expenses	(55,135)	55,135				-
Other gains/(losses) – net	62,914	(62,914)	86,320	1,941	(600,782)	(512,521)
Change in fair value of investment properties	(120,094)	120,094				-
Operating Profit	142,566	(142,566)				(512,521)
Finance income	4,913	(4,913)				-
Finance costs	(155,379)	155,379				-
Finance costs – net	(150,466)	150,466				-
Loss before taxation and transactions with Unitholders	(7,900)	7,900				(512,521)
Income tax expense	(28,784)	28,784				-
Loss after tax, before transactions with Unitholders	(36,684)	36,684				(512,521)
- Loss attributable to unitholders	(37,502)	37,502				(512,521)
- Profit attributable to non-controlling interests	818	(818)				-
	(36,684)	36,684				(512,521)

3. Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Group

	Audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2019 RMB'000 Note 9	Pro Forma Adjustments			Unaudited Pro Forma consolidated statement of comprehensive income of the Group for the year ended 31 December 2019 RMB'000	
		Derecognition of aggregated financial performance of the Disposed Group RMB'000 Note 10	Other Pro Forma Adjustments			
			RMB'000 Note 11	RMB'000 Note 12	RMB'000 Note 13	
Loss after tax, before transactions with Unitholders						
- Loss attributable to unitholders	(37,502)	37,502				(512,521)
Other comprehensive income:						
Items that may be reclassified subsequently to profit or loss:						
- Exchange gains on translation of financial statements	677	(677)				-
Total comprehensive loss attributable to Unitholders for the year, before transaction with Unitholders	(36,825)	36,825				(512,521)
Transaction with unitholders	36,825	(36,825)				512,521
Total comprehensive loss attributable to Unitholders for this year, after transaction with Unitholders	-	-				-
Total comprehensive income attributable to non-controlling interests for the year	818	(818)				-

4. Unaudited Pro Forma Consolidated Statement of Cash Flows of the Group

	Audited consolidated statement of cash flows of the Group for the year ended 31 December 2019	Derecognition of aggregated financial performance of the Disposed Group	Pro Forma Adjustments				Unaudited Pro Forma consolidated statement of cash flows of the Group for the year ended 31 December 2019
			Other Pro Forma Adjustments				
			RMB'000	RMB'000	RMB'000	RMB'000	
Note 9	Note 10	Note 11	Note 12	Note 13	Note 14		
Cash flows from operating activities							
Loss before taxation and transactions with unitholders	(7,900)	7,900	86,320	1,941	(600,782)		(512,521)
Fair value changes on investment properties	120,094	(120,094)					-
Interest expenses on bank borrowings	85,710	(85,710)					-
Unrealised net foreign exchange losses	32,848	(32,848)					-
Amortisation of transaction costs of bank borrowings	28,531	(28,531)					-
Fair value losses on derivative financial instruments	7,718	(7,718)					-
Realised net foreign exchange losses on financing activities	5,003	(5,003)					-
Other financing costs	3,274	(3,274)					-
Realised exchange reserves related to the disposal of a subsidiary	(159)	159					-
Loss on disposal of the Disposed Group	-	-		(1,941)	600,782		598,841
Dividend income	-	-	(86,320)				(86,320)
Amortisation of deferred income	(406)	406					-
Interest income on restricted cash	(2,879)	2,879					-
Gain on disposal of a subsidiary	(69,653)	69,653					-
Cash flows from operating gains before changes in working capital	202,181	(202,181)					-
Decrease in trade and other receivables and prepayments	2,037	(2,037)					-
Increase in trade and other payables	6,327	(6,327)					-
Increase in amounts due from related parties	(8,302)	8,302					-
Decrease in amounts due to related parties	(1,307)	1,307					-

APPENDIX III
**UNAUDITED PRO FORMA
FINANCIAL INFORMATION OF THE GROUP**

	Pro Forma Adjustments						Unaudited Pro Forma consolidated statement of cash flows of the Group for the year ended 31 December 2019 RMB'000
	Audited consolidated statement of cash flows of the Group for the year ended 31 December 2019 RMB'000 Note 9	Derecognition of aggregated financial performance of the Disposed Group RMB'000 Note 10	Other Pro Forma Adjustments				
			RMB'000 Note 11	RMB'000 Note 12	RMB'000 Note 13	RMB'000 Note 14	
Cash generated from operations	200,936	(200,936)					-
Interest paid	(87,325)	87,325					-
Income tax paid	(53,208)	53,208					-
Net cash generated from operating activities	60,403	(60,403)					-
Cash flows from investing activities							
Additions of investment properties	(2,735)	2,735					-
Loan to related parties	-	-		(86,320)			(86,320)
Repayment from related parties (Cash Reserve)	-	-		61,334			61,334
Dividends received	-	-	86,320				86,320
Net cash inflow from the Disposal	-	-			620,517		620,517
Net cash inflow from disposal of a subsidiary	280,769	(280,769)					-
Net cash generated from investing activities	278,034	(278,034)					681,851
Cash flows from financing activities							
Changes of restricted cash pledged for borrowings	(243,237)	243,237					-
Interest received from restricted cash	8,249	(8,249)					-
Proceeds from bank borrowings	2,058,928	(2,058,928)					-
Repayment of bank borrowings	(2,226,215)	2,226,215					-
Net proceeds from issuance of units	12,914	(12,914)					-
Distributions paid to unitholders	(79,704)	79,704				(681,851)	(681,851)
Dividends paid to non-controlling interests	(4,441)	4,441					-
Units bought back for cancellation	(415)	415					-
Payment of other financing costs	(6,175)	6,175					-
Net cash used in financing activities	(480,096)	480,096					(681,851)

APPENDIX III

UNAUDITED PRO FORMA
FINANCIAL INFORMATION OF THE GROUP

	Pro Forma Adjustments					Unaudited Pro Forma consolidated statement of cash flows of the Group for the year ended 31 December 2019 RMB'000 Note 14	
	Audited consolidated statement of cash flows of the Group for the year ended 31 December 2019 RMB'000 Note 9	Derecognition of aggregated financial performance of the Disposed Group RMB'000 Note 10	Other Pro Forma Adjustments				RMB'000
			RMB'000 Note 11	RMB'000 Note 12	RMB'000 Note 13		
Net decrease in cash and cash equivalents	(141,659)	141,659				-	
Cash and cash equivalents at beginning of the year	332,373	(332,373)				-	
Exchange gains on cash and cash equivalents	3,348	(3,348)				-	
Cash and cash equivalents at end of the year	194,062	(194,062)				-	

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

1. These amounts are extracted from the unaudited condensed consolidated balance sheet of New Century REIT as at 30 June 2020 as set out in the published interim report of the Group for the six months ended 30 June 2020.
2. The adjustment represents derecognition of the aggregated unaudited carrying amounts of assets and liabilities of the Disposed Group as at 30 June 2020. The assets and liabilities of the Disposed Group are extracted from the aggregated unaudited financial information of the Disposed Group.
3. This adjustment represents the reinstatement of an interest free loan of EUR11,000,000 by New Century REIT to the Target Company (the “Original Sale Loan”) which had been eliminated in the unaudited condensed consolidated balance sheet of New Century REIT as at 30 June 2020.
4. This adjustment represents the partial settlement of the Original Sale Loan up to the Completion Date from the Target Company and the proceed received by New Century REIT and deposited in a designated bank account held in the name of the Trustee as a Cash Reserves of the Proposed Disposal. The difference represents foreign exchange losses arising from the settlement.

	<i>Original/ Settlement currency</i>	<i>RMB'000</i>
Partial settlement of the Original Sale Loan	EUR8,063,323	(64,192)
Proceed received and deposited as a Cash Reserves	HK\$70,000,000	<u>63,934</u>
Foreign exchange difference		<u><u>(258)</u></u>

5. This adjustment represents the estimated Cash Consideration of HK\$723,190,672 from the Proposed Disposal which represents HK\$1,895,524,145 for the sale of the Sale Shares and HK\$25,494,129 for the sale of the Sale Loan after deducting the entitlement of Huge Harvest and the Manager to the Proposed Interim Distribution based on their respective unitholding of New Century REIT and estimated expenses directly attributable to the Proposed Disposal (“Disposal Costs”). We assume that the total consideration is satisfied in cash and by Cash Reserves in the amount as shown below, as if the Proposed Disposal had been completed on 30 June 2020.

	<i>HK\$'000</i>	<i>RMB'000</i>
Consideration for sale of Shares	1,895,524	1,731,258
Consideration for sale of Sale Loan	<u>25,494</u>	<u>23,285</u>
Total Consideration of the Proposed Disposal	1,921,018	1,754,543
<i>Adjustment for the entitlement of Huge Harvest and the Manager to the Proposed Interim Distribution based on their respective unitholding of New Century REIT</i>	<u>(1,197,827)</u>	<u>(1,094,024)</u>
Adjusted Cash Consideration	723,191	660,519
Less: Disposal Costs	<u>(15,000)</u>	<u>(13,700)</u>
Net cash proceeds from the Proposed Disposal	<u><u>708,191</u></u>	<u><u>646,819</u></u>
	<i>HKD'000</i>	<i>RMB'000</i>
Total Consideration of the Proposed Disposal per above	1,921,018	1,754,543
Less: Disposal Costs	(15,000)	(13,700)
Less: Aggregated unaudited net assets value attributable to equity holders of the Disposed Group as at 30 June 2020		(1,646,859)
Less: the amount of Sale Loan		<u>(23,379)</u>
Total Disposal Gain		<u><u>70,605</u></u>

Since the net assets value of the Disposed Group at the Completion Date and the Group prior to the Completion Date may be different from the amounts used in the Unaudited Pro Forma Financial Information of the Group, the final amounts of value of net assets value of the Disposed Group, and the estimated gain/loss on the Proposed Disposal may be different from the amounts presented above. The actual amount of gain or loss to be recognised would be subject to the actual amount of net asset value of the Disposed Group as at Completion Date.

6. This adjustment represents the proceeds to settle the Proposed Interim Distribution (other than the entitlement of Huge Harvest and the Manager) with the total amount of HK\$778,190,672 (equivalent to approximately RMB710,753,000).
7. For the purpose of the unaudited pro forma consolidated balance sheet of the Group, the translation of Euro or Hong Kong dollars into Renminbi amounts was at an exchange rate of EUR 1 = RMB 7.9610 and HK\$ 1 = RMB 0.91334 as at 30 June 2020, respectively. No representation is made that Euro or Hong Kong dollars have been, could have been or may be converted to Renminbi amounts, or vice versa, at that date.
8. For the Unaudited Pro Forma Consolidated Balance Sheet, apart from Notes 2, 3, 4, 5 and 6 above relating to the Proposed Disposal, no other adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2020.
9. These amounts are extracted from the audited consolidated income statement, the audited consolidated statement of comprehensive income, the audited consolidated statement of cash flows and cash flow information of Note 25(a) to the consolidated financial statements of New Century REIT for the year ended 31 December 2019 as set out in the published annual report of New Century REIT for the year ended 31 December 2019.
10. This adjustment represents the derecognition of the aggregate amounts of the audited consolidated financial performance and cash flows of the Target Group, the Strong Tower Group and New Century REIT Hong Kong I Group for the year ended 31 December 2019, extracted from the audited consolidated income statement, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Target Group, the Strong Tower Group and New Century REIT Hong Kong I Group in their respective accountant's reports for the year ended 31 December 2019 as set out in Appendices IIA, IIB and IIC in this Circular.

11. This adjustment represents the dividend declared by the New Century REIT Hong Kong I Group to New Century REIT with the total amount of EUR11,000,000. It was translated at an exchange rate of EUR 1 = RMB 7.84730 as at 28 December 2018.

As mentioned in adjustment 3, there was an interest free intercompany loan of EUR11,000,000 from the Target Company to New Century REIT which was originated from the dividend declared to New Century REIT by New Century REIT Hong Kong I on December 2019. Given that the outstanding intercompany loan is a part and parcel of the Consideration (i.e. the portion of the Sale Loan) whereas the partial repayment of loan by the Target Company has subsequently been deposited in a designated bank account held with the Trustee as a Cash Reserves of New Century REIT, being an internal source of fund for the part of the Proposed Interim Distribution. Although the Unaudited Pro Forma Financial Information is prepared as if the Proposed Disposal and Proposed Interim Distribution had been completed on 1 January 2019, the abovementioned dividend declared and intercompany loan were then assumed to be happened on the same date of the Pro Forma disposal date (1 January 2019), and recorded as a dividend income in New Century REIT's accounting book and a deduction to the aggregated net assets value of the Disposed Group.

12. This adjustment represents the foreign exchange losses arising from the partial settlement of the Original Sale Loan by HK\$70,000,000 (equivalent to EUR8,063,323) from the Target Company to New Century REIT which deposited the loan proceed of HK\$70,000,000 in a designated bank account held in the name of the Trustee as a Cash Reserves of the Proposed Disposal.

	<i>Original/ Settlement currency</i>	<i>RMB'000</i>
Partial settlement of the Original Sale Loan	EUR8,063,323	(63,275)
Proceed received and deposited as a Cash Reserves	HK\$70,000,000	<u>61,334</u>
Foreign exchange difference		<u><u>(1,941)</u></u>

It was translated at an exchange rate of EUR 1 = RMB 7.84730 and HK\$ 1 = RMB 0.8762 as at 28 December 2018.

13. This adjustment represents estimated loss on disposal of the Disposed Group and the total cash consideration received after deducting the Disposal Costs assuming the Proposed Disposal had taken place on 1 January 2019.

Estimated loss on the disposal of the Disposed Group

	<i>HK\$'000</i>	<i>RMB'000</i>
Total Consideration of the Proposed Disposal	1,921,018	1,683,196
Less: Sale Loan (<i>Note 1</i>)		<u>(23,045)</u>
Adjusted consideration for the sale of the Sale Shares		1,660,151
Less: Disposal Costs	(15,000)	(13,143)
Less: Adjusted aggregated net assets value of attributable to equity holders of the Disposed Group as at 1 January 2019 (<i>Note 2</i>)		<u>(2,247,790)</u>
Estimated loss on the disposal of the Disposed Group		<u><u>(600,782)</u></u>

Note 1: It represents the outstanding amount of the Original Sale Loan of EUR2,936,677, which shall be included as part of the aggregated net assets value of the Disposed Group.

Note 2: It represents the net assets value of New Century REIT as at 1 January 2019 with the total amount of RMB2,368,358 thousand minus the reinstatement of an interest free loan of the EUR11,000,000 (equivalent to RMB86,320 thousand Original Sale Loan, which had been eliminated in the consolidated balance sheet of New Century REIT as at 31 December 2018 and the non-controlling interest with the total amount of RMB34,248,000).

Translated at an exchange rate of HK\$ 1 = RMB 0.87620 and EUR 1 = RMB 7.84730 as at 28 December 2018.

Since the final amounts of the net assets value of the Disposed Group and the Group upon the completion of the Proposed Disposal may be different from the amounts used in this Unaudited Pro Forma Financial Information of the Group, the actual amounts of value of net assets value of the Disposed Groups, and the actual gain/loss on the Proposed Disposal may be different from the amounts presented above. The actual amount of gain or loss to be recognised would be subject to the actual amount of net asset value of the Disposed Groups as at Completion Date.

