



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

(a Hong Kong collective investment scheme authorized under section 104 of the Securities and  
Futures Ordinance (Chapter 571 of the Laws of Hong Kong))  
(Stock code: 1275)



# 2013

## ANNUAL REPORT



## CONTENTS

2	Financial Highlights	46	Connected Party Transactions
4	Chairman's Statement	50	Disclosure of Interests
8	Investment Properties Portfolio	52	Directors' Biographical Information
14	Report of the REIT Manager	56	Key Personnel's Biographical Information
25	Group Structure	58	Valuation Report
28	Corporate Governance Report	86	Trustee's Report

## NEW CENTURY REAL ESTATE INVESTMENT TRUST

As the world's first China-based hotel real estate investment trust (“REIT”), New Century Real Estate Investment Trust’s (“**New Century REIT**”) listing (“**Listing**” or “**IPO**”) on the Main Board of The Stock Exchange of Hong Kong Limited on 10 July 2013 (“**Listing Date**”) was a milestone for the Chinese hospitality industry as well as the Hong Kong REIT market. New Century REIT provides its unitholders (“**Unitholders**”) with a unique opportunity to invest in a portfolio of pure hotel assets located in China and to take advantage of the growing China tourism sector and hotel industry resulting from China’s fast-growing economy and domestic consumption.

New Century REIT has committed and reputable sponsors, namely the New Century Hotel Group Limited and its subsidiaries (“**New Century Group**”) as well as **The Carlyle Group**. New Century Group is the largest domestic, private-sector, star-rated hotel management group in China with about 140 star-rated hotels in operations or under development, while The Carlyle Group is a global alternative asset manager with approximately US\$189 billion of assets under management across 118 funds and 100 fund of funds vehicles as of 31 December 2013.

During the period from the Listing Date to 31 December 2013 (“**Reporting Period**”), New Century REIT’s portfolio includes four 5-Star hotels, namely New Century Grand Hotel Hangzhou (杭州開元名都大酒店), New Century Resort Qiandao Lake Hangzhou (杭州千島湖開元度假村), New Century Grand Hotel Ningbo (寧波開元名都大酒店) and New Century Grand Hotel Changchun (長春開元名都大酒店), and one 4-Star hotel, namely New Century Hotel Xiaoshan Zhejiang (浙江開元蕭山賓館) (collectively, the “**Hotel Properties**”). The Hotel Properties are located in China with an aggregate of 2,021 rooms and more than 300,000 square meters in total gross floor area (“**GFA**”).



87	Independent Auditor’s Report	95	Consolidated Statement of Cash Flows
89	Consolidated Income Statement	96	Notes to the Consolidated Financial Statements
90	Consolidated Statement of Comprehensive Income	163	Performance Table
91	Consolidated Balance Sheet	164	Corporate Information
93	Distribution Statement	166	Definitions and Glossary of Technical Terms
94	Consolidated Statement of Net Assets Attributable to Unitholders and Changes in Equity		

## FINANCIAL HIGHLIGHTS

This is the first set of financial results prepared by New Century REIT since the Listing Date, therefore no year-on-year financial comparison is available. Where appropriate, financial results from the Reporting Period are compared against the forecast figures (“**Profit Forecast**”) stated in the offering circular of New Century REIT dated 24 June 2013 and as supplemented on 29 June 2013 (“**Offering Circular**”).

### KEY FINANCIAL FIGURES FOR THE REPORTING PERIOD

(expressed in RMB'000 unless otherwise specified)

	Actual	Profit Forecast <sup>1</sup>	Variance
<b>Total Revenue</b>	126,842	136,691	(7%)
<b>(Loss)/profit attributable to Unitholders</b>	(146,859)	29,609	(596%)
<b>Profit attributable to Unitholders (excluding impact from change in fair values of investment properties)<sup>4</sup></b>	29,330	29,609	(1%)
<b>Total distributable income</b>	80,702	79,988	1%

Per Unit Figures	Actual	Profit Forecast <sup>1</sup>	Variance
Payout Ratio	100%	100%	N/A
Distribution per unit – (after taking into account the effect of the Distribution Waivers <sup>2</sup> ) (RMB)	0.1225	0.1214	1%
Distribution per unit – (after taking into account the effect of the Distribution Waivers <sup>2</sup> ) (HK\$) <sup>3</sup>	0.1558	0.1535	1%
Annualized distribution yield on IPO offer price – (after taking into account the effect of the Distribution Waivers <sup>2</sup> )	9.28%	9.15%	0.1%
Net asset value per unit attributable to Unitholders (RMB)	3.0674	N/A	N/A
Net asset value per unit attributable to Unitholders (HK\$) <sup>3</sup>	3.9015	N/A	N/A
<b>Ratio</b>			
Gearing Ratio	26%	N/A	N/A

## FINANCIAL HIGHLIGHTS

### Notes:

1. Profit Forecast figures as set out in the Offering Circular.
2. Referring to the distribution waivers by Huge Harvest International Limited ("**Huge Harvest**") and Blue Sky Holdings Limited ("**Carlyle Blue Sky**") to waive among others, their entitlement to receive any distributions payable for the Reporting Period in respect of 65,600,000 Units and 47,400,000 Units, as set out under the distribution waiver deeds ("**Distribution Waiver Deeds**") dated 17 June 2013 entered into between the REIT Manager and Huge Harvest and Carlyle Blue Sky, respectively.
3. Unless indicated otherwise, amounts specified in Hong Kong dollars are based on an exchange rate of HK\$1.0000 = RMB0.7862 while amounts specified in United States dollars are based on an exchange rate of US\$1.0000 = RMB6.0518. Distribution payable to Unitholders is paid in Hong Kong dollar. The exchange rate adopted by the REIT Manager is subject to adjustment and is the average closing exchange rate, as announced by the People's Bank of China, for the five business days preceding the date of declaration of distribution.
4. Impact includes decrease in fair values of investment properties of RMB234,918,000 and the related deferred taxation credit of RMB58,730,000 attributable to Unitholders.

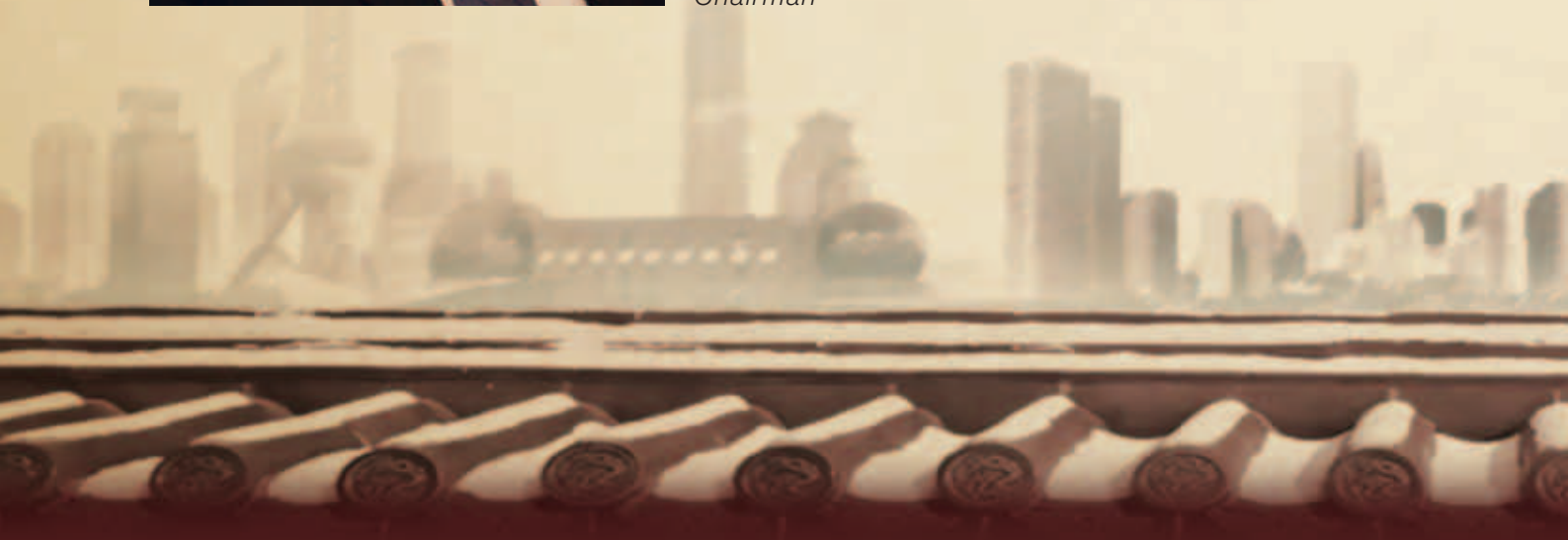
# CHAIRMAN'S STATEMENT



Dear Unitholders,

I am pleased to present the first annual report of New Century REIT and its subsidiaries (“Group”) for the period from the Listing Date to 31 December 2013 (“Reporting Period”) on behalf of the Board of Directors (“Board”) of New Century Asset Management Limited, the manager of New Century REIT (the “REIT Manager”).

**Chen Miaolin**  
*Chairman*



CHEUNG Yat Ming   ZHANG Guanming   KONG Weiliang   ZHANG Chi   CHEN Miaolin   Angelini Giovanni   CHEN Canrong   YU Hon To David   JIN Wenjie   CHEN Miaoqiang  
(From left to right)



CHEN Miaolin CHEUNG Yat Ming  
(From left to right)



LI Kwok Keung HONG Kam Kit, Eddie CHEN Miaolin CHEUNG Yat Ming YU Hoi Zin  
(From left to right)

## CHAIRMAN'S STATEMENT

The revenue and total distributable income of New Century REIT for the Reporting Period were RMB127 million and RMB81 million, respectively. The distribution per Unit (“**DPU**”) of New Century REIT for the Reporting Period was RMB0.1225 or equivalent to HK\$0.1558 based on the latest exchange rate that could be adjusted on the date of declaration of distribution, representing an annualized distribution yield of 9.28% and 8.93% based on the IPO price of HK\$3.50 per Unit and the closing Unit price of HK\$3.64 per Unit as at 31 December 2013, respectively. Pursuant to the distribution policy as stipulated in the Offering Circular, 100% of total distributable income will be distributed to the Unitholders for the Reporting Period.

While closely monitoring the performance of Zhejiang New Century Hotel Management Limited\* (浙江開元酒店管理有限公司) (“**New Century Hotel Management**”, “**Lessee**” and “**Hotel Manager**”) to ensure the maximization of operational efficiency and rental revenue, we have been actively looking for asset enhancement opportunities. For example, during the Reporting Period, refurbishment works were carried out in New Century Grand Hotel Hangzhou to increase the ceiling height of a key meeting room from 3.5 meters to 7.0 meters and to improve its serving capacity by 55% to host large-scale conferences and exhibitions. Further, passenger lifts in New Century Grand Hotel Changchun have been replaced in stages

to improve the efficiency of visitors' circulation within the hotel.

The China hotel industry has been under consolidation pressure, which offers significant investment opportunities for New Century REIT. While the REIT Manager will continue to actively look for both external and internal investment opportunities, it is focusing on in-depth review on existing hotel properties held by New Century Group, with a particular focus on properties which enjoy prestigious geographical location and great appreciation potential, and exploring the possibilities on acquisition between New Century Group and New Century REIT.

We believe a sizable number of star-rated hotels will become available for sale in the PRC market in the next few years, coupled with the large hotel portfolio and pipeline from New Century Group, we are confident that dividend yield accretive acquisitions will become a major long-term dividend yield and capital value growth engine for New Century REIT.

Long-term fundamentals in China's hotel industry are expected to remain strong, driven by overall strong economic growth prospects, increasing disposable income and consumer expenditure, expected increases in both business and leisure travel flow and tourism revenues, and resilient and fast-growing demand for





## CHAIRMAN'S STATEMENT

high star-rated hotels with great further penetration potential. Further, the Chinese government is transforming the economy into a more consumption-led model, and this encompasses efforts to increase wages. The continuous infrastructure improvements, particularly the high-speed-rails, will significantly increase domestic travelling. At the same time, vast sections of China's middle class are reaching a point where they have acquired apartments, electronics, cars and other tangible goods – so spending is likely to move towards more intangible items such as travel and leisure. Over time, these transformations can support higher average room rate and food-and-beverage charges that could dramatically boost the profitability of the sector.

According to World Tourism Organization (聯合國世界旅遊組織), China was the third most popular destination for foreign travelers based on the number of international inbound travelers in both 2011 and 2012. China's hospitality industry is still considered to be at an early development stage compared to more developed countries.

Based on our observation, new investment in hotels construction is falling, which will probably bring about stronger supply and demand dynamics within the next 2-3 years. We therefore are optimistic on the long-

term outlook of China's hotel industry. Our competitive market position and efficient operations were clearly reflected in our financial results despite the relatively difficult hospitality industry environment in 2013. We are confident that we will further outperform the overall industry when the market uptrend kicks in.

On behalf of the REIT Manager, I would like to express my gratitude to DB Trustees (Hong Kong) Limited, (our "Trustee") and Unitholders for the support and confidence rendered to us.

On behalf of the Board

**New Century Asset Management Limited**  
(as the REIT Manager of New Century REIT)

**CHEN Miaolin**

*Chairman*

Hong Kong, 24 February 2014



## INVESTMENT PROPERTIES PORTFOLIO

During the Reporting Period, New Century REIT's portfolio includes four 5-Star hotels, namely New Century Grand Hotel Hangzhou (杭州開元名都大酒店), New Century Resort Qiandao Lake Hangzhou (杭州千島湖開元度假村), New Century Grand Hotel Ningbo (寧波開元名都大酒店) and New Century Grand Hotel Changchun (長春開元名都大酒店), and one 4-Star hotel, namely New Century Hotel Xiaoshan Zhejiang (浙江開元蕭山賓館). The Hotel Properties are located in China, and have an aggregate of 2,021 rooms and more than a total GFA of 300,000 square meters.

All five hotels were rated within the top 1% of all hotels in respective city by TripAdvisor.com as of 18 June 2013.

	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	Total
						
Location	No.818, Middle Shixin Road, Xiaoshan District, Hangzhou, Zhejiang Province	No. 77, Renmin Road, Xiaoshan District, Hangzhou, Zhejiang Province	Qilin Peninsular, Qiandao Lake, Chun'an County, Hangzhou, Zhejiang Province	No. 666 Middle Shounan Road, Yinzhou District, Ningbo, Zhejiang Province	No. 2299, Jingyangda Road, Lvyan District, Changchun, Jilin Province	N/A
Commencement of Operations	January 2005	January 1988	April 2004	December 2007	December 2008 <sup>(1)</sup>	N/A
Rating	5-Star	4-Star	5-Star	5-Star	5-Star	N/A
Total GFA (sq.m.)	130,105	39,851	39,402	66,107	45,625	321,090
Number of Rooms	699	375	227	392	328	2,021
Total Available Seats <sup>(2)</sup>	4,685	2,264	1,962	2,356	1,918	13,185
GFA of Banquet Rooms (sq.m.)	4,492	1,337	1,961	1,890	1,892	11,572

### Notes:

1. New Century Grand Hotel Changchun was constructed by a third party in 2004 and acquired by the New Century Group in December 2007. The hotel was re-opened in 2008 after renovations.
2. Including seats in food and beverage outlets and function and banquet facilities.

## INVESTMENT PROPERTIES PORTFOLIO

### Favourable Locations

#### Xiaoshan, Hangzhou

##### Regional advantages

- Hangzhou is the capital of Zhejiang Province and a major tourist city in China
- Xiaoshan is the industrial base of Hangzhou and China's 3rd most economically prosperous district in 2012, with 24 listed companies

##### Hotel location advantages

- Located in CBD of Xiaoshan
- Proximity to Xiaoshan Economic & Technology Zone and Xiang Lake
- Only 30 minutes drive from the airport
- Next to a new subway line connecting downtown Hangzhou



#### Qiandao Lake, Hangzhou

##### Regional advantages

- National 5A Tourist Attraction
- The largest national forest park in China, the 'International Garden City'
- Hangzhou-Huangshan high-speed railway to be completed by 2018

##### Hotel location advantages

- Located on Qilin peninsula, facing the center of Qiandao Lake
- Adjacent to major transportation routes in Chun'an
- Only 40 minutes drive away from Yu Hot-spring, a new attraction in winter

#### Changchun

##### Regional advantages

- Automobile hub of China, with auto industry output growing at a CAGR of 20% from 2007 to 2011, home to one of the China's largest auto makers – China FAW Group Corporation, and soon to become China's high speed railway development center
- Transportation infrastructure upgrades in place

##### Hotel location advantages

- Close proximity to China FAW Group Corporation and CNR Changchun Railway Vehicles Co., Ltd
- Close proximity to Changchun Automotive Industry Development Zone
- Distant from new supply of 5-star hotels in Changchun



#### Yinzhou, Ningbo

##### Regional advantages

- Ningbo is the core logistics and trading hub in southern Yangtze River Delta region
- Yinzhou District ranked China's 2nd most economically prosperous district in 2012
- Southern Business District as new growth area

##### Hotel location advantages

- Close to southern business district, which is under rapid development and expansion
- Close proximity to airport and railway station; easily accessible to Shanghai via Hangzhou Bay Bridge
- Distant to newly constructed 5-star hotels in city center of Ningbo



INVESTMENT PROPERTIES PORTFOLIO



**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 Hangzhou is the largest 5-Star hotel in Zhejiang Province as measured by revenue in 2012. New Century Hotel Xiaoshan Zhejiang is an upscale 4-Star hotel with a long history, strong reputation and stable customer base. Both New Century Grand Hotel Hangzhou and New Century Hotel Xiaoshan Zhejiang are located in Xiaoshan District, Hangzhou. Hangzhou is the capital of Zhejiang Province and is one of the most important central cities in the Yangtze River Delta and a transportation hub in eastern China. Xiaoshan District is the industrial base of Hangzhou and is one of China's most economically prosperous regions at the municipal district level. Both New Century Grand Hotel Hangzhou and New Century Hotel Xiaoshan Zhejiang are within close proximity to the Xiaoshan International Airport, the only commercial airport in Hangzhou. New Century Grand Hotel Hangzhou and New Century Hotel Xiaoshan Zhejiang are both located close to a subway station that is under construction and is scheduled to be completed in June 2014. The customer base of these hotels will expand significantly upon completion of the subway.



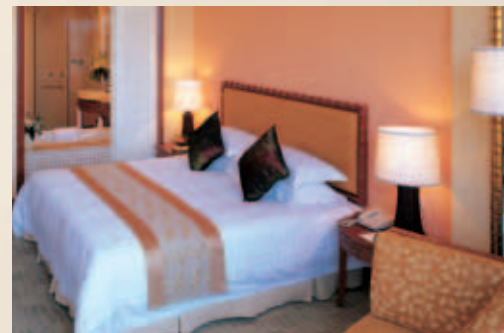
## INVESTMENT PROPERTIES PORTFOLIO



**New Century Resort Qiantao Lake Hangzhou**  
(杭州千島湖開元度假村)



New Century Resort Qiantao Lake Hangzhou is the first 5-Star resort opened in Hangzhou. It generated the highest revenue among all resorts in Qiantao Lake in 2012 and is the most popular resort in Qiantao Lake as measured by occupancy rate and revenue per available room (“RevPAR”). As a National 5A Tourist Attraction recognized by China National Tourism Bureau, Qiantao Lake is a prominent leisure destination in eastern China.



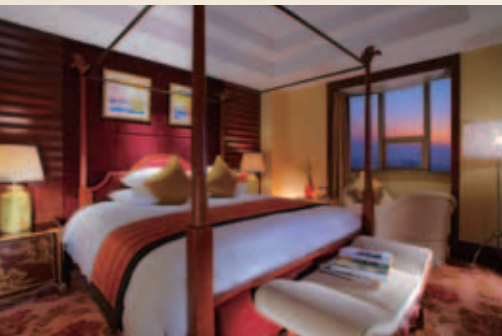
## INVESTMENT PROPERTIES PORTFOLIO



**New Century Grand Hotel Ningbo**  
(寧波開元名都大酒店)



New Century Grand Hotel Ningbo is a luxury 5-Star hotel located in Yinzhou District, Ningbo. Ningbo is the core logistics and trading hub in southern Yangtze River Delta region and has the second largest GDP among all cities in Zhejiang Province. The Beilun Port in Ningbo is the second largest port in China. Yinzhou District is one of Ningbo's major industrial and educational zones and is home to over 25,500 industrial companies, including headquarters of many large-scale private enterprises. New Century Grand Hotel Ningbo is in close proximity to the Ningbo Lishe International Airport, the only commercial airport in Ningbo.



## INVESTMENT PROPERTIES PORTFOLIO



**New Century Grand Hotel  
Changchun**  
(長春開元名都大酒店)



New Century Grand Hotel Changchun was acquired by the New Century Group in December 2007 and commenced operation in December 2008 with advanced amenities and facilities. The hotel is a luxury 5-Star hotel located in Lvyuan District of Changchun. Changchun is the capital of Jilin Province and an important industrial base with a particular focus on the automobile sector. New Century Grand Hotel Changchun is in close proximity to the China FAW Group Corporation, one of China's largest vehicle producers, and CNR Changchun Railway Vehicles Co., Ltd. which is a subsidiary of China CNR Corporation Limited and is China's major producer of high-speed railway passenger cars and subway cars. New Century Grand Hotel Changchun has established a long-term cooperative relationship with China FAW Group Corporation and CNR Changchun Railway Vehicles Co., Ltd., which brings steady demand from business travelers. New Century Grand Hotel Changchun is well positioned to capture market share from business travelers, including those who travel to the China FAW Group Corporation and CNR Changchun Railway Vehicles Co., Ltd., and participants of the China-Northeast Asia Expo (中國—東北亞博覽會) which is held every September in Changchun.



# REPORT OF THE REIT MANAGER

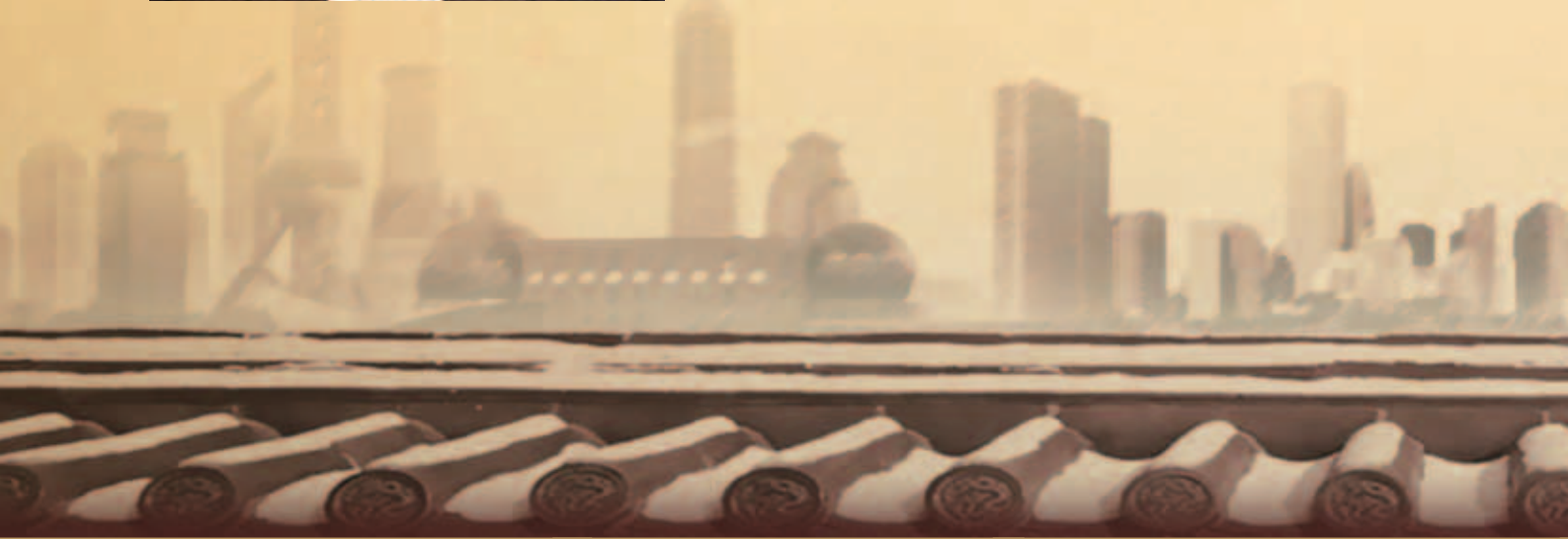


Dear Unitholders,

We meet our distribution forecast, offering approximately 9% annualized dividend yield. The currently difficult hotel industry environment may offer significant hotel acquisition opportunities in China.

**Cheung Yat Ming**

*Executive Director and Chief Executive Officer*







## REPORT OF THE REIT MANAGER

New Century REIT was constituted as a collective investment scheme in the form of unit trust by a trust deed dated 10 June 2013 entered into between the REIT Manager, as manager of New Century REIT, and the Trustee, as the trustee of New Century REIT. New Century REIT commenced business on the Listing Date and was not involved in any business prior to the Listing Date. With a view of enabling the investors to make an informed assessment of the financial performance of New Century REIT of the hotel property rental business upon the Listing Date, the Board is pleased to report the financial results of the Group for the Reporting Period, which is extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2013.

### KEY FINANCIAL HIGHLIGHTS

This is the first set of financial results prepared by New Century REIT since the Listing Date, therefore no year-on-year financial comparison is available. Where appropriate, financial results from the Reporting Period are compared against the Profit Forecast stated in the Offering Circular.

### DISTRIBUTION MEETS OFFERING CIRCULAR FORECAST

The revenue and total distributable income of New Century REIT for the Reporting Period were RMB127 million and RMB81 million, respectively.

Pursuant to the Distribution Waiver Deeds dated 17 June 2013 entered into between the REIT Manager and Huge Harvest and Carlyle Blue Sky, respectively, Huge Harvest and Carlyle Blue Sky, being significant unitholders of New Century REIT, have agreed to waive, among others, their entitlement to receive any distributions payable for the Reporting Period in respect of 65,600,000 Units and 47,400,000 Units, respectively (the “**Distribution Waivers**”). As the total distributable income of New Century REIT was RMB81 million for the Reporting Period and there were 772,000,000 Units in issue as at 31 December 2013, the aggregate amount of distribution waived by Huge Harvest and Carlyle Blue Sky under the Distribution Waivers for the Reporting Period is RMB12 million, representing approximately 14.6% of the total distributable income of New Century REIT for the Reporting Period. Such amount waived will be available for distribution to the



## REPORT OF THE REIT MANAGER

Unitholders (including Huge Harvest and Carlyle Blue Sky, in respect of the Units held by them to which the Distribution Waivers do not apply, if any).

After taking into account the Distribution Waivers, the distribution per Unit (“DPU”) of New Century REIT for the Reporting Period was RMB0.1225 or equivalent to HK\$0.1558 based on the latest exchange rate that could be adjusted on the date of declaration of distribution, representing an annualized distribution yield of 9.28% and 8.93% based on the IPO price of HK\$3.50 per Unit and the closing Unit price of HK\$3.64 per Unit as at 31 December 2013, respectively.

Revenue of New Century REIT for the Reporting Period was made up of (i) RMB111 million rental income from New Century Hotel Management in respect of the lease of the Hotel Properties under the master hotel lease and management agreement (“**Master Hotel Lease and Management Agreement**”) dated 14 June 2013 between, among others, 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**”), as the **Lessor**, and New Century Hotel Management, as the lessee and hotel manager and (ii) RMB16 million other rental income from the leasing of commercial and office spaces, shopping and recreational areas in the Hotel Properties under various individual lease agreements. The annualized rental income from the Hotel Properties under the Master Hotel Lease and Management Agreement for the year ended 31 December 2013 exceeded the guaranteed base rent of RMB216 million (“**Base Rent**”). Tight costs control has been achieved for the Hotel Properties during the Reporting Period, which contributed to stable portfolio gross operating profit margins despite the relatively difficult industry environment in 2013.

### HEALTHY FINANCIAL POSITION

Upon Listing, New Century REIT issued 772,000,000 Units at the price of HK\$3.50 per Unit, and the IPO

proceeds together with the proceeds from bank financing were applied towards the acquisition of the Hotel Properties, payments of existing debts and costs associated with the Listing and debt related costs.

As at 31 December 2013, New Century REIT had an aggregate borrowing of RMB1,188 million, comprising bank borrowings of approximately RMB938 million and a corporate bond of RMB250 million. Pursuant to the onshore facility agreement and the offshore facility agreement (“**Offshore Facility Agreement**”, together with the onshore facility agreement, “**Facility Agreements**”) entered into between a consortium of banks and members of the Group in June 2013, the Group obtained an onshore loan facility of RMB360 million and an offshore loan facility of US\$190 million (equivalent to approximately RMB1,149 million), secured by various charges over the Hotel Properties and shares of subsidiaries of New Century REIT. As at 31 December 2013, New Century REIT have drawn an aggregate equivalent of approximately RMB938 million (comprising one onshore term loan of RMB50 million and offshore term loans of US\$147 million (equivalent to approximately RMB888 million)) from the Facility Agreements and an aggregate equivalent of approximately RMB571 million loan facilities remained unutilized. Upon Listing, New Century REIT assumed a corporate bond of RMB250 million issued by Zhejiang New Century Hotel, a wholly-owned subsidiary of New Century REIT, which will mature in April 2014. The RMB250 million corporate bond will be refinanced by the onshore loan facility under the Facility Agreements.

The annual interest rate of the onshore and offshore facility under the Facility Agreements is 110% of 1-3 year benchmark People’s Bank of China rate and 3-month London Interbank Offered Rate plus 2.5% per annum respectively. The annual interest rate of the corporate bond of RMB250 million issued by Zhejiang New Century Hotel is 4.89% per annum. As required under the Offshore Facility Agreement, a subsidiary

## REPORT OF THE REIT MANAGER

of the Group entered into interest rate swaps with commercial banks, which have the economic effect of converting borrowings of its offshore term loans from floating rates to fixed rates which were fixed at 3.5% per annum during the loan period.

As at 31 December 2013, the gearing ratio of New Century REIT was approximately 26%, being the ratio of the total net borrowings of RMB1,159 million as compared with total asset value of RMB4,404 million, which was well below the maximum limit of 45% as permitted under the REIT Code.

As at 31 December 2013, New Century REIT had total cash and cash equivalents and restricted cash of RMB170 million, which comprised of RMB146 million in unrestricted cash and RMB24 million in restricted cash. New Century REIT possesses sufficient financial resources and bank loan facilities and receives timely payments of rental income to satisfy its financial commitments and working capital requirements.

### HOTEL INDUSTRY CONDITIONS

During the Reporting Period, the tourism and hospitality industries in the PRC continued to be affected by the slowdown in China's economy, the aftermath of the global financial crisis and changes in Chinese government leadership. The oversupply continued to suppress hotel room rate and occupancy recovery mainly in first-tier cities. Nevertheless, the markets in which New Century REIT operates, namely Hangzhou, Changchun, Yinzhou of Ningbo and Qiandao Lake, were comparatively more stable.

Our hotels will also benefit from continuous infrastructure improvements as set out below:

**Hangzhou** – Subway construction is scheduled to be completed in June 2014, which will connect Xiaoshan District to the central regions of Hangzhou.

**Ningbo** – Hu-Gang High Speed Railway Line, with a total length of 1,300 kilometers, has partially opened since 2013 and will stretch from Hong Kong to Shanghai and pass through major cities including Ningbo, Shenzhen, Xiamen, Fuzhou and Hangzhou. This line will considerably reduce the travelling time between Hong Kong and Shanghai to around three and a half hours. Further, the construction of two subway lines within Ningbo, Line 1 and Line 2, have already begun and are scheduled for completion in early 2014 and 2015 respectively.

**Changchun** – The government has approved the construction of two new subway lines. Specifically, subway line 1, scheduled to be completed in 2015 with a total length of 37 kilometers and 16 station stops, is planned to run along Renmin Avenue in a north-south direction from Changchun Rail Station to Changchun Municipal Government Station. Subway Line 2, scheduled to be completed in 2016 with a total length of around 25 kilometers and 17 station stops, would travel along Jilin Road, Jiefang Road and Jingyang Road in an east-west direction. The two new subway lines are planned to intersect at Jilin Exhibition Hall Station on Jiefang Road.

**Qiandao Lake** – The high-speed rail, connecting Hangzhou to Huangshan, with a stop at Qiandao Lake, is expected to increase tourists to the region, benefitting all hotels including New Century Resort Qiandao Lake Hangzhou.



**TAKING ADVANTAGE OF ACQUISITION OPPORTUNITIES AND ENHANCING LONG-TERM VALUE**

While actively looking for external and internal acquisition opportunities, the REIT Manager believes that the hotel market in China presents significant long-term growth potential. The REIT Manager is confident in taking advantage of the rapid growth in the scale of New Century Group's hotel portfolio and pipeline to expand the scale of New Century REIT's portfolio at the right timing as well as to eventually enhance long-term value of the assets for its Unitholders.

As set out in the Offering Circular, New Century REIT has been granted the option to acquire New Century Grand Hotel Xuzhou (徐州開元名都大酒店) with a total GFA of 68,947 sq.m and New Century Grand Hotel Kaifeng (開封開元名都大酒店) with a total GFA of 53,512 sq.m. under an option agreement between, among others, the REIT Manager and Zhejiang New Century Real Estate Limited\* (浙江開元置業有限公司). In addition, under a deed of non-competition between, among others, the REIT Manager and Huge Harvest, Huge Harvest has made undertakings to the REIT Manager regarding the acquisition of new hotel interests and sale of existing hotel interests by the Huge Harvest Group. In particular, if any member of the Huge Harvest Group becomes aware of any opportunity to acquire any hotels in operation, completed or substantially completed, in China, it shall notify the REIT Manager on behalf of New Century REIT, and provide and use reasonable endeavors to liaise with the proposed seller and provide information and documents for the REIT Manager on behalf of New Century REIT to evaluate such an opportunity. At the same time, Huge Harvest Group cannot dispose of any majority ownership and controlling interest in any hotels in operation, completed or substantially completed, in China, to any purchaser on terms more favorable than those offered to the REIT Manager on behalf of New Century REIT, unless a right to acquire such an interest has first been offered to New Century REIT.



## REPORT OF THE REIT MANAGER

### ASSET ENHANCEMENT

During the Reporting Period, refurbishment works were carried out in New Century Grand Hotel Hangzhou to increase the ceiling height of a key meeting room from 3.5 meters to 7.0 meters and to improve its serving capacity by 55% to host large-scale conferences and exhibitions with approximately 1,400 participants. This project was completed before the national holidays in October 2013 to capitalize on the high demand during that festival period. Further, passenger lifts in New Century Grand Hotel Changchun have been replaced in stages to improve the efficiency of visitors' circulation within the hotel.

**BEFORE: 1,000 square meters; 3.5 meters Height; Capacity: 900 seats**



**AFTER: 1,360 square meters; 7.0 meters Height; Capacity: 1,400 seats**



## REPORT OF THE REIT MANAGER

### KEY HOTEL OPERATING HIGHLIGHTS

The following table sets forth information on the occupancy rates, average daily rate (“**ADR**”) and revenue per available room (“**RevPAR**”) of the Hotel Properties for the six months ended 31 December 2013:

	Occupancy %	ADR RMB	RevPAR RMB
New Century Grand Hotel Hangzhou	59.5%	576	342
New Century Hotel Xiaoshan Zhejiang	59.8%	341	204
New Century Resort Qiandao Lake Hangzhou	57.1%	870	496
New Century Grand Hotel Ningbo	54.9%	534	293
New Century Grand Hotel Changchun	64.2%	642	412
Average	59.1%	568	336

The food and beverages (“**F&B**”) average spending per customer, average utilization rate of seats and average revenue per square meter per year of banquet rooms in the Hotel Properties for the six months ended 31 December 2013 are set out below:

	F&B Spending Per Customer RMB	Utilization Rate %	Revenue Per SQM. Per Annum of Banquet Room
New Century Grand Hotel Hangzhou	101	171%	22,331
New Century Hotel Xiaoshan Zhejiang	104	122%	30,718
New Century Resort Qiandao Lake Hangzhou	84	108%	2,927
New Century Grand Hotel Ningbo	98	154%	20,575
New Century Grand Hotel Changchun	130	130%	10,246
Average	103	137%	17,498

## REPORT OF THE REIT MANAGER

### EMPLOYEES

New Century REIT is managed by the REIT Manager and the Trustee. By contracting out such services, New Century REIT, through its subsidiaries has no more than five employees in its own right.

### MAJOR REAL ESTATE AGENTS

During the Reporting Period, no commission was paid to any real estate agents.

### MAJOR CONTRACTORS

The top five contractors engaged by New Century REIT and their respective value of services rendered and percentages for the Reporting Period were as follows:



Contractors	Nature of Services	Value of services RMB'000	Relevant cost %
浙江建峰裝飾工程有限公司 (Zhejiang Jianfeng Decoration Engineering Company Limited)	Renovation work	7,154	83%
長春金城工程建設有限責任公司 (Changchun Jincheng Construction Company Limited)	Carpark pavement reconstruction work	968	11%
杭州建樹暖通設備工程有限公司 (Hangzhou Jianshu Equipment Engineering Company Limited)	Supply of equipment	218	3%
杭州吉家紡織科技有限公司 (Hangzhou Jijia Textile Company Limited)	Supply of renovation materials	160	2%
浙江匯豐建材有限公司 (Zhejiang Huifeng Building Materials Company Limited)	Supply of renovation materials	120	1%
		8,620	100%





### LONG-TERM OBJECTIVES AND STRATEGY

The REIT Manager's principal investment strategy is investing on a long-term basis, in a diversified portfolio of income-producing hospitality related real estates, initially in China, and the REIT Manager's principal objectives are to deliver regular and stable distributions to Unitholders and to achieve long-term growth in distributions and in the net asset value per Unit of New Century REIT while maintaining an appropriate capital structure.

It is intended that the properties acquired by New Century REIT will be held on a long-term basis, but with a pro-active approach towards optimizing the yield and value of New Century REIT's portfolio. If the REIT Manager considers that any property has reached a stage such that it offers only limited scope for growth, the REIT Manager may consider selling the property (either in whole or in part) through either the direct disposal of New Century REIT's interest in the property, or the disposal of New Century REIT's interest in the relevant special purpose vehicle(s) followed by the recycling of capital from the sale proceeds towards higher yielding growth opportunities.

The REIT Manager plans to achieve its objectives over time through a combination of the following strategies:

#### *Internal growth strategy:*

The REIT Manager implements pro-active measures to enhance the Hotel Properties and to improve their operational performance, so as to optimize the cash flow and value of the Hotel Properties. Through such active management, the REIT Manager seeks to enhance the efficiency of the Hotel Properties to increase occupancy rates and RevPAR for lodging services, utilization rate of seats, average spending per customer, revenue per square meter per year of banquet rooms for Food and Beverage services, as well as to create a better lodging and catering experience for its customers.

#### *External growth strategy:*

The REIT Manager will continue to pursue asset acquisition opportunities, which offer attractive cash flow and yield enhancement as well as long-term capital appreciation potential.

#### *Financing strategy:*

The REIT Manager endeavours to maintain a strong balance sheet, employ an appropriate mix of debt and equity in financing the acquisitions of properties, secure diversified funding sources to access both financial institutions and capital markets, optimize its cost of debt financing and utilize interest rate and exchange rate hedging strategies, where appropriate, to reduce exposure to market volatility.

### RENTAL STRUCTURE AND BANK GUARANTEE

New Century REIT's primary objective is to provide stable distributions to Unitholders and to achieve stable revenue, primarily through the Master Hotel Lease and Management Agreement between the subsidiaries of New Century REIT, the registered owners of the Hotel Properties and Lessors, and New Century Hotel Management, the Lessee and Hotel Manager (as the case may be).

Under the Master Hotel Lease and Management Agreement, the hotel manager manages and operates the Hotel Properties to prescribed operating standards and pays rent to the subsidiaries of New Century REIT for an initial term of 10 years commencing from the Listing Date, which may be renewed for a period of another 10 years.

The Master Hotel Lease and Management Agreement is designed to provide New Century REIT with a visible and stable income stream minimizing exposure to hotel industry risks (including cyclical) by way of Base Rent, being RMB216 million for the first five years of the Master Hotel Lease and Management Agreement, while providing New Century REIT, by way of the variable **Individual Rent**, with the ability to share a portion of any potential upside in revenue and gross operating profit based on the performance of the Hotel Properties.

## REPORT OF THE REIT MANAGER

### Summary of Hotel Lease and Management Agreements

	Year 1-5	Year 6-10	Year 11-20
Base Rent	RMB216 million	Higher of market base rent or 85% of average rent received in prior 4 years	
	Guaranteed by Bank of China	Bank guarantee or security deposit	
Variable Portion of Total Rent	20% Revenue + 34% Gross Operating Profit – Base Rent	To be determined by independent property valuer	
Security Deposit	RMB20 million	≥ RMB20 million	

Variable Individual Rent, with a minimum guaranteed annual rental amount (being the Base Rent), amounts to the total sum of (i) 20% of each of the relevant Hotel Properties' total operating revenue of that month; and (ii) 34% of each of the relevant Hotel Properties' gross operating profit of that month.

From the sixth to tenth years of the Master Hotel Lease and Management Agreement (“**Subsequent Period**”), the Base Rent for each year will be the market base rent (“**Market Base Rent**”) which is to be determined by an independent professional property valuer to be jointly appointed by the Lessors and the Lessee. If the Market Base Rent as determined by such independent property valuer to be appointed is lower than 85% of the average annual rent received from the Lessee for the Hotel Properties for the first four years (i.e. the “**Reference Average Rent for the First Four Years**”), the Base Rent with respect to the Hotel Properties for each year during the Subsequent Period will be 85% of the Reference Average Rent for the First Four Years instead of the Market Base Rent. Given the minimum amount of the annual rent received from the Lessee for each of the first four years of the term of the Master Hotel Lease and Management Agreement is RMB216 million, being the Base Rent for the first four years, the Base Rent from the Subsequent Period would be no less than RMB183.6 million (being 85% of the Base Rent for the first 4 years).

**New Century Tourism** guarantees the performance of obligations by the Lessee under the Master Hotel Lease and Management Agreement, including the payment of Individual Rent and the shortfall between the total Individual Rent and the Base Rent by New Century Hotel Management within 30 days from the issuance of the audited annual accounts of the Lessee.

For the first 5 years of the Master Hotel Lease and Management Agreement, the Bank of China, Zhejiang Branch provides an irrevocable guarantee in the amount of RMB216 million (being the amount of the Base Rent) per year in favor of the Lessors to cover the payment obligations of the Lessee and the Lessee is required to provide a security deposit in the amount of RMB20 million under the Master Hotel Lease and Management Agreement.

In addition to the rent receivable under the Master Hotel Lease and Management Agreement, New Century REIT is also entitled to other rental income from the leasing of commercial and office spaces, shopping and recreational areas in the Hotel Properties.

On behalf of the Board

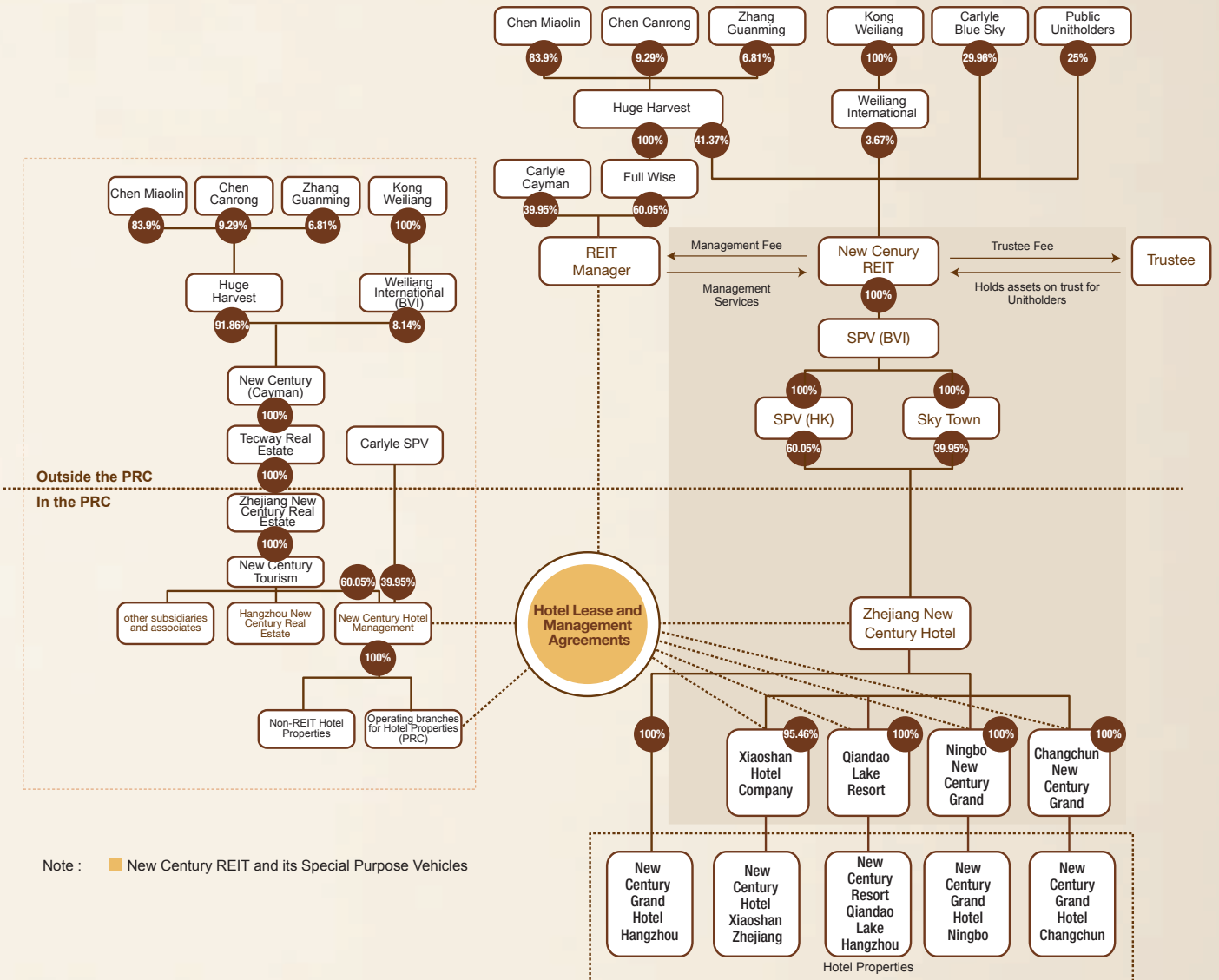
**New Century Asset Management Limited**  
(as the REIT Manager of New Century REIT)

**CHEUNG Yat Ming**

*Executive Director and Chief Executive Officer*  
Hong Kong, 24 February 2014

# GROUP STRUCTURE

## ORGANIZATION CHART AND STRUCTURE OF NEW CENTURY REIT



New Century REIT is a Hong Kong collective investment scheme constituted as a unit trust, authorized under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”) and regulated by the provisions of the REIT Code. It was constituted by the Trust Deed on 10 June 2013, to hold an investment portfolio of hotel assets in China.



## GROUP STRUCTURE

### NEW CENTURY GROUP

New Century REIT, through **Changchun New Century Grand, Zhejiang New Century Hotel, Ningbo New Century Grand, Qiandao Lake Resort** and **Xiaoshan Hotel Company** (the “**Property Companies**” and “Lessors”), entered into the Master Hotel Lease and Management Agreement with the Lessee, a company that is held jointly by New Century Tourism and **Carlyle SPV**. Mr. Chen Miaolin, Chairman of the REIT Manager and one of the founding members of the New Century Group, indirectly controls New Century Tourism.

The Lessee was established by New Century Group to operate and provide management services to New Century Group’s hotels. As at the end of 2013, the Lessee has about 140 star-rated hotels in operations or under development.

New Century Group will continue to be engaged in hotel operations in the PRC and it is interested in certain businesses which may compete with that of the New Century REIT. We have taken steps to address potential competition issues with the New Century Group by entering into a deed of non-competition.

Since its inception in Hangzhou, Zhejiang Province in 1988, New Century Group has established the homegrown, widely recognized “New Century” brand series that principally targets the luxury and upscale travel segments, offering hospitality services of international standards complemented by local Chinese elements. New Century Group has established a strong foothold in the Greater Yangtze River Delta region and intends to continue to leverage its knowledge and market reputation to enhance its expansion into second and third-tier cities in other regions of China.

### NEW CENTURY GROUP’S HOTEL BRANDS

New Century Group’s hotels are operated under the following 5 brands:



“**New Century Grand Hotel**” is a 5-star luxury hotel brand, offering services to guests with the perfect fusion of oriental culture and international standards.



“**New Century Manju Hotel**” is a mid-range business hotel brand.



“**New Century Hotel**” is a high-grade business hotel brand of the New Century Group.



“**Cultural Theme Hotel**” is a brand of hotels located in ancient towns, villages, and scenic regions with unique cultural characteristics.



“**New Century Resort**” is a resort hotel brand and is located in the coast area, lakeside and mountains with beautiful natural environment.

### THE REIT MANAGER

The REIT Manager, New Century Asset Management Limited (開元資產管理有限公司), was incorporated in Hong Kong on 12 December 2012 for the sole purpose of managing the assets of New Century REIT. The REIT Manager is licensed by the Securities and Futures Commission (“SFC”) to undertake the regulated activity of asset management as required by the REIT Code.