Estimated cash flows of the Proposed Disposal

	<i>HK\$'000</i>	<i>RMB'000</i>
Total Consideration of the Proposed Disposal	1,921,018	1,683,196
<i>Adjustment for the entitlement of Huge Harvest and the Manager to the Proposed Interim Distribution based on their respective unitholding of New Century REIT</i>	<u>(1,197,827)</u>	<u>(1,049,536)</u>
Adjusted Cash Consideration	723,191	633,660
<i>Less: Disposal Costs</i>	<u>(15,000)</u>	<u>(13,143)</u>
Net cash proceeds from the Proposed Disposal	<u><u>708,191</u></u>	<u><u>620,517</u></u>

14. This adjustment represents the Proposed Interim Distribution payable to Unitholders (other than Huge Harvest and the Manager) with the total amount of HK\$778,190,672 (equivalent to RMB681,850,667).
15. For the purpose of the unaudited pro forma consolidated income statement, unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows of the Group, the translation of Euro or Hong Kong dollars into Renminbi amounts was at rate of EUR 1 = RMB 7.8473 and HK\$ 1 = RMB 0.8762 as at 28 December 2018, respectively. No representation is made that Euro or Hong Kong dollars have been, could have been or may be converted to Renminbi amounts, or vice versa, at that date.
16. For the purpose of the unaudited pro forma consolidated income statement, unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows of the Group, apart from Notes 10, 11, 12, 13 and 14, no other adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 1 January 2019.
17. For the purpose of the unaudited pro forma consolidated income statement, unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows of the Group, no adjustments are expected to have a continuing effect on New Century REIT.

The following is the text of a report on the unaudited pro forma financial information of the Group received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

To the Directors of New Century Asset Management Limited (as the Manager of New Century Real Estate Investment Trust)

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of New Century Real Estate Investment Trust (the "New Century REIT") and its subsidiaries (collectively the "Group") excluding Spearhead Global Limited and its subsidiaries (the "Target Group"), Strong Tower Global Limited and its subsidiaries (the "Strong Tower Group") and New Century REIT Hong Kong I Limited and its subsidiaries (the "New Century REIT Hong Kong I Group") (hereinafter the "Disposed Group") by the directors of New Century Asset Management Limited (the "Directors") and the Proposed Interim Distribution for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated balance sheet as at 30 June 2020, the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2019, and related notes (the "Unaudited Pro Forma Financial Information") as set out in Appendix III of New Century REIT's circular dated 19 March 2021 in connection with the proposed disposal of the Disposed Group and the Proposed Interim Distribution (the "Transactions") by New Century REIT. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix III of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Transaction on the Group's financial position as at 30 June 2020 and the Group's financial performance and cash flows for the year ended 31 December 2019 as if the Transactions had taken place at 30 June 2020 and 1 January 2019, respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's unaudited condensed consolidated financial statement for the six months ended 30 June 2020 and the audited consolidated financial statements for the year ended 31 December 2019, respectively, on which a review report and an audit report has been published respectively.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as if paragraph 4.29 of the Listing Rules were applicable to New Century REIT and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules as if paragraph 4.29 of the Listing Rules were applicable to New Century REIT, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules as if paragraph 4.29 of the Listing Rules were applicable to New Century REIT and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 30 June 2020 or 1 January 2019, respectively would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules as if paragraph 4.29 of the Listing Rules were applicable to New Century REIT.

PricewaterhouseCoopers*Certified Public Accountants*

Hong Kong, 19 March 2021

The following is the text of a letter received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道

The Board of Directors
New Century Asset Management Limited (As Manager of New Century Real Estate Investment Trust)

19 March 2021

Dear Sirs,

New Century Real Estate Investment Trust (“New Century REIT”)

Loss Estimate for the year ended 31 December 2020

We refer to the estimate of the consolidated loss attributable to unitholders of New Century REIT for the year ended 31 December 2020 (the “Loss Estimate”). The Loss Estimate has been prepared to enable to directors of New Century Asset Management Limited (the “Manager” of New Century REIT) to issue the following statement as set out in the New Century REIT’s profit warning announcement dated 20 January 2021 (the “Profit Warning Announcement”).

“The board of directors (the “Board”) of the Manager wishes to inform unitholders and potential investors of New Century REIT that based on the preliminary assessment of the unaudited consolidated management accounts of New Century REIT Group, it is expected that New Century REIT Group will incur a consolidated net loss attributable to unitholders for the year ended 31 December 2020 in the range of approximately RMB535 million to RMB565 million (as compared to a consolidated net loss attributable to unitholders of approximately RMB38 million for the year ended 31 December 2019).”

*PricewaterhouseCoopers, 22/F Prince’s Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

Directors' Responsibilities

The Loss Estimate has been prepared by the directors of the Manager based on the unaudited consolidated management accounts of New Century REIT and its controlled entities (the "Group") for the year ended 31 December 2020.

The directors of the Manager are solely responsible for the Loss Estimate.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion on the accounting policies and calculations of the Loss Estimate based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the directors of the Manager have properly compiled the Loss Estimate in accordance with the bases adopted by the directors of the Manager and as to whether the Loss Estimate is presented on a basis consistent in all material respects with the accounting policies expected to be adopted by the Group as set out in the interim report of New Century REIT for the six months ended 30 June 2020. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Loss Estimate has been properly compiled in accordance with the bases adopted by the directors of the Manager as set out in the Profit Warning Announcement and is presented on a basis consistent in all material respects with the accounting policies adopted by the Group as set out in the interim report of New Century REIT for the six months ended 30 June 2020.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 19 March 2021

**SOMERLEY CAPITAL LIMITED**

20th Floor
China Building
29 Queen's Road Central
Hong Kong

19 March 2021

The board of directors
New Century Asset Management Limited
(as manager of New Century Real Estate Investment Trust)
Unit 4706, 47th Floor,
The Center
99 Queen's Road Central,
Hong Kong

Dear Sirs,

We refer to the announcement dated 20 January 2021 (the “**Profit Warning Announcement**”) made by New Century Asset Management Limited (the “**Manager**”), as manager of New Century Real Estate Investment Trust (“**New Century REIT**”, together with its subsidiaries, “**New Century REIT Group**”). Capitalised terms used in this letter shall have the same meanings as defined in the Profit Warning Announcement unless otherwise specified.

We also refer to the statement (the “**Statement**”) made by the board of directors of the Manager in the Profit Warning Announcement that based on the preliminary assessment of the unaudited consolidated management accounts of New Century REIT Group, it is expected that New Century REIT Group will incur a consolidated net loss attributable to unitholders for the year ended 31 December 2020 in the range of approximately RMB535 million to RMB565 million (as compared to a consolidated net loss attributable to unitholders of approximately RMB38 million for the year ended 31 December 2019) (the “**Loss Estimate**”). The Statement is regarded as a profit forecast under Rule 10 of the Takeovers Code and therefore, is required to be reported on by the financial adviser pursuant to Rule 10 of the Takeovers Code.

The Statement has been prepared by the directors of the Manager based on the unaudited consolidated results of New Century REIT Group for the year ended 31 December 2020.

We have discussed with you and the senior management of the Manager the bases upon which the Statement was prepared. We have also considered the report on the Loss Estimate dated 19 March 2021 issued by PricewaterhouseCoopers, the reporting accountant and auditor of New Century REIT, to you, the text of which is set out in Appendix IVA to the circular jointly issued by Huge Harvest International Limited and New Century REIT, which stated that, so far as the accounting policies and calculations are concerned, the Loss Estimate has been properly compiled in accordance with the bases adopted by the directors of the Manager as set out in the Profit Warning Announcement and is presented on a basis consistent in all material respects with the accounting policies adopted by the Group as set out in the interim report of New Century REIT for six months ended 30 June 2020.

Based on the above, we are satisfied that the Statement, for which the directors of the Manager are solely responsible, has been made with due care and consideration.

Yours faithfully,
For and on behalf of
SOMERLEY CAPITAL LIMITED
John Wong
Director

The following is the text of a letter, summary of valuations and valuation report prepared for the purpose of incorporation in this circular received from Cushman & Wakefield Limited, an independent property valuer, in connection with its opinion of market value in existing state of the properties held by the Group in Hong Kong and the PRC as at 31 December 2020.



27/F, One Island East
Taikoo Place
18 Westlands Road
Quarry Bay
Hong Kong

19 March 2021

New Century Asset Management Limited

(as REIT Manager and on behalf of New Century REIT)
Unit 4706, 47th Floor, The Center
99 Queen's Road Central,
Hong Kong

DB Trustees (Hong Kong) Limited

(as Trustee of New Century REIT)
Level 60, International Commerce Centre
1 Austin Road West, Kowloon,
Hong Kong

Dear Sirs,

RE: VALUATION OF NEW CENTURY GRAND HOTEL HANGZHOU, NEW CENTURY HOTEL XIAOSHAN ZHEJIANG, NEW CENTURY RESORT QIANDAO LAKE HANGZHOU, NEW CENTURY GRAND HOTEL NINGBO, NEW CENTURY GRAND HOTEL CHANGCHUN AND NEW CENTURY GRAND HOTEL KAIFENG IN THE PEOPLE'S REPUBLIC OF CHINA (COLLECTIVELY "PROPERTIES" OR INDIVIDUALLY "PROPERTY")

Instructions, Purpose &
Valuation Date

We refer to the instructions from the Manager of New Century REIT (the "**REIT Manager**") for us to prepare market valuations of the captioned Properties held by New Century REIT and its subsidiaries (the "**Group**") located in the People's Republic of China (the "**PRC**") (as detailed in the attached summary of valuations). We confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing your company with our opinion of the market values of the Properties as at 31 December 2020 (the "**Valuation Date**") for disclosure purpose under the Listing Rules, including the valuation report in respect of the Properties will be inserted in this circular of the New Century REIT in relation to the Properties, and will be made available for public inspection pursuant to the Listing Rules and the Codes on Takeovers and Mergers and Share Buy-backs ("**Takeovers Code**").

We confirm that we will strictly fulfill the requirements listed in Chapter 6 of REIT Code published by Securities and Futures Commission (“**the REIT Code**”).

Valuer’s Interest

We hereby certify Cushman & Wakefield Limited (“**C&W**”) is independent of New Century REIT, the trustee, the management company, the Purchaser Concert Parties and each of the significant holders of New Century REIT, as per the Code on Real Estate Investment Trust issued by the Securities and Futures Commission in Hong Kong (the “**SFC**”).

Definition of Market Value

Our valuation of each Property represents its market value which in accordance with The HKIS Valuation Standards 2020 published by The Hong Kong Institute of Surveyors is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

Unless otherwise stated, our valuation of the Properties will be on a 100% interest basis.

Compliance

When valuing the properties, we will comply with the requirements set out in Rule 11 of the Takeovers Code, paragraph 6.8 and Practice Note 25 on Overseas Investments of the REIT Code published by the Securities and Futures Commission in Hong Kong (“**SFC**”) and HKIS Valuation Standards 2020 published by The Hong Kong Institute of Surveyors.

Valuation Basis &
Assumptions

Our valuation of each Property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of value available only to a specific owner or purchaser.

In the course of our valuations of the properties held by the Group in the PRC, with reference to the PRC Legal opinion of the Company's legal adviser, King & Wood Mallesons Shanghai Office (北京市金杜律師事務所上海分所), we have prepared our valuation on the basis that transferable land use rights in respect of the properties for its specific term at nominal annual land use fee has been granted and that any premium payable has already been fully paid. We have relied on the information and advice given by the REIT Manager and the PRC legal opinion, dated 30 November 2020, regarding the title to the properties and the interests in the properties. In valuing the properties, we have prepared our valuation on the basis that the owners have enforceable title to the properties and have free and uninterrupted rights to use, occupy or assign the properties for the whole of the unexpired terms as granted.

No allowances have been made in our valuations for any charges, mortgages or amounts owing on the Properties nor any expenses or taxation which may be incurred in effecting sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

Method of Valuation

We have assessed the value of the Properties by Discounted Cash Flow (“**DCF**”) Method.

DCF involves discounting future net cash flow after operation-related and property-related capital taxes (i.e. net operating income) of each property for a certain forecast period and the anticipated net operating income receivable thereafter being capitalised at appropriate terminal capitalisation rates until the end of the respective unexpired land use term to its present value by using an appropriate discount rate which reflect the rates of return required by a third-party investor for an investment of similar use type. In determining the discount rates which reflect the inherent risks associated with investment in the individual properties in the PRC, we take into consideration compensation for risks inherent in future cash flows, inflation, revenue growth, our understanding of the return expected by investors for similar properties as well as the level of discount rates used in valuations of similar types of properties. The discount rates adopted are reasonable and in line with the market norm having regard to the relevant analyses. We have prepared the cash flow forecast for 10 years with reference to the current and anticipated market conditions.

In addition, we have also taken into account the Hotel Lease and Management Agreements of the Properties.

Details of the key assumptions of our DCF valuations are set out in the valuation report of each Property contained herein.

Source of Information

We have relied to very considerable extent on the information given by the REIT Manager and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenures, identification of land and buildings, particulars of occupancy, operation accounts, tenancy details, site and floor areas, site and floor plans, number of units, interests attributable to New Century REIT and all other relevant matters.

Dimensions, measurements and areas are based on the copies of documents or other information provided to us by the REIT Manager and are therefore only approximations. No on-site measurement has been carried out. We have had no reason to doubt the truth and accuracy of the information provided by the REIT Manager which is material to the valuations. We were also advised that no material facts have been omitted from the information provided to us.

We would point out that the copies of documents provided to us are mainly compiled in Chinese characters and the transliteration into English represents our understanding of the contents. We would therefore advise the REIT Manager to make reference to the original Chinese edition of the documents and consult your legal advisors regarding the legality and interpretation of such documents.

Title Investigation	<p>We have been provided with copies of the title documents relating to the Properties but have not carried out any land title searches. Moreover, we have not inspected the original documents to verify ownership or to ascertain any amendments which may not appear on the copies handed to us. We are unable to ascertain the title of the Properties. We have therefore relied on the advice given by the REIT Manager regarding its interests in the Properties. All documents have been used for reference only and all dimensions, measurements and areas are approximate.</p>
Site Inspection	<p>Lisa Sun (Senior Valuer), Jasmine Zhang (Senior Valuer), Lily Lei (Assistant Manager) and Shirlin Qi (Associate Director) inspected the exterior and, where possible, the interior of the Properties in December 2020, January 2021 and February 2021. No structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are, however, not able to report that the Properties are free of rot, infestation or other structural defects. No test was carried out on any of the services. Our valuations are prepared on the assumption that these aspects are satisfactory.</p> <p>Unless otherwise stated, we have not carried out detailed on-site measurements to verify the site and floor areas of the Properties and our valuations are based on the areas shown on the documents handed to us.</p>
Currency	<p>Unless otherwise stated, all monetary sums stated in this valuation report are in Renminbi (“RMB”), the official currency of the PRC.</p>

Other Disclosures C&W's current rotation policy of signatory for valuation of the same assets for the same client is a maximum period of 7 years.

Besides valuations of the Properties as at 31 December 2020 for this circular, we have also been instructed by the REIT Manager to prepare market valuations of the Properties as at 30 November 2020 for accounting reference purpose. The said valuations as at 30 November 2020 and 31 December 2020 were the same. Our valuations were carried out on an impartial basis without bias to any party concerned.

We attach herewith summary of valuations and valuation report.

Yours faithfully,
For and on behalf of
Cushman & Wakefield Limited
Philip C Y Tsang
Registered Professional Surveyor (General Practice)
Registered China Real Estate Appraiser
MSc, MHKIS
Director

Note: Mr. Philip C Y Tsang is Registered Professional Surveyor who has over 28 years' experience in the valuation of properties in the PRC.