The REIT Manager has a general power of management over the assets of New Century REIT. The REIT Manager’s main responsibility is to manage the assets of New Century REIT for the benefit of the Unitholders and to provide Unitholders with stable distributions per Unit. The REIT Manager sets the strategic direction and risk management policies of New Century REIT and gives directions to the Trustee on the acquisition, divestment or enhancement of assets of New Century REIT in accordance with its stated investment strategy. The REIT Manager is required by the REIT Code to act in the best interests of Unitholders, to whom the Trustee also owes fiduciary duties.

The REIT Manager believes that hotel property ownership requires specialized knowledge and experience which is distinct from office or retail property management and that it is important to monitor a hotel operator’s activities to ensure that asset performance is maximized. The REIT Manager has employed experienced professionals who have a track record in property development, investment, management, marketing, leasing and finance, complemented by their familiarity with the dynamics of the Chinese hospitality market.

The REIT Manager does not manage the Hotel Properties directly. The Hotel Properties are leased by the Lessors to the Lessee under the Hotel Lease and Management Agreement, which are designed to provide New Century REIT with a visible and stable income stream minimizing exposure to hotel industry risks by way of the Base Rent, while providing New Century REIT, by way of the variable Individual Rent, with the ability to share a portion of any potential upside in revenue and gross operating profit based on the performance of the Hotel Properties.

### THE TRUSTEE

The Trustee of New Century REIT is DB Trustees (Hong Kong) Limited, a company incorporated in Hong Kong and registered as a trust company under section 77 of the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong). The Trustee is qualified to act as a trustee for collective investment schemes authorized under the SFO pursuant to the REIT Code.

The Trustee and the REIT Manager are independent of each other and their respective roles in relation to New Century REIT are set out in the REIT Code and the Trust Deed.

## CORPORATE GOVERNANCE REPORT

New Century REIT is committed to maintaining a high level of corporate governance practices and procedures. The REIT Manager has adopted a compliance manual for use in relation to the management and operation of New Century REIT (“**Compliance Manual**”) which sets out the key processes, systems, measures and certain corporate governance policies and procedures to be applied for governing the management and operation of New Century REIT and for compliance with all applicable laws of regulations.

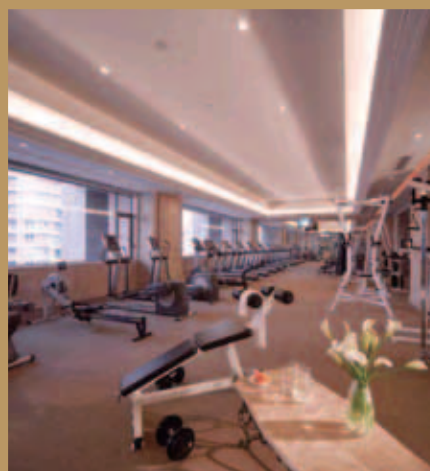
Throughout the Reporting Period, both the REIT Manager and New Century REIT have in material terms complied with the provisions of the Compliance Manual and have adhered to all the applicable corporate governance practices.

Set out below is a summary of the key components of the corporate governance policies that have been adopted having due regard to the requirements under Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”) and have been followed by the REIT Manager and New Century REIT.

### AUTHORIZATION STRUCTURE

New Century REIT is a collective investment scheme authorized by the SFC under section 104 of the SFO and is regulated by the provisions of the REIT Code. The REIT Manager has been authorized by the SFC under section 116 of the SFO to conduct the regulated activity of asset management. At the date of this report, Mr. Cheung Yat Ming (the Chief Executive Officer and Executive Director of the REIT Manager), Mr. Hong Kam Kit, Eddie (the Investment and Investor Relations Manager of the REIT Manager) and Ms. Ho Wai Chu (the Chief Operating Officer of the REIT Manager) are the responsible officers of the REIT Manager (“**Responsible Officers**”) pursuant to the requirements under sections 125 of the SFO and Rule 5.4 of the REIT Code. Mr. Cheung Yat Ming was approved by the SFC as an approved person of the REIT Manager pursuant to sections 104(2) and 105(2) of the SFO.

The Trustee is registered as a trust company under section 77 of the Trustee Ordinance and is qualified to act as a trustee for collective investment schemes authorized under the SFO pursuant to the REIT Code.



## CORPORATE GOVERNANCE REPORT

During the Reporting Period, the REIT Manager and New Century REIT have in material terms complied with the provisions of the REIT Code, the Trust Deed and the relevant provisions and requirements of the SFO and Listing Rules which are applicable to New Century REIT.

### ROLES OF THE TRUSTEE AND THE REIT MANAGER

The Trustee and the REIT Manager are independent of each other. The Trustee is primarily responsible for the safe custody of the assets of New Century REIT on behalf of Unitholders. The REIT Manager's role under the Trust Deed is to manage New Century REIT in accordance with the Trust Deed in the sole interest of the Unitholders and to fulfill the duties imposed on it under general law as the REIT Manager of New Century REIT and, in particular, to ensure that the financial and economic aspects of New Century REIT's assets are professionally managed in the sole interests of Unitholders.

### BOARD OF DIRECTORS OF THE REIT MANAGER

#### FUNCTIONS OF THE BOARD

The Board of Directors of the REIT Manager (the "Board") principally oversees the day-to-day management of the REIT Manager's affairs and the conduct of its business and is responsible for the overall governance of the REIT Manager. The Board exercises its general powers within the limits defined by the articles of association, with a view to ensuring that management discharges its duties, and that sound internal control policies and risk management systems are maintained. The Board will also review major financial decisions and the performance of the REIT Manager. In accordance with the REIT Code, the REIT Manager is required to act in the best interests of Unitholders, to whom it owes a fiduciary duty.

#### BOARD COMPOSITION

The Board currently comprises seven members, one executive Director, three non-executive Directors and three independent non-executive Directors.



## CORPORATE GOVERNANCE REPORT

Pursuant to the REIT Manager's corporate governance policy, independent non-executive Directors must be individuals who fulfill the independence criteria set out in the Compliance Manual adopted by the REIT Manager.

The composition of the Board is determined using the following principles:

- the Chairman of the Board should be a non-executive Director;
- the Board should comprise of Directors with a broad range of commercial experience including expertise in hotel investment and management, funds and asset management and/or the property industry; and
- at least one-third of the Board should, at all times, comprise independent non-executive Directors and there should be a minimum of three independent non-executive Directors each with a maximum term of office of 9 years.

The positions of Chairman and the Chief Executive Officer are held by two separate persons in order to maintain an effective segregation of duties. The Chairman leads the Board discussions and deliberations and is responsible for setting the meeting agenda of Board meetings. He ensures that Board meetings are held when necessary. He promotes high standards of corporate governance and maintenance of effective communications with Unitholders. The Chief Executive Officer is responsible for the day-to-day management of the REIT Manager and New Century REIT. He executes the strategic plans set out by the Board and ensures that the Directors are kept updated and informed of New Century REIT's business via management reports.

Non-executive Directors are currently appointed for a term of 3 years.

The Board currently comprises the following members:

### ***Chairman and non-executive Director***

Chen Miaolin

### ***Executive Director and Chief Executive Officer***

Cheung Yat Ming

### ***Non-executive Directors***

Zhang Guanming

Zhang Chi

### ***Independent non-executive Directors***

Angelini Giovanni

Yu Hon To David

He Jianmin (*appointed on 30 January 2014*)

Dai Bin (*resigned on 30 January 2014*)



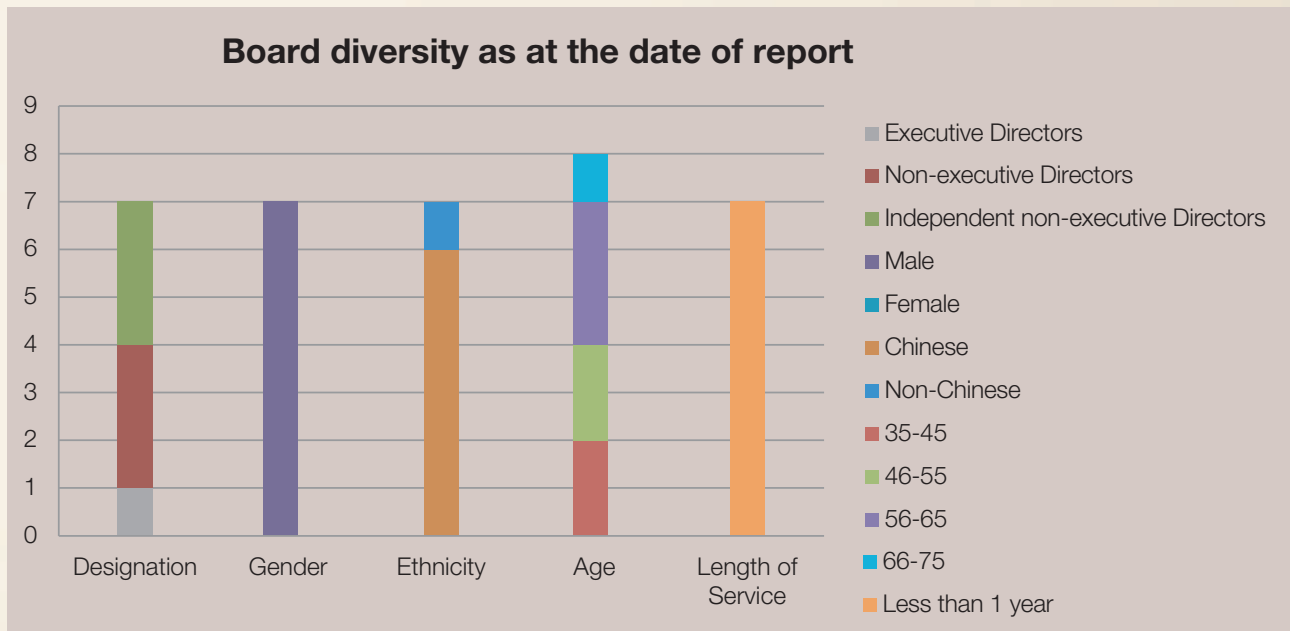
## CORPORATE GOVERNANCE REPORT

Professor Dai Bin resigned as independent non-executive Director of the REIT Manager and ceased to be a member of the Audit Committee and Nomination Committee with effect from 30 January 2014. Professor He Jianmin was appointed as an independent non-executive Director of the REIT Manager and became a member of the Audit Committee and Nomination Committee with effect from 30 January 2014. For details, please refer to the announcement issued by the REIT Manager on 30 January 2014.

Ensuring that there is an appropriate balance of skills, knowledge and experience, ethnicity and gender on the Board is an important aspect of the REIT Manager’s corporate governance, therefore, the composition of the Board is reviewed regularly to ensure that the Board has the appropriate mix of expertise and experience.

The Board and the Nomination Committee have approved the board diversity policy of the REIT Manager. Selection of candidates for the Board will be based on a range of diverse considerations, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and potential contribution that the selected candidates will bring to the Board.

The current mix of our Board members is balanced and diverse.



The names and biographical details of the Directors, together with any relationships among them, are disclosed in the section “Directors’ Biographical Information” contained in this annual report.

Save as disclosed in this annual report, the REIT Manager is not aware of any other relationships between Board members and in particular, between the Chairman and the Chief Executive Officer.

## CORPORATE GOVERNANCE REPORT

### Meetings

The Board conducts regular meetings to discuss and decide on major corporate, strategic, business and operational issues. Appropriate and sufficient information is provided to the members of the Board to enable them to discharge their duties.

Two full Board meetings of the REIT Manager were held during the Reporting Period and the attendance rates of the individual Board members were as follows:

Name of Director	Role	Attendance/No. of Meetings
Chen Miaolin	Chairman and non-executive Director	2/2
Cheung Yat Ming	Executive Director and Chief Executive Officer	2/2
Zhang Guanming	Non-executive Director	2/2
Zhang Chi	Non-executive Director	2/2
Angelini Giovanni	Independent non-executive Director	2/2
Yu Hon To David	Independent non-executive Director	2/2
Dai Bin ( <i>resigned on 30 January 2014</i> )	Independent non-executive Director	2/2

### Appointment and Removal of Directors

The appointment and removal of Directors (including responsible officers) is a matter for the Board and the shareholders of the REIT Manager to determine in accordance with the Compliance Manual, the articles of association of the REIT Manager and the applicable law. As the REIT Manager is licensed by the SFC under Part V of the SFO, the appointment and removal of any of its executive Directors and non-executive Directors (including the independent non-executive Directors) and the removal of a responsible officer must be notified to the SFC. The appointment of a responsible officer requires the prior approval of the SFC.



## CORPORATE GOVERNANCE REPORT

### **Internal Controls**

The REIT Manager has an internal audit function in place to provide an independent assessment of the REIT Manager's internal control systems. The internal auditor conducts a risk-based review of the policies and procedures described in the Compliance Manual to ensure that they are operating as expected. The review covers all major operations of New Century REIT in accordance with the audit plan as approved by the Audit Committee. The results of the audit review are discussed at Audit Committee meetings and are further reported to the Board where required.

The Board is responsible to ensure the REIT Manager maintains sound and effective internal control systems to safeguard the assets of New Century REIT and the interest of the Unitholders. The Board, through the Audit Committee, conducts annual review on the effectiveness of internal control systems of New Century REIT which covers all material controls including financial, operational and compliance controls and risk management functions. The review also covers the adequacy of resources, qualifications and experience of the REIT Manager's staff who carry out New Century REIT's accounting and financial reporting function, and their training programmes and budget.

Based on the internal audit reviews for the Reporting Period, the Board considers that the internal control system is effective and adequate. No significant irregularity or deficiency in internal controls has come to the attention of the Audit Committee during the Reporting Period.

### **INDUCTION TO NEW DIRECTORS AND CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS**

Every newly appointed Director was given a comprehensive, formal and tailored induction on appointment so that he/she has a proper understanding of New Century REIT's operations and business and is fully aware of his/her responsibilities under relevant laws and regulations.

Directors participated in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. From the Listing Date to the date of this report, below are activities that were undertaken by our Directors as part of their ongoing training and professional development:

<b>Name of Director</b>	<b>Training Courses</b>	<b>Updates in meetings and reading materials</b>
Chen Miaolin	Yes	Yes
Cheung Yat Ming	Yes	Yes
Zhang Guanming	Yes	Yes
Zhang Chi	Yes	Yes
Angelini Giovanni	Yes	Yes
Yu Hon To David	Yes	Yes
He Jianmin ( <i>appointed on 30 January 2014</i> )	Yes	Yes
Dai Bin ( <i>resigned on 30 January 2014</i> )	Yes	Yes

## CORPORATE GOVERNANCE REPORT

### BOARD COMMITTEES

The Board has the power to delegate to committees consisting of such numbers of its body as it thinks fit. Various committees have been established to assist the Board in discharging its responsibilities. The committees of the Board have been set up with clear terms of reference to review specific issues or items and then to submit their findings and recommendations to the full Board for consideration and endorsement. Unless the decision making power has been vested in the relevant committee by the Board, the ultimate responsibility for making final decisions rests with the full Board and not the committees.

The committees of the Board are currently as follows:

#### *Audit Committee*

The Audit Committee is appointed by the Board from among the non-executive Directors. A majority of the members of the Audit Committee are independent non-executive Directors and at least one of these independent non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise. As at the date of this report, the members of the Audit Committee are Mr. Yu Hon To David and Professor He Jianmin, who are independent non-executive Directors and Mr. Zhang Chi, who is a non-executive Director. Mr. Yu Hon To David is the chairman of the Audit Committee.

The Audit Committee is responsible for (i) ensuring an effective financial reporting, internal control and risk management system, (ii) overseeing the quality and integrity of financial statements, (iii) selecting and assessing the independence and qualification of external auditors and (iv) ensuring effective communications between the Directors, Head of Internal Audit and external auditors, in respect of both the REIT Manager and New Century REIT.

The Audit Committee's main responsibilities also include:

- a) making recommendations on the appointment, reappointment and removal of the external auditors, reviewing and monitoring the external auditors' independence and objectivity, and the effectiveness of the audit process;
- b) developing and implementing policies on engaging external auditors to supply non-audit services;
- c) reviewing the financial and accounting policies and practices, and monitoring the integrity of the financial statements, annual and interim reports, and accounts of the REIT Manager and New Century REIT;
- d) monitoring and reviewing the completeness, accuracy, clarity and fairness of the financial statements of New Century REIT and the REIT Manager, reviewing the audited reports of New Century REIT and the REIT Manager provided by external auditors and reviewing significant financial reporting judgments contained in them;
- e) maintaining an independent and objective internal audit function and reviewing internal audit reports;
- f) overseeing the relationship with the external auditors;

## CORPORATE GOVERNANCE REPORT

- g) reviewing and monitoring connected party transactions of New Century REIT;
- h) reviewing dealings of the Units by the REIT Manager and the Directors on a semi-annual basis;
- i) reviewing the financial control, internal control and risk management systems of the REIT Manager and New Century REIT;
- j) reviewing and monitoring on a regular basis the procedures in place to ensure compliance with applicable laws, the REIT Code and the Listing Rules; and
- k) reporting to the Board on the matters in the Corporate Governance Code under the Listing Rules.

In addition to informal or ad hoc meetings and discussions, two Audit Committee meetings of the REIT Manager were held during the Reporting Period for reviewing policies and practices on corporate governance, training and continuous professional development of directors and senior management, compliance with legal and regulatory requirements, code of conduct and compliance manual, internal controls, other compliance matters and discussion with external auditors on audit planning of New Century REIT. The attendance rates of the individual members were as follows:

Members of the Audit Committee	Role	Attendances/ No. of Meetings
Yu Hon To David	Chairman of the Audit Committee	2/2
Zhang Chi	Member of the Audit Committee	2/2
Dai Bin <i>(resigned on 30 January 2014)</i>	Member of the Audit Committee	2/2

One Audit Committee meeting of the REIT Manager was held in February 2014 to review the results announcement, annual report, corporate governance report, internal control system and other compliance matters of New Century REIT. The attendance rates of the individual members were as follows:

Members of the Audit Committee	Role	Attendances/ No. of Meetings
Yu Hon To David	Chairman of the Audit Committee	1/1
Zhang Chi	Member of the Audit Committee	1/1
He Jianmin <i>(appointed on 30 January 2014)</i>	Member of the Audit Committee	1/1

## CORPORATE GOVERNANCE REPORT

### *Finance and Investment Committee*

The Finance and Investment Committee is appointed by the Board and it comprises the Chief Executive Officer, the Investment and Investor Relations Manager and the Chief Operating Officer. As at the date of this report, the members of the Finance and Investment Committee are Mr. Cheung Yat Ming, Mr. Hong Kam Kit Eddie and Ms. Ho Wai Chu. Mr. Cheung Yat Ming is the chairman of the Finance and Investment Committee.

The Finance and Investment Committee is responsible for, among other matters, evaluating and making recommendations on proposed acquisitions and disposals of assets, approving budgets and reviewing actual expenses on all key expenditures and reviewing financial performance, forecasts and annual financial plan of the REIT Manager and New Century REIT. The Finance and Investment Committee also reviews and recommends changes to financial authorities, policies or procedures in areas such as accounting, taxes, treasury, distribution payout, investment appraisal, management and statutory reporting.

In addition to informal or ad hoc meetings and discussions, one Finance and Investment Committee meeting of the REIT Manager was held during the Reporting Period for reviewing performance, budgets and investment opportunities of New Century REIT. The attendance rates of the individual members were as follows:

<b>Members of the Finance and Investment Committee</b>	<b>Role</b>	<b>Attendances/ No. of Meetings</b>
Cheung Yat Ming	Chairman of the Finance and Investment Committee	1/1
Hong Kam Kit Eddie	Member of the Finance and Investment Committee	1/1
Ho Wai Chu	Member of the Finance and Investment Committee	1/1

### *Nomination Committee*

The Nomination Committee is appointed by the Board from among the Directors. The Nomination Committee comprises not less than three Directors, a majority of which are independent non-executive Directors. As at the date of this report, the members of the Nomination Committee are Mr. Chen Miaolin, Mr. Angelini Giovanni and Professor He Jianmin. Mr. Chen Miaolin is the chairman of the Nomination Committee.

The Nomination Committee's responsibilities include:

- reviewing the structure, size and composition (including skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the REIT Manager's corporate strategy;
- developing the criteria for identifying and assessing the qualifications of and evaluating candidates for directorship;
- identifying individuals who are qualified/suitable to become a member of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships;

## CORPORATE GOVERNANCE REPORT

- d) assessing the independence of independent non-executive Directors to determine their eligibility; and
- e) making recommendations to the Board on the appointment, re-appointment or removal of Directors and succession planning for Directors, in particular, the Chairman and the Chief Executive Officer.

A Nomination Committee meeting of the REIT Manager will be held in late March 2014 to review the composition of the Board, assess the independence of independent non-executive Directors and the rotation and succession policy of the Directors of New Century REIT.

### ***Disclosures Committee***

The Disclosures Committee is appointed by the Board from among the Directors. The Disclosures Committee comprises three Directors, including the Chief Executive Officer and two non-executive Directors, one of whom is an independent non-executive Director. The role of the Disclosures Committee is to review matters relating to the disclosure of information to Unitholders and public announcements. The Disclosures Committee also works with the management of the REIT Manager to ensure the disclosure of information is accurate, complete and not misleading. As at the date of this report, the members of the Disclosures Committee are Mr. Cheung Yat Ming, Mr. Zhang Guanming and Mr. Yu Hon To David. Mr. Cheung Yat Ming is the chairman of the Disclosures Committee.

The Disclosures Committee's responsibilities include:

- a) reviewing and recommending to the Board on matters of corporate disclosure issues and announcements, including (without limitation) financial reporting, connected party transactions and potential areas of conflict of interests;
- b) overseeing compliance with applicable legal requirements and the continuity, accuracy, clarity, completeness and currency of information disseminated by or on behalf of New Century REIT to the public and applicable regulatory agencies;
- c) reviewing and approving all material non-public information and all public regulatory filings of or on behalf of New Century REIT prior to such information being disseminated to the public or filed with applicable regulatory agencies, as applicable;
- d) reviewing periodic and current reports, proxy statements, information statements, registration statements and any other information filed with regulatory bodies;
- e) reviewing press releases containing financial information, information about material acquisitions or dispositions or other information material to Unitholders; and
- f) reviewing correspondence containing financial information disseminated to Unitholders.

## CORPORATE GOVERNANCE REPORT

In addition to informal or ad hoc meetings and discussions, one Disclosures Committee meeting of the REIT Manager was held during the Reporting Period to review the unitholders communication policy, procedure on communicating with the media and approving ad-hoc announcements etc. The attendance rates of the individual members were as follows:

Members of the Disclosures Committee	Role	Attendances/ No. of Meetings
Cheung Yat Ming	Chairman of the Disclosures Committee	1/1
Zhang Guanming	Member of the Disclosures Committee	1/1
Yu Hon To David	Member of the Disclosures Committee	1/1

One Disclosures Committee meeting of the REIT Manager was held in February 2014 to review the results announcement, annual report, circulars and other relevant publications of New Century REIT. The attendance rates of the individual members were as follows:

Members of the Disclosures Committee	Role	Attendances/ No. of Meetings
Cheung Yat Ming	Chairman of the Disclosures Committee	1/1
Zhang Guanming	Member of the Disclosures Committee	1/1
Yu Hon To David	Member of the Disclosures Committee	1/1





## CONFLICTS OF INTEREST

All conflicts of interest are managed by the Board in accordance with the articles of association of the REIT Manager and applicable laws, rules and regulations. The REIT Manager will ensure that all conflicts of interest relating to New Century REIT will be managed and avoided. The following measures are taken in that regard:

- the REIT Manager is a dedicated manager to New Century REIT and, unless with approval from the SFC, the REIT Manager should not manage any REIT other than New Century REIT nor manage other real estate assets other than those in which New Century REIT has an ownership interest or investment;
- the REIT Manager ensures that it functions independently from Unitholders and all executive officers are employed by the REIT Manager on a full time basis;
- the REIT Manager has established internal control systems to ensure that connected party transactions between New Century REIT and its connected persons are monitored and undertaken according to procedures and/or on terms in compliance with the REIT Code (or where applicable, in compliance with the waiver conditions imposed by the SFC) and that other potential conflicts of interest situation that may arise are monitored;
- all conflicts of interest are managed by a physical Board meeting rather than a written resolution and independent non-executive Directors who, and whose associates, have no material interest in the matter should be present at such Board meetings; and
- a Director who has material interests in a matter which is the subject of a resolution proposed at a Board meeting of the REIT Manager will abstain from voting on the resolution concerned and not be counted in the quorum of the Board meeting at which such resolutions are proposed.



## CORPORATE GOVERNANCE REPORT

New Century (Cayman) is engaged in and/or may engage in, among other things, investment in, and the development and management of, hotel properties in the PRC. As such, New Century REIT may compete with New Century (Cayman) for potential acquisition of hotel properties in the PRC. In addition to the Hotel Properties of New Century REIT, as at the end of 2013, New Century Hotel Management, a subsidiary of New Century (Cayman), and its subsidiaries have about 140 star-rated hotels in operations or under development. New Century REIT may compete with hotels operated by New Century Hotel Management and other subsidiaries of New Century (Cayman) for customers.

The following contractual provisions are included in the Hotel Lease and Management Agreements and/or the Non-Competition Deed dated 14 June 2013 to minimize any possible conflicts of interest at the operational level:

- a) each of the Hotel Properties is operated and managed by a local branch or subsidiary of New Century Hotel Management situated at separate operating premises with segregated operational, management and sales and marketing teams. Employees of any such branch or subsidiary are dedicated to the management and operation of the particular Hotel Property and are not at the same time involved in the management and operation of any other hotels managed by New Century Group;
- b) Separate sets of accounts are maintained in respect of the management of the expenses of each Hotel Property (subject to sharing of corporate overheads based on square footage under management and property type);
- c) the Lessee is under confidentiality obligations to ensure that all non-public information with respect to the Hotel Properties is kept under strict confidence and would not be disclosed to or used by any third party outside the New Century Group without prior consent of the REIT Manager;
- d) the Lessee implements the business proposal and budget approved by the REIT Manager every year and uses its best endeavours to achieve the revenue targets in such approved business proposal and budget;
- e) if any member of Huge Harvest Group becomes aware of any opportunity to acquire any majority ownership and control (or such level of interest as New Century REIT is permitted to acquire) of any hotel in operation, completed or substantially completed, in China, Huge Harvest Group will use its best endeavours to direct such opportunity to the REIT Manager on behalf of New Century REIT;
- f) if any member of Huge Harvest Group wishes to sell any majority ownership and control (or such level of interest as New Century REIT is permitted to acquire) of any hotel in operation, completed or substantially completed, in China, it will provide the REIT Manager on behalf of New Century REIT the right of first refusal;
- g) during the term of the Hotel Lease and Management Agreements, Huge Harvest Group will not, without prior written consent from the majority of the independent non-executive Directors, manage, grant a licence to or authorize any other person or company to manage any hotel with a similar star-rating to any of the Hotel Properties in an area within a radius of 10 kilometers from the properties controlled by New Century REIT; and

## CORPORATE GOVERNANCE REPORT

- h) if hotel management opportunities in relation to any of New Century REIT's properties become available to the Lessee which the Lessee, acting reasonably and in good faith, consider are or are likely to be in competition with any member of with the New Century Group, the Lessee would either: (i) refer all such business proposals to the REIT Manager for vetting and confirmation before the Lessee proceeds with such proposals or opportunities; or (ii) sub-contract to a third party leasing agent independent of the New Century Group, to devise and implement the relevant business proposal.

To address such possible conflicts of interest, any matter which may give rise to conflicts of interest between the REIT Manager and New Century REIT on the one hand and New Century Group on the other hand would be dealt with in accordance with the measures set out above, and, for the avoidance of doubt, any Director with an overlapping management role in New Century Group will be regarded as having material interest for such purposes.

### **INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS**

Each of the independent non-executive Directors of the REIT Manager has made an annual confirmation of independence pursuant to the "Independence of Directors" as set out in the Compliance Manual, on terms no less exacting than those set out in the Listing Rules for assessing the independence of a non-executive Director.

### **GENERAL MEETINGS**

New Century REIT will in each calendar year hold a general meeting as its annual general meeting in addition to any other general meetings in that year. The Trustee or the REIT Manager may at any time convene a meeting of Unitholders. The REIT Manager will also convene a meeting if requested in writing by not less than two Unitholders registered as together holding not less than 10% of the Units for the time being issued and outstanding. In respect of an annual general meeting, not less than 20 clear business days' notice (exclusive of the day on which the notice is served or deemed to be served and of the day for which the notice is given) in writing thereof will be given to the Unitholders. In respect of any meeting of Unitholders other than an annual general meeting, at least 10 clear business days' notice (exclusive of the day on which the notice is served or deemed to be served and of the day for which the notice is given) of every meeting will be given to the Unitholders in the manner provided in the Trust Deed, except that at least 21 days' notice (exclusive of the day on which the notice is served or deemed to be served and of the day for which the notice is given) of the meeting will be given to the Unitholders where a matter requiring a vote by special resolution is proposed for consideration at such meeting. The notice for each of the above meetings will specify the time and place of the meeting and the resolutions to be proposed.

Two or more Unitholders present in person or by proxy registered as holding in aggregate not less than 10% of the Units for the time being in issue and outstanding will form a quorum for the transaction of all business, except for the purpose of passing a special resolution. The quorum for passing a special resolution will be two or more Unitholders present in person or by proxy registered as holding in aggregate not less than 25% of the Units in issue and outstanding. The quorum for an adjourned meeting will be such number of Unitholders who are present in person or by proxy regardless of the number of Units held by them.

## **CORPORATE GOVERNANCE REPORT**

### **REPORTING AND TRANSPARENCY**

New Century REIT will prepare its financial statements in accordance with International Financial Reporting Standards with a financial year-end of 31 December and a financial half-year of 30 June. In accordance with the REIT Code, the annual report and financial statements for New Century REIT will be published and sent to Unitholders no later than four months following each financial year-end and the interim report no later than two months following each financial half-year end.

As required by the REIT Code, the REIT Manager will ensure that public announcements of material information and developments with respect to New Century REIT will be made on a timely basis in order to keep Unitholders apprised of the position of New Century REIT.

The REIT Manager will also issue circulars to the Unitholders in respect of transactions that, pursuant to the REIT Code (or in the reasonable opinion of the Trustee or the REIT Manager), require Unitholders' approval or circulars in respect of material information in relation to New Century REIT, in accordance with the Trust Deed.

### **DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The Directors acknowledge their responsibility for the preparation of a true and fair presentation of the consolidated financial statements for the year ended 31 December 2013.

The statement of the auditor of New Century REIT about its reporting responsibilities with respect to the consolidated financial statements is set out in the Independent Auditor's Report.

### **AUDITOR'S REMUNERATION**

The remuneration to PricewaterhouseCoopers, the external auditors of New Century REIT, in respect of the audit and non-audit services rendered for the Reporting Period were RMB1,132,000 (with RMB296,000 listing expenses) and RMB200,000 (all were listing expenses) respectively.

### **ISSUES OF FURTHER UNITS POST-LISTING**

To minimize the possible material dilution of holdings of Unitholders, any further issue of Units will need to comply with the pre-emption provisions contained in the REIT Code. Such provisions require that further issues of Units be first offered on a pro rata pre-emptive basis to existing Unitholders except that Units may be issued: (i) free of such pre-emption rights up to an aggregate maximum in any financial year of 20% of the number of Units in issue at the end of the previous financial year; and (ii) free of pre-emption rights in other circumstances provided that the approval of Unitholders by way of an ordinary resolution is obtained. Subject thereto, Units may be issued as consideration for the acquisition of additional real estate.

## INTERESTS OF, AND DEALINGS IN UNITS BY, DIRECTORS, THE REIT MANAGER OR THE SIGNIFICANT HOLDERS

To monitor and supervise any dealings of Units, the REIT Manager has adopted a code containing rules on dealings by the Directors and the REIT Manager equivalent to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules ("**Model Code**"). Pursuant to the Model Code, all Directors and employees of the REIT Manager, subsidiaries of the REIT Manager or the SPVs of New Century REIT who, because of his/her office or employment in the REIT Manager, the relevant subsidiaries of the REIT Manager or the relevant SPVs of New Century REIT, is likely to be in possession of unpublished price sensitive information in relation to the securities of New Century REIT ("**Management Persons**") wishing to deal in the Units must first have regard to provisions in Parts XIII and XIV of the SFO with respect to insider dealing and market misconduct as if those provisions applied to the securities of New Century REIT.

Management Persons who are aware of or privy to any negotiations or agreements related to intended acquisitions or disposals which are notifiable transactions under Chapter 14 of the Listing Rules as if applicable to New Century REIT or any connected party transactions under the REIT Code or any inside information must refrain from dealing in the Units as soon as they become aware of them or privy to them until proper disclosure of the information in accordance with the REIT Code and any applicable Listing Rules has taken place. Management Persons who are privy to relevant negotiations or agreements or any inside information should caution those Management Persons who are not privy that there may be inside information and that they must not deal in New Century REIT's securities for a similar period.

A Management Person must not deal in any of the securities of New Century REIT on any day on which New Century REIT's financial results are published and: (a) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and (b) during the period of 30 days immediately preceding the publication date of the quarterly results (if any) or half-yearly results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results, unless the circumstances are exceptional. In any event, in the case of dealings by a Management Person, the Management Person must comply with the procedures set out in the Model Code adopted by the REIT Manager.

The REIT Manager is subject to the same dealing requirements as the Directors under the Model Code (*mutatis mutandis*).

Specific enquiry has been made with the Directors and the Management Persons, and all of them confirmed that they have complied with the required standard set out in the Model Code during the Reporting Period.

The REIT Manager has also adopted procedures for monitoring of disclosure of interests by Directors, the chief executives of the REIT Manager, and the REIT Manager. The provisions of Part XV of the SFO are deemed to apply to the REIT Manager, the Directors and chief executives of the REIT Manager and each Unitholder and all persons claiming through or under him.

## **CORPORATE GOVERNANCE REPORT**

Under the Trust Deed, Unitholders with a holding of 5% or more of the Units in issue, and the Directors and chief executives of the REIT Manager with an interest in the Units, will have a notifiable interest and will be required to notify the Hong Kong Stock Exchange and the REIT Manager of their holdings in New Century REIT. The REIT Manager keeps a register for these purposes and it records in the register, against a person's name, the particulars provided pursuant to the notification and the date of entry of such record. The said register is available for inspection by the Trustee and any Unitholder at any time during business hours upon reasonable notice to the REIT Manager.

### **MATTERS TO BE DECIDED BY UNITHOLDERS BY SPECIAL RESOLUTION**

In accordance with the Trust Deed, a meeting of Unitholders will be convened to pass special resolutions when decisions with respect to certain matters require the prior approval of Unitholders by way of special resolution. Such matters include, without limitation: (a) changes in the REIT Manager's investment policies or strategies for New Century REIT; (b) disposals of any land or an interest, option or right over any of the land forming part of the assets of New Century REIT or shares in any company holding such land, option or right over any of the land for New Century REIT within two years of the acquisition of such land; (c) any increase in the rate of the Base Fee above the permitted limit or any change in the structure of the Base Fee; (d) any increase in the Variable Fee payable to the REIT Manager above the rate stated in the Trust Deed or any change in the structure of the Variable Fee; (e) any increase in the acquisition fee above the permitted limit or any change in the structure of the acquisition fee; (f) any increase in the divestment fee above the permitted limit or any change in the structure of the divestment fee; (g) any increase in the rate of the remuneration of the Trustee above the permitted limit or any change in the structure of the remuneration of the Trustee; (h) amendments, variations, modifications, alterations or additions to the provisions of the Trust Deed; (i) termination of New Century REIT; and (j) merger of New Century REIT. Unitholders may also, by way of special resolution, (i) remove New Century REIT's auditors and appoint other auditors or (ii) remove the Trustee.

Any decisions to be made by resolution of Unitholders other than the above will be made by ordinary resolution, unless a special resolution is required by the REIT Code. Such matters requiring approval by way of ordinary resolution include, without limitation: (a) subdivision or consolidation of the Units; (b) any issue of the Units after the Listing Date which would increase the market capitalization of New Century REIT by more than 50%; (c) any issue of the Units during any financial year that would increase the total number of the Units from the number of the Units that were outstanding at the end of the previous financial year by more than 20% (or such other percentage of the outstanding Units as may, from time to time, be prescribed by the SFC); (d) except pursuant to an initial public offering, an issue of Units in lieu of the payment of fees to the REIT Manager pursuant to the Trust Deed, an issue of Units in respect of re-investment of distribution to Unitholders, or a rights issue, an issue of new Units to a connected person (other than as part of an offer made to all Unitholders on a pro rata basis); and (e) the election by the REIT Manager for the acquisition fee or the divestment fee, which is to be paid to the REIT Manager in the form of cash, to be paid in the form of the Units or partly in cash and partly in the form of the Units. The appointment of a new manager of New Century REIT by the Trustee upon the dismissal or retirement of the REIT Manager is (to the extent required by the REIT Code (as may be modified by any waivers or exemptions)) subject to the passing of an ordinary resolution by the Unitholders and the prior approval of the SFC. Unitholders may also, by way of ordinary resolution, dismiss the REIT Manager and any principal valuer appointed by the Trustee on behalf of New Century REIT in accordance with the Trust Deed.

**UNIT CAPITAL**

Save as the issue of 772,000,000 Units on 10 July 2013 upon Listing, no new Units were issued during the Reporting Period and the total number of issued Units as at 31 December 2013 was 772,000,000 Units.

**REPURCHASE, SALE OR REDEMPTION OF UNITS**

During the Reporting Period, there was no repurchase, sale or redemption of the Units by the REIT Manager on behalf of New Century REIT or any of the Special Purpose Vehicles that are owned and controlled by New Century REIT.

**PUBLIC FLOAT OF THE UNITS**

As far as the REIT Manager is aware, not less than 25% of the issued and outstanding Units were held in public hands as at 31 December 2013.

**COMPLIANCE WITH THE COMPLIANCE MANUAL**

During the Reporting Period, both the REIT Manager and New Century REIT have in material terms complied with the provisions of the Compliance Manual.

**REVIEW OF ANNUAL REPORT**

The Group's annual report has been reviewed by the Disclosures Committee, Audit Committee of the REIT Manager and the external auditor of New Century REIT, PricewaterhouseCoopers.

## CONNECTED PARTY TRANSACTIONS

Set out below is summary information in respect of connected party transactions during the Reporting Period between New Century REIT and its connected persons (as defined in paragraph 8.1 of the REIT Code), which are governed by Chapter 8 of the REIT Code.

### WAIVERS FROM STRICT COMPLIANCE

As disclosed in the Offering Circular, waivers from strict compliance with the disclosure and Unitholder's approval requirements under Chapter 8 of the REIT Code in respect of certain connected party transactions between New Century REIT and its connected persons were granted by the SFC before the listing of New Century REIT. Waivers ("**Waivers**") have been granted subject to the relevant waiver terms and conditions including, *inter alia*, the requirements that transactions should be reviewed by the auditors of New Century REIT and the independent non-executive Directors and, where applicable, the transaction amounts should not exceed the specified annual caps ("**Waiver Conditions**").

During the Reporting Period, New Century REIT has complied with the applicable Waiver Conditions.

### INCOME

The following table sets out information on continuing connected party transactions from which New Century REIT derived its income during the Reporting Period:

Name of the Connected Person	Relationship with New Century REIT	Nature of the Connected Party Transactions	Income for the Reporting Period (RMB'000)
浙江開元酒店管理有限公司及其集團其他成員公司 (Zhejiang New Century Hotel Management Limited* and other members of its group)	Associate of significant holder and director <sup>1</sup>	Leasing transaction	112,975
開元旅業集團有限公司 (New Century Tourism Group Limited*)	Associate of significant holder and director <sup>2</sup>	Leasing transaction	914
杭州開元房地產集團有限公司 (Hangzhou New Century Real Estate Group Limited*)	Associate of significant holder and director <sup>2</sup>	Leasing transaction	686
杭州開元旅遊有限公司 (Hangzhou New Century Tourism Limited*)	Associate of significant holder and director <sup>3</sup>	Leasing transaction	120
德清開元森泊度假開發有限公司 (Deqing New Century Senbo Holiday Limited*)	Associate of significant holder and director <sup>4</sup>	Leasing transaction	132
杭州開元之江清洗連鎖有限公司 (Hangzhou New Century Zhijiang Cleaning Chain Limited*)	Associate of significant holder and director <sup>5</sup>	Leasing transaction	60



## CONNECTED PARTY TRANSACTIONS

Name of the Connected Person	Relationship with New Century REIT	Nature of the Connected Party Transactions	Income for the Reporting Period (RMB'000)
杭州開元信息系統有限公司 (Hangzhou New Century Information System Engineering Limited*)	Associate of significant holder and director <sup>3</sup>	Leasing transaction	25
杭州開元裝飾工程有限公司 (Hangzhou New Century Decorating Limited*)	Associate of significant holder and director <sup>4</sup>	Leasing transaction	56
杭州智榮貿易有限公司 (Hangzhou Zhirong Trading Limited*)	Associate of significant holder and director <sup>6</sup>	Leasing transaction	33
浙江開元酒店管理有限公司及其集團其他成員公司 (Zhejiang New Century Hotel Management Limited* and other members of its group)	Associate of significant holder and director <sup>1</sup>	Sales of properties, plant and equipment	30

### Notes:

- The connected person concerned is a subsidiary of Huge Harvest. The connected person concerned is also an associate of Mr. Chen Miaolin (Chairman and non-executive Director), Mr. Zhang Chi (a non-executive Director), Mr. Chen Canrong and Mr. Chen Miaoqiang (both being Directors of Xiaoshan Hotel Company) and Ms. Janine Junyuan Feng (a Director of Sky Town from the Listing Date to 23 December 2013).
- The connected person concerned is a subsidiary of Huge Harvest. The connected person concerned is also an associate of Mr. Chen Miaolin (Chairman and non-executive Director), Mr. Zhang Guanming (a non-executive Director and a Director of all SPVs), and Mr. Chen Canrong, Mr. Chen Miaoqiang (both being Directors of Xiaoshan Hotel Company) and Mr. Kong Weiliang (Director of Xiaoshan Hotel Company from the Listing Date to 28 February 2014).
- The connected person concerned is a subsidiary of Huge Harvest. The connected person concerned is also an associate of Mr. Chen Miaolin (Chairman and non-executive Director).
- The connected person concerned is a subsidiary of Huge Harvest. The connected person concerned is also an associate of Mr. Chen Miaolin (Chairman and non-executive Director), and Mr. Kong Weiliang (a Director of Xiaoshan Hotel Company from the Listing Date to 28 February 2014).
- The connected person concerned is a subsidiary of Huge Harvest. The connected person concerned is also an associate of Mr. Chen Miaolin (Chairman and non-executive Director), and Mr. Chen Canrong (a Director of Xiaoshan Hotel Company).
- The connected person concerned is a subsidiary of Huge Harvest. The connected person concerned is also an associate of Mr. Zhang Guanming (an non-executive Director and a Director of all SPVs).

\* The English name is shown for identification purpose only.

## **CONNECTED PARTY TRANSACTIONS**

### **EXPENSES**

Save as disclosed in the paragraph headed “Terms and Remuneration of Services Provided by the REIT Manager, the Trustee and the Principal Valuer” set out below in this section, there are no other connected party transactions in which New Century REIT incurred its expenses during the Reporting Period.

### **RENTAL DEPOSIT**

New Century REIT has received a rental deposit from Zhejiang New Century Hotel Management Limited of RMB20 million under the Master Hotel Lease and Management Agreement during the Reporting Period.

### **CONFIRMATION BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS**

The independent non-executive Directors have confirmed that they have reviewed the terms of all the connected party transactions between New Century REIT and its connected persons conducted during the Reporting Period and that they are satisfied that these transactions have been entered into:

- (a) in the ordinary and usual course of business of New Century REIT;
- (b) on normal commercial terms (to the extent that there are comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to New Century REIT than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreements and (where applicable) the REIT Manager’s internal procedures governing them (if any) on terms that are fair and reasonable and in the interests of the Unitholders of New Century REIT as a whole.

### **REPORT FROM THE AUDITOR OF NEW CENTURY REIT**

PricewaterhouseCoopers, auditor of New Century REIT, was engaged to report on New Century REIT’s continuing connected party transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by New Century REIT as set out in Note 31 of the Notes to the Consolidated Financial Statements on pages 152 to 160 of this report in accordance with the Waivers. A copy of the auditor’s letter will be provided by New Century REIT to the SFC.

## CONNECTED PARTY TRANSACTIONS

### **TERMS AND REMUNERATION OF SERVICES PROVIDED BY THE REIT MANAGER, THE TRUSTEE AND THE PRINCIPAL VALUER**

Pursuant to note 2 to 8.10 of the REIT Code, services provided by the REIT Manager, the Trustee and the Principal Valuer to New Century REIT as contemplated under the constitutive documents shall not be deemed connected party transactions. Therefore, such services are not disclosed in the above sections.

During the Reporting Period, the aggregate amount of fees (in the form of cash and/or units) paid/payable by New Century REIT to the Trustee and to the REIT Manager under the constitutive documents were RMB565,000 and RMB10,553,000 respectively. Particulars of services provided by the REIT Manager for the Reporting Period is set out in Note 8 of the Notes to the Consolidated Financial Statements on page 125 of this report. The fees paid/payable to the Principal Valuer of New Century REIT during the Reporting Period was RMB319,000.

## DISCLOSURE OF INTERESTS

The REIT Code requires connected persons (as defined in paragraph 8.1 of the REIT Code) of New Century REIT to disclose their interests in the Units. In addition, the Trust Deed requires that the provisions of Part XV of the SFO are deemed to apply to the REIT Manager, the Directors and the chief executives of the REIT Manager, and to persons interested in the Units.

### HOLDINGS OF SUBSTANTIAL UNITHOLDERS

As at 31 December 2013, the interests and short positions in Units of every person (other than the REIT Manager, a director or chief executives of the REIT Manager) as recorded in the register required to be kept by the REIT Manager pursuant to Schedule 3 of the Trust Deed were as follows:

Name of the Substantial Unitholders	Total number of Units held (long position)	Approximate percentage of the Units as at 31 December 2013
Shanghai Summit Pte. Ltd.	57,600,000	7.46%
Huge Harvest International Limited <sup>1</sup>	319,388,000	41.37%
Blue Sky Holdings Limited <sup>2</sup>	231,310,000	29.96%
Carlyle Asia Partners II, L.P. <sup>3</sup>	231,310,000	29.96%
CAP II General Partner, L.P. <sup>4</sup>	231,310,000	29.96%
CAP II L.L.C. <sup>5</sup>	231,310,000	29.96%
TC Group Cayman Investment Holdings Sub, L.P. <sup>6</sup>	231,310,000	29.96%
TC Group Cayman Investment Holdings, L.P. <sup>7</sup>	231,310,000	29.96%
Carlyle Holdings II L.P. <sup>8</sup>	231,310,000	29.96%
Carlyle Holdings II GP L.L.C. <sup>9</sup>	231,310,000	29.96%
The Carlyle Group L.P. <sup>10</sup>	231,310,000	29.96%

Notes:

1. Huge Harvest International Limited is a significant holder (within the meaning of the REIT Code) of New Century REIT. As at 31 December 2013, since Mr. Chen Miaolin (Chairman and non-executive Director of the REIT Manager) holds 83.90% of the issued shares of Huge Harvest International Limited, Huge Harvest International Limited is also a connected person of New Century REIT.
2. Blue Sky Holdings Limited is a significant holder (within the meaning of the REIT Code) of New Century REIT. Blue Sky Holdings Limited's interest is controlled by the eight entities stated in Notes 3 to 10.
3. Carlyle Asia Partners II, L.P. holds 97.27% of the interests of Blue Sky Holdings Limited (Note 2). Hence, Carlyle Asia Partners II, L.P. has deemed interest in the Units held by Blue Sky Holdings Limited.

## DISCLOSURE OF INTERESTS

- CAP II General Partner, L.P. holds 100% of the interest of Carlyle Asia Partners II, L.P. (Note 3) in which Carlyle Asia Partners II, L.P. holds 97.27% of the interest of Blue Sky Holdings Limited (Note 2). Hence, CAP II General Partner, L.P. has deemed interest in the Units held by Blue Sky Holdings Limited.
- CAP II L.L.C. holds 100% of the interest of CAP II General Partner, L.P. (Note 4). Hence, CAP II L.L.C. has deemed interest in the Units held by Blue Sky Holdings Limited.
- TC Group Cayman Investment Holdings Sub, L.P. holds 100% of the interest of CAP II L.L.C. (Note 5). Hence, TC Group Cayman Investment Holdings Sub, L.P. has deemed interest in the Units held by Blue Sky Holdings Limited.
- TC Group Cayman Investment Holdings, L.P. holds 100% of the interest of TC Group Cayman Investment Holdings Sub, L.P. (Note 6). Hence, TC Group Cayman Investment Holdings, L.P. has deemed interest in the Units held by Blue Sky Holdings Limited.
- Carlyle Holdings II L.P. holds 100% of the interest of TC Group Cayman Investment Holdings, L.P. (Note 7). Hence, Carlyle Holdings II L.P. has deemed interest in the Units held by Blue Sky Holdings Limited.
- Carlyle Holdings II GP L.L.C. holds 100% of the interest of Carlyle Holdings II L.P. (Note 8). Hence, Carlyle Holdings II GP L.L.C. has deemed interest in the Units held by Blue Sky Holdings Limited.
- The Carlyle Group L.P. holds 100% of the interest of Carlyle Holdings II GP L.L.C. (Note 9). Hence, The Carlyle Group L.P. has deemed interest in the Units held by Blue Sky Holdings Limited.

## INTERESTS OF THE REIT MANAGER

As at 31 December 2013, the REIT Manager did not hold any issued Units.