* *English or Chinese owners' names, where applicable, in the valuation report are for identification propose only.*

SUMMARY OF VALUATIONS

Group I – Properties held for Investment by the Group in the PRC

		Market value in existing state attributable to New Century REIT as at 31 December 2020 (RMB)	Interest attributable to New Century REIT (%)	Market value in existing state attributable to New Century REIT as at 31 December 2020 (RMB)
1.	New Century Grand Hotel Hangzhou, No. 818 Middle Shixin Road, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC	1,754,000,000	100	1,754,000,000
2.	New Century Hotel Xiaoshan Zhejiang, No. 77 Renmin Road, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC	501,000,000	95.46	478,254,600
3.	New Century Resort Qiandao Lake Hangzhou, Qilin Peninsula, Qiandao Lake, Chun'an County, Hangzhou, Zhejiang Province, the PRC	280,000,000	100	280,000,000

Property	Market value	Interest	Market value
	in existing state as at 31 December 2020 (RMB)	attributable to New Century REIT (%)	in existing state attributable to New Century REIT as at 31 December 2020 (RMB)
4. New Century Grand Hotel Ningbo, No. 666 Middle Shounan Road, Yinzhou District, Ningbo, Zhejiang Province, the PRC	757,000,000	100	757,000,000
5. New Century Grand Hotel Changchun, No. 2299 Jingyangda Road, Lvyuan District, Changchun, Jilin Province, the PRC	325,000,000	100	325,000,000
6. New Century Grand Hotel Kaifeng, No. 1 Zhengkai Road, New District, Kaifeng, Henan Province, the PRC	380,000,000	100	380,000,000
Grand Total:	<u>3,997,000,000</u>		<u>3,974,254,600</u>

VALUATION REPORT

Group I – Properties held for Investment by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2020										
1. New Century Grand Hotel Hangzhou, No. 818 Middle Shixin Road, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC	<p>New Century Grand Hotel Hangzhou is a 45-storey hotel building erected upon 2-level basement standing on parcel of land with site area of 11,169.80 sq m.</p> <p>New Century Grand Hotel Hangzhou, a five-star hotel, was completed in 2005 and operated since January 2005. New Century Grand Hotel Hangzhou currently provides 699 guest rooms, 712 car parking spaces (including loading/unloading spaces), food and beverage outlets, a wine bar, a fitness centre with indoor swimming pool, a show bar, a spa, banquet and function rooms and a business centre.</p> <p>Pursuant to Building Ownership Reports and Certificates for Completion and Acceptance of Construction Works, New Century Grand Hotel Hangzhou has a total gross floor area of 130,104.94 sq m.</p> <table border="1"> <thead> <tr> <th>Portion</th> <th>Gross Floor Area (sq m)</th> </tr> </thead> <tbody> <tr> <td>Hotel</td> <td>98,060.58</td> </tr> <tr> <td>Office</td> <td>4,347.78</td> </tr> <tr> <td>Basement</td> <td>27,696.58</td> </tr> <tr> <td>Total</td> <td>130,104.94</td> </tr> </tbody> </table>	Portion	Gross Floor Area (sq m)	Hotel	98,060.58	Office	4,347.78	Basement	27,696.58	Total	130,104.94	<p>As at the Valuation Date, the Property was operated as a hotel under a Hotel Lease and Management Agreement for a term of 10 years due to expire in July 2023 for a rent of 20% of the total operating revenue plus 34% of the gross operating profit.</p> <p>The occupancy rate of the hotel in December 2020 was 55.0%.</p> <p>Apart from the general hotel operation, a total leasable floor area of 12,976.74 sq m has been occupied by various tenants under various cooperation agreements for terms of 0.8 to 6.4 years at a total monthly service charge of approximately RMB 1,064,599 (before tax) for commercial or office uses while a leasable floor area of 149.89 sq m was vacant and available for lease.</p> <p>Due to the impact of the Novel Coronavirus (“COVID-19”), the hotel operating income has decreased significantly. Based on the net operating income of 2020, the estimated net yield of the Property is 3.7%.</p>	RMB1,754,000,000 (RENMINBI ONE BILLION SEVEN HUNDRED FIFTY FOUR MILLION)
Portion	Gross Floor Area (sq m)												
Hotel	98,060.58												
Office	4,347.78												
Basement	27,696.58												
Total	130,104.94												
	<p>As advised by the REIT Manager, New Century Grand Hotel Hangzhou has a total operating area of approximately 101,961 sq m.</p> <p>The land use rights of the Property have been granted to 浙江開元酒店投資管理集團有限公司 (Zhejiang New Century Hotel Investment & Management Group Co., Ltd.), a wholly owned subsidiary of New Century REIT, for a term of 40 years due to expire on 22 December 2043 for commercial use.</p>												

Notes:

- (1) Details of the room configuration are summarized as follows:

Room Type	Size (sq m)	Number of Rooms (Typical Floors)	Number of Rooms (Executive Floors)
Standard Room/Deluxe Room	35	575	75
Deluxe Suite	70	26	19
New Century Suite	105	–	3
President Suite	280	–	1
Total		601	98

- (2) Details of the facilities and amenities are summarized as follows:

Food and Beverage Outlet	Style	Total Seating Area (sq m)	Maximum Seating Capacity
Long Bar	Bar	198	90
Yigar Bar	Bar	275	70
Rose Garden Lounge	Bar	210	36
Prestige Club Lounge	Bar	343	48
Café Mediterranean	Western	884	220
Montalcino Grill	Italian	280	68
Four Season Chamber	Chinese	722	84
Cookfun Town	Chinese boxes	856 (23 boxes)	234
Grand Garden	Chinese boxes	1,591 (14 boxes)	178

Function and Banquet Facilities	Number of Rooms	Total Seating Area (sq m)	Maximum Seating Capacity
New Century Hall	1	1,000	900
Grand Dynasty Hall	1	1,360	1,400
Tianhong Hall	1	95	80
Tianhe Hall	1	95	80
Tianren Hall	1	90	30
Mingsi Hall	1	70	60
Mingde Hall	1	70	60
Mingrui Hall	1	108	90
Minghou Hall	1	108	30
He Hall	1	280	200
Gui Hall	1	95	80
Grand Hall	7	1,265	712

The New Century Hall and the Grand Dynasty Hall have ceiling heights of 7 meters.

Other Amenities	Total Area (sq m)
Chess/poker room	1,070
Beauty salon	120
Karaoke club	5,643.88
Indoor swimming pool	608
Table tennis room	136
Rhythmic gymnastics room	157
Foot spa	580
Tennis court	261
Billiards room	79
Fitness room	168

- (3) Pursuant to 38 State-owned Land Use Rights Certificates issued by the Hangzhou Municipal People's Government on 6 December 2013, the land use rights of the Property with a total site area of 11,169.80 sq m have been vested in 浙江開元酒店投資管理集團有限公司 (Zhejiang New Century Hotel Investment & Management Group Co., Ltd.) for a term of 40 years until 22 December 2043 for commercial use with details as follows:

Certificate No.	Site Area (sq m)	Certificate No.	Site Area (sq m)
007093	400.5	007115	158.1
007094	158.1	007116	158.1
007096	114	007117	158.1
007097	147.7	007118	158.1
007099	957.3	007119	158.1
007100	152.7	007120	158.1
007101	158.1	007121	158.1
007102	158.1	007122	158.1
007103	1,346	007123	158.1
007104	7.5	007124	1,046.3
007105	135	007125	158.1
007106	158.1	007126	999.9
007107	158.1	007127	158.1
007108	158.1	007128	158.1
007109	158.1	007129	158.1
007110	36.4	007130	696
007111	158.1	007131	158.1
007113	158.1	007132	1,178
007114	158.1	007133	<u>158.1</u>
		Total:	<u><u>11,169.80</u></u>

- (4) Pursuant to 38 Building Ownership Certificates issued by the Hangzhou Housing Management Bureau on 2 February 2009, the building ownership of the Property having a gross floor area of 102,408.36 sq m has been vested in 浙江開元酒店投資管理集團有限公司 (Zhejiang New Century Hotel Investment & Management Group Co., Ltd.) for commercial use with details as follows:

Certificate No.	Level	Gross Floor		Certificate No.	Level	Gross Floor	
		Area	(sq m)			Area	(sq m)
67276	1	68.38		67265	25	1,449.26	
67273	1	3,672.62		67257	26	1,449.26	
1397942	2	8,777.72		1397952-1	27	1,449.26	
67267	1-3	10,801.22		1397952	28	1,449.26	
1397941	3	9,167.90		67242	29	1,449.26	
1397932	4	9,593.73		67244	31	1,449.26	
67272	3-4	6,382.24		1397947	32	1,449.26	
00008212-1	5	1,237.93		1397947-1	33	1,449.26	
8212	6-14	12,341.79		1397959	34	1,449.26	
1397943-3	15	333.46		1397959-1	35	1,449.26	
1397943-2	16	1,449.26		1397946-1	36	1,449.26	
1397943-1	17	1,449.26		1397946	37	1,449.26	
1397943	18	1,449.26		1397955	38	1,449.26	
67250	19	1,449.26		1397955-1	39	1,449.26	
67251	20	1,449.26		1397956	40	1,449.26	
67275	21	1,449.26		1397956-1	41	1,449.26	
67274	22	1,449.26		1397957	42	1,400.38	
67271	23	1,449.26		1397957-2	43	1,353.98	
67270	24	1,449.26		1397957-1	45	1,045.51	
Total:						<u>102,408.36</u>	

As advised by the REIT Manager, the buildings as stated in the Building Ownership Certificates mentioned above only comprise portions of the Property. The basement of the Property does not have Building Ownership Certificate.

- (5) Pursuant to a Certificate for Completion and Acceptance of Construction Works dated 23 August 2005, the construction works of the Property with a total gross floor area of 130,104.94 sq m are in compliance with the requirements of urban planning and are examined and accepted.
- (6) Pursuant to Maximum Amount Mortgage Agreement 2020 Xiao Shan Di Zi No. 0131 (蕭山(抵)字 0131), which set out the ceiling of loan amount, the property is subject to a mortgage for the period from 28 June 2020 to 28 June 2030 in favour of Industrial and Commercial Bank of China Limited Xiaoshan Branch (中國工商銀行股份有限公司蕭山分行) for a maximum loan amount of RMB2,037,230,000.
- (7) Pursuant to Business Licence No. 913300007338122847 dated 10 May 2016, 浙江開元酒店投資管理集團 (Zhejiang New Century Hotel Investment & Management Group Co., Ltd.) was established as a limited company with a registered capital of RMB811,000,000 for a valid operation period from 30 November 2001 to 19 November 2027.

(8) We have been provided with a legal opinion on the title to the property issued by the REIT Manager's PRC legal advisors which contains, inter-alia, the following information:

- (a) Up to the issue date of the legal opinion, 浙江開元酒店投資管理集團有限公司 (Zhejiang New Century Hotel Investment & Management Group Co., Ltd.) obtained the State-owned Land Use Rights Certificates and Building Ownership Certificates of the Property and is in possession of a proper legal title to the Property.
- (b) Save as the mortgage disclosed in the legal opinion, up to the issue date of the legal opinion, the Property is not subject to other encumbrances, rights or limitation.
- (c) The transfer of the Property is subject to the mortgage disclosed in the legal opinion.

(9) The status of the title and grant of major approvals and licences in accordance with the information provided by the REIT Manager are as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

(10) Our key assumptions used in the DCF valuation are summarized as follows:

(a)	Average daily room rate ("ADR")	:	RMB490 for year 1
(b)	Annual growth in ADR	:	Stabilized at 4%
(c)	Occupancy rate on available room basis	:	Year 1 – 60%; Stabilized at 75% from Year 5
(d)	F&B revenue	:	Year 1 – 60% of gross revenue; Stabilized at 66% of gross revenue
(e)	FF&E provision	:	2% of gross revenue
(f)	Discount rate	:	8.75%
(g)	Terminal growth rate	:	4%

(11) Market Overview

Hangzhou, the capital of Zhejiang Province, is the provincial center in economy, culture, science and education. It is also an important national tourist city with beautiful scenery. Located at the southern wing of the Yangtze River Delta, the west end of Hangzhou Bay, the lower reaches of Qiantang River and the southern end of the Grand Canal (Beijing-Hangzhou), Hangzhou is one of the most important central cities in the southern wing of the Yangtze River Delta and a hub of transportation in southeast China. Hangzhou owns the natural environment integrating rivers, lakes and hills. Under the jurisdiction of Hangzhou are 9 districts of Shangcheng, Xiacheng, Jianggan, Gongshu, Xihu, Binjiang, Xiaoshan, Yuhang and Fuyang, 2 county-level cities of Jiande and Lin'an and 2 counties of Tonglu and Chun'an. There are 193 villages and towns (districts), including 23 villages, 86 towns and 84 districts, with a total area of 16,596 sq km, including an area of 3,068 sq km of the urban areas.

By the end of 2019, the resident population of Hangzhou was 10.36 million, an increase of 554 thousand over the previous year. Economic development in Hangzhou continued to thrive in 2020, with GDP increased 3.9% year-on-year to RMB1,610.6 billion, buoyed by the burgeoning service industry sector which contributed to 79.4% of total GDP. According to the International Congress and Convention Association (ICCA) ranking, Hangzhou was the 5th Convention City among all mainland cities behind Beijing, Shanghai, Guangzhou and Xi'an.

Tourism Statistics, Hangzhou, 2009-2020

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	CAGR (2009- 2020)
Domestic Visitors													
Arrivals ('000s)	50,937	63,049	71,810	82,368	94,090	106,060	120,400	137,000	158,844	179,828	207,003	175,588	10.8%
Domestic Tourism Revenue													
(RMB mil)	70,890	91,090	106,380	125,320	146,990	174,388	201,974	236,264	280,210	333,560	395,400	333,100	13.8%
International Visitor													
Arrivals ('000s)	2,304	2,757	3,063	3,311	3,160	3,270	3,420	3,632	4,022	4,205	*1,133	143	-25.6%
Tourism Foreign Exchange													
Revenue													
(USD mil)	1,380	1,690	1,960	2,202	2,160	2,318	2,931	3,149	3,543	3,830	*740	60	-28.4%

Source: Statistical Yearbook of Hangzhou, various years. 2019 and 2020 figures from web page of Hangzhou Statistics Bureau

* Statistical scale for calculating the international visitor arrivals and tourism foreign exchange revenue has been adjusted since 2019

New Century Grand Hotel Hangzhou is located in Xiaoshan CBD, only 18 km drive to Xiaoshan International Airport and very close to the express way. The hotel is within 30-minute drive to the West Lake, 44 km to the historic city Shaoxing and 2.5 hours' drive to Shanghai and Ningbo. The Hangzhou Metro Line 2 has been completed and operated in November 2014. The People Square Station of Metro Line 2 is located in front of the hotel, which provides great convenience to the guests of the hotel. It takes approximately 20 minutes to travel from the hotel to the downtown area of the city by subway.

According to data from China National Tourism Administration, during 2020, occupancy rate of five-star rated hotels in Hangzhou was 64.00%. Average daily room rate was RMB486.3.

Hotels and tourism-related industries have been significantly affected by the outbreak of the COVID-19. Diving in the occupancy rate is the main reason for the plunge in the revenue of each available room. During the post-epidemic period, the average room rates in most areas have not come back to the level in previous years as expected. Considering the early 2021 resurgence of the COVID-19 in north China and the lockdown policy in some areas, the hotel performance in future will be impacted by the fluctuated demand of tourism and business.