## INTERESTS OF THE DIRECTORS AND CHIEF EXECUTIVES OF THE REIT MANAGER

The interests and short position in Units of the Directors and chief executives of the REIT Manager as recorded in the register required to be kept by the REIT manager under Schedule 3 of the Trust Deed as at 31 December 2013 were as follows:

Name of the Director and chief executives of the REIT Manager	Total number of issued Units held	Approximate percentage of the issued Units as at 31 December 2013
Chen Miaolin <sup>1</sup>	319,388,000	41.37%

Note:

- Mr. Chen Miaolin (Chairman and non-executive Director of the REIT manager) holds 83.90% of the issued shares of Huge Harvest International Limited, a significant holder of New Century REIT. Hence, Mr. Chen Miaolin has deemed interest in the Units held by Huge Harvest International Limited.

Save as disclosed above, the REIT Manager is not aware of any other connected persons (within the meaning in the REIT Code) of New Century REIT holding any beneficial interest in the Units as at 31 December 2013.

## DIRECTORS' BIOGRAPHICAL INFORMATION

### CHEN MIAOLIN

#### Chairman and non-executive Director

**Mr. Chen Miaolin (陳妙林)**, aged 61, has been the Chairman and non-executive Director of the REIT Manager since June 2013.

Mr. Chen has over 26 years of experience in hotel operation and management and over 15 years of experience in real estate development. He is one of the founders of the New Century Group, holding various key positions in the New Century Group since 1988, including his role as chairman of New Century Tourism since January 2001 and as president from January 2001 to September 2010, his role as the chairman of Zhejiang New Century Hotel since November 2001 and his role as the chairman of Hangzhou New Century Real Estate from June 1998 to July 2001. Mr. Chen has been a member of the Zhejiang Province People's Congress since 2003 and a member of the Xiaoshan District People's Congress since 1980. Mr. Chen has also been the deputy chairman of the China Tourism Association (中國旅遊協會) since January 2009. Mr. Chen obtained his master's degree in business management from Macau University of Science and Technology (澳門科技大學) in April 2005. He is a senior economist as certified by the Zhejiang Provincial Bureau of Personnel (浙江省人事廳).

### CHEUNG YAT MING

#### Executive Director, Chief Executive Officer and Responsible Officer

**Mr. Cheung Yat Ming (張一鳴)**, aged 45, has been an executive Director, Chief Executive Officer and responsible officer of the REIT Manager since June 2013. He is also a Director of the following special purpose vehicles of New Century REIT: SPV (BVI), SPV (HK), Sky Town, Zhejiang New Century Hotel, Xiaoshan Hotel Company, Qiandao Lake Resort, Ningbo New Century Grand and Changchun New Century Grand.

Mr. Cheung has extensive experience in the fields of investment, real estate and property market research, corporate finance and auditing. Mr. Cheung was a staff accountant and semi-senior accountant at Arthur Andersen & Co. in Hong Kong and China from August 1991 to August 1994. In September 1994, Mr. Cheung joined Citibank (now named Citigroup) as an Accountant and Administration Manager and held the position of Assistant Vice President from September 1996. In October 1997, he started working in Salomon Smith Barney (now named Citigroup) as an Equity Research Analyst. In May 1999, Mr. Cheung left Salomon Smith Barney to join Donaldson, Lufkin & Jenrette where he worked until November 2000. He joined HSBC Securities (Asia) Limited as the Head of Hong Kong and China Property Research in November 2000 where he worked until April 2005. Mr. Cheung joined Cohen & Steers Asia Limited in 2005 as a Senior Vice President and Executive Director, supervising its Asia Pacific real estate investment and research functions until February 2009. Mr. Cheung joined DBS Vickers (Hong Kong) Limited as the Head of Research in June 2009. Since August 2011, Mr. Cheung has been the Chief Investment Officer of Neutron INV Partners Limited and has been involved in work such as exploring new investment opportunities, setting up the Neutron Greater China Equity Fund and marketing to local and overseas institutional investors, consultants, distribution intermediaries. Further, in 2010, Mr. Cheung received the Outstanding Chinese Business Leader Award from the HongQi and China Report.

## DIRECTORS' BIOGRAPHICAL INFORMATION

Mr. Cheung is licensed by the SFC to carry out Type 9 (asset management) regulated activity and has experience in ensuring compliance with the rules and regulations under Types 4 and 9 of the licenses issued by the SFC. Before joining the REIT Manager, he was the unconditional responsible officer of Neutron INV Partners Limited and used to be the unconditional responsible officer of DBS Vickers (Hong Kong) Limited and Cohen & Steers Asia Limited. Mr. Cheung holds a bachelor degree in accountancy from the Hong Kong Polytechnic University. Mr. Cheung has been a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants since 1995 and a Chartered Accountant under the Institute of Chartered Accountants in England and Wales since 2007.

Mr. Cheung currently serves as an independent non-executive Director of Springland International Holdings Limited (Stock Code: 1700) with effect from 11 March 2014.

### ZHANG GUANMING

#### Non-executive Director

**Mr. Zhang Guanming (張冠明)**, aged 48, has been a non-executive Director of the REIT Manager since June 2013. He is also a Director of the following special purpose vehicles of New Century REIT: SPV (BVI), SPV (HK), Sky Town, Zhejiang New Century Hotel, Xiaoshan Hotel Company, Qiandao Lake Resort, Ningbo New Century Grand and Changchun New Century Grand.

Mr. Zhang has over 20 years of experience in hotel operation and management and over 13 years of experience in real estate development. He is also one of the founders of the New Century Group and has been responsible for the administration, human resources management and corporate culture building of the New Century Group.

Mr. Zhang holds various key positions in the New Century Group, including his role as a director and a vice president of New Century Tourism since January 2001, a director of Zhejiang New Century Hotel since September 2005 and a director of Hangzhou New Century Real Estate since July 2000. Mr. Zhang obtained his master's degree in business administration from Europäisches Institut für postgraduale Bildung an der Technischen Universität Dresden e.V. in October 2003.

### ZHANG CHI

#### Non-executive Director

**Mr. Zhang Chi (張弛)**, aged 38, has been a non-executive Director of the REIT Manager since June 2013.

Mr. Zhang Chi joined The Carlyle Group in 2006, where he is currently a managing director. He has been a non-executive director of Zhejiang New Century Hotel since November 2007. Mr. Zhang has more than 10 years of experience in investment banking and capital markets, and is primarily responsible for investments by The Carlyle Group in the PRC. Prior to joining The Carlyle Group in 2006, he was a vice president of the investment banking division of Credit Suisse (Hong Kong) Limited. Prior to his position at Credit Suisse (Hong Kong) Limited, he was a vice president of the investment banking department of China International Capital Corporation Limited (中國國際金融有限公司). Mr. Zhang obtained his master's degree in economics from Shanghai University of Finance and Economics (上海財經大學) in 2000.

## DIRECTORS' BIOGRAPHICAL INFORMATION

### ANGELINI GIOVANNI

#### Independent non-executive Director

**Mr. Angelini Giovanni**, aged 68, has been an independent non-executive Director of the REIT Manager since June 2013.

Mr. Angelini is a senior and well-respected professional within the hospitality industry and has a wealth of experience, with over 48 years of experience acquired across three continents and in particular, in Asia, through his offices and directorships with quality hotels and organizations in Hong Kong, Singapore, Korea, Mexico, Bermuda and his native country, Italy. Mr. Angelini is presently based in Hong Kong and is an independent consultant in the travel and tourism industry. Prior to this, Mr. Angelini spent more than 16 years with Shangri-La Hotels and Resorts, where he was Chief Executive Officer and Managing Director of the Global Management Group and Executive Director of Shangri-La Asia Limited, a company listed on the Stock Exchange, for over 9 years. Prior to Shangri-La, Mr. Angelini spent 15 years with Westin Hotels and Resorts and held several key positions, including Senior Vice President for Asia Pacific where he supervised the operation of hotels and development of activities within the region. Prior to Westin, Mr. Angelini was associated with a number of prestigious hotels and well-known groups including the Americana Hotels, the Hongkong and Shanghai Hotels and several other well-known hotels in North and Central America, Europe and Italy, where he completed his studies. Mr. Angelini is a member of many industry-related organizations and quality management groups. He has received several lifetime achievement, including the "2006 Corporate Hotelier of the World" by HOTELS, the magazine of the worldwide hotel industry, an honorary degree of Doctor of Business Administration in Hospitality Management "Honoris Causa" by the Johnson & Wales University in the USA in 2004 and a knighthood from the Italian government. Mr. Angelini graduated from The Institute Volonta (University of Rome) with a degree in Business Administration.

### YU HON TO DAVID

#### Independent non-executive Director

**Mr. Yu Hon To David (俞漢度)**, aged 65, has been an independent non-executive Director of the REIT Manager since June 2013.

Mr. Yu has extensive experience in the fields of corporate finance, auditing and corporate management. Mr. Yu is the chairman of MCL Financial Group Ltd, a Hong Kong-based financial advisory and investment firm and was a partner of Coopers & Lybrand (now merged as PricewaterhouseCoopers) in Hong Kong. Mr. Yu is a fellow member of the Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Institute of Certified Public Accountants. He obtained his bachelor's degree in social science from the Chinese University of Hong Kong. He currently serves as an independent non-executive director of several companies listed on the Hong Kong Stock Exchange including:

- China Renewable Energy Investment Limited (formerly known as Hong Kong Energy (Holdings) Limited) (stock code: 987);
- China Resources Gas Group Limited (stock code: 1193);
- Great China Holdings Limited (stock code: 141);
- Haier Electronics Group Co., Ltd. (stock code: 1169);
- Keck Seng Investments (Hong Kong) Limited (stock code: 184);
- Media Chinese International Limited (stock code: 685), a company which is also listed in Malaysia, on Bursa Malaysia Securities Berhad (stock code: 5090);
- One Media Group Limited (stock code: 426);
- Playmates Holdings Limited (stock code: 635);
- Sateri Holdings Limited (stock code: 1768);
- Synergis Holdings Limited (stock code: 2340); and
- VXL Capital Limited (stock code: 727).



## DIRECTORS' BIOGRAPHICAL INFORMATION

Mr. Yu previously also held the position of independent non-executive director at China Datang Corporation Renewable Power Co., Limited (a company listed on the Main Board of the Hong Kong Stock Exchange; stock code: 1798) and TeleEye Holdings Limited (a company listed on the GEM Board of the Hong Kong Stock Exchange; stock code: 8051), and retired from these positions with effect from 20 August 2013 and 25 October 2013 respectively.

### HE JIANMIN

#### Independent non-executive Director

**Professor He Jianmin (何建民)**, aged 57, was appointed as independent non-executive Director of the REIT Manager on 30 January 2014.

Professor He has more than 24 years of experience in the fields of hospitality and tourism. Professor He is a professor at the School of International Business Administration of Shanghai University of Finance & Economics (上海財經大學), since 2002. Professor He began his career in 1982 as a lecturer, assistant professor, deputy director and director of the hotel management department at the Shanghai Institute of Tourism (上海旅遊高等專科學校). Between 1993 and 2002, he took up various appointments at Shanghai International Studies University (上海外國語大學), such as associate professor, professor and director of the International Economics and Commerce department, and vice-president and president of the College of International

Finance & Commerce. Professor He was appointed by the State Council Academic Degrees Committee (國務院學位委員會) as a member of the Consultative Committee for Master Education for National Tourism Management and is an expert consultant of the United Nations World Tourism Organisation. Professor He has been the leading researcher in many governmental research projects, including the Aim and Path in the Transformation and Development of the Economics of Shanghai Tourism (2011) (上海旅遊經濟轉型發展的目標與路徑研究(2011)) and the Proposals on the Development and Policies of National Tourism in light of the Shanghai Pilot Free Trade Zone (2014) (上海自由貿易試驗區對我國旅遊產業發展影響及政策建議 (2014)). Professor He has also written many award-winning publications over the years, including the Current State, Trends and Policies of Foreign Investment into Tourism in China (2010) (外資進入中國旅遊業的現狀、趨向及對策研究(2010)).

Professor He graduated with a bachelor's degree in economics from East China Normal University (華東師範大學) in 1982 and a master's degree in economics from Fudan University (復旦大學) in 1986. He received a Diploma as an expert in International Tourism from the International Institute of Tourism and Management of Austria in 1991 and obtained a doctorate in economics from School of Management of Fudan University (復旦大學管理學院) in 2001.

## KEY PERSONNEL'S BIOGRAPHICAL INFORMATION

### HONG KAM KIT, EDDIE

#### Investment and Investor Relations Manager

**Mr. Hong Kam Kit, Eddie (康錦傑)** is the Investment and Investor Relations Manager and responsible officer of the REIT Manager. He is also a Director of the following special purpose vehicles of New Century REIT: SPV (BVI), SPV (HK), Sky Town, Zhejiang New Century Hotel, Xiaoshan Hotel Company, Qiandao Lake Resort, Ningbo New Century Grand and Changchun New Century Grand.

Mr. Hong has over 18 years of experience in real estate investment, asset management and accountancy. Before joining the REIT Manager, Mr. Hong was an associate director at Somerley Asset Management Limited. Prior to that, Mr. Hong worked in the investment/asset management and other departments of various corporations including Becton Investment Management Limited, American International Assurance Company Limited and Chesterton Petty Ltd. Mr. Hong started his professional career at Deloitte Touche Tohmatsu as an auditor.

Mr. Hong holds a Bachelor of Economics degree from Macquarie University and a Master of Business Law degree from Monash University. Mr. Hong is a member of CPA Australia and is qualified as a Chartered Financial Analyst. Mr. Hong has been licensed by the SFC to carry out Type 9 (asset management) regulated activity since November 2009.

### HO WAI CHU

#### Chief Operating Officer

**Ms. Ho Wai Chu (何慧珠)** is the Chief Operating Officer and responsible officer of the REIT Manager. She has extensive experience in auditing, accounting, financial and asset management. Before joining the REIT Manager, Ms. Ho was the financial controller of Willie International Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 273) which is principally engaged in the business of property investment, investment in securities trading, money lending and investment holding. Ms. Ho started her career as an accountant in KPMG and has over 20 years of experience as the finance manager and chief accountant of several listed companies in Hong Kong.

Ms. Ho holds a Master's degree in Business Administration from University of South Australia. Ms. Ho is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. Ms. Ho is licensed by the SFC to carry out Type 9 (asset management) regulated activity.

## KEY PERSONNEL'S BIOGRAPHICAL INFORMATION

### DING HAI JIANG

#### Property and Technical Manager

**Mr. Ding Hai Jiang (丁海江)** is the Property and Technical Manager of the REIT Manager. Mr. Ding has extensive experience in the hotel industry, and has worked with New Century Group for over 10 years before joining the REIT Manager, being involved with facility management, procurement and supplies. Mr. Ding first joined Ningbo New Century Grand in the facilities department, and was promoted in 2011 as supervisor of the facility management of Zhejiang New Century Hotel.

Mr. Ding graduated from the Shanghai University of Engineering Science with a degree in information engineering in 2004.

### YU HOI ZIN

#### Compliance Manager and Company Secretary

**Ms. Yu Hoi Zin (庾愷善)** is the Compliance Manager and Company Secretary of the REIT Manager. Ms. Yu is experienced in auditing and banking compliance matters. Before joining the REIT Manager, she was an Assistant Manager at Lloyds TSB Pacific Limited. Ms. Yu started her professional career at Ernst & Young as an auditor.

Ms. Yu graduated from Hong Kong University of Science and Technology and obtained a Bachelor's degree of business administration in global business and accounting. She has been a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants since 2008 and a Chartered Financial Analyst of the CFA Institute since 2011.

### LI KWOK KEUNG

#### Head of Internal Audit

**Mr. Li Kwok Keung (李國強)** is the Head of Internal Audit of the REIT Manager. Mr. Li has over 13 years of experience in auditing and compliance related matters. Prior to joining the REIT Manager, Mr. Li worked as a manager in the Intermediaries Supervision Department of the SFC, and was mainly responsible for inspecting and supervising intermediaries licensed by the SFC, including major investment banks, securities or future brokers, asset management firms and investment advisers to ensure their compliance with the SFO and relevant rules, regulations and codes. Prior to joining the SFC, Mr. Li worked in KPMG as an auditor for more than 4 years.

Mr. Li graduated with a Bachelor's degree in Accountancy from The Hong Kong Polytechnic University. Mr. Li has been a member of The Hong Kong Institute of Certified Public Accountants since 2004 and was certified by the Global Association of Risk Professionals as a Financial Risk Manager since 2009.

# VALUATION REPORT



Date : 21 February 2014

## **New Century Asset Management Limited**

Unit 4706, 47th Floor,  
The Center  
99 Queen's Road Central  
Hong Kong  
(as the REIT Manager of New Century REIT)

## **DB Trustees (Hong Kong) Limited**

Level 52, International Commerce Centre  
1 Austin Road West, Kowloon, Hong Kong  
(as Trustee of New Century REIT)

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 AND NEW CENTURY GRAND HOTEL CHANGCHUN IN THE PEOPLE'S REPUBLIC OF CHINA (COLLECTIVELY "INITIAL HOTEL PROPERTIES" OR INDIVIDUALLY "INITIAL HOTEL PROPERTY")**

### **Instructions, Purpose & Date of Valuation**

We refer to the instruction from the Manager of New Century REIT (the "**REIT Manager**") for us to prepare market valuations of the captioned properties 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 values of the Initial Hotel Properties as at 31 December 2013 (the "**date of valuation**") for financial reporting purpose.

### **Valuer's Interest**

We hereby certify DTZ Debenham Tie Leung Limited is independent of the scheme, the trustee, the management company and each of the significant holders of the scheme, as per the Code on Real Estate Investment Trust issued by the Securities and Futures Commission in Hong Kong (the "**SFC**").

### **Basis of Valuation**

Our valuation of each property represents its market value which in accordance with The HKIS Valuation Standards (2012 Edition) issued by The Hong Kong Institute of Surveyors is defined as “the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

### **Compliance**

In valuing the properties, we have complied with the requirements set out in The HKIS Valuation Standards (2012 Edition) issued by The Hong Kong Institute of Surveyors, as well as Chapter 6.8 of the Code on Real Estate Investment Trusts (the “**REIT Code**”).

### **Valuation 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 special value.

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.

In the course of our valuations of the properties, we have assumed that transferable land use rights in respect of the properties for their specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have relied on the information provided by the REIT Manager regarding the title to the properties. We have relied on the advice given by the REIT Manager regarding the titles to the properties and the interests in each property.

In valuing the properties, we have assumed that the owner of each property has enforceable title to the relevant property and has free and uninterrupted rights to use, occupy or assign the property for the whole of the respective unexpired term as granted. Moreover, we are not aware of any matters that show the contrary in this regard.

## VALUATION REPORT

### Method of Valuation

We have assessed the value of the Initial Hotel Properties by Discounted Cash Flow (“**DCF**”) Approach, which involves discounting future net cash flow after real estate tax, land use tax and business tax of each property until the end of the unexpired land use term to its present value by using an appropriate discount rate that reflects the rate of return required by a third party investor for an investment of this type. We have prepared a 10-year cash flow forecast 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 Initial Hotel Properties which stipulate that the rent payable is the higher of 20% total revenue plus 34% of the gross operating profit from operating the Initial Hotel Properties or the base rent for that year during the 10-year lease term commencing on the date of listing of New Century REIT.

In the course of our valuation, apart from our own analysis of the relevant hotel markets, we have also made reference to the projected cash flow and budget prepared by the REIT Manager.

Details of the key assumptions of our DCF valuations are set out in the valuation certificate of each Initial Hotel 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 document 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 document.

### **Title Investigation**

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 searched the original documents to verify ownership or to ascertain any amendments. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

### **Site Inspection**

We have inspected the exterior and, where possible, the interior of the properties by Registered Real Estate valuers Rainy Yu, Stephanie Shen and Wendy Hou in January 2014. 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.

Unless otherwise stated, we have not carried out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the documents handed to us are correct.

### **Currency**

Unless otherwise stated, all sums stated in our valuation certificates are in Renminbi ("**RMB**"), the official currency of the PRC.

### **Non-Publication and Caveat**

Neither the whole nor any part of this letter, summary of valuations and valuation certificates or any reference thereto may be included in any document, circular or statement without our prior written approval of the form and context in which they will appear, except for the purposes of disclosure of our valuations in New Century REIT's annual reports and auditing accounts in which the properties are included.

Finally and in accordance with our standard practice, we must state that this letter, summary of valuations and valuation certificates are for the use only of the party to whom they are addressed and no responsibility is accepted to any third party for the whole or any part of their contents.

We enclose herewith a summary of valuations and our valuation certificates for your attention.

Yours faithfully,

for and on behalf of

**DTZ Debenham Tie Leung Limited**

**Andrew K F Chan**

*Registered Professional Surveyor (General Practice)*

*Registered China Real Estate Appraiser*

*MSc, MHKIS, MRICS*

*Senior Director, Valuation & Advisory Services*

## VALUATION REPORT

### SUMMARY OF VALUATIONS

Property	Market value in existing state as at 31 December 2013 (RMB)	Interest Attributable to New Century REIT (%)	Market value in existing state attributable to New Century REIT as at 31 December 2013 (RMB)
1. New Century Grand Hotel Hangzhou, No. 818 Middle Shixin Road, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC	1,900,000,000	100	1,900,000,000
2. New Century Hotel Xiaoshan Zhejiang, No. 77 Renmin Road, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC	580,000,000	95.46	553,670,000
3. New Century Resort Qiandao Lake Hangzhou, Qilin Peninsula, Qiandao Lake, Chun'an County, Hangzhou, Zhejiang Province, the PRC	300,000,000	100	300,000,000
4. New Century Grand Hotel Ningbo, No. 666 Shounan Road (M), Yinzhou District, Ningbo, Zhejiang Province, the PRC	770,000,000	100	770,000,000
5. New Century Grand Hotel Changchun, No. 2299 Jingyangda Road, Lvyuan District, Changchun, Jilin Province, the PRC	640,000,000	100	640,000,000
		<b>Grand-Total</b>	<b>4,163,670,000</b>



## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2013										
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 approximately 28,903.80 sq m.</p> <p>New Century Grand Hotel Hangzhou was completed in 2005 and operated since January 2005. New Century Grand Hotel Hangzhou currently provides 699 guest rooms, 556 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>According to Building Ownership Certificates and Certificates for Completion and Acceptance of Construction Works, New Century Grand Hotel Hangzhou has a total gross floor area of approximately 130,104.94 sq m.</p>	<p>As at the date of valuation, the property was operated by the owner as a 5-star hotel.</p> <p>The occupancy rate of the hotel for 2013 was 57.28%.</p> <p>Apart from the general hotel operation, total lettable floor area of 14,686.29 sq m has been occupied by various operators under various cooperation agreements for terms of 1 to 10 years at a total monthly service charge of approximately RMB1,630,000 for commercial or office uses.</p> <p>Based on the net rental income of the second half of 2013, the estimated net yield of the property is 5.0%.</p>	RMB1,900,000,000										
	<table border="1"> <thead> <tr> <th data-bbox="440 1278 520 1300">Portion</th> <th data-bbox="730 1246 919 1338">Approximate Gross Floor Area (sq m)</th> </tr> </thead> <tbody> <tr> <td data-bbox="440 1375 491 1397">Hotel</td> <td data-bbox="815 1375 919 1397">98,060.58</td> </tr> <tr> <td data-bbox="440 1407 496 1429">Office</td> <td data-bbox="815 1407 919 1429">4,347.78</td> </tr> <tr> <td data-bbox="440 1440 539 1461">Basement</td> <td data-bbox="815 1440 919 1461">27,696.58</td> </tr> <tr> <td data-bbox="440 1515 488 1537">Total</td> <td data-bbox="802 1515 919 1537"><u>130,104.94</u></td> </tr> </tbody> </table>	Portion	Approximate Gross Floor Area (sq m)	Hotel	98,060.58	Office	4,347.78	Basement	27,696.58	Total	<u>130,104.94</u>		
Portion	Approximate Gross Floor Area (sq m)												
Hotel	98,060.58												
Office	4,347.78												
Basement	27,696.58												
Total	<u>130,104.94</u>												
	<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 (Zhejiang New Century Hotel Investment &amp; Management Group Co., Ltd.) for a term of 40 years due to expire on 22 December 2043 for commercial use.</p>												

## VALUATION REPORT

Notes:-

(1) Details of the room configuration are summarized as follows:-

<b>Room Type</b>	<b>Size</b> (sq m)	<b>Number of Rooms</b> (Typical Floors)	<b>Number of Rooms</b> (Executive Floors)
Standard Room/Deluxe Room	35	575	75
Deluxe Suite	70	26	19
New Century Suite	105	-	3
President Suite	280	-	1
Total		<u>601</u>	<u>98</u>

(2) Details of the facilities and amenities are summarized as follows:-

<b>Food and Beverage Outlet</b>	<b>Style</b>	<b>Total Seating Area</b> (sq m)	<b>Maximum Seating Capacity</b>
Long Bar	Bar	198	60
Yigar Bar	Bar	275	70
Rose Garden Lounge	Bar	210	36
Prestige Club Lounge	Bar	343	48
Café Mediterranean	Western	884	220
Imarigawa	Japanese	250	75
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

<b>Function and Banquet Facilities</b>	<b>Number of Rooms</b>	<b>Total Seating Area</b> (sq m)	<b>Maximum Seating Capacity</b>
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	136	90
Gui Hall	1	95	80
Grand Hall	7	1,265	172

The New Century Hall and the Grand Dynasty Hall have a ceiling height of 7 meters.

## VALUATION REPORT

Other Amenities	Total Area (sq m)
Chess/poker room	1,070
Sauna	1,531
Beauty salon	120
Karaoke club	5,643.88
Indoor swimming pool	608
Tabletennis room	136
Rhythmic gymnastics room	157
Foot spa	580
Tennis court	261
Billiards room	79
Fitness room	168

- (3) Pursuant to Certificate for the Use of State-owned Land No. (2009) 4400001 dated 5 February 2009 issued by Zhejiang Provincial Department of Land Resources, the land use rights of the property having a site area of approximately 28,903.80 sq m have been vested in 浙江開元酒店投資管理集團 (Zhejiang New Century Hotel Investment & Management Group Co., Ltd.) for a term of 40 years until 22 December 2043 for commercial use.
- (4) Pursuant to 38 Building Ownership Certificates dated 2 February 2009 issued by Hangzhou Real Estate Administration Bureau, the building ownership of the property having a gross floor area of approximately 102,408.36 sq m has been vested in 浙江開元酒店投資管理集團 (Zhejiang New Century Hotel Investment & Management Group Co., Ltd.) for commercial use with details as follows:-

Certificate No.	Level	Gross Floor Area (sq m)	Certificate No.	Level	Gross Floor 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
<b>Total</b>					<b>102,408.36</b>

## VALUATION REPORT

- (5) According to Grant Contract of Land Use Rights ZJZXZ No. (1998) 12 entered into between 浙江金城開發公司 (Zhejiang Jincheng Development Co., Ltd) (Party A) and 蕭山市開元旅業總公司 (Xiaoshan New Century Tourism Co., Ltd) (Party B) on 7 July 1998, Party A has agreed to transfer the land use rights of the land lot No. E-01 situated in Xiaoshan District, Zhejiang Province, with a total site area of approximately 45,000 sq m, to Party B.

The property is part of the said site.

- (6) Pursuant to Planning Permit for Construction Works Nos. (2002) 0110175 and (2004) 0110331 issued by Hangzhou Planning and Construction Bureau on 18 March 2005 and 17 August 2005 respectively, construction works of the property, comprising a total gross floor area of approximately 129,651.55 sq m, are in compliance with the urban planning requirements and are approved.
- (7) Pursuant to a Certificate for Completion and Acceptance of Construction Works issued on 23 August 2005, the construction works of the property with a total gross floor area of approximately 130,104.94 sq m are in compliance with the requirements of urban planning and are examined and accepted.
- (8) Pursuant to Business Licence No. 330181000002554 dated 8 July 2010, 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 September 2001 to 19 September 2027.
- (9) We have prepared our valuation on the following assumptions:–
- (i) 浙江開元酒店投資管理集團 (Zhejiang New Century Hotel Investment & Management Group Co., Ltd.) is in possession of a proper legal title to the property and is entitled to transfer the property with the residual term of land use rights at no extra land premium or other onerous payment payable to the government;
  - (ii) all land premium, costs of public utilities, ancillary infrastructure fees and compensation for resettlement of any original residents to make way for the development have been fully settled;
  - (iii) the design and construction of the proposed development are in compliance with the local planning regulations and have been approved by the relevant authorities; and
  - (iv) the property may be disposed of freely to the purchasers at nil encumbrances.
- (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:–

Certificate for the Use of State-owned Land	Yes
Building Ownership Certificate	Yes
Grant Contract of Land Use Rights	Yes
Business Licence	Yes

(11) Our key assumptions used in the DCF valuation are summarized as follows:–

(i)	Average daily room rate (“ADR”)	:	2014 – RMB600
(ii)	Annual growth in ADR	:	Stabilized at 4%
(iii)	Occupancy rate on available room basis	:	2014 – 63%; Stabilized at 68%
(iv)	F&B revenue	:	62% of gross revenue
(v)	FF&E provision	:	2% of gross revenue
(vi)	Discount rate	:	9%
(vii)	Terminal growth rate	:	4%

(12) Market Overview

Hangzhou, the capital of Zhejiang Province, is the provincial center in economy, culture, science and education. It is a city famous of history and culture and 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 8 districts of Shangcheng, Xiacheng, Jiangan, Gongshu, Xihu, Binjiang, Xiaoshan and Yuhang, 3 county-level cities of Jiande, Fuyang 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 2012, the registered population of Hangzhou was 7.01 million, an increase of 45 thousand over the previous year.

The top-tier hotel market of Xiaoshan appeared to be relatively stable in the past 3 years. Few new competitors entered the market and the average daily rate increased steadily.

The hotel is located in Xiaoshan CBD, only 22 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. According to the REIT Manager, individual visitors account for over 60% of the total guest turnover and constitute the largest portion of the guest profile in the past 3 years. Group convention and tourism contribute over 30% of the total demand. The occupancy rate of the hotel fluctuated around 65% during 2010 to 2013 and ADR reached RMB591.0 in 2013.

## VALUATION REPORT

### VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2013
<p>2. New Century Hotel Xiaoshan Zhejiang, No. 77 Renmin Road, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC</p>	<p>The property comprises several buildings of 1 to 18 storeys erected on a parcel of land with a total site area of approximately 9,721.30 sq m.</p> <p>New Century Hotel Xiaoshan Zhejiang 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 business centre.</p> <p>According to the Building Ownership Certificates, New Century Hotel Xiaoshan Zhejiang has a total above-ground gross floor area of approximately 39,850.77 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 浙江蕭山賓館股份有限公司 (Zhejiang Xiaoshan Hotel Joint Stock Co., Ltd.). 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 29 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 and for a term of 40 years due to expire on 22 December 2043 for commercial use.</p>	<p>As at the date of valuation, the property was operated by the owner as a 4-star hotel.</p> <p>The occupancy rate of the hotel for 2013 was 58.10%.</p> <p>Apart from the general hotel operation, a total leasable floor area of 4,802.83 sq m has been occupied by various operators under various cooperation agreements for terms of 1 to 20 years at a total monthly service charge of approximately RMB 740,000 for commercial use.</p> <p>Based on the net rental income of the second half of 2013, the estimated net yield of the property is 6.7%.</p>	<p>RMB580,000,000</p> <p>(95.46% interest attributable to New Century REIT: RMB553,670,000)</p>

## VALUATION REPORT

Notes:-

(1) Details of the room configuration are summarized as follows:-

<b>Room Type</b>	<b>Size (sq m)</b>	<b>Number of Rooms</b>
Single Room	20	80
Standard Room/Duluxe Room	21-24	165
Business Deluxe Room	35	114
Deluxe Suite	46	15
New Century Suite	86	1
Total		<u>375</u>

(2) Details of the facilities and amenities are summarized as follows:-

<b>Food and Beverage Outlet</b>	<b>Style</b>	<b>Total Seating Area (sq m)</b>	<b>Maximum Seating Capacity</b>
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	659.5 (12 boxes)	250
Jingdu Banquet Room	Chinese boxes	766.3 (27 boxes)	262

<b>Function and Banquet Facilities</b>	<b>Number of Rooms</b>	<b>Total Seating Area (sq m)</b>	<b>Maximum Seating Capacity</b>
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 sauna, a food SPA, a fitness room, a beauty salon and a chess/poker room.

## VALUATION REPORT

- (3) According to 2 State-owned Land Use Rights Certificates issued by Land Rights Bureau of Xiaoshan Land Resources Administration Bureau, the land use rights of the property, located at No. 66 Shixin Road, Xiaoshan District, have been granted to 浙江蕭山賓館股份有限公司 (Zhejiang Xiaoshan Hotel Joint Stock Co., Ltd.) for terms of 40 years for commercial use. 8,361.00 sq m and 1,360.30 sq m of the property will expire on 29 December 2035 and 13 August 2037 respectively with details as follows:-

<b>Certificate No.</b>	<b>Site Area</b> (sq m)	<b>Land Use</b>	<b>Issue Date</b>
(2004) 0100059	1,360.30	Entertainment	13 August 2037
		Commercial use	22 December 2043
(95) 010050	8,361.00	Tourism	29 December 2035
Total	<u>9,721.30</u>		

Pursuant to the information provided by the REIT Manager, the address of the property has been modified from No. 66 Shixin Road to No. 77 Renmin Road.

- (4) According to 9 Building Ownership Certificates issued by Xiaoshan Real Estate Administration Bureau, the building ownership of the property located at No. 66 Shixin Road, comprising a total gross floor area of approximately 39,850.77 sq m, has been vested in 浙江蕭山賓館股份有限公司 (Zhejiang Xiaoshan Hotel Joint Stock Co., Ltd.) with details as follows:-

<b>Certificate No.</b>	<b>Gross Floor Area</b> (sq m)	<b>Use</b>	<b>Issue Date</b>
00023034	4,330.30	Commercial	23 May 2007
1380079	15.30	Others	5 March 2004
1380079	83.32	Others	5 March 2004
1380079	148.12	Others	5 March 2004
1380080	521.18	Others	5 March 2004
1380080	1,543.02	Commercial	5 March 2004
1380081	14,704.33	Commercial	5 March 2004
1380082	10,727.71	Commercial	5 March 2004
1387391	7,777.49	Commercial	5 March 2004
Total	<u>39,850.77</u>		

Pursuant to the information provided by the REIT Manager, the address of the property has been modified from No. 66 Shixin Road to No. 77 Renmin Road.

- (5) According to a Housing Transfer Agreement entered into between 蕭山市廣播電視局 (Xiaoshan Radio and Television Bureau) (Party A) and 蕭山賓館 (Xiaoshan Hotel) (Party B), Party A has sold the property situated at the north of Renmin Road and west of Shixin Road to Party B with a gross floor area of 3,007.88 sq m and a land area of 1,846 sq m at a consideration of RMB5,000,000.

The property is part of the said site.



## VALUATION REPORT

(6) According to Grant Contract of Land Use Rights entered into between Xiaoshan Land Administration Bureau and 浙江蕭山開元旅業總公司 (Zhejiang Xiaoshan New Century Tourism Co., Ltd) on 30 December 1993, the land use rights of the property have been contracted to be granted to 浙江蕭山開元旅業總公司 (Zhejiang Xiaoshan New Century Tourism Co., Ltd) with details as follows:–

- (i) Location : A site situated at No. 66 Shixin Road
- (ii) Site Area : 8,361 sq m
- (iii) Use : Tourism
- (iv) Land Use Term : 40 years from 30 December 1993

Pursuant to the information provided by the REIT Manager, the address of the property has been modified from No. 66 Shixin Road to No. 77 Renmin Road.

(7) Pursuant to Business Licence No. 330100000006536 dated 6 August 2009, 浙江蕭山賓館股份有限公司 (Zhejiang Xiaoshan Hotel Joint Stock Co., Ltd.) was established as a limited company with a registered capital of RMB102,571,739 for a valid operation period commencing on 8 September 1994.

(8) We have prepared our valuation on the following assumptions:–

- (i) 浙江蕭山賓館股份有限公司 (Zhejiang Xiaoshan Hotel Joint Stock Co., Ltd.) is in possession of a proper legal title to the property and is entitled to transfer the property with the residual term of land use rights at no extra land premium or other onerous payment payable to the government;
- (ii) all land premium, costs of public utilities, ancillary infrastructure fees and compensation for resettlement of any original residents to make way for the development have been fully settled;
- (iii) the design and construction of the proposed development are in compliance with the local planning regulations and have been approved by the relevant authorities; and
- (iv) the property may be disposed of freely to the purchasers at nil encumbrances.

(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:–

Certificate for the Use of State-owned Land	Yes
Building Ownership Certificate	Yes
Grant Contract of Land Use Rights	Yes
Business Licence	Yes

(10) Our key assumptions used in the DCF valuation are summarized as follows:–

- (i) Average daily room rate (“ADR”) : 2014 – RMB380
- (ii) Annual growth in ADR : Stabilized at 4%
- (iii) Occupancy rate on available room basis : 2014 – 60%; Stabilized at 70%
- (iv) F&B revenue : 75% of gross revenue
- (v) FF&E provision : 2% of gross revenue
- (vi) Discount rate : 9%
- (vii) Terminal growth rate : 4%

## VALUATION REPORT

### (11) Market Overview

Hangzhou, the capital of Zhejiang Province, is the provincial center in economy, culture, science and education. It is a city famous of history and culture and 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 8 districts of Shangcheng, Xiacheng, Jianggan, Gongshu, Xihu, Binjiang, Xiaoshan and Yuhang, 3 county-level cities of Jiande, Fuyang 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 2012, the registered population of Hangzhou in the city was 7.01 million, an increase of 45 thousand over the previous year.

The top-tier hotel market of Xiaoshan appeared to be relatively stable in the past 3 years, with few new competitors entering the market.

New Century Hotel Xiaoshan Zhejiang, conveniently located in the most prosperous business centre of Xiaoshan District, is only 24 km from Xiaoshan International Airport and 20 minutes' drive to the West Lake Scenic Area. In 2013, the average daily rate of the hotel reached RMB345.4. F&B revenue accounted for over 75% of the total income of the hotel in the past three years.

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2013										
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 storey and a 3-storey staff dormitory erected on a parcel of land with a site area of approximately 36,052.75 sq m.</p> <p>New Century Resort Qiandao Lake Hangzhou 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 and a business centre.</p> <p>According to the Building Ownership Certificates, New Century Resort Qiandao Lake Hangzhou has a total gross floor area of approximately 39,402.37 sq m with details as follows:-</p>	<p>As at the date of valuation, the property was operated by the owner as a 5-star hotel.</p> <p>The occupancy rate of the hotel for 2013 was 52.66%.</p> <p>Apart from the general hotel operation, a lettable area of 1,300 sq m has been occupied by an operator under a cooperation agreement for a term of 5 years at a basic service charge of RMB700,000 per annum.</p> <p>Based on the net rental income of the second half of 2013, the estimated net yield of the property is 7.1%.</p>	RMB300,000,000										
	<table border="1"> <thead> <tr> <th data-bbox="440 1310 520 1332">Portion</th> <th data-bbox="730 1284 919 1371">Approximate Gross Floor Area (sq m)</th> </tr> </thead> <tbody> <tr> <td data-bbox="440 1407 576 1429">Hotel building</td> <td data-bbox="815 1407 919 1429">35,744.90</td> </tr> <tr> <td data-bbox="440 1440 491 1461">Villas</td> <td data-bbox="847 1440 919 1461">967.94</td> </tr> <tr> <td data-bbox="440 1472 587 1494">Staff dormitory</td> <td data-bbox="826 1472 919 1494">2,689.53</td> </tr> <tr> <td data-bbox="440 1548 488 1569">Total</td> <td data-bbox="815 1548 919 1569"><u>39,402.37</u></td> </tr> </tbody> </table>	Portion	Approximate Gross Floor Area (sq m)	Hotel building	35,744.90	Villas	967.94	Staff dormitory	2,689.53	Total	<u>39,402.37</u>		
Portion	Approximate Gross Floor Area (sq m)												
Hotel building	35,744.90												
Villas	967.94												
Staff dormitory	2,689.53												
Total	<u>39,402.37</u>												
	<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 杭州千島湖開元度假村開發有限公司 (Hangzhou Qiandao Lake New Century Resort Development Co., Ltd.) for terms of 40 years until 31 July 2041 for commercial use and 70 years until 31 July 2071 for residential use.</p>												

## VALUATION REPORT

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	30	9
Standard Room/Deluxe Room	33-35	197
Deluxe Suite	49	11
New Century Suite	65	4
Family Suite	68	5
President Suite	450	1
Total		<u>227</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.

## VALUATION REPORT

Other Amenities	Level	Total Area (sq m)
a chess/poker room	Level 2	260
a sauna	Level 1	900
a SPA	Level 1	260
a beauty salon	Level 1	12
an indoor & outdoor swimming pool	Level 1/outdoor	1,050
a table tennis room	Level 1	30
a fitness room	Level 1	150
a foot SPA	Level 1	400
a night club	Level 2	260
13 karaoke rooms	Level 2	200
a snooker room	Level 1	90
a tennis court	outdoor	720
a outdoor sand volleyball court	outdoor	500
a 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 lease agreement, 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 and 2 yachts, were leased from an independent third party to 杭州千島湖開元度假村開發有限公司 (Hangzhou Qiandao Lake New Century Resort Development Co., Ltd.) for a term of 2 years from 1 September 2011 to 31 August 2013 at an annual rent of RMB200,000.
- (4) Pursuant to 4 Certificates for the Use of State-owned Land Nos. (2005) 016, (2005) 017, (2011) 00809 and (2011) 00810 dated 7 January 2005 and 10 March 2011, issued by Chun'an Land Resources Bureau, the land use rights of the property having a site area of approximately 36,052.75 sq m have been vested in 杭州千島湖開元度假村開發有限公司 (Hangzhou Qiandao Lake New Century Resort Development Co., Ltd.) for terms of 40 years until 31 July 2041 for commercial use and 70 years until 31 July 2071 for residential use.
- (5) Pursuant to 4 Building Ownership Certificates Nos. 40295, 40296, 40320 and 40335 dated 15 and 25 March 2005 issued by Chun'an County Real Estate Administration Office, the building ownership of the property having a gross floor area of approximately 39,402.37 sq m has been vested in 杭州千島湖開元度假村開發有限公司 (Hangzhou Qiandao Lake New Century Resort Development Co., Ltd.) for terms of 40 years for commercial use and 70 years for residential use.
- (6) Pursuant to Grant Contract of Land Use Rights No. (2001) 004 dated June 2001 and the supplementary dated December 2004 entered into between 淳安縣土地局 (Chun'an County Land & Resources Administration Bureau) and 杭州千島湖開元度假村開發有限公司 (Hangzhou Qiandao Lake New Century Resort Development Co., Ltd.), the land use rights of the property having a site area of approximately 25,115.84 sq m have been contracted to be granted to 杭州千島湖開元度假村開發有限公司 (Hangzhou Qiandao Lake New Century Resort Development Co., Ltd.) for a term of 50 years commencing on the date upon obtaining the Certificate for the Use of State-owned Land for composite use at a total consideration of RMB1,718,497.

## VALUATION REPORT

Pursuant to Grant Contract of Land Use Rights No. (2001) 007 dated June 2001 and the supplementary dated December 2004 entered into between 淳安縣土地局 (Chun'an County Land & Resources Administration Bureau) and 杭州千島湖開元度假村開發有限公司 (Hangzhou Qiandao Lake New Century Resort Development Co., Ltd.), the land use rights of the property having a site area of approximately 10,491.54 sq m have been contracted to be granted to 杭州千島湖開元度假村開發有限公司 (Hangzhou Qiandao Lake New Century Resort Development Co., Ltd.) for a term of 70 years commencing on the date upon obtaining the Certificate for the Use of State-owned Land for residential use at a total consideration of RMB720,018.

Pursuant to Grant Contract of Land Use Rights No. (2001) 008 dated June 2001 and the supplementary dated December 2004 entered into between 淳安縣土地局 (Chun'an County Land & Resources Administration Bureau) and 杭州千島湖開元度假村開發有限公司 (Hangzhou Qiandao Lake New Century Resort Development Co., Ltd.), the land use rights of the property having a site area of approximately 21,150.34 sq m have been contracted to be granted to 杭州千島湖開元度假村開發有限公司 (Hangzhou Qiandao Lake New Century Resort Development Co., Ltd.) for a term of 70 years commencing on the date upon obtaining the Certificate for the Use of State-owned Land for residential use at a total consideration of RMB2,118,081.

Pursuant to Grant Contract of Land Use Rights No. (2001) 009 dated June 2001 and the supplementary dated December 2004 entered into between 淳安縣土地局 (Chun'an County Land & Resources Administration Bureau) and 杭州千島湖開元度假村開發有限公司 (Hangzhou Qiandao Lake New Century Resort Development Co., Ltd.), the land use rights of the property having a site area of approximately 18,397.15 sq m have been contracted to be granted to 杭州千島湖開元度假村開發有限公司 (Hangzhou Qiandao Lake New Century Resort Development Co., Ltd.) for a term of 70 years commencing on the date upon obtaining the Certificate for the Use of State-owned Land for residential use at a total consideration of RMB1,389,097.

The property is part of the said site.

- (7) Pursuant to Business Licence No. 330127000000258, 杭州千島湖開元度假村開發有限公司 (Hangzhou Qiandao Lake New Century Resort Development Co., Ltd.) was established on 15 January 2001 as a limited company with a registered capital of RMB30,000,000.
- (8) We have prepared our valuation on the following assumptions:–
  - (i) 杭州千島湖開元度假村開發有限公司 (Hangzhou Qiandao Lake New Century Resort Development Co., Ltd.) is in possession of a proper legal title to the property and is entitled to transfer the property with the residual term of land use rights at no extra land premium or other onerous payment payable to the government;
  - (ii) all land premium, costs of public utilities, ancillary infrastructure fees and compensation for resettlement of any original residents to make way for the development have been fully settled;
  - (iii) the design and construction of the proposed development are in compliance with the local planning regulations and have been approved by the relevant authorities; and
  - (iv) the property may be disposed of freely to the purchasers at nil encumbrances.

## VALUATION REPORT

- (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:-

Certificate for the Use of State-owned Land	Yes
Building Ownership Certificate	Yes
Grant Contract of Land Use Rights	Yes
Business Licence	Yes

- (10) Our key assumptions used in the DCF valuation are summarized as follows:-

(i) Average daily room rate (“ADR”)	:	2014 – RMB808
(ii) Annual growth in ADR	:	Stabilized at 4%
(iii) Occupancy rate on available room basis	:	2014 – 58%; Stabilized at 65%
(iv) F&B revenue	:	37% of gross revenue
(v) FF&E provision	:	2% of gross revenue
(vi) Discount rate	:	9%
(vii) Terminal growth rate	:	4%

- (11) 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 and a population of approximately 457,000. 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 101,000. 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 are planned to begin in 2014 and to be completed in 2018. In particular, the Qiandao Lake will have a dedicated stop called Chun’an Station. With the opening of the high-speed railway, it will attract more tourists and enhance hotel room demand.

The property as a 5-star hotel has maintained steady growth in the development period. In the past three years, more and more international branded hotels have come into operation, which translated into a high rapid room supply and experienced a bit drop in ADR. In 2013, the average daily rate of the hotel reached RMB788.7. Since the market of Qiandao Lake is undergoing a period of rapid growth and the growth of room demand, the hotel market is expected to grow especially upon the opening of high-speed railway.

## VALUATION REPORT

### VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2013								
4. New Century Grand Hotel Ningbo, No. 666 Shounan Road (M), 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 approximately 27,389.50 sq m.</p> <p>New Century Grand Hotel Ningbo 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>According to Building Ownership Certificate YFQZSZD No. 200813802, New Century Grand Hotel Ningbo has a total gross floor area of approximately 66,107.27 sq m with details as follows:–</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;">Portion</th> <th style="text-align: right;">Approximate Gross Floor Area (sq m)</th> </tr> </thead> <tbody> <tr> <td>Hotel</td> <td style="text-align: right;">54,226.18</td> </tr> <tr> <td>Basement</td> <td style="text-align: right;">11,881.09</td> </tr> <tr> <td>Total</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">66,107.27</td> </tr> </tbody> </table> <p>As advised by the REIT Manager, New Century Grand Hotel Ningbo has a total operating area of approximately 57,311 sq m.</p> <p>The land use rights of the property have been granted to 寧波開元名都大酒店有限公司 (Ningbo New Century Grand Hotel Co., Ltd.) for a term of 40 years until 9 March 2045 for commercial use.</p>	Portion	Approximate Gross Floor Area (sq m)	Hotel	54,226.18	Basement	11,881.09	Total	66,107.27	<p>As at the date of valuation, the property was operated by the owner as a 5-star hotel.</p> <p>The occupancy rate of the hotel for 2013 was 51.38%.</p> <p>Apart from the general hotel operation, a total leasable area of 3,503 sq m has been occupied by various tenants under various cooperation agreements for terms of 2 to 10.67 years at a total monthly service charge of approximately RMB197,000.</p> <p>Besides, a retail shop in the lobby has been let to a tenant for a term of 1 year at a monthly rent of RMB3,333.</p> <p>Based on the net rental income of the second half of 2013, the estimated net yield of the property is 5.4%.</p>	RMB770,000,000
Portion	Approximate Gross Floor Area (sq m)										
Hotel	54,226.18										
Basement	11,881.09										
Total	66,107.27										



## VALUATION REPORT

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
<b>Total</b>		<b>324</b>	<b>68</b>

(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.