VALUATION REPORT

Group I – Properties held for Investment by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2020
2. New Century Hotel Xiaoshan Zhejiang, No. 77 Renmin Road, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC	<p>The Property comprises several buildings of 1 to 18 storeys erected on a parcel of land with a total site area of 9,721.30 sq m.</p> <p>New Century Hotel Xiaoshan Zhejiang, a four-star hotel, was completed in 1988 and operated since January 1988. New Century Hotel Xiaoshan Zhejiang currently provides 375 guest rooms, 34 above-ground car parking and 66 mechanical parking spaces, food and beverage outlets, a wine bar, a fitness centre, banquet and function rooms and a business centre.</p> <p>Pursuant to the Building Ownership Certificates, New Century Hotel Xiaoshan Zhejiang has a total above-ground gross floor area of 39,835.47 sq m.</p> <p>As advised by the REIT Manager, New Century Hotel Xiaoshan Zhejiang has a total operating area of approximately 32,486 sq m.</p> <p>The land use rights of the property have been granted to 浙江銳至投資股份有限公司 (Zhejiang Spearhead Investment Limited), a 95.46% owned subsidiary of New Century REIT. Portion of the site with a site area of 8,361 sq m is held with land use rights for a term of 40 years due to expire on 30 December 2035 for tourism use. The remaining portion of the site with a site area of 1,360.30 sq m is held with land use rights for a term of 40 years due to expire on 13 August 2037 for entertainment use.</p>	<p>As at the Valuation Date, the Property was operated as a hotel under a Hotel Lease and Management Agreement for a term of 10 years due to expire in July 2023 for a rent of 20% of the total operating revenue plus 34% of the gross operating profit.</p> <p>The occupancy rate of the hotel in December 2020 was 55.3%.</p> <p>Apart from the general hotel operation, a total leasable floor area of 4,825.78 sq m has been occupied by various tenants under various cooperation agreements for terms of 1 to 20 years at a total monthly service charge of approximately RMB635,464 (before tax) for commercial use.</p> <p>Due to the impact of the Novel Coronavirus (“COVID-19”), the hotel operating income has decreased significantly.</p> <p>Based on the net operating income of 2020, the estimated net yield of the Property is 4.9%.</p>	<p>RMB501,000,000 (RENMINBI FIVE HUNDRED ONE MILLION (95.46% interest attributable to New Century REIT: RMB478,254,600 (RENMINBI FOUR HUNDRED SEVENTY EIGHT MILLION TWO HUNDRED FIFTY FOUR THOUSAND SIX HUNDRED))</p>

Notes:

- (1) Details of the room configuration are summarized as follows:

Room Type	Size (sq m)	Number of Rooms
Single Room	20	80
Standard Room/Deluxe Room	21-24	272
Business Deluxe Room.	37-46	7
Deluxe Suite	46	15
New Century Suite	86	<u>1</u>
Total		<u><u>375</u></u>

- (2) Details of the facilities and amenities are summarized as follows:

Food and Beverage Outlet	Style	Total Seating Area (sq m)	Maximum Seating Capacity
New Triangle Café	Western	850.46	150
Gentleman Bar	Bar	330.2	53
Dreaming Bar	Bar	175.46	36
Jinxianyuan Restaurant	Chinese	650	230
Penoy Banquet Room	Chinese boxes	443.5 (12 boxes)	36
Jingdu Banquet Room	Chinese boxes	766.3 (27 boxes)	262

Function and Banquet Facilities	Number of Rooms	Total Seating Area (sq m)	Maximum Seating Capacity
New Century Hall	1	576	700
Xiao Ran Hall	1	405.6	350
Jin Lan Hall	1	56.64	50
Jin Xiu Hall	1	183.5	150
Jin Fang Hall	1	38.94	20
VIP Room	1	75.84	13

The New Century Hall has a ceiling height of 4.3 meters.

The hotel also has a foot SPA, a fitness room, a beauty salon and a chess/poker room.

- (3) Pursuant to 2 State-owned Land Use Rights Certificates issued by the Hangzhou Municipal People's Government, the land use rights of the Property have been vested in 浙江銳至投資股份有限公司 (Zhejiang Spearhead Investment Limited), a 95.46%-owned subsidiary of New Century REIT, for terms of 40 years due to expire on 30 December 2035 for tourism use and 13 August 2037 for entertainment use respectively with details as follows:

Certificate No.	Site Area (sq m)	Address	Land Use	Expiry Date
(2016) 0100018	8,361.00	No. 66 Shixin Road	Tourism	30 December 2035
(2016) 0100019	<u>1,360.30</u>	No. 136 South Shixin Road	Entertainment	13 August 2037
Total	<u><u>9,721.30</u></u>			

- (4) Pursuant to 8 Building Ownership Certificates issued by the Hangzhou Housing Security and Real Estate Administration Bureau, the building ownership of the Property comprising a total gross floor area of 39,835.47 sq m, has been vested in 浙江銳至投資股份有限公司 (Zhejiang Spearhead Investment Limited) with details as follows:

Certificate No.	Gross Floor Area (sq m)	Use	Issue Date
16475031	4,330.30	Commercial	13 June 2016
16475085	83.32	Others	14 June 2016
16475084	148.12	Others	14 June 2016
16475354	521.18	Others	14 June 2016
16475355	1,543.02	Commercial	14 June 2016
16475360	14,704.33	Commercial	14 June 2016
16475356	10,727.71	Commercial	14 June 2016
16475358	<u>7,777.49</u>	Commercial	14 June 2016
Total	<u><u>39,835.47</u></u>		

- (5) Pursuant to Maximum Amount Mortgage Agreement 2020 Xiao Shan Di Zi No. 0132 (蕭山(抵)字 0132), which set out the ceiling of loan amount, the property is subject to a mortgage for the period from 28 June 2020 to 28 June 2030 in favour of Industrial and Commercial Bank of China Limited Xiaoshan Branch (中國工商銀行股份有限公司蕭山分行) for a maximum loan amount of RMB654,170,000.
- (6) Pursuant to Business Licence No. 9133010025393029XR dated 1 November 2016, 浙江銳至投資股份有限公司 (Zhejiang Spearhead Investment Limited) was established as a limited company with a registered capital of RMB102,571,739 for a valid operation period commencing on 8 September 1994.

(7) We have been provided with a legal opinion on the title to the property issued by the REIT Manager's PRC legal advisors which contains, inter-alia, the following information:

- (a) Up to the issue date of the legal opinion, 浙江銳至投資股份有限公司 (Zhejiang Spearhead Investment Limited) obtained the State-owned Land Use Rights Certificates and Building Ownership Certificates of the Property and is in possession of a proper legal title to the Property.
- (b) Save as the mortgage disclosed in the legal opinion, up to the issue date of the legal opinion, the Property is not subject to other encumbrances, rights or limitation.;
- (c) The transfer the Property is subject to the mortgage disclosed in the legal opinion.

(8) The status of the title and grant of major approvals and licences in accordance with the information provided by the REIT Manager are as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

(9) Our key assumptions used in the DCF valuation are summarized as follows:

(a)	Average daily room rate ("ADR")	:	RMB325 for year 1
(b)	Annual growth in ADR	:	Stabilized at 4%
(c)	Occupancy rate on available room basis	:	Year 1 – 55%; Stabilized at 70% from Year 4
(d)	F&B revenue	:	Year 1 – 63% of gross revenue; Stabilized at 65% of gross revenue
(e)	FF&E provision	:	2% of gross revenue
(f)	Discount rate	:	8.75%
(g)	Terminal growth rate	:	4%

(10) Market Overview

Hangzhou, the capital of Zhejiang Province, is the provincial center in economy, culture, science and education. It is also an important national tourist city with beautiful scenery. Located at the southern wing of the Yangtze River Delta, the west end of Hangzhou Bay, the lower reaches of Qiantang River and the southern end of the Grand Canal (Beijing-Hangzhou), Hangzhou is one of the most important central cities in the southern wing of the Yangtze River Delta and a hub of transportation in southeast China. Hangzhou owns the natural environment integrating rivers, lakes and hills. Under the jurisdiction of Hangzhou are 9 districts of Shangcheng, Xiacheng, Jianggan, Gongshu, Xihu, Binjiang, Xiaoshan, Yuhang and Fuyang, 2 county-level cities of Jiande and Lin'an and 2 counties of Tonglu and Chun'an. There are 193 villages and towns (districts), including 23 villages, 86 towns and 84 districts, with a total area of 16,596 sq km, including an area of 3,068 sq km of the urban areas.

By the end of 2019, the resident population of Hangzhou was 10.36 million, an increase of 554 thousand over the previous year. Economic development in Hangzhou continued to thrive in 2020, with GDP increased 3.9% year-on-year to RMB1,610.6 billion, buoyed by the burgeoning service industry sector which contributed to 79.4% of total GDP.

Tourism Statistics, Hangzhou, 2009-2020

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	CAGR (2010- 2020)
Domestic Visitors Arrivals (‘000s)	50,937	63,049	71,810	82,368	94,090	106,060	120,400	137,000	158,844	179,828	207,003	175,588	10.8%
Domestic Tourism Revenue (RMB mil)	70,890	91,090	106,380	125,320	146,990	174,388	201,974	236,264	280,210	333,560	395,400	333,100	13.8%
International Visitor Arrivals (‘000s)	2,304	2,757	3,063	3,311	3,160	3,270	3,420	3,632	4,022	4,205	1,133	143	-25.6%
Tourism Foreign Exchange Revenue (USD mil)	1,380	1,690	1,960	2,202	2,160	2,318	2,931	3,149	3,543	3,830	740	60	-28.4%

Source: Statistical Yearbook of Hangzhou, various years. 2018 and 2019 figures from web page of Hangzhou Statistics Bureau

* Statistical scale for calculating the international visitor arrivals and tourism foreign exchange revenue has been adjusted since 2019

New Century Hotel Xiaoshan Zhejiang, located in the most prosperous business center of Xiaoshan District, is only 18 km drive to Xiaoshan International Airport and very close to the express way. The hotel is within 30-minute drive to the West Lake, 44 km to the historic city Shaoxing and 2.5 hours’ drive to Shanghai and Ningbo. The Hangzhou Metro Line 2 has been completed and operated in November 2014. The Renmin Road Station of Metro Line 2 is located in front of the hotel, which provides great convenience to the guests of the hotel. It takes approximately 20 minutes to travel from the hotel to the downtown area of the city by subway.

According to data from China National Tourism Administration, during 2020, occupancy rate of five-star rated hotels in Hangzhou was 64.00%. Average daily room rate was RMB486.3.

Hotels and tourism-related industries have been significantly affected by the outbreak of the COVID-19. Diving in the occupancy rate is the main reason for the plunge in the revenue of each available room. During the post-epidemic period, the average room rates in most areas have not come back to the level in previous years as expected. Considering the early 2021 resurgence of the COVID-19 in north China and the lockdown policy in some areas, the hotel performance in future will be impacted by the fluctuated demand of tourism and business.

VALUATION REPORT

Group I – Properties held for Investment by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2020										
3. New Century Resort Qiandao Lake Hangzhou, Qilin Peninsula, Qiandao Lake, Chun'an County, Hangzhou, Zhejiang Province, the PRC	<p>New Century Resort Qiandao Lake Hangzhou comprises a 6-storey hotel building, 2 villas of 3 storeys and a 3-storey staff dormitory erected on a parcel of land with a site area of 69,355.84 sq m.</p> <p>New Century Resort Qiandao Lake Hangzhou, a five-star hotel, was completed in February 2004 and has been operated since April 2004. New Century Resort Qiandao Lake Hangzhou currently provides 227 guest rooms, 108 car parking spaces (including loading/unloading spaces), food and beverage outlets, a fitness centre with swimming pool, banquet and function rooms, children yard and a business centre. Pursuant to the Building Ownership Certificates, New Century Resort Qiandao Lake Hangzhou has a total gross floor area of 39,402.37 sq m with details as follows:</p> <table border="1"> <thead> <tr> <th>Portion</th> <th>Gross Floor Area (sq m)</th> </tr> </thead> <tbody> <tr> <td>Hotel building</td> <td>36,160.71</td> </tr> <tr> <td>Villas</td> <td>552.13</td> </tr> <tr> <td>Staff dormitory</td> <td>2,689.53</td> </tr> <tr> <td>Total</td> <td>39,402.37</td> </tr> </tbody> </table> <p>As advised by the REIT Manager, New Century Resort Qiandao Lake Hangzhou has a total operating area of approximately 30,000 sq m.</p> <p>The land use rights of the Property have been granted to 淳安千島湖開元銳至投資有限公司 (Chun'an Qiandao Lake New Century Spearhead Investment Limited), a wholly owned subsidiary of New Century REIT, for terms of 40 years until 31 July 2041 for commercial use and 70 years until 31 July 2071 for residential use respectively.</p>	Portion	Gross Floor Area (sq m)	Hotel building	36,160.71	Villas	552.13	Staff dormitory	2,689.53	Total	39,402.37	<p>As at the Valuation Date, the Property was operated as a hotel under a Hotel Lease and Management Agreement for a term of 10 years due to expire in July 2023 for a rent of 20% of the total operating revenue plus 34% of the gross operating profit.</p> <p>The occupancy rate of the hotel in December 2020 was 43.4%.</p> <p>Apart from the general hotel operation, a total leasable floor area of 1,300 sq m has been occupied by the tenant under the cooperation agreements for terms of 3 years at a total monthly service charge of approximately RMB36,400 (before tax) for commercial use.</p> <p>Due to the impact of the Novel Coronavirus ("COVID-19"), the hotel operating income has decreased significantly. Based on the net operating income of 2020, the estimated net yield of the Property is 4.3%.</p>	RMB280,000,000 (RENMINBI TWO HUNDRED EIGHTY MILLION)
Portion	Gross Floor Area (sq m)												
Hotel building	36,160.71												
Villas	552.13												
Staff dormitory	2,689.53												
Total	39,402.37												

Notes:

- (1) Details of the room configuration are summarized as follows:

Room Type	Size (sq m)	Number of Rooms
Villa Standard Room/Villa Deluxe Room	35	9
Standard Room/Deluxe Room	33-35	196
Standard Suite	40	4
Deluxe Suite	68	6
Business Suite	69	7
New Century Suite	106	4
President Suite	552	<u>1</u>
Total		<u><u>227</u></u>

- (2) Details of the facilities and amenities are summarized as follows:

Food and Beverage Outlet	Level	Style	Total Seating Area (sq m)	Maximum Seating Capacity
Lobby Lounge	Level 5	Lounge bar	304.50	66
Hawaii	Level 5	Western	597.90	220
Fragrant Court	Level 3	Chinese	224	110
Hanbi Balcony	Level 3	Chinese boxes	430.50 (15 boxes)	142
Function and Banquet Facilities	Level		Total Seating Area (sq m)	Maximum Seating Capacity
Showrain Court	Level 3		572.30	400
New Century Hall	Level 5		600.16	600
Wan Xia Hall	Level 5		130.40	100
Qun Yan Hall	Level 4		133.66	100
Ju Yan Hall	Level 4		133.66	70
Yi Feng Hall	Level 2		89.30	18
Guang Yan Hall	Level 4		109.20	38
Yi He Hall	Level 2		76.50	60
Yi Jing Hall	Level 2		38.40	12
Yi Xiu Hall	Level 2		31.59	10
Linglong Hall	Level 2		45.75	16

The New Century Hall has a ceiling height of 6 meters.

Other Amenities	Level	Total Area (sq m)
a chess/poker room	Level 2	260
an indoor & outdoor swimming pool	Level 1/outdoor	1,050
a table tennis room	Level 1	150
a fitness room	Level 1	150
a children's playground	Level 1	1,300
a night club	Level 2	260
13 karaoke rooms	Level 2	200
a snooker room	Level 1	90
a tennis court	outdoor	720
an outdoor sand volleyball court	outdoor	500
an outdoor water golf	outdoor	150
a shop	Level 5	35

Apart from the amenities above, the hotel also has a yacht club.

- (3) Pursuant to a management agreement (受託管理業主別墅協議), 3 villas with a total gross floor area of 1,303 sq m, situated at Nos. 32, 33 and 35 New Century Resort Qiandao Lake Hangzhou were leased from an independent third party to 浙江開元酒店管理有限公司千島湖開元度假村 (Zhejiang New Century Hotel Management Qiandao Lake New Century Resort Development Co., Ltd.) for a term of 2 years from 1 July 2018 to 30 June 2023.
- (4) Pursuant to 2 Certificates for the Use of State-owned Land Chun An Guo Yong(2016) DI Nos. 002371 and 002375 issued by the Chun'an County People's Government on 21 June 2016, the land use rights of the Property having a site area of 10,759.58 sq m have been vested in 淳安千島湖開元銳至投資有限公司 (Chun'an Qiandao Lake New Century Spearhead Investment Limited) for terms of 70 years until 31 July 2071 for residential use.
- (5) Pursuant to 2 Building Ownership Certificates – Chun An Quan Zheng Qian Dao Hu Zhen Zi Di Nos. 268131 and 268132 issued by the Chun'an County Real Estate Administration Office on 13 June 2016, the building ownership of the Property having a gross floor area of 3,241.66 sq m has been vested in 淳安千島湖開元銳至投資有限公司 (Chun'an Qiandao Lake New Century Spearhead Investment Limited) for terms of 70 years for residential use respectively.
- (6) Pursuant to Certificate for Real Estate Ownership-Zhe(2019) Chun An Xian Qu Bu Dong Chan Di No. 0007776 issued by the Chun An Municipal Bureau of National Land and Resources on 25 September 2019, the land use rights of the Property having a site area of 58,596.26 sq m and the building ownership of the Property having a gross floor area of 36,160.71 sq m have been vested in 淳安千島湖開元銳至投資有限公司 (Chun'an Qiandao Lake New Century Spearhead Investment Limited) for a term of 40 years until 31 July 2041 for commercial use.
- (7) Pursuant to Maximum Amount Mortgage Agreement 2020 Xiao Shan Di Zi No. 0133 (蕭山(抵)字 0133), which set out the ceiling of the loan amount, the property is subject to a mortgage for the period from 28 June 2020 to 28 June 2030 in favour of Industrial and Commercial Bank of China Limited Xiaoshan Branch (中國工商銀行股份有限公司蕭山分行) for a maximum loan amount of RMB180,290,000.
- (8) Pursuant to Business Licence No. 913301277289120026 dated 9 May 2016, 淳安千島湖開元銳至投資有限公司 (Chun'an Qiandao Lake New Century Spearhead Investment Limited) was established on 9 May 2016 as a limited company with a registered capital of RMB30,000,000 for an operation period commencing on 15 January 2001 and due to expire on 15 January 2021.

(9) We have been provided with a legal opinion on the title to the property issued by the REIT Manager's PRC legal advisors which contains, inter-alia, the following information:

- (a) Up to the issue date of the legal opinion, 淳安千島湖開元銳至投資有限公司 (Chun'an Qiandao Lake New Century Spearhead Investment Limited) obtained the State-owned Land Use Rights Certificates and Building Ownership Certificates of the Property and is in possession of a proper legal title to the Property.
- (b) Save as the mortgage disclosed in the legal opinion, up to the issue date of the legal opinion, the Property is not subject to other encumbrances, rights or limitation.
- (c) The transfer of the Property is subject to the mortgage disclosed in the legal opinion.

(10) The status of the title and grant of major approvals and licences in accordance with the information provided by the REIT Manager are as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

(11) Our key assumptions used in the DCF valuation are summarized as follows:

(a)	Average daily room rate ("ADR")	:	RMB560 for year 1
(b)	Annual growth in ADR	:	Stabilized at 4%
(c)	Occupancy rate on available room basis	:	Year 1 – 70%; Stabilized at 75% from Year 3
(d)	F&B revenue	:	Year 1 – 26% of gross revenue; Stabilized at 26% of gross revenue
(e)	FF&E provision	:	2% of gross revenue
(f)	Discount rate	:	8.75%
(g)	Terminal growth rate	:	4%

(12) Market Overview

Chun'an County is the largest county under the administration of Hangzhou City, Zhejiang Province of China. It has a site area of approximately 4,427 sq km. By the end of 2018, the registered population of Chun'an reached 459,653. Chun'an County borders Changshan (常山) to the south, Xiuning (休寧) to the west, Tonglu (桐廬) to the east and Lin'an (臨安) to the north. The famous scenic spot Qiandao Lake is located in Chun'an County and attracts a lot of tourists.

The Property is located at the lakeside of the Qiandao Lake in Qiandao Lake Town, which is the capital town of Chun'an County. The town has a site area of approximately 356 sq km and a population of approximately 108,000. The natural lake and mountain resources attract tourists and contribute to the high rapid growth of the hotel industry. The accessibility to the town is via the highways G25 and G60. The construction works of high-speed railway from Hangzhou to Huangshan began in July 2014 and the railway officially commenced operation on 25 December 2018. In particular, the Qiandao Lake has a dedicated stop called Qiandao Lake Station. With the opening of the high-speed railway, it takes only approximately 1.5 hours to travel from Hangzhou to Qiandao Lake and is expected to attract more tourists and boost leisure demand and in turn hotel room demand.

The tourism sector of Chun'an County continued to be upbeat with decent growth. According to the Statistics Bureau of Chun'an County, total number of visitors' arrival increased 92.5% y-o-y approximately 13.95 million in 2020 Q3, whereas total tourism revenue increased 93.1% y-o-y to RMB14.86 billion during the same period. Agritourism (鄉村旅遊) recorded another strong growth year in 2020 Q3, with visitor's arrival increased 97.8% y-o-y, and revenue increased 95.3% y-o-y, respectively. Average daily room rate was RMB389.2.

Tourism Statistics, Chung'an, 2009-2020 Q3

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 Q3	CAGR
Tourism Arrivals (million)	3.00	3.54	4.06	7.97	9.09	10.05	11.22	12.67	15.41	17.05	18.85	13.94	14.0%
Total Tourism Revenue (RMB billion)	3.81	4.54	5.31	7.02	8.12	9.03	10.49	11.99	15.77	19.16	23.19	14.86	12.2%

Source: Qiandao Lake Scenic Tourism Bureau

Hotels and tourism-related industries have been significantly affected by the outbreak of the COVID-19. Diving in the occupancy rate is the main reason for the plunge in the revenue of each available room. During the post-epidemic period, the average room rates in most areas have not come back to the level in previous years as expected. Considering the early 2021 resurgence of the COVID-19 in north China and the lockdown policy in some areas, the hotel performance in future will be impacted by the fluctuated demand of tourism and business.

VALUATION REPORT

Group I – Properties held for Investment by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2020								
4. New Century Grand Hotel Ningbo, No. 666 Middle Shounan Road, Yinzhou District, Ningbo, Zhejiang Province, the PRC	<p>New Century Grand Hotel Ningbo is a 22-storey hotel building erected upon a one-tier basement standing on a parcel of land with a site area of 27,389.50 sq m.</p> <p>New Century Grand Hotel Ningbo, a five-star hotel, was completed in October 2007 and has been operated since December 2007. New Century Grand Hotel Ningbo currently provides 392 guest rooms, 300 car parking spaces, food and beverage outlets, business centre, banquet and function rooms, an indoor swimming pool, a fitness room, a billiards room, a karaoke club, a tennis court, a table tennis room, a SPA, a beauty salon, a foot SPA, a chess/poker room and a shopping area.</p> <p>Pursuant to the Certificate of Real Estate Ownership, New Century Grand Hotel Ningbo has a total gross floor area of 66,107.27 sq m with details as follows:</p> <table border="1"> <thead> <tr> <th>Portion</th> <th>Gross Floor Area (sq m)</th> </tr> </thead> <tbody> <tr> <td>Hotel</td> <td>54,226.18</td> </tr> <tr> <td>Basement</td> <td>11,881.09</td> </tr> <tr> <td>Total</td> <td>66,107.27</td> </tr> </tbody> </table>	Portion	Gross Floor Area (sq m)	Hotel	54,226.18	Basement	11,881.09	Total	66,107.27	<p>As at the Valuation Date, the Property was operated as a hotel under a Hotel Lease and Management Agreement for a term of 10 years due to expire in July 2023 for a rent of 20% of the total operating revenue plus 34% of the gross operating profit.</p> <p>The occupancy rate of the hotel in December 2020 was 59.3%.</p> <p>Apart from the general hotel operation, a total leasable area of 3,517 sq m has been occupied by various tenants under various cooperation agreements for terms of 3 to 10 years at a total monthly service charge of approximately RMB205,894 (before tax) for commercial use.</p> <p>Due to the impact of the Novel Coronavirus (“COVID-19”), the hotel operating income has decreased significantly. Based on the net operating income of 2020, the estimated net yield of the Property is 3.3%.</p>	RMB757,000,000 (RENMINBI SEVEN HUNDRED FIFTY SEVEN MILLION)
Portion	Gross Floor Area (sq m)										
Hotel	54,226.18										
Basement	11,881.09										
Total	66,107.27										
	<p>As advised by the REIT Manager, New Century Grand Hotel Ningbo has a total operating area of approximately 57,311sq m.</p> <p>The land use rights of the Property have been granted to 寧波開元銳至投資有限公司 (Ningbo New Century Spearhead Investment Limited), a wholly owned subsidiary of New Century REIT, for a term of 40 years until 9 March 2045 for commercial use.</p>										

Notes:

(1) Details of the room configuration are summarized as follows:

Room Type	Size (sq m)	Number of Rooms (Typical Floors)	Number of Rooms (Executive Floors)
Superior Room	30	77	–
Standard Room/Deluxe Room/Executive Room	37-45	231	63
Deluxe Suite/Executive Suite	62	16	3
New Century Suite	140	–	1
President Suite	285	–	1
Total		324	68

(2) Details of the facilities and amenities are summarized as follows:

Food and Beverage Outlet	Level	Style	Total Seating Area (sq m)	Maximum Seating Capacity
Isabella Café	Level 1	Western	950	150
Chiemsee Lobby Bar	Level 1	Lounge bar	920	72
Prestige Club Lounge	Level 21	Lounge bar	315	34
Yuewei Town Balconies	Level 2	Chinese boxes	480 (16 boxes)	168
Zhile Chamber	Level 2	Chinese	550	112
Kyoto Japanese Food	Level 2	Japanese	250	90
Golden Knight Club	Level 24	Chinese boxes	159 (7 boxes)	50
Function and Banquet Facilities	Level	Number of Rooms	Total Seating Area (sq m)	Maximum Seating Capacity
New Century Hall	Level 4	1, can be subdivided into 2	640	700
International Hall	Level 4	1	570	600
Qizhi Hall	Level 4	1	100	80
Shangli Hall	Level 4	1	100	80
Siyi Hall	Level 4	1	100	80
Chongren Hall	Level 4	1	100	20
Qixiao Chamber Banquet Hall	Level 2	1	280	120

The New Century Hall has a ceiling height of 6 meters.

Other Amenities	Level	Total Area (sq m)
Business centre	Level 1	140
Chess/poker room	Level 6	740
Foot SPA	Level 6	420
SPA	Level 3	550
Beauty salon	Level 3	68
Karaoke club	Level 3	3,300
Indoor swimming pool	Level 3	705
Billiards room	Level 3	75
Table tennis room	Level 3	75
Fitness room	Level 3	79
Outdoor tennis court	Outdoor	810
Shopping area	Level 1	277

- (3) Pursuant to Certificate for Real Estate Ownership-Zhe (2016) Yin Zhou Qu Bu Dong Chan Di No. 0017613 issued by the Ningbo Municipal Bureau of National Land and Resources on 29 August 2016, the land use rights of the Property having a site area of 27,389.50 sq m and the building ownership of the Property having a gross floor area of 66,107.27 sq m have been vested in 寧波開元銳至投資有限公司 (Ningbo New Century Spearhead Investment Limited) for a term of 40 years until 9 March 2045 for commercial use.
- (4) Pursuant to Maximum Amount Mortgage Agreement 2020 Xiao Shan Di Zi No. 0135 (蕭山(抵)字 0135), which set out the ceiling of the loan amount, the property is subject to a mortgage for the period from 28 June 2020 to 28 June 2030 in favour of Industrial and Commercial Bank of China Limited Xiaoshan Branch (中國工商銀行股份有限公司蕭山分行) for a maximum loan amount of RMB647,480,000.
- (5) Pursuant to Business Licence No. 91330212756268509F, 寧波開元銳至投資有限公司 (Ningbo New Century Spearhead Investment Limited) was established on 1 December 2004 as a limited company with a registered capital of RMB170,488,723 for an operation period commencing on 25 April 2007 and due to expire on 30 November 2024.
- (6) We have been provided with a legal opinion on the title to the property issued by the REIT Manager's PRC legal advisors which contains, inter-alia, the following information:
- (a) Up to the issue date of the legal opinion, 寧波開元銳至投資有限公司 (Ningbo New Century Spearhead Investment Limited) obtained the Certificate for Real Estate Ownership of the Property and is in possession of a proper legal title to the Property.
- (b) Save as the mortgage disclosed in the legal opinion, up to the issue date of the legal opinion, the Property is not subject to other encumbrances, rights or limitation.
- (c) The transfer of the property is subject to the mortgage disclosed in the legal opinion.

- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the REIT Manager are as follows:

Certificate for Real Estate Ownership	Yes
Business Licence	Yes

- (8) Our key assumptions used in the DCF valuation are summarized as follows:

(a)	Average daily room rate (“ADR”)	:	RMB500 for year 1
(b)	Annual growth in ADR	:	Stabilized at 4%
(c)	Occupancy rate on available room basis	:	Year 1 – 55%; Stabilized at 70% from Year 3
(d)	F&B revenue	:	Year 1 – 50% of gross revenue; Stabilized at 50% of gross revenue
(e)	FF&E provision	:	2% of gross revenue
(f)	Discount rate	:	8.75%
(g)	Terminal growth rate	:	4%

- (9) Market Overview

Ningbo is located in the middle of the coastal line of the Chinese Mainland and in the southern part of the Yangtze River Delta, which enjoys the most developed economy in China. It lies within the two-hour transportation network among Shanghai, Ningbo and Hangzhou through Hangzhou Bay Bridge. With manufacturing and international trade as its leading industries, Ningbo has experienced positive growth and constant infrastructural improvements over the past years. By the end of 2019, the city has a registered population of 6.09 million.

Domestic visitor arrivals increased 13.9% y-o-y to approximately 124.27 million in 2018, whereas domestic tourism revenue increased 19.9% y-o-y to approximately RMB197.76 billion during the same period. Domestic tourism continued its rising trend in 2019, with visitor arrivals increased 12.2% y-o-y, and domestic tourism revenue up 16.4% y-o-y to 230.31 billion.

Tourism Statistics, Ningbo, 2009-2019

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020Q3	CAGR (2009- 2019)
Domestic Visitors Arrivals (‘000s)	39,620	46,240	51,808	57,483	62,258	68,746	79,203	91,984	109,093	124,273	139,467	75,090	13.4%
Domestic Tourism Revenue (RMB mil)	49,730	61,070	70,870	81,640	90,420	102,030	118,390	118,550	164,910	197,760	230,310	114,300	16.6%
Total Tourism Revenue (RMB mil)	53,050	65,080	75,130	86,280	95,350	106,810	123,330	144,640	171,590	200,570	233,090	114,400	16.0%

Source: Statistical Yearbook of Ningbo, various years. 2018 and 2019 figures from web page of Ningbo Statistics Bureau

According to data from China National Tourism Administration, during 2020 Q3, occupancy rate of five-star rated hotels in Ningbo was 53.05%. Average daily room rate was RMB452.1.

Hotels and tourism-related industries have been significantly affected by the outbreak of the COVID-19. Diving in the occupancy rate is the main reason for the plunge in the revenue of each available room. During the post-epidemic period, the average room rates in most areas have not come back to the level in previous years as expected. Considering the early 2021 resurgence of the COVID-19 in north China and the lockdown policy in some areas, the hotel performance in future will be impacted by the fluctuated demand of tourism and business. As a new business district in Ningbo, many private companies have located their headquarters in Yinzhou District and the business demand will be the main drive for the hotel performance in this area in future.