## VALUATION REPORT

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 the Use of State-owned Land YGY No. (2008) 14-05041 dated 18 July 2008 issued by Ningbo Municipal Bureau of National Land and Resources, the land use rights of the property having a site area of approximately 27,389.50 sq m have been vested in 寧波開元名都大酒店有限公司 (Ningbo New Century Grand Hotel Co., Ltd.) for a term of 40 years until 9 March 2045 for commercial use.
- (4) Pursuant to Building Ownership Certificate YFQZSZD No. 200813802 dated 1 August 2008 issued by Ningbo Yinzhou Municipal Housing Administration Bureau, the building ownership of the property having a gross floor area of approximately 66,107.27 sq m has been vested in 寧波開元名都大酒店有限公司 (Ningbo New Century Grand Hotel Co., Ltd.) for a term of 40 years until 9 March 2045 for commercial use.
- (5) According to Grant Contract of Land Use Rights entered into between Ningbo Yingzhou District Land Resources Bureau and 寧波開元名都大酒店有限公司 (Ningbo New Century Grand Hotel Co., Ltd.) dated 9 October 2003, the land use rights of the property have been contracted to be granted to 寧波開元名都大酒店有限公司 (Ningbo New Century Grand Hotel Co., Ltd.) with details as follows:
- (i) Location : A site situated at Wang Dong San Qiao Cun, Zhong Gong Miao Jie Dao, Yingzhou District
  - (ii) Site Area : 27,415 sq m
  - (iii) Use : Commercial
  - (iv) Plot Ratio :  $\leq 1.65$
  - (v) Land Use Term : 40 years

The property is part of the said site.

- (6) Pursuant to Business Licence No. 330212000001124, 寧波開元名都大酒店有限公司 (Ningbo New Century Grand Hotel Co., Ltd.) was established on 1 December 2004 as a limited company with a registered capital of RMB170,488,723.
- (7) We have prepared our valuation on the following assumptions:—
- (i) 寧波開元名都大酒店有限公司 (Ningbo New Century Grand Hotel Co., Ltd.) is in possession of a proper legal title to the property and is entitled to transfer the property with the residual term of land use rights at no extra land premium or other onerous payment payable to the government;

## VALUATION REPORT

- (ii) all land premium, costs of public utilities, ancillary infrastructure fees and compensation for resettlement of any original residents to make way for the development have been fully settled;
- (iii) the design and construction of the proposed development are in compliance with the local planning regulations and have been approved by the relevant authorities; and
- (iv) the property may be disposed of freely to the purchasers at nil encumbrances.

- (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:-

Certificate for the Use of State-owned Land	Yes
Building Ownership Certificate	Yes
Grant Contract of Land Use Rights	Yes
Business Licence	Yes

- (9) Our key assumptions used in the DCF valuation are summarized as follows:-

(i) Average daily room rate ("ADR")	:	2014 – RMB532
(ii) Annual growth in ADR	:	Stabilized at 4%
(iii) Occupancy rate on available room basis	:	2014 – 58%; Stabilized at 65%
(iv) F&B revenue	:	59% of gross revenue
(v) FF&E provision	:	2% of gross revenue
(vi) Discount rate	:	9%
(vii) Terminal growth rate	:	4%

- (10) 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.

The number of Ningbo's high-end hotels, of which most are international branded ones, has witnessed an obvious growth since 2008. The growing regional economy, improvement of infrastructure and maturity of some new business zones have generated a stable increase in corporate and MICE demand. The overall occupancy rate of 5-star hotels in Ningbo fluctuated around 56% while ADR grew at a slow pace from 2010 to 2013. Future supply of Ningbo high-end hotel market will experience further growth in the next few years especially in Eastern New Town.

Yinzhou District is one of the Ningbo's major industrial and educational zones with Southern Business Region and Wanda Plaza as its central business district and major commercial area respectively. A number of private companies have located their headquarters in Southern Business Region which provides continuous demand from corporate travelers. Yinzhou District's high-end hotel market has also out-performed Ningbo's overall high-end market in terms of occupancy rate and ADR growth. In 2013, the average daily rate of the hotel reached RMB538.5. With the maturity of the Southern Business Region, the corporate demand is expected to have constant increase in the future.

## VALUATION REPORT

### VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2013
5. New Century Grand Hotel Changchun, No. 2299 Jingyangda Road, Lvyuan 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 approximately 9,795 sq m.</p> <p>New Century Grand Hotel Changchun was completed in October 2008 and has been operated since December 2008. New Century Grand Hotel Changchun currently provides 328 guest rooms, 130 car parking spaces (including loading/unloading spaces), food and beverage outlets, a business centre, a fitness centre with indoor swimming pool, banquet and function rooms and a business centre.</p> <p>According to the Building Ownership Certificates, New Century Grand Hotel Changchun has a total gross floor area of approximately 45,624.74 sq m with details as follows:-</p>	<p>As at the date of valuation, the property was operated by the owner as a 5-star hotel.</p> <p>The occupancy rate of the hotel for 2013 was 63.36%.</p> <p>Based on the net rental income of the second half of 2013, the estimated net yield of the property is 4.9%.</p>	RMB640,000,000

Portion	Approximate Gross Floor Area (sq m)
Hotel	38,753.40
Dormitory	3,764.34
Basement	3,107.00
Total	<u>45,624.74</u>

As advised by the REIT Manager, New Century Grand Hotel Changchun has a total operating area of approximately 31,985 sq m.

The land use rights of the property have been granted to 長春開元名都大酒店有限公司 (New Century Grand Hotel Changchun Company Limited) for a term of 40 years until 14 October 2043 for hotel and catering use and 28 December 2046 for other commercial use.

## VALUATION REPORT

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	230	32
Executive Room	35-48	42	7
Deluxe Suite	60	—	2
Business Suite	70	14	—
President Suite	208	—	1
<b>Total</b>		<b>286</b>	<b>42</b>

(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
Ibiza Bar	Level 1	Bar	383	67
Yue Bar	Level 8	Bar	300	38
German Bar	Level 1 mezz	Bar	197	80
Prestige Club Lounge	Level 15	Bar	216.5	36
Weiyuan Cake Shop	Level 1	Bakery	—	—
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 (sq m)	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.

## VALUATION REPORT

Other Amenities	Level	Total Area (sq m)
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Business centre	Level 1	58
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Other Amenities	Level	Total Seating Area (sq m)
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Business centre	Level 1	58
Chess/Poker room	Level 5	251
SPA	B1	569
Beauty salon	B1	68
Swimming pool	B1	708
Table tennis room	B1	64
Fitness room	B1	115
Foot SPA	Level 5	87
Billiards room	B1	79
VIP Lounge	B1	72
Shower room	B1	168

- (3) Pursuant to Certificate for the Use of State-owned Land No. CGY (2008) 060000171 dated 18 January 2008 issued by Changchun Municipal Bureau of Land and Resources, the land use rights of the property having a site area of approximately 6,688 sq m have been vested in 長春開元名都大酒店有限公司 (New Century Grand Hotel Changchun Company Limited) for a term of 40 years until 14 October 2043 for hotels and catering use.

Pursuant to Certificate for the Use of State-owned Land No. CGY (2008) 060000172 dated 18 January 2008 issued by Changchun Municipal Bureau of Land and Resources, the land use rights of the property having a site area of approximately 3,107 sq m have been vested in 長春開元名都大酒店有限公司 (New Century Grand Hotel Changchun Company Limited) for a term of 40 years until 28 December 2046 for other commercial use.

- (4) Pursuant to Building Ownership Certificate No. CFQ5120002516 dated 22 May 2013 issued by Changchun Municipal Housing Security and Management Bureau, the building ownership of the property having a gross floor area of approximately 41,860.40 sq m has been vested in 長春開元名都大酒店有限公司 (New Century Grand Hotel Changchun Company Limited) for business use.

Pursuant to Building Ownership Certificate No. CFQ5120002517 dated 22 May 2013 issued by Changchun Municipal Housing Security and Management Bureau, the building ownership of the property having a gross floor area of approximately 3,764.34 sq m has been vested in 長春開元名都大酒店有限公司 (New Century Grand Hotel Changchun Company Limited) for dormitory use.

- (5) Pursuant to Business Licence No. 220101010000508, 長春開元名都大酒店有限公司 (New Century Grand Hotel Changchun Company Limited) was established on 13 November 2007 as a limited company with a registered capital of RMB120,000,000.

- (6) We have prepared our valuation on the following assumptions:-

- (i) 長春開元名都大酒店有限公司 (New Century Grand Hotel Changchun Company Limited) is in possession of a proper legal title to the property and is entitled to transfer the property with the residual term of land use rights at no extra land premium or other onerous payment payable to the government;

## VALUATION REPORT

- (ii) all land premium, costs of public utilities, ancillary infrastructure fees and compensation for resettlement of any original residents to make way for the development have been fully settled;
- (iii) the design and construction of the proposed development are in compliance with the local planning regulations and have been approved by the relevant authorities; and
- (iv) the property may be disposed of freely to the purchasers at nil encumbrances.

(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 the Use of State-owned Land	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

(8) Our key assumptions used in the DCF valuation are summarized as follows:–

(i) Average daily room rate (“ADR”)	:	2014 – RMB630
(ii) Annual growth in ADR	:	Stabilized at 4%
(iii) Occupancy rate on available room basis	:	2014 – 68%; Stabilized at 72%
(iv) F&B revenue	:	54% of gross revenue
(v) FF&E provision	:	2% of gross revenue
(vi) Discount rate	:	9%
(vii) 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 7.57 million in 2012. Known as China’s Automobile City, Changchun is an important industrial base with a particular focus on the automotive sector.

The tourism and exhibition is 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.

New Century Grand Hotel Changchun won the national five-star tourist hotel on 25 October 2011 which is the first 5-star hotel in Lvyuan District. With beautiful surroundings and luxurious facilities, New Century Grand Hotel Changchun has become one of the most luxurious business hotels in Changchun. Average daily room rate and RevPAR enjoyed rapid growth, with occupancy rate fluctuating around 68%, in the past 3 years and the average daily rate of the hotel reached RMB638.4 in 2013.

## TRUSTEE'S REPORT

We hereby confirm that, in our opinion, the Manager of New Century Real Estate Investment Trust ("New Century REIT") has, in all material respects, managed New Century REIT in accordance with the provisions of the Trust Deed dated 10 June 2013 (as amended by the Supplemental Trust Deed dated 20 June 2013) for the period from 10 July 2013 to 31 December 2013.

**DB Trustees (Hong Kong) Limited**

*(in its capacity as trustee of New Century Real Estate Investment Trust)*

Hong Kong, 7 March 2014



# INDEPENDENT AUDITOR'S REPORT

## TO THE UNITHOLDERS OF NEW CENTURY REAL ESTATE INVESTMENT TRUST

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

We have audited the consolidated financial statements of New Century Real Estate Investment Trust ("New Century REIT") and its subsidiaries (together, the "Group") set out on pages 89 to 162, which comprise the consolidated balance sheet as at 31 December 2013, and the consolidated income statement, consolidated statement of comprehensive income, distribution statement, consolidated statement of net asset attributable to unitholders and changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## MANAGER'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

New Century Asset Management Limited ("the REIT Manager") is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and is responsible for ensuring that the consolidated financial statements have been properly prepared in accordance with the relevant provisions of the Trust Deed dated 10 June 2013 and as amended by the supplemental trust deed dated 20 June 2013 (the "Trust Deed"), and the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong (the "REIT Code"), and for such internal control as the REIT Manager determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

# INDEPENDENT AUDITOR'S REPORT

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2013, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C of the REIT Code.

## OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 24 February 2014

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

		<b>Year ended 31 December 2013</b>	Year ended 31 December 2012	For the period from 10 July 2013 (date of listing) to 31 December 2013*
	<b>Notes</b>	<b>RMB'000</b>	RMB'000	RMB'000
Revenue	6	<b>460,875</b>	795,529	126,842
Cost of sales	7	<b>(260,687)</b>	(553,816)	–
Operating expenses	7	<b>(97,274)</b>	(92,399)	(58,851)
Other gains/(losses) – net	10	<b>7,792</b>	8,512	(1,362)
Change in fair values of investment properties	17	<b>(236,281)</b>	–	(236,281)
<b>Operating (loss)/profit</b>		<b>(125,575)</b>	157,826	(169,652)
Finance income	11	<b>25,819</b>	60,657	11,870
Finance costs	11	<b>(57,763)</b>	(104,614)	(28,284)
<b>(Loss)/profit before taxation and transactions with unitholders</b>		<b>(157,519)</b>	113,869	(186,066)
Income tax expense	12	<b>26,867</b>	(36,499)	38,867
<b>(Loss)/profit for the year/period, before transactions with unitholders</b>		<b>(130,652)</b>	77,370	(147,199)
– (Loss)/profit attributable to unitholders		<b>(130,888)</b>	76,424	(146,859)
– Profit/(loss) attributable to non-controlling interests		<b>236</b>	946	(340)
		<b>(130,652)</b>	77,370	(147,199)

\* With a view to enabling the investors to make an informed assessment of the financial performance of New Century REIT following the Reorganisation under which the Group ceased its hotel operation business and began to engage in hotel property rental business upon the date of listing as set out in note 2 below, the REIT Manager disclosed the financial results of its hotel property rental business for the period from the date of listing to 31 December 2013.

The notes on pages 96 to 162 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Attributable to			
	Unitholders before transactions with unitholders RMB' 000	Transactions with unitholders (Note (i)) RMB' 000	Unitholders after transactions with unitholders RMB' 000	Attributable to non-controlling interests RMB' 000
Profit for the year ended 31 December 2012	76,424	-	76,424	946
Other comprehensive income	-	-	-	-
Total comprehensive income for the year ended 31 December 2012	<u>76,424</u>	<u>-</u>	<u>76,424</u>	<u>946</u>
(Loss)/profit for the year ended 31 December 2013 (Note (ii))	<b>(130,888)</b>	<b>(2,224,914)</b>	<b>(2,355,802)</b>	<b>236</b>
Other comprehensive income, which may be subsequently reclassified to profit or loss				
- Reclassification from property, plant and equipment and land use rights to investment properties carried at fair value, net of tax	<u>2,371,773</u>	<u>-</u>	<u>2,371,773</u>	<u>18,260</u>
Total comprehensive income for the year ended 31 December 2013 (Note (ii))	<u><b>2,240,885</b></u>	<u><b>(2,224,914)</b></u>	<u><b>15,971</b></u>	<u><b>18,496</b></u>

Notes:

- (i) Transactions with unitholders represent change in net assets attributable to unitholders, excluding issuance of new units and transactions with the Controlling Shareholders.
- (ii) In accordance with the Trust Deed dated 10 June 2013 and as amended by the supplemental trust deed dated 20 June 2013 (the "Trust Deed"), New Century REIT is required to distribute to unitholders not less than 90% of total distributable income for each financial year. Accordingly, the units contain contractual obligations of the trust to pay cash distributions. The unitholders' funds are therefore classified as a financial liability rather than equity in accordance with International Financial Reporting Standards issued by International Accounting Standards Board. Consistent with unitholders' funds being classified as a financial liability, change in net assets attributable to unitholders, excluding issuance of new units and transactions with the Controlling Shareholders, are part of finance costs.

The notes on pages 96 to 162 are an integral part of these consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

As at 31 December 2013

	Notes	As at 31 December 2013 RMB'000	As at 31 December 2012 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	14	216	1,209,645
Land use rights	15	–	72,605
Intangible assets	16	–	360
Investment properties	17	4,190,000	–
Deferred income tax assets	18	–	1,007
Other long-term assets	19	14,747	313
		<u>4,204,963</u>	<u>1,283,930</u>
<b>Current assets</b>			
Inventories	20	–	10,265
Trade and other receivables and prepayments	21	6,547	23,559
Amount due from related parties	31(c)	22,204	1,223,165
Restricted cash	22	24,403	80,330
Cash and cash equivalents	22	145,723	409,622
		<u>198,877</u>	<u>1,746,941</u>
<b>Total Assets</b>		<u><b>4,403,840</b></u>	<u><b>3,030,871</b></u>
<b>Current liabilities</b>			
Trade and other payables and deferred revenue	23	42,534	316,236
Amount due to related parties	31(c)	36,369	50,298
Current income tax liabilities		13,558	12,101
Derivative financial instruments	24	9,531	–
Borrowings	25	250,492	424,500
		<u>352,484</u>	<u>803,135</u>
<b>Non-current liabilities, other than net assets attributable to unitholders</b>			
Borrowings	25	909,025	1,080,000
Deferred income tax liabilities	18	749,870	12,716
		<u>1,658,895</u>	<u>1,092,716</u>

# CONSOLIDATED BALANCE SHEET

As at 31 December 2013

		As at 31 December 2013 RMB'000	As at 31 December 2012 RMB'000
<b>Total liabilities, other than net assets attributable to unitholders</b>		<b>2,011,379</b>	1,895,851
Net assets attributable to unitholders	26	<u>2,368,015</u>	–
<b>Total liabilities</b>		<b>4,379,394</b>	1,895,851
<b>Net assets</b>		<b>24,446</b>	1,135,020
<b>Equity</b>			
Other reserves	27	–	937,499
Retained earnings		–	188,073
		–	1,125,572
Non-controlling interests		<u>24,446</u>	9,448
<b>Total equity</b>		<b>24,446</b>	1,135,020
<b>Net current (liabilities)/assets</b>		<b>(153,607)</b>	943,806
<b>Total assets less current liabilities</b>		<b>4,051,356</b>	2,227,736
<b>Units in issue ('000)</b>		<b>772,000</b>	–
<b>Net assets attributable to unitholders per unit</b>	26	<b>RMB3.0674</b>	–

On behalf of the Board of Directors of the REIT Manager.

**Cheung Yat Ming**  
Executive Director

**Chen Miaolin**  
Chairman

The notes on pages 96 to 162 are an integral part of these consolidated financial statements.

# DISTRIBUTION STATEMENT

For the period from 10 July 2013 (date of listing) to 31 December 2013

	For the period from 10 July 2013 (date of listing) to 31 December 2013 RMB'000
<b>Loss attributable to unitholders</b>	<b>(146,859)</b>
Adjustments for the total distributable income:	
– Fair value change on investment properties attributable to unitholders	234,918
– Deferred taxation in respect of investment properties and tax losses	(52,916)
– Unrealised foreign exchange gains on financing activities	(11,571)
– Fair value change on derivative financial instruments	9,531
– REIT Manager fee payable in units in lieu of cash	10,553
– Listing expenses	31,881
– Amortisation of transaction cost for the bank borrowings	5,165
	<hr/>
<b>Total distributable income (i)</b>	<b>80,702</b>
	<hr/> <hr/>
<b>Total distribution amount to be paid (ii)</b>	<b>80,702</b>
	<hr/> <hr/>
<b>Distribution per unit before taking into account the effect of Distribution Waivers (iii)</b>	<b>RMB0.1045</b>
	<hr/> <hr/>
<b>Distribution per unit after taking into account the effect of Distribution Waivers (iv)</b>	<b>RMB0.1225</b>
	<hr/> <hr/>

*Notes:*

- (i) Under the terms of the Trust Deed, the total distributable income is the consolidated profit or loss after income tax attributable to unitholders adjusted to eliminate the effects of certain non-cash and other adjustments which have been recorded in the consolidated income statement for the relevant year.
- (ii) In accordance with the Trust Deed, New Century REIT is required to distribute to unitholders not less than 90% of its total distributable income for each financial year and it is the REIT Manager's stated policy to distribute 100% of New Century REIT's total distributable income for the period from the date of listing to 31 December 2013 and for the financial year ending 31 December 2014, and thereafter at least 90% of New Century REIT's annual distributable income for each financial year.
- (iii) The distribution per unit of RMB0.1045 for the period from 10 July 2013 (date of listing) to 31 December 2013 is calculated by dividing New Century REIT's total distributable income of RMB80,702,000 by 772,000,000 units in issue during the period from the date of listing to 31 December 2013, before taking into account the effect of Distribution Waivers as described in note (iv) below.
- (iv) Pursuant to the Distribution Waiver Deeds on 17 June 2013 ("Distribution Waivers"), Huge Harvest International Limited and Blue Sky Holdings Limited ("Carlyle Blue Sky"), have each agreed to irrevocably waive their respective entitlements to receive any distribution payable for the period from the date of listing to 31 December 2013 and for the year ending 31 December 2014 in relation to 65,600,000 units and 47,400,000 units respectively. The distribution per unit of RMB0.1225 for the period from 10 July 2013 (date of listing) to 31 December 2013 is calculated by dividing New Century REIT's total distributable income of RMB80,702,000 by 659,000,000 units, after taking into account the effect of Distribution Waivers.

The notes on pages 96 to 162 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AND CHANGES IN EQUITY

For the year ended 31 December 2013

	Notes	Net assets attributable to unitholders RMB'000	Equity			Total RMB'000
			Other reserves RMB'000	Retained earnings RMB'000	Non- controlling interests RMB'000	
<b>At 1 January 2012</b>		–	685,610	111,649	9,341	806,600
Profit for the year		–	–	76,424	946	77,370
Dividends declared	13	–	–	–	(839)	(839)
Contribution to subsidiaries by the Controlling Shareholders	27	–	250,532	–	–	250,532
Share based payment reserve	27	–	1,357	–	–	1,357
<b>At 31 December 2012</b>		–	937,499	188,073	9,448	1,135,020
<b>At 1 January 2013</b>		–	937,499	188,073	9,448	1,135,020
(Loss)/profit for the year/period		(146,859)	–	15,971	236	(130,652)
Share based payment reserve for the period from 1 January 2013 to 9 July 2013	27	–	500	–	–	500
Dividends declared in the period from 1 January 2013 to 9 July 2013	13	–	–	(384,922)	(3,498)	(388,420)
Contribution to subsidiaries by the Controlling Shareholders for the period from 1 January 2013 to 9 July 2013	27	–	176,951	–	–	176,951
Appropriate to statutory reserve for the period from 1 January 2013 to 9 July 2013	27	–	11,532	(11,532)	–	–
Net proceeds from issuance of new units	26	533,993	–	–	–	533,993
Unit issue costs	26	(28,088)	–	–	–	(28,088)
Transactions with the Controlling Shareholders	26	(362,804)	(1,126,482)	192,410	–	(1,296,876)
Reclassification from property, plant and equipment and land use rights to investment properties carried at fair value, net of tax	26	2,371,773	–	–	18,260	2,390,033
<b>At 31 December 2013</b>		2,368,015	–	–	24,446	2,392,461

The notes on pages 96 to 162 are an integral part of these consolidated financial statements.



# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

		Year ended 31 December		For the period from
	Notes	2013	2012	10 July 2013
		RMB'000	RMB'000	(date of listing) to
				31 December 2013
				RMB'000
<b>Cash flows from operating activities</b>				
Cash generated from operations	29(a)	19,809	371,350	36,966
Interest paid		(31,158)	(104,348)	(8,977)
Income tax paid		(30,194)	(27,673)	(3,085)
<b>Net cash (used in)/generated from operating activities</b>		<b>(41,543)</b>	<b>239,329</b>	<b>24,904</b>
<b>Cash flows from investing activities</b>				
Proceeds from disposal of property, plant and equipment	29(b)	20,029	277	18,720
Change of loans receivable from related parties		1,221,795	(355,194)	108,531
Interest income from related parties		13,278	77,578	–
Payment for transfer out of Hotel Operating Business of Hotel Properties pursuant to the Reorganisation	1	(101,601)	–	(101,601)
Purchases of property, plant and equipment		(8,503)	(42,481)	–
Purchase of investment properties	17	(16,281)	–	(16,281)
Purchases of intangible assets	16	(340)	(236)	–
<b>Net cash generated from/(used in) investing activities</b>		<b>1,128,377</b>	<b>(320,056)</b>	<b>9,369</b>
<b>Cash flows from financing activities</b>				
Net proceeds from issuance of new units		533,993	–	533,993
Unit issue costs	26	(28,088)	–	(28,088)
Contributions to subsidiaries by the Controlling Shareholders	27	172,379	250,532	–
Acquisition of subsidiaries	26	(1,296,876)	–	(1,296,876)
Proceeds from borrowings, net of transaction costs		1,165,923	974,500	915,923
Repayment of borrowings		(1,504,500)	(888,500)	–
Fee paid for un-drawn bank facilities	19	(13,870)	–	(13,870)
Changes of restricted cash pledged for borrowings		55,927	200,000	(24,403)
Dividends paid to the non-controlling interests	13	(3,083)	(630)	–
Dividends paid to the Controlling Shareholders	13	(384,922)	–	–
Changes of loans payable to related parties		(47,216)	(146,451)	–
Payment of agency fee	11	(400)	–	(400)
<b>Net cash (used in)/generated from financing activities</b>		<b>(1,350,733)</b>	<b>389,451</b>	<b>86,279</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>				
Cash and cash equivalents at beginning of the year/period	22	409,622	100,898	25,171
<b>Cash and cash equivalent at end of the year/period</b>	22	<b>145,723</b>	<b>409,622</b>	<b>145,723</b>

The notes on pages 96 to 162 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 1 GENERAL INFORMATION

New Century Real Estate Investment Trust (“New Century REIT”) and its subsidiaries (together, the “Group”) are mainly engaged in the leasing of the hotel properties in Mainland China (“China”).