VALUATION REPORT

Group I – Properties held for Investment by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2020										
5. New Century Grand Hotel Changchun, No. 2299 Jingyangda Road, Lyuan District, Changchun, Jilin Province, the PRC	<p>New Century Grand Hotel Changchun is a 13-storey hotel building erected upon a one-tier basement standing on a parcel of land with a site area of 9,795 sq m.</p> <p>New Century Grand Hotel Changchun, a five-star hotel, was completed in October 2008 and has been operated since December 2008. New Century Grand Hotel Changchun currently provides 326 guest rooms, 130 car parking spaces (including loading/unloading spaces), food and beverage outlets, meeting rooms, a fitness centre with indoor swimming pool, banquet and function rooms and a business centre. Pursuant to the Building Ownership Certificates, New Century Grand Hotel Changchun has a total gross floor area of 45,624.74 sq m with details as follows:</p> <table border="1"> <thead> <tr> <th>Portion</th> <th>Gross Floor Area (sq m)</th> </tr> </thead> <tbody> <tr> <td>Hotel</td> <td>38,753.40</td> </tr> <tr> <td>Dormitory</td> <td>3,764.34</td> </tr> <tr> <td>Basement</td> <td><u>3,107.00</u></td> </tr> <tr> <td>Total</td> <td><u><u>45,624.74</u></u></td> </tr> </tbody> </table>	Portion	Gross Floor Area (sq m)	Hotel	38,753.40	Dormitory	3,764.34	Basement	<u>3,107.00</u>	Total	<u><u>45,624.74</u></u>	<p>As at the Valuation Date, the Property was operated as a hotel under a Hotel Lease and Management Agreement for a term of 10 years due to expire in July 2023 for a rent of 20% of the total operating revenue plus 34% of the gross operating profit.</p> <p>The occupancy rate of the hotel in December 2020 was 60.1%.</p> <p>Due to the impact of the Novel Coronavirus (“COVID-19”), the hotel operating income has decreased significantly. Based on the net operating income of 2020, the estimated net yield of the Property is 2.4%.</p>	RMB325,000,000 (RENMINBI THREE HUNDRED TWENTY FIVE MILLION)
Portion	Gross Floor Area (sq m)												
Hotel	38,753.40												
Dormitory	3,764.34												
Basement	<u>3,107.00</u>												
Total	<u><u>45,624.74</u></u>												
	<p>As advised by the REIT Manager, New Century Grand Hotel Changchun has a total operating area of approximately 31,985 sq m.</p> <p>The land use rights of the Property have been granted to 長春開元銳至投資管理有限公司 (Changchun New Century Spearhead Investment Limited), a wholly owned subsidiary of New Century REIT, for a term of 40 years until 14 October 2043 for hotel and catering use and 28 December 2046 for other commercial use.</p>												

Notes:

(1) Details of the room configuration are summarized as follows:

Room Type	Size <i>(sq m)</i>	Number of Rooms <i>(Typical Floors)</i>	Number of Rooms <i>(Executive Floors)</i>
Standard Room/Deluxe Room	35	161	32
Executive Room	35-48	99	7
Deluxe Suite	60	–	2
Business Suite	70	14	–
President Suite	208	–	1
Apartment Room	35	7	–
Apartment Suite	70	3	–
Total		284	42

(2) Details of the facilities and amenities are summarized as follows:

Food and Beverage Outlet	Level	Style	Total Seating Area <i>(sq m)</i>	Maximum Seating Capacity
Ibiza Bar	Level 1	Bar	383	67
Yue Bar	Level 9	Bar	300	38
German Bar	Level 1 Mezz	Bar	197	80
Prestige Club Lounge	Level 15	Bar	216.5	36
Self-service supermarket	Level 1	Supermarket	–	–
Xidu Court	Level 3	Chinese boxes	693.5 (18 boxes)	176
Junlanxuan	Level 3	Chinese	250	60
Dome Cafe	Level 1	Western	700	160
Function and Banquet Facilities	Level	Style	Total Seating Area <i>(sq m)</i>	Maximum Seating Capacity
New Century Hall	Level 2	Banquet	700	500
Mingdu Hall	Level 5	Function	500	400
Chunhe Hall	Level 2	Function	278	180
Chunyue Hall	Level 3	Function	278	180
He Hall	Level 2	Meeting room	68	16
Gui Hall	Level 2	Meeting room	68	25

The New Century Hall has a ceiling height of 3.4 meters.

Other Amenities	Level	Total Seating Area (sq m)
Business centre	Level 1	58
Chess/Poker room	Level 5	257
SPA	B1	569
Beauty salon (vacant)	B1	68
Swimming pool	B1	708
Fitness room	B1	115
Foot SPA	Level 5	87
Billiards room	B1	79
VIP Lounge	B1	72
Shower room	B1	168

- (3) Pursuant to 2 Certificate for Real Estate Ownership-Ji (2020) Chang Chun Shi Bu Dong Chan Quan Di No. 1242925 and 1243822 issued by the Changchun Planning and Natural Resources Bureau on 18 August 2020, the land use rights with a total site area of 9,795 sq m and the building ownership with a total gross floor area of 45,624.40 sq m of the Property have been vested in 長春開元銳至投資管理有限公司 (Changchun New Century Spearhead Investment Limited) for terms of 40 years due to expire on 28 December 2046 for other commercial use and 14 October 2043 for hotel and catering use respectively with details as follows:

Certificate No.	Site Area (sq m)	GFA (sq m)	Land Use	Expiry Date
(2020) 1242925	6,688.00	41,860.40	Hotel and catering	14 October 2043
(2020) 1243822	<u>3,107.00</u>	<u>3,764.34</u>	Other commercial use	28 December 2046
Total	<u>9,795.00</u>	<u>45,624.74</u>		

- (4) Pursuant to Main Creditor's Rights and Real Estate Mortgage Contract ZJKY-2020-Real Estate Mortgage Agreement, the property is subject to a mortgage for the period from 6 July 2020 to 6 July 2025 in favour of Industrial and Commercial Bank of China Limited Xiaoshan Branch (中國工商銀行股份有限公司蕭山分行) for a loan amount of RMB325,250,000
- (5) Pursuant to Business Licence No. 912201016616466264 dated 14 August 2019, 長春開元銳至投資管理有限公司 (Changchun New Century Spearhead Investment Limited) was established on 13 November 2007 as a limited company with a registered capital of RMB120,000,000 for long-term operation.

(6) We have been provided with a legal opinion on the title to the property issued by the REIT Manager's PRC legal advisors which contains, inter-alia, the following information:

- (a) Up to the issue date of the legal opinion, 長春開元銳至投資管理有限公司 (Changchun New Century Spearhead Investment Limited) obtained the Certificate for Real Estate Ownership of the Property and is in possession of a proper legal title to the Property.
- (b) Save as the mortgage disclosed in the legal opinion, up to the issue date of the legal opinion, the Property is not subject to other encumbrances, rights or limitation.
- (c) The transfer of the Property is subject to the mortgage disclosed in the legal opinion.

(7) The status of the title and grant of major approvals and licences in accordance with the information provided by the REIT Manager are as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

(8) Our key assumptions used in the DCF valuation are summarized as follows:

(a)	Average daily room rate ("ADR")	:	RMB400 for year 1
(b)	Annual growth in ADR	:	Stabilized at 4%
(c)	Occupancy rate on available room basis	:	Year 1 – 60%; Stabilized at 73% from Year 5
(d)	F&B revenue	:	Year 1 – 35% of gross revenue; Stabilized at 39% of gross revenue
(e)	FF&E provision	:	2% of gross revenue
(f)	Discount rate	:	8.75%
(g)	Terminal growth rate	:	4%

(9) Market Overview

Changchun is the capital and largest city of Jilin Province, located in the northeast part of China, in the center of the Songliao Plain. It is administered as a sub-provincial city with a registered population of 7.538 million in 2019. Known as China's Automobile City, Changchun is an important industrial base with a particular focus on the automotive sector.

The tourism and exhibition are the largest driver of the hotel demand. Due to the increasing purchasing power of the domestic middle-class in China and the development of high-speed railway, tourism demand is expected to have constant increase in the future.

The Property is located at junction of Jingyangda Road and Chunchengda Street in Lvyuan District of Changchun. It is far from the city centre, but the traffic is convenient. It is 45 minutes' away from Changchun Longjia International Airport and 15 minutes' away from Changchun Railway Station. The Property is adjacent to Changchun West Railway Station and Lvyuan District Government. It is close to China FAW Group and China Northern Automobile Trade Centre which offer a pool of plenty of customers.

Tourism Statistics, Changchun, 2009-2019

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	CAGR (2009- 2019)
Domestic Visitors Arrivals (<i>'000s</i>)	22,465	26,126	30,842	36,202	41,917	49,058	56,833	66,552	77,813	89,428	101,565	16.3%
International Visitor Arrivals	217,000	250,000	301,600	356,600	378,000	394,500	430,476	452,000	465,000	456,000	417,000	6.7%
Tourism Foreign Exchange Revenue (<i>USD mil</i>)	116.25	137.48	169.74	233.79	243.06	289.00	318.50	343.98	356.02	300.61	228.74	7.0%
Total Tourism Revenue (<i>RMB mil</i>)	28,450	35,040	43,165	54,830	68,580	85,120	107,288	134,110	161,830	190,350	219,140	22.6%

Source: Municipal Government of Changchun, data from Changchun Economic and Social Development Statistics in 2019

According to data from China National Tourism Administration, during 2020, occupancy rate of five-star rated hotels in Ningbo was 55.27%. Average daily room rate was RMB354.8.

Hotels and tourism-related industries have been significantly affected by the outbreak of the COVID-19. Diving in the occupancy rate is the main reason for the plunge in the revenue of each available room. During the post-epidemic period, the average room rates in most areas have not come back to the level in previous years as expected. Considering the early 2021 resurgence of the COVID-19 in north China and the lockdown policy in some areas, the hotel performance in future will be impacted by the fluctuated demand of tourism and business.

VALUATION REPORT

Group I – Properties held for Investment by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2020								
6. New Century Grand Hotel Kaifeng, No. 1 Zhengkai Road, New District, Kaifeng, Henan Province, the PRC	<p>New Century Grand Hotel Kaifeng is a 7-storey hotel building standing on a parcel of land with a site area of approximately 44,289.38 sq m.</p> <p>New Century Grand Hotel Kaifeng, a five-star hotel, was completed in 2007. New Century Grand Hotel Kaifeng currently provides 356 guest rooms, 227 car parking spaces, food and beverage outlets, business centre, banquet and function rooms, a chess/poker room, a sauna centre, a SPA, a beauty salon, an indoor swimming pool, a KTV, a fitness centre and a shopping area.</p> <p>According to Real Estate Title Certificate BFDCQZ No. 279060, New Century Grand Hotel Kaifeng has a total gross floor area of 53,511.80sq m.</p> <table border="1"> <thead> <tr> <th>Portion</th> <th>Gross Floor Area (sq m)</th> </tr> </thead> <tbody> <tr> <td>Hotel</td> <td>51,611.80</td> </tr> <tr> <td>Basement</td> <td>1,900.00</td> </tr> <tr> <td>Total</td> <td>53,511.80</td> </tr> </tbody> </table> <p>The land use rights of the Property have been granted to 開封開元名都大酒店有限公司 (New Century Grand Hotel Kaifeng Limited), a wholly owned subsidiary of New Century REIT, for a term until 30 October 2044 for F&B and hotel use.</p>	Portion	Gross Floor Area (sq m)	Hotel	51,611.80	Basement	1,900.00	Total	53,511.80	<p>As at the Valuation Date, the Property was operated as a hotel under a Hotel Lease and Management Agreement for a term of 10 years due to expire in June 2025 for a rent of 20% of the total operating revenue plus 34% of the gross operating profit.</p> <p>The occupancy rate of the hotel in December 2020 was 47.0%.</p> <p>Apart from the general hotel operation, a total leasable area of 7,072 sq m has been occupied by various tenants under various lease agreements for terms of 1 to 20 years at a total monthly rent of approximately RMB278,500 (before tax).</p> <p>Due to the impact of the Novel Coronavirus (“COVID-19”), the hotel rental operating has decreased significantly. Based on the net operating income of 2020, the estimated net yield of the property is 3.1%.</p>	RMB380,000,000 (RENMINBI THREE HUNDRED EIGHTY MILLION)
Portion	Gross Floor Area (sq m)										
Hotel	51,611.80										
Basement	1,900.00										
Total	53,511.80										

Notes:

- (1) Details of the room configuration are summarized as follows:

Room Type	Size (sq m)	Number of Rooms
Twin Room	47-55	240
Double Room	47-55	92
Deluxe Suite	82-120	18
New Century Suite	82-120	5
Presidential Suite	1,183	<u>1</u>
Total		<u><u>356</u></u>

- (2) Details of the facilities and amenities are summarized as follows:

Food and Beverage Outlet	Level	Style	Total Seating Area (sq m)	Maximum Seating Capacity
Crystal Lounge Bar	Level 2	Lounge	220	52
Top Café	Level 1	Western	545	135
Regency Palace	Level 1	Chinese	257	72
Spring Pavilion	Level 1	Chinese	905 (16 boxes)	180
I MA RI GA WA	Level 1	Japanese	152	56

Function and Banquet Facilities	Level	Number of Rooms	Total Seating Area (sq m)	Maximum Seating Capacity
New Century Hall	Level 3	1	906	1,000
VIP Room	Level 3	1	150	100
Min Du Hall	Level 2	1	356	400
Jin Ming Hall	Level 2	1	122	80
Yong Tai Hall	Level 2	1	83	50
Zhao Yang Hall	Level 2	1	83	50
Tian Bo Hall	Level 2	1	65	50
Shun Tian Hall	Level 2	1	65	50
Land Show Hall	Level 4	1	253	150

Other Amenities	Level	Total Area (sq m)
Chess/poker room	Level 2	320
Sauna Centre	Level 1	3,600
SPA	Level 1	404
Beauty Salon	Level 1	48
KTV	Level 2	1,800
Indoor swimming pool	Level 1	763
Fitness Centre	Level 1	123

(3) Pursuant to Real Estate Title Certificate BFDCQZ No. 279060 issued by Kaifeng Municipal People's Government on 29 June 2015, the land use rights of the Property and the building ownership of the Property have been vested in 開封開元名都大酒店有限公司 (New Century Grand Hotel Kaifeng Limited). The particulars as stipulated in the said certificate are summarized as follows:

(a)	Owner	:	開封開元名都大酒店有限公司 (New Century Grand Hotel Kaifeng Limited)
(b)	Location	:	South of Daliang Road
(c)	Total Site Area	:	44,289.38 sq m
(d)	Use	:	Hotel
(e)	Land Use Term	:	Expiring on 30 October 2044
(f)	Gross Floor Area	:	53,511.80 sq m

(4) Pursuant to Business Licence No. 914102000890404034 issued on 26 November 2018, 開封開元名都大酒店有限公司 (New Century Grand Hotel Kaifeng Limited) was established on 25 December 2013 as a limited company with a registered capital of RMB50,000,000 for an operation period commencing on 25 December 2013 and due to expire on 24 December 2033.

(5) Pursuant to Maximum Amount Mortgage Agreement 2020 Xiao Shan Di Zi No. 0134 (蕭山(抵)字 0134), which set out the ceiling of loan amount, the property is subject to a mortgage for the period from 28 June 2020 to 28 June 2030 in favour of Industrial and Commercial Bank of China Limited Xiaoshan Branch (中國工商銀行股份有限公司蕭山分行) for a maximum loan amount of RMB280,530,000.

(6) We have been provided with a legal opinion on the title to the property issued by the REIT Manager's PRC legal advisors which contains, inter-alia, the following information:

- (a) Up to the issue date of the legal opinion, 開封開元名都大酒店有限公司 (New Century Grand Hotel Kaifeng Limited) obtained the Real Estate Title Certificate of the Property and is in possession of a proper legal title to the Property.
- (b) Save as the mortgage disclosed in the legal opinion, up to the issue date of the legal opinion, the Property is not subject to other encumbrances, rights or limitation.
- (c) The transfer of the Property is subject to the mortgage disclosed in the legal opinion.

- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the REIT Manager are as follows:

Real Estate Title Certificate	Yes
Business Licence	Yes

- (8) Our key assumptions used in the DCF valuation are summarized as follows:

(a)	Average daily room rate (“ADR”)	:	RMB500 for year 1
(b)	Annual growth in ADR	:	Stabilized at 4%
(c)	Occupancy rate on available room basis	:	Year 1 – 55%; Stabilized at 68% from Year 5
(d)	F&B revenue	:	Year 1 – 37% of gross revenue; Stabilized at 39% of gross revenue
(e)	FF&E provision	:	2% of gross revenue
(f)	Discount rate	:	9.25%
(g)	Terminal growth rate	:	4%

- (9) Market Overview

Kaifeng is a prefecture-level city in east-central Henan Province. Historically it was once the capital of the Northern Song Dynasty. Located along the southern bank of the Yellow River, it borders the provincial capital of Zhengzhou to the west, Xinxiang to the northwest, Shangqiu to the east, Zhoukou to the southeast, Xuchang to the southwest, and Shandong Province to the northeast. Kaifeng covers a total area of 6,444 sq km administering five districts and five counties. According to the Kaifeng Statistics Bureau, the total population at the end of 2019 was approximately 5.28 million of which 4.58 million were permanent residents of Kaifeng.

The Property is located in the development zone of Kaifeng. It is close to the Zheng-Kai Highway which ensures easy access to the key areas of the city. It takes only half an hour to Zhengzhou City, 50 minutes to Xinzheng International Airport and 15 minutes to any scenic spots of Kaifeng by car. The largest hotel demand generator for Kaifeng is corporate guests. Overall, the long history and the splendid culture have made the city famous as the ancient capital of the seven dynasties in Chinese history. There are 213 sights and antiquities in Kaifeng, such as Qingming Riverside Landscape Garden, Baogong Temple, Tie Tower, Fan Tower, Imperial Street of Song Dynasty and so on, which benefits and promotes the tourism development of the city considerably. The year 2019 saw 79.60 million domestic and inbound visitors to Kaifeng, increased by 16.9% y-o-y. The revenue from domestic and inbound tourism totalled RMB71.35 billion, a year-on-year increase of 18.5%. Average daily room rate was RMB386.3.

Tourism Statistics, Kaifeng, 2009-2019

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	CAGR (2009- 2019)
Domestic and Inbound Visitor Arrivals (million)	30.95	34.69	39.02	44.16	49.90	39.70	44.92	51.07	58.63	68.07	79.60	9.91%
Total Tourism Revenue (RMB billion)	10.81	12.84	15.52	18.05	20.78	19.26	24.51	39.86	48.32	60.22	71.35	20.77%

Source: Kaifeng Statistics Bureau

Hotels and tourism-related industries have been significantly affected by the outbreak of the COVID-19. Diving in the occupancy rate is the main reason for the plunge in the revenue of each available room. During the post-epidemic period, the average room rates in most areas have not come back to the level in previous years as expected. Considering the early 2021 resurgence of the COVID-19 in north China and the lockdown policy in some areas, the hotel performance in future will be impacted by the fluctuated demand of tourism and business.

RECONCILIATION STATEMENT

The property interests held by the Group have been valued by Cushman & Wakefield Limited, the Principal Valuer. The text of the letter in relation to the valuation report, summary of valuation and valuation certificates in connection with the valuation of the aforesaid property interests as at 31 December 2020 are set out above in Appendix V to this circular.

The statement below shows the reconciliation of the above property interests from 30 November 2020, being the date to which the latest audited financial statements of the Target Group were made up, to 31 December 2020.

	Properties <i>(RMB'000)</i>
Net book value as at 30 November 2020 (audited)	3,997,000
Movement from 30 November 2020 to 31 December 2020	
– Additions	–
– Adjustments	–
– Depreciation	–
Valuation as at 31 December 2020 as set out in the Property Valuation Report in Appendix V	3,997,000

1. RESPONSIBILITY STATEMENT

The Manager and the Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than the information relating to Huge Harvest and or any Purchaser Concert Parties (except the Manager itself)), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the directors of Huge Harvest) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

Further, the Manager and the Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular (which includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to New Century REIT), and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts or matters the omission of which would make any statement contained herein or this circular misleading.

The directors of Huge Harvest jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than the information relating to New Century REIT), and confirm, having made all reasonable enquires, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement contained in this circular misleading.

2. UNITS IN NEW CENTURY REIT

As at the Latest Practicable Date, there were 988,009,137 Units in issue. Since 31 December 2019, being the date to which the latest published audited consolidated financial statements of New Century REIT were made up, and up to the Latest Practicable Date, New Century REIT had issued and allotted an aggregate of 16,880,653 new Units to the Manager as (i) 50% of the Manager's fee for the period from 1 July 2019 to 31 December 2019 and (ii) 100% of the Manager's fee from 1 January 2020 to 30 June 2020, by way of Units.

All of the Units currently in issue rank *pari passu* in all respects with each other including as regards to capital, dividends and voting rights.

As at the Latest Practicable Date, there were no outstanding options, warrants, derivatives, convertibles or other securities in issue which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into the Units.

3. DISCLOSURE OF INTERESTS

(a) Interests of New Century REIT, directors of Huge Harvest and the Directors in Huge Harvest

As at the Latest Practicable Date, New Century REIT did not directly or indirectly own or control and was not interested in any shares, convertible securities, warrants, options or derivatives of Huge Harvest.

As at the Latest Practicable Date, the interests of (i) the directors of Huge Harvest; and (ii) the Directors in Huge Harvest are set out below:

	Number of shares	Approximate %
Mr. Chen Miaolin (<i>Note 1</i>)	7,707	83.90%
Mr. Chen Canrong (<i>Note 2</i>)	853	9.29%
Mr. Zhang Guanming (<i>Note 3</i>)	626	6.81%

Notes:

- (1) Mr. Chen Miaolin (Chairman and non-executive Director) is the beneficiary of an irrevocable trust with SCTS Capital Pte. Ltd. as nominee shareholder. This irrevocable trust holds 100% of the interests of Poppytown Group Limited, which in turn holds approximately 83.90% of the interests of Huge Harvest.
- (2) Mr. Chen Canrong (director of Zhejiang Spearhead Investment Limited, a subsidiary of New Century REIT) is the beneficiary of an irrevocable trust with SCTS Capital Pte. Ltd. as nominee shareholder. This irrevocable trust holds 100% of the interests of Capitilla Worldwide Limited, which in turn holds approximately 9.29% of the interests of Huge Harvest.
- (3) Mr. Zhang Guanming (non-executive Director and a director of Huge Harvest) is the beneficiary of an irrevocable trust with SCTS Capital Pte. Ltd. as nominee shareholder. This irrevocable trust holds 100% of the interests of Litewait Worldwide Limited, which in turn holds approximately 6.81% of the interest of Huge Harvest.

(b) Interests of the directors of Huge Harvest, and the Manager and its Directors or chief executive, in New Century REIT

As at the Latest Practicable Date, the interests and short positions of the directors of Huge Harvest, and the Manager and its Directors or chief executive in Units, of New Century REIT which are required to be notified to the Manager and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of SFO), or which were required to be and are recorded in the register required to be kept by the Manager, pursuant to Schedule 3 of the Trust Deed and section 352 of the SFO, or as otherwise notified to the Manager and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”), or as far as the Manager is aware, or which were required to be disclosed under the Takeovers Code, were as follows:

	Number of Units	Approximate % of
Mr. Jin Wenjie (Note 1)	1,679,000	0.17%
Ms. Ho Wai Chu (Note 2)	456,000	0.05%
The Manager (Note 3)	51,362,637	5.20%

Notes:

- (1) Mr. Jin Wenjie is the chairman and a non-executive Director of the Manager.
- (2) Ms. Ho Wai Chu is the chief executive officer and an executive Director of the Manager.
- (3) The Manager is indirectly wholly owned by Huge Harvest.

Save as disclosed above, none of the directors of Huge Harvest, the Manager, its Directors or chief executive had beneficial interests (or were deemed to be interested) in any Units and underlying Units or held any short position in the Units as at the Latest Practicable Date which were required (i) to be notified to the Manager and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of SFO), (ii) pursuant to Section 352 of the SFO, to be entered in the register of members of the Company; or (iii) pursuant to the Model Code, to be notified to the Manager and the Stock Exchange, (iv) to the Manager only pursuant to the dealing policy set out in the Compliance Manual (as the case may be), or (v) to be disclosed under the Takeovers Code.

(c) Interests of Huge Harvest and Purchaser Concert Parties and other significant Unitholders in New Century REIT

As at the Latest Practicable Date, the interests and short positions in Units of the significant Unitholders (other than the Manager, its Directors or the chief executive of the Manager)), as recorded in the register required to be kept by the Manager pursuant to Schedule 3 of the Trust Deed and section 336 of the SFO, or so far as the Manager is aware, were as follows:

	Number of Units	Approximate % of
Standard Chartered Trust (Singapore) Limited <i>(Note 1)</i>	598,913,801	60.62%
SCTS Capital Pte. Ltd. <i>(Note 2)</i>	598,913,801	60.62%
Poppytown Group Limited <i>(Note 3)</i>	598,913,801	60.62%
Huge Harvest <i>(Note 4)</i>	598,913,801	60.62%
Mr. Chen Miaolin <i>(Note 5)</i>	598,913,801	60.62%
Skyline Horizon <i>(Note 6)</i>	139,450,000	14.11%
Shanghai Summit Pte. Ltd. <i>(Note 7)</i>	139,450,000	14.11%
Mr. Tong <i>(Note 8)</i>	139,450,000	14.11%
Ding An Investments Limited <i>(Note 9)</i>	63,311,839	6.41%
Ms. Liu YongJuan <i>(Note 10)</i>	63,311,839	6.41%

Notes:

- (1) Standard Chartered Trust (Singapore) Limited holds 100% of the interests of SCTS Capital Pte. Ltd., SCTS Capital Pte. Ltd., as nominee shareholder of Standard Chartered Trust (Singapore) Limited (as trustee of the irrevocable trusts), holds 100% of the interests of Poppytown Group Limited, Capitilla Worldwide Limited and Litewait Worldwide Limited, which altogether hold 100% of the interests of Huge Harvest. Hence, Standard Chartered Trust (Singapore) Limited has deemed interest in the Units held by Huge Harvest.

Standard Chartered Trust (Singapore) Limited is accustomed to act on the investment directions of Mr. Chen Miaolin (Note 5), Mr. Zhang Guanming (non-executive Director) and Mr. Chen Canrong (director of Zhejiang Spearhead Investment Limited).

As at the Latest Practicable Date, Mr. Chen Miaolin was the settlor and a beneficiary of an irrevocable trust. This irrevocable trust holds 100% of the interests of Poppytown Group Limited and Poppytown Group Limited holds 83.90% of the interests of Huge Harvest. Standard Chartered Trust (Singapore) Limited holds 100% of the interests of SCTS Capital Pte. Ltd. Therefore, Standard Chartered Trust (Singapore) Limited, SCTS Capital Pte. Ltd., Poppytown Group Limited and Huge Harvest are connected persons of New Century REIT.

- (2) SCTS Capital Pte. Ltd., as nominee shareholder for Standard Chartered Trust (Singapore) Limited (as trustee of a irrevocable trust), holds 100% of the interests of Poppytown Group Limited (Note 3). Hence, SCTS Capital Pte. Ltd. has deemed interest in the Units held by Huge Harvest.
- (3) Poppytown Group Limited holds 83.90% of the interests of Huge Harvest. Hence, Poppytown Group Limited has deemed interest in the Units held by Huge Harvest.
- (4) Huge Harvest is a significant Unitholder of New Century REIT. Of the 598,913,801 Units, Huge Harvest held 51,362,637 Units via the Manager, representing 5.20% of the Units issued by New Century REIT.
- (5) Mr. Chen Miaolin is the settlor and beneficiary of an irrevocable trust with SCTS Capital Pte. Ltd. as nominee shareholder. This irrevocable trust holds 100% of the interests of Poppytown Group Limited and Poppytown Group Limited holds 83.90% of the interests of Huge Harvest. Hence, Mr. Chen Miaolin has deemed interest in the Units held by Huge Harvest.
- (6) Skyline Horizon is a significant Unitholder of New Century REIT. Skyline Horizon's is 100% controlled by Shanghai Summit Pte. Ltd (Note 7).
- (7) Shanghai Summit Pte. Ltd. holds 100% of the interests of Skyline Horizon. Hence, Shanghai Summit Pte. Ltd. has deemed interest in the Units held by Skyline Horizon.
- (8) Mr. Tong holds 100% of the interests of Shanghai Summit Pte. Ltd.. Shanghai Summit Pte. Ltd. holds 100% of Skyline Horizon. Hence, Mr. Tong has deemed interest in the Units held by Shanghai Summit Pte. Ltd. and Skyline Horizon.
- (9) Ding An Investments Limited is a significant Unitholder of New Century REIT.
- (10) Ms. Liu YongJuan holds 100% of the interests of Ding An Investments Limited. Hence, Ms. Liu YongJuan has deemed interest in the Units held by Ding An Investments Limited.

Save as disclosed above, no other significant Unitholders had any interest or short position (or were taken or deemed to be interested) in any Units or underlying Units in the Units as at the Latest Practicable Date which would fall to be disclosed to the Manager pursuant to Divisions 2 and 3 of Part XV of the SFO.

Mr. Zhang Guanming, being a non-executive Director and a director of Huge Harvest, is indirectly interested in New Century REIT through his interest in Huge Harvest. As at the Latest Practicable Date, Huge Harvest is directly interested in 547,551,164 Units (representing approximately 55.42% of the total number of issued Units) and Mr. Zhang Guanming is interested in approximately 6.81% of the shareholding of Huge Harvest. In addition, the Manager, a wholly-owned subsidiary of Huge Harvest, is directly interested in 51,362,637 Units (representing approximately 5.20% of the total number of issued Units).

4. INTERESTS IN NEW CENTURY REIT AND HUGE HARVEST AND ARRANGEMENTS IN CONNECTION WITH THE PROPOSALS

As at the Latest Practicable Date:

- (a) (i) save as disclosed in the section headed “Disclosure of Interests” above, none of Huge Harvest, or any Purchaser Concert Parties had any interests in or owned or controlled any Units or any convertible securities, warrants, options or derivatives in respect of the Units;
 - (ii) there were no Units or any convertible securities, warrants, options or derivatives in respect of the Units which Huge Harvest or any Purchaser Concert Parties has borrowed or lent;
 - (iii) there were no Units or any convertible securities, warrants, options or derivatives in respect of any Units which the New Century REIT and any Directors had borrowed or lent;
 - (iv) New Century REIT had no interest in the equity share capital or any convertible securities, warrants, options and derivatives of Huge Harvest;
 - (v) save as disclosed in the section headed “Disclosure of Interests” above, none of the Directors had any interest in the Units or other securities of New Century REIT carrying voting rights or any convertible securities, warrants, options and derivatives of New Century REIT or of the equity share capital or any convertible securities, warrants, options and derivatives of Huge Harvest; and
 - (vi) no equity share capital or any convertible securities, warrants, options and derivatives of New Century REIT was owned or controlled by a subsidiary of New Century REIT or by a pension fund (if any) of New Century REIT or its subsidiaries or by an adviser to New Century REIT as specified in class (2) of the definition of associate under the Takeovers Code (including the Independent Financial Adviser) but excluding exempt principal traders or by a person who is an associate of New Century REIT by virtue of class (7) of the definition of associate under the Takeovers Code.
- (b) None of Huge Harvest or the Purchaser Concert Parties has received an irrevocable commitment to vote in favour of the Proposals.

- (c) Save for the Proposals, none of Huge Harvest and the Purchaser Concert Parties, have entered into any arrangements of the kind (whether by way of option, indemnity, or otherwise) as referred to in Note 8 to Rule 22 of the Takeovers Code with any other person.
- (d) No agreement or arrangement to which Huge Harvest is a party which relates to circumstances in which it may or may not invoke or seek to invoke a condition to the Proposals.
- (e) There was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between New Century REIT, or any person who is presumed to be acting in concert with New Century REIT by virtue of classes (1), (2), (3) or (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of New Century REIT by virtue of classes (2), (3), (4) and (7) of the definition of “associate” under the Takeovers Code, and any other person.
- (f) No Units or other securities of New Century REIT or any convertible securities, warrants, options or derivatives of New Century REIT are managed on a discretionary basis by fund managers connected with New Century REIT.
- (g) Save for the Proposals, there was no agreement, arrangement or understanding (including any compensation arrangement) existing between Huge Harvest or any Purchaser Concert Parties and any Directors, recent Directors, Unitholders or recent Unitholders having any connection with or being dependent upon the Proposals.
- (h) No agreement or arrangement between Huge Harvest, any Director and any other person which was conditional on or dependent upon the outcome of the Proposals or otherwise connected with the Proposals.
- (i) Save for the Agreement, there was no material contract in connection with the Proposals to which Huge Harvest is a party in which any Director has a material personal interest.