New Century REIT is 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 REIT Manager and DB Trustees (Hong Kong) Limited (the “Trustee”).

The address of the registered office of New Century Asset Management Limited (the “REIT Manager”) is Unit 4706, 47th Floor, The Center, 99 Queen’s Road Central, Hong Kong.

New Century REIT was listed on The Stock Exchange of Hong Kong Limited on 10 July 2013 (“date of listing”) and commenced its operation upon listing.

Prior to the establishment of New Century REIT and the completion of the reorganisation as described below (the “Reorganisation”), 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”), a limited liability company established in the People’s Republic of China (the “PRC”) on 30 November 2001, and its subsidiaries were principally engaged in hotel ownership and operations in the PRC and were collectively controlled by Mr. Chen Miaolin, Mr. Chen Canrong, Mr. Kong Weiliang and Mr. Zhang Guanming (collectively, the “Controlling Shareholders”).

In preparation for the listing of New Century REIT, the Group underwent the Reorganisation below which principally involved the following:

- Through a series of transactions conducted between late 2012 to January 2013, the relevant subsidiaries owning and operating 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 “Hotel Properties”) were retained by Zhejiang New Century Hotel, while its other subsidiaries and a joint venture that were engaged in the operation of leased hotels and other hotel related business, were transferred to or retained by Zhejiang New Century Hotel Management Limited (浙江開元酒店管理有限公司), formerly a subsidiary of Zhejiang New Century Hotel and was eventually transferred outside the Group (“Transferred-out Businesses”).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 1 GENERAL INFORMATION (CONTINUED)

- Zhejiang New Century Hotel transferred all the assets, transferrable liabilities and contractual obligations of the Hotel Properties that were not related to the hotel properties leasing business (“Hotel Operating Business of Hotel Properties”), to Zhejiang New Century Hotel Management Limited at an aggregate consideration calculated based on the net book value as at 15 June 2013. The assets, liabilities and the total considerations are as follows:

	<b>As at 15 June 2013</b>
	RMB'000
Non-current assets	1,284
Current assets	126,907
Current liabilities	<u>(234,364)</u>
Net liabilities	<u><u>(106,173)</u></u>
Total considerations paid	<u><u>101,601</u></u>
Transaction difference	<u><u>4,572</u></u>

The transaction difference above was recorded in “Other reserves” and then reclassified to “Net assets attributable to unitholders” upon the date of listing.

- In June 2013, Spearhead Global Limited, a limited liability company incorporated in British Virgin Islands on 8 March 2013 which was also controlled by the Controlling Shareholders, acquired the entire entity interest in Zhejiang New Century Hotel via its subsidiary from the predecessor shareholders.
- The entire interest in Spearhead Global Limited was acquired by New Century REIT on the date of listing for a consideration, which was settled by issuance of 579,000,000 units by New Century REIT and cash payment of HKD556,310,659 and USD139,663,400 pursuant to the amended sales and purchase agreement dated 27 June 2013 (“Amended Agreement”). Thereafter, New Century REIT became the holding entity of the companies now comprising the Group, and the Group has ceased its hotel operation and became engaged in the business of leasing the Hotel Properties.

The names of the Group’s subsidiaries are set out in Note 32. 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.

These consolidated financial statements are presented in Renminbi (“RMB”), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors of the REIT Manager on 24 February 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 2 BASIS OF PRESENTATION

The consolidated financial statements of the Group are presented for the purposes of this report.

New Century REIT has not been involved in any business prior to the date of listing and does not meet the definition of a business. The acquisition of Spearhead Global Limited is merely a reorganisation of the hotel owning business of the Group with no change in management of such business and the ultimate controlling owners of such business remain the same before and after the formation of the Group, and the Group has ceased its hotel operation and became engaged in the business of leasing the Hotel Properties. Accordingly, the financial statements of the Group have been presented using the carrying values of the hotel owning business of the Group.

All significant intra-group transactions and balances and unrealised gains/losses on transactions between group companies have been eliminated on consolidation.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 3.1 Basis of preparation

The consolidated financial statements of New Century REIT have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the relevant provisions of the Trust Deed and Appendix C of the Code on Real Estate Investment Trusts (the "REIT Code"). The consolidated financial statements 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.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the REIT Manager to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.1 Basis of preparation (continued)

#### (i) *New and amended standards adopted by the Group*

The following standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2013 and have impacted on the Group.

IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

The following standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2013 and have no impact on the Group.

		<b>Effective date</b>
Amendment to IFRS 1	'First time adoption', on government loans	1 January 2013
Amendment to IFRSs 10, 11 and 12	'Consolidated Financial Statements', 'Joint Arrangements' and 'Disclosures of Interests in Other Entities', on transition guidance	1 January 2013
IAS 27 (revised 2011)	'Separate financial statements'	1 January 2013
IFRS 11	'Joint arrangements'	1 January 2013
IAS 28 (revised 2011)	'Associates and joint ventures'	1 January 2013
IFRS 12	'Disclosure of interests in other entities'	1 January 2013
Amendment to IAS 19	'Employee benefits'	1 January 2013
Amendment to IFRS 7	'Financial instruments: Disclosures', on asset and liability offsetting	1 January 2013
IFRIC – Int 20	'Stripping costs in the production phase of a surface mine'	1 January 2013
Annual improvements 2011		1 January 2013

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.1 Basis of preparation (continued)

#### (ii) *New standards and interpretations not yet adopted*

Up to the date of this report, International Accounting Standards Board (“IASB”) has issued the following new standards, amendments and interpretations which are relevant to the Group’s operations but are not yet effective for the annual accounting period beginning on 1 January 2013 and which have not been early adopted by the Group:

	<b>Effective for annual periods beginning on or after</b>
Amendment to IAS 32, ‘Financial instruments: Presentation’, on asset and liability offsetting	1 January 2014
Amendments to IFRS 10, 12 and IAS 27, on consolidation for investment entities	1 January 2014
Amendment to IAS 36, ‘Impairment of assets’ on recoverable amount disclosures	1 January 2014
Amendment to IAS 39, ‘Financial Instruments: Recognition and Measurement’- ‘Novation of derivatives’	1 January 2014
IFRIC 21, ‘Levies’	1 January 2014
Amendment to IFRS 7 and 9, ‘Mandatory effective date and transition disclosures’	1 January 2015
IFRS 9, ‘Financial instruments’	1 January 2015

The Group is in the process of making an assessment of the impact of these new standards, amendments and interpretations to existing standards on the financial statements of the Group in the initial application. The adoption of the above is not expected to have a material effect on the Group’s operating results and financial position.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.2 Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the 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 Group. They are deconsolidated from the date that control ceases.

#### (a) *Business Combinations*

The Group applies the acquisition method to account for business combinations, except for those acquisitions which are qualified as business combination under common control (Note 3.2(b)). 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 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 Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

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 profit or loss.

Any contingent consideration to be transferred by the 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 accordance with IAS 39 either in profit or loss or as a change to other 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 income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.2 Subsidiaries (continued)

#### **(b) Business combination under common control**

The consolidated financial statements incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised with respect to goodwill or any excess of an acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over its cost at the time of common control combination, to the extent of the contribution of the controlling party's interest.

The consolidated income statement include the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of common control combination.

Intra-group transactions, balances and unrealised gains on transactions between the combining entities or businesses are eliminated. Unrealised losses are eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of combining entities or businesses have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognised as an expense in the period in which they are incurred.

#### **(c) Transaction with non-controlling interests**

The Group treats transactions with non-controlling interests as transactions with equity holders of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.2 Subsidiaries (continued)

#### (c) *Transaction with non-controlling interests (continued)*

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. 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 Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

### 3.3 Foreign currency translation

#### (a) *Functional and presentation currency*

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

The consolidated financial statements are presented in Renminbi unless otherwise stated.

#### (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 income statement, except when deferred in equity 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 income statement within "finance income or cost". All other foreign exchange gains and losses are presented in the consolidated income statement within "other gains/(losses) – net".

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.4 Property, plant and equipment

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

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

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	<b>Years</b>
Buildings and facilities	20 to 40 years
Machinery and equipment	5 to 10 years
Office and electronic equipment	5 years
Motor vehicles	5 years
Fixture and fittings	5 to 20 years
Other equipment	2 to 5 years

Construction in progress represents buildings, plant and equipment under construction or pending installation and is stated at cost less provision for impairment loss, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other gains/(losses) – net" in the consolidated income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.5 Investment property

Investment property, principally comprising leasehold, buildings and related equipments, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases is accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. 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 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 income statement.

### 3.6 Land use rights

Land use rights represent upfront payments made for the land use rights for development of hotel buildings and self-use buildings. It is stated at cost and charged to the consolidated income statement over the remaining period of the lease on a straight-line basis, net of any impairment losses, if any.

### 3.7 Intangible assets

Acquired computer software license are capitalised on the basis of the costs incurred to acquire the specific software. These costs are amortised over period of 2 years.

### 3.8 Impairment of non-financial assets

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 to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.9 Financial assets

#### (a) Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and financial assets available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

In 2012 and 2013, financial assets of the Group included financial assets at fair value through profit or loss and loans and receivables.

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

Financial assets at fair value through profit or loss 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. The Group's financial assets at fair value through profit or loss comprise derivative financial instruments in the consolidated balance sheet (Note 3.11).

##### (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 maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "amount due from related parties", "restricted cash" and "cash and cash equivalents" in the consolidated balance sheet (Notes 3.14, 3.15 and 3.16).

#### (b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date – the date on which the 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 fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.9 Financial assets (continued)

#### *(b) Recognition and measurement (continued)*

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

### 3.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount 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.

### 3.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

In 2013, the Group did not designate any derivatives as hedging instruments.

### 3.12 Impairment of financial assets

#### ***Assets carried at amortised cost***

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is 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) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can 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 reorganization, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.12 Impairment of financial assets (continued)

#### *Assets carried at amortised cost (continued)*

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held- to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may 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 decreases and the decrease can 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 is recognised in the consolidated income statement.

### 3.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method and comprise all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 3.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold, or 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 and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

### 3.15 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Restricted cash is excluded from cash and cash equivalent.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.16 Restricted cash

Restricted cash represents guaranteed deposits in a separate reserve account to be pledged to the bank for issuance of trade facilities such as bills payable and bankers' guarantee or as security deposits under bank borrowing agreement. Such restricted cash will be released when the Group repays the related trade facilities or bank loans.

### 3.17 Trade and other payables

Trade payables are obligations to pay for goods, construction or services that have been acquired in the ordinary course of business from suppliers. Account 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.

### 3.18 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 income statement 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 Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of 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 agreement.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognized in other comprehensive income. In this case the tax is also recognised in other comprehensive income 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 New Century REIT's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### (b) Deferred income tax

##### *Inside basis differences*

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

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

##### *Outside basis differences*

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.19 Current and deferred income tax (continued)

#### (c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 3.20 Employee benefits

#### (a) *Pension obligations*

The PRC employees of the Group covered by various PRC government-sponsored defined-contribution pension plans under which the employees become entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Contributions to these plans are expenses as incurred. The non-PRC employees are covered by other defined-contribution pension plans sponsored by local government.

#### (b) *Housing benefits*

The PRC employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the employees' salaries. The Group's liability in respect of these funds is limited to the contributions payable in each period. The non-PRC employees are not covered by the housing benefits.

#### (c) *Share-based compensation*

The employees received equity instruments as consideration for their services rendered to the Group prior to the date of listing. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining status as an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of shares that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of equity instruments that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.21 Provisions

Provisions are recognised when the 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.

### 3.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for rental income, the sales of goods, and income from provision of services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### (a) *Rental income (Note 6)*

Rental income is measured on the following bases:

- 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;
- Total Rent from hotel properties is recognised in the period in which they are earned in accordance with the terms of respective agreements.

#### (b) *Hotel operation income*

Hotel revenue from room rental, food and beverage sales and other ancillary services is recognised when the services are rendered.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.23 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

### 3.24 Dividend income

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

### 3.25 Customer loyalty programme

Prior to the date of listing, the Group operated a loyalty programme where customers accumulate points for purchases made which entitle them to free nights and gifts. The award points are recognised as a separately identifiable component of the initial sale transaction, by allocating the fair value of the consideration received between the award points and the other components of the sale such that the award points are recognised at their fair value. Revenue from the award points is recognised when the points are redeemed. The amount of revenue is based on the number of points redeemed relative to the total number expected to be redeemed. Award points expire 12 months after the initial year of sale.

### 3.26 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 Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement 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 income statement on a straight-line basis over the expected useful lives of the related asset.

### 3.27 Operating leases (as a lessee)

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.28 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks on behalf of related parties to secure loans and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. Any increase in the liability relating to guarantees is reported in the consolidated income statement within other operating expenses.

### 3.29 Dividend distribution

Dividend distribution to the Group's unitholders and shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's unitholders and shareholders or directors, where appropriate.

### 3.30 Segment information

Operating segment are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision marker, which has been identified as senior executive management, in order to allocate resources to segments and to assess their performance.

Upon listing, the sole principal activity of the Group is the business of leasing the Hotel Properties, which are all located in PRC. Therefore, senior executive management concludes that the Group is a single reportable segment and no further analysis for segment information is presented.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 4 FINANCIAL RISK MANAGEMENT

### 4.1 Financial risk factors

The Group's major financial instruments include derivative financial instruments, trade and other receivables, amount due from related parties, restricted cash, cash and cash equivalents, trade and other payables, amount due to related parties and borrowings. Details of these financial instruments are disclosed in the respective notes. The risk associated with these financial instruments and the policies on how the Group mitigates these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

#### (a) Market risk

##### (i) Foreign exchange risk

The Group's exposure to foreign exchange risk relates principally to its cash and cash equivalents and bank borrowings, denominated in primarily in United States dollar ("USD") and Hong Kong dollar ("HKD"). The Group has not specifically hedged this exposure considering the steady appreciation of RMB spot rate against HKD and USD in recent years and it is of the view that such appreciation will continue on a stable and predictable trend.

At 31 December 2013, if RMB had weakened/strengthened by 1% against USD with all other variables held constant, post-tax losses for the year ended 31 December 2013 would have been approximately RMB6,279,000 higher/lower respectively, mainly as a result of foreign exchange losses/gains on translation of USD denominated bank borrowings, which is partially offsetting by USD denominated cash and cash equivalents (2012: Nil).

At 31 December 2013, if RMB had weakened/strengthened by 1% against HKD with all other variables held constant, post-tax losses for the year ended 31 December 2013 would have been approximately RMB87,000 lower and higher respectively, mainly as a result of foreign exchange gains/losses on translation of HKD denominated cash and cash equivalents (2012: Nil).

##### (ii) Cash flow interest risk

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 4.1 Financial risk factors (continued)

#### (a) Market risk (continued)

##### (ii) Cash flow interest risk (continued)

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the 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.

As at 31 December 2013, if the interest rates on borrowings have been 25 basis points higher/lower with all other variables held constant, post-tax losses for the year would have been approximately RMB585,000 higher/lower respectively (2012: RMB1,259,000), mainly as result of higher/lower interest expense on floating rate of borrowings.

#### (b) Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, amount due from related parties, trade and other receivables included in the consolidated balance sheet and the guarantees provided in connection with the related parties' borrowings discussed below represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

As at 31 December 2013 and 2012, all cash and cash equivalents and restricted cash were deposited in the major financial institutions in the PRC and Hong Kong, which the directors of the REIT Manager believe are of high credit quality. The Group categorises its major counterparties into the following groups:

- Group 1 – Top 4 banks in the PRC (China Construction Bank Corporation, Bank of China Limited, Agriculture Bank of China Limited, and Industrial and Commercial Bank of China Limited) and major listed banks in Hong Kong;
- Group 2 – Other major listed banks in PRC; and
- Group 3 – Regional banks in the PRC.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 4.1 Financial risk factors (continued)

#### (b) Credit risk (continued)

The bank deposits balances as at 31 December 2013 and 2012 which are placed with these institutions are shown as below:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Group 1	149,871	259,712
Group 2	20,200	198,695
Group 3	—	30,996
	<u>170,071</u>	<u>489,403</u>

The REIT Manager do not expect any losses from non-performance by these counterparties.

The Group established policies in place to ensure that rental income of the Hotel Properties is made to customers with an appropriate credit history and the Group assesses the credit worthiness and financial strength of its customers as well as considering prior dealing history with the customers. Please refer to Note 21 for ageing analysis. Management make periodic collective assessment as well as individual assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any trade disputes with the debtors.

#### (c) Liquid risk

The 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 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 future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 4.1 Financial risk factors (continued)

#### (c) Liquid risk (continued)

	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
<b>As at 31 December 2012</b>					
Borrowings	424,500	380,000	260,000	440,000	1,504,500
Interest payable on borrowings	91,635	74,912	66,397	62,984	295,928
Trade and other payables and amount due to related parties	253,750	–	–	–	253,750
	<u>769,885</u>	<u>454,912</u>	<u>326,397</u>	<u>502,984</u>	<u>2,054,178</u>
<b>As at 31 December 2013</b>					
Borrowings	<b>250,500</b>	<b>500</b>	<b>936,624</b>	–	<b>1,187,624</b>
Interest payable on borrowings	<b>54,161</b>	<b>34,415</b>	<b>18,085</b>	–	<b>106,661</b>
Trade and other payables and amount due to related parties	<b>53,882</b>	–	–	–	<b>53,882</b>
	<u><b>358,543</b></u>	<u><b>34,915</b></u>	<u><b>954,709</b></u>	<u>–</u>	<u><b>1,348,167</b></u>

The interest payments on borrowings are calculated based on borrowings held as at 31 December 2012 and 2013 without taking into account future borrowings. Floating-rate interest is estimated using the relevant interest rates as at 31 December 2012 and 2013 respectively.

The table below analyses the Group's financial guarantees of the maximum amount allocated to the earliest period in which the guarantee could be called (Note 28):

	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 2012	554,960	22,000	–	–	576,960
As at 31 December 2013	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 4.2 Capital risk management

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

Consistent with others in the industry, the REIT Manager monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total asset value. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet and excluding net assets attributable to unitholders).

The gearing ratios as at 31 December 2012 and 2013 are as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Net debt ( <i>Note 25</i> )	<b>1,159,517</b>	1,504,500
Total asset value	<b>4,403,840</b>	3,030,871
<b>Gearing ratio</b>	<b>26%</b>	50%

### 4.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial liabilities that are measured at fair value at 31 December 2013 (2012: Nil). See Note 17 for disclosures of the investment properties that are measured at fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 4.3 Fair value estimation (continued)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>Liabilities</b>				
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative financial instruments	-	9,531	-	9,531

There were no transfers between levels 1 and 2 during the year.

#### **Financial instruments in level 2**

The fair value of financial instruments that are 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 value of interest rate swaps is 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 5 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 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 is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in Note 17.

### (b) Current income taxes and deferred tax

The 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 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.

### (c) Useful lives of property, plant and equipment

The Group determines the estimated useful lives for its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charges where useful lives are different from previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 6 REVENUE

Revenue for the year ended 31 December 2013 includes the rental income from Hotel Properties during the period from the date of listing to 31 December 2013 and, hotel operation income for the period from 1 January 2013 to 9 July 2013 and other rental income.

	Year ended 31 December		For the period from 10 July 2013 (date of listing) to 31 December 2013
	2013	2012	
	RMB'000	RMB'000	RMB'000
Rental income from Hotel Properties (a)	<b>110,749</b>	–	110,749
Other rental income (b)	<b>30,530</b>	25,750	16,093
	<b>141,279</b>	25,750	126,842
Hotel operation income			
Room	<b>115,018</b>	268,961	–
Food and beverage	<b>188,077</b>	461,229	–
Ancillary services	<b>16,501</b>	39,589	–
	<b>319,596</b>	769,779	–
	<b>460,875</b>	795,529	126,842

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 6 REVENUE (CONTINUED)

- (a) On 14 June, 2013, the Group entered into a master hotel lease and management agreement (the “Master Lease Agreement”) with Zhejiang New Century Hotel Management Limited (the “Lessee”), pursuant to which the Group is entitled to receive an annual rent (“Total Rent”) which is calculated as 20% of the relevant Hotel Properties’ total operating revenue plus 34% of the relevant Hotel Properties’ gross operating profit from the operation of the relevant Hotel Properties by the Lessee for a term of 10 years.

Under the terms of the Master Lease Agreement, the Lessee has guaranteed a minimum aggregate annual rent of RMB216,000,000 (“Base Rent”) for the first five years from the commencement of the Master Lease Agreement. If the Total Rent is less than the Base Rent for that years, the shortfall between the Total Rent and the Base Rent would be paid by the Lessee to the 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”) which is to be determined by an independent professional property valuer at least seven months prior to the commencement of each subsequent year. If the Market Base Rent as determined is lower than 85% of the average annual rent received from the Lessee for the Hotel Properties for the first four years (the “Reference Average Rent for the First Four Years”), the Base Rent with respect to the Hotel Properties for each subsequent year should be 85% of the Reference Average Rent for the First Four Years, instead of the Market Base Rent.

During the period from the date of listing to 31 December 2013, rental income from Hotel Properties is analyzed as follows:

- (i) Rental income of RMB110,749,000 is derived from the Total Rent of RMB112,124,000 less value-added taxes of RMB1,375,000.
- (ii) The annual Base Rent for the year ended 31 December 2013, which is guaranteed at RMB216,000,000 per annum, is pro-rated from the date of listing to 31 December 2013, with amount of RMB103,562,000. As the Total Rent exceeded the Base Rent, therefore rental income from Hotel Properties represented Total Rent.
- (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 7 EXPENSES BY NATURE

	Year ended 31 December		For the period
	2013	2012	from 10 July 2013
	RMB'000	RMB'000	(date of listing) to 31 December 2013 RMB'000
REIT Manager fee ( <i>Note 8</i> )	10,553	–	10,553
Trustee fee ( <i>Note 31</i> )	565	–	565
Listing expenses	31,881	–	31,881
Urban real estate and land use tax	15,173	12,916	8,481
Business tax and surcharges, stamp duty	24,580	44,252	5,123
Auditor's remuneration	1,838	1,578	930
Valuation fees	259	–	259
Legal and other professional fees	110	–	–
Depreciation of property, plant and equipment ( <i>Note 14</i> )	43,369	90,851	54
Amortisation of land use rights ( <i>Note 15</i> )	1,154	2,310	–
Amortisation of intangible assets ( <i>Note 16</i> )	628	351	–
Employee benefit expenses ( <i>Note 9</i> )	86,638	148,346	674
Utilities and electricity	23,168	51,743	–
Raw materials and consumable used ( <i>Note 20</i> )	88,031	217,327	–
Marketing and promotion expenses	7,958	19,836	–
Travelling and communication expenses	5,705	12,847	220
Hotel management and other service expenses	256	15,803	–
Maintenance and repairs	5,473	9,528	–
Miscellaneous	10,622	18,527	111
	<u>357,961</u>	<u>646,215</u>	<u>58,851</u>
Total cost of sales and operating expenses	<u>357,961</u>	<u>646,215</u>	<u>58,851</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 8 REIT MANAGER FEE

	Year ended 31 December		For the period from 10 July 2013 (date of listing) to 31 December 2013
	2013	2012	
	RMB'000	RMB'000	RMB'000
Base Fee	6,334	–	6,334
Variable Fee	4,219	–	4,219
	<u>10,553</u>	<u>–</u>	<u>10,553</u>

Pursuant to the Trust Deed, the REIT Manager is entitled to receive remuneration for its services as manager of New Century REIT, 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. Pursuant to the Trust Deed, the Deposited Property represents all the assets of New Century REIT, including all its authorized investments, for the time being and from time to time held or deemed to be held (including but not limited to through special purpose vehicles) upon the trusts of the Trust Deed and any interest arising on subscription monies from the issuance of units;
- a variable fee (the “Variable Fee”) of 4% per annum of net property income from 10 July 2013 (date of listing) to 31 December 2013.

The Base Fee and Variable Fee of 2013 above will be paid to the REIT Manager in the form of units based on the prevailing market price as defined in the Trust Deed.

## 9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December		For the period from 10 July 2013 (date of listing) to 31 December 2013
	2013	2012	
	RMB'000	RMB'000	RMB'000
Wages and salaries	70,953	118,525	432
Other social security costs	15,185	28,464	242
Share based payment (Note 27)	500	1,357	–
	<u>86,638</u>	<u>148,346</u>	<u>674</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 10 OTHER GAINS/(LOSSES) – NET

	Year ended 31 December		For the period from 10 July 2013 (date of listing) to 31 December 2013
	2013	2012	
	RMB'000	RMB'000	RMB'000
Government grants (a)	14,207	8,132	7,863
Waived payable balances	4,637	–	–
Loss on disposal of property, plant and equipment – net	(533)	(489)	–
Loss on disposal of intangible assets – net	(72)	–	–
Fair value loss on derivative financial