5. DEALINGS IN SECURITIES AND ARRANGEMENT IN RELATION TO DEALINGS

During the Relevant Period:

- (i) save as disclosed below, none of Huge Harvest, the directors of Huge Harvest and the Purchaser Concert Parties had dealt for value in any Units or any convertible securities, warranties, options or derivatives in respect of the Units.

Party	Transaction date	Transaction type	Transaction Unit price	Number of Units
Huge Harvest	3 September 2020	Disposal of Units	HK\$1.100	2,700,000
Manager	25 September 2020	New Units issued by New Century REIT for the settlement of Manager's Fee for the period from 1 January 2020 to 30 June 2020	HK\$1.105	10,261,304

- (ii) no person who had irrevocably committed themselves to vote in favour of the Proposals had dealt for value in any Units or any convertible securities, warrants, options or derivatives in respect of the Units;
- (iii) save as disclosed in sub-paragraph (i) above, no person with whom Huge Harvest or the Purchaser Concert Parties has any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code had dealt for value in any Units or any convertible securities, warrants, options or derivatives in respect of the Units;
- (iv) none of Huge Harvest and the Purchaser Concert Parties who had borrowed or lent any Units or any convertible securities, warrants, options or derivatives in respect of the Units had dealt for value any Units or any convertible securities, warrants, options or derivatives in respect of the Units;
- (v) none of New Century REIT and the Directors dealt with in any interest in the equity share capital or any convertible securities, warrants, options and derivatives of Huge Harvest; and
- (vi) none of the Directors had dealt in any Units or other securities of New Century REIT carrying voting rights or convertible securities, warrants, options or derivatives of New Century REIT.

During the Offer Period and up to the Latest Practicable Date:

- (i) none of the subsidiaries of New Century REIT or a pension fund (if any) of New Century REIT or its subsidiaries or an adviser to New Century REIT as specified in class (2) of the definition of associate under the Takeovers Code (including the Independent Financial Adviser) or a person who is an associate of New Century REIT by virtue of class (7) of the definition of associate under the Takeovers Code had dealt in any interest in the Units or other securities of New Century REIT carrying voting rights or any convertible securities, warrants, options and derivatives of New Century REIT;
- (ii) no person who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with New Century REIT, or any person who is presumed to be acting in concert with New Century REIT by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of New Century REIT by virtue of classes (2), (3), (4) and (7) of the definition of “associate” under the Takeovers Code had dealt for value in any Units or any convertible securities, warrants, options or derivatives in respect of any Units; and
- (iii) no fund managers connected with New Century REIT had dealt in the Units or other securities of New Century REIT carrying voting rights or any convertible securities, warrants, options and derivatives of New Century REIT.

6. DIRECTORS’ SERVICE CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, in relation to New Century REIT or any of its subsidiaries or associated companies, none of the Directors had entered into a service contract with the Manager or any of New Century REIT’s subsidiaries or associated companies which: (i) (including both continuous and fixed term contracts) has been entered into or amended in the six months prior to the date of the Announcement; (ii) is a continuous contract with a notice period of 12 months or more; or (iii) is a fixed term contract with more than 12 months to run irrespective of the notice period.

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Manager which may not be terminated within one year without payment of any compensation (other than statutory compensation).

No benefit (other than statutory compensation) has been or will be given to any Director as compensation for loss of office or otherwise in connection with the Proposals.

7. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS AND IN COMPETING BUSINESS

Save for Mr. Zhang Guanming's beneficial interest in Huge Harvest, as at the Latest Practicable Date:

- (a) none of the Directors had any direct or indirect interest in any assets which have been since 31 December 2019, being the date that the latest published audited accounts of New Century REIT were prepared, acquired or disposed of by (or leased to) or are proposed to be acquired or disposed of by (or leased to) New Century REIT;
- (b) none of the Directors was materially interested in any contract or arrangement entered into by New Century REIT and subsisting at the Latest Practicable Date which was significant in relation to New Century REIT's business; and
- (c) none of the Directors or any of their close associates (as defined under the Listing Rules (as if applicable to New Century REIT)) has interests in a business which competes or is likely to compete, either directly or indirectly, with New Century REIT's business.

8. MARKET PRICES

The highest and lowest closing prices of the Units as quoted on the Stock Exchange during the Relevant Period were HK\$2.01 per unit on 25 February 2021 and HK\$1.020 per unit on 28 July 2020.

The table below sets out the closing prices of the Units as quoted on the Stock Exchange on (i) the last business day of each of the calendar months during the Relevant Period; (ii) the Last Trading Date; and (iii) the Latest Practicable Date:

Date	Closing price per Unit (HK\$)
31 July 2020	1.080
31 August 2020	1.080
30 September 2020	1.100
30 October 2020	1.080
30 November 2020	1.100
31 December 2020	1.410
26 January 2021 (Last Trading Date)	1.750
29 January 2021	1.950
26 February 2021	1.990
16 March 2021 (Latest Practicable Date)	1.990

9. LITIGATION

As at the Latest Practicable Date, neither New Century REIT nor any of its subsidiaries was or may become a party to any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against New Century REIT or any of its subsidiaries.

10. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within two years immediately preceding the date of the Joint Announcement and up to the Latest Practicable Date:

- (a) the share purchase agreement dated 13 September 2019 and entered into between New Century Europe, Somerset Real Estate VI B.V., Horizons III B.V., Zoutelust B.V. and Caerdydd Beheer B.V. in relation to the sale of the entire issued share capital of New Century Netherlands I B.V for the purchase price of €39.8 million (equivalent to approximately RMB307.8 million); and
- (b) the Agreement.

Save as disclosed in announcements and circulars issued by New Century REIT from time to time, no contract (not being a contract entered into in the ordinary course of business carried on or intended to be carried on by New Century REIT or any of its subsidiaries) has been entered into by any member of the Group within two years preceding and up to the Latest Practicable Date and which are or may be material.

11. QUALIFICATION AND CONSENT OF EXPERTS

The following are the qualifications of the experts who has given opinion or advice contained in this circular:

Name	Qualification
China Galaxy	a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Somerley	a licensed corporation registered under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined in the SFO
PricewaterhouseCoopers	Certified Public Accountants under the Professional Accountants Ordinance (Cap. 50) and Registered Public Interest Entity Auditor under the Financial Reporting Council Ordinance (Cap. 588)
Cushman & Wakefield Limited	independent property valuer, Principal Valuer

Each of China Galaxy, Somerley, PricewaterhouseCoopers and Cushman & Wakefield Limited has given and has not withdrawn their respective written consents to the issue of this circular with the inclusion of their respective advice and/or letters (as the case may be) and references to their names and logos in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of China Galaxy, Somerley, PricewaterhouseCoopers and Cushman & Wakefield Limited had any interest in any member of the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, or had any interest, either directly or indirectly, in any assets which had been, since 31 December 2019 (the date to which the latest published audited consolidated financial statements of New Century REIT were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) on the website of New Century REIT (www.ncreit.com), (ii) on the website of the SFC (www.sfc.hk) and (iii) at the office of the Manager from 9:00 a.m. to 5:00 p.m. on Business Days at no charge during normal business hours, from the date of this circular, up to and including the date of the close of the Offer Period:

- (a) the Trust Deed;
- (b) the memorandum and articles of association of Huge Harvest;
- (c) the Agreement;
- (d) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 51 to 52 of this circular;
- (e) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 53 to 105 of this circular;
- (f) the accountant's report on the Target Group from PricewaterhouseCoopers, the text of which is set out in Appendix IIA to this circular;
- (g) the accountant's report on the Strong Tower Group from PricewaterhouseCoopers, the text of which is set out in Appendix IIB to this circular;
- (h) the accountant's report on the New Century REIT Hong Kong I Group from PricewaterhouseCoopers, the text of which is set out in Appendix IIC to this circular;
- (i) the audited consolidated financial statements of the Target Group for each of the three financial years ended 31 December 2017, 31 December 2018 and 31 December 2019;
- (j) the audited consolidated financial statements of each of the Strong Tower Group and the New Century REIT Hong Kong I Group for each of the three financial years ended 31 December 2017, 31 December 2018 and 31 December 2019 and eleven months ended 30 November 2020;
- (k) the report on the unaudited pro forma financial information of the Group from PricewaterhouseCoopers, the text of which is set out in Appendix III to this circular;

- (l) the letter from PricewaterhouseCoopers relating to the Loss Estimate, the text of which is set out in Appendix IVA to this circular;
- (m) the report from Somerley on the Loss Estimate, the text of which is set out in Appendix IVB to this circular;
- (n) the Property Valuation Report prepared by Cushman & Wakefield Limited, the text of which is set out in Appendix V to this circular;
- (o) the material contracts referred to under the paragraph headed “Material Contracts” in this Appendix;
- (p) the written consents referred to in the section headed “Experts and Consents” in this Appendix;
- (q) the annual reports of New Century REIT for each of the three years ended 31 December 2019, and the interim report of New Century REIT for the six months ended 30 June 2020; and
- (r) this circular.

13. GENERAL

As at the Latest Practicable Date:

- (a) The registered office of Huge Harvest is situated at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The principal place of business of Huge Harvest is at 17/F, No.818 Middle Shixin Road, Xiaoshan District, Hangzhou, PRC. As at the Latest Practicable Date, the ultimate shareholders of Huge Harvest are Mr. Chen Miaolin, Mr. Chen Canrong and Mr. Zhang Guanming. Mr. Chen Miaolin is the beneficiary of an irrevocable trust with SCTS Capital Pte. Ltd. as nominee shareholder. This irrevocable trust holds 100% of the interests of Poppytown Group Limited, which in turn holds approximately 83.90% of the interests of Huge Harvest. Therefore, Mr. Chen Miaolin is effectively an ultimate shareholder of Huge Harvest. Mr. Chen Canrong is the beneficiary of an irrevocable trust with SCTS Capital Pte. Ltd. as nominee shareholder. This irrevocable trust holds 100% of the interests of Capitilla Worldwide Limited, which in turn holds approximately 9.29% of the interest of Huge Harvest. Therefore, Mr. Chen Canrong is effectively an ultimate shareholder of Huge Harvest. Mr. Zhang Guanming is the beneficiary of an irrevocable trust with SCTS Capital Pte. Ltd. as nominee shareholder. This irrevocable trust holds 100% of the interests of Litewait Worldwide Limited, which in turn holds approximately 6.81% of the interest of Huge Harvest. Therefore, Mr. Zhang Guanming is effectively an ultimate shareholder of Huge Harvest. The registered office of SCTS Capital Pte. Ltd. is situated at 8 Marina Boulevard #27-01, Marina

Bay Financial Centre Tower 1, Singapore 018981. The directors of Huge Harvest are Mr. Zhang Guanming and Mr. Yeung Shun, Tony and their correspondence address is Room 501, Block 2, Building 8 of Osmanthus Garden TaiHe Community, Xin Tang Street, XiaoShan District, HangZhou, PRC and 4301, 43/F, Block 1, Skyline Mansion, No.200 Dong Tai Road, Lu Jia Zui, Pu Dong District, Shanghai, PRC, respectively. SCTS Management Pte. Ltd. is the director of Poppytown Group Limited, Capitilla Worldwide Limited and Litewait Worldwide Limited, and its correspondence address is 8 Marina Boulevard #27-01, Marina Bay Financial Centre Tower 1, Singapore 018981.

- (b) The registered office of the Manager is situated at Unit 4706, 47th Floor, The Center, 99 Queen's Road Central, Hong Kong.
- (c) The registered office of the Unit Registrar, Tricor Investor Services Limited, is situated at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The registered office of China Galaxy is situated at 20th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.
- (e) The registered office of Somerley is situated at 20th Floor, China Building, 29 Queen's Road Central, Hong Kong.
- (f) The registered office of PwC is situated at 22/F, Prince's Building, Central, Hong Kong.
- (g) The registered office of Cushman & Wakefield Limited is situated at 27/F, One Island East, Taikoo Place, 18 Westlands Road, Quarry Bay, Hong Kong.
- (h) The company secretary of the Manager is Mr. Sit Wai, a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.
- (i) Except specifically disclosed in this circular, for the purpose of this circular and for illustration purposes only, amounts denominated in € have been converted into RMB using the exchange rate of RMB7.8076 = €1.00, and amounts denominated in RMB have been converted into HK\$ using the exchange rate of RMB0.89936 = HK\$1.00. No representation is made that any amount in € or RMB or HK\$ could have been or could be converted at such rate or at any other rates at all.
- (j) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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**

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an **EXTRAORDINARY GENERAL MEETING** (the “**EGM**”) of the unitholder (the “**Unitholders**”) of New Century Real Estate Investment Trust (“**New Century REIT**”) will be held at Portion 2, 12/F., The Center, 99 Queen’s Road Central, Central, Hong Kong, (Conference Room 1-6) on 12 April 2021 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the resolution below.

Words and expressions that are not expressly defined in this notice of EGM shall bear the same meaning as that defined in the circular dated 19 March 2021 issued to the Unitholders.

SPECIAL RESOLUTION

“THAT:

- (a) the Proposed Disposal, the Agreement and the transactions contemplated thereunder be and are hereby approved, and the Board and the Trustee be and are hereby authorised to do all such acts and things as may be necessary or desirable to implement or give effect to the Proposed Disposal, the terms of the Agreement and the transactions contemplated thereunder and to make and agree such variations, amendments or modifications (if any) to the terms of the Agreement as any Director(s) may consider to be desirable, necessary or appropriate and in the interest of the Unitholders; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) subject to completion of the transactions contemplated by paragraph (a) set out in this notice of the EGM, the Proposed Termination, the Proposed Liquidation and the Proposed Delisting be and are hereby approved, and the Trustee and any Director(s) be and are hereby authorised to execute such documents, make such applications and submissions and do all such acts, deeds or things on behalf of New Century REIT which the Director(s) consider(s) to be necessary or desirable in connection with the Proposed Termination, the Proposed Liquidation and the Proposed Delisting, and all the documents signed by the relevant Director(s) on behalf of the Manager in such connection be and are hereby approved.”

Yours faithfully,

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 Manager

Hong Kong, 19 March 2021

Registered Office of the Manager:

Unit 4706, 47th Floor, the Centre

99 Queen's Road Central

Hong Kong

As at the date of this notice, the Executive Director of the Manager is Ms. Ho Wai Chu, the Non-executive Directors of the Manager are Mr. Jin Wenjie and Mr. Zhang Guanming, and the Independent Non-executive Directors of the Manager are Mr. Angelini Giovanni, Mr. Yu Hon To David and Professor He Jianmin.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

- (a) Pursuant to the trust deed constituting New Century REIT, a resolution put to vote at the EGM will be taken by poll and the result of the poll will be published on the websites of Stock Exchange and New Century REIT.
- (b) A unitholder of New Century REIT entitled to attend and vote at the EGM may appoint proxy(ies) to attend and vote in his/her stead in accordance with the Trust Deed. The person appointed to act as proxy does not need to be a unitholder of New Century REIT.
- (c) In order to be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the unit registrar of New Century REIT, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting. Completion and return of the form of proxy will not preclude unitholders from attending and voting in person should they so wish.
- (d) For the purpose of determining unitholders of New Century REIT who are entitled to attend and vote at the forthcoming EGM to be held on 12 April 2021, the register of unitholders of New Century REIT will be closed from 7 April 2021 to 12 April 2021, both days inclusive. In order to qualify for attending and voting at the EGM, all transfer documents should be lodged for registration with unit registrar of New Century REIT, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 1 April 2021.
- (e) Where there are joint registered unitholders of a Unit, any one of such unitholders may vote at the meeting either personally or by proxy in respect of such Units as if he/she were solely entitled thereto, but if more than one of such unitholders is present at the meeting personally or by proxy, that one of such unitholders so present whose name stands first on the register of unitholders in respect of such Unit shall alone be entitled to vote in respect thereof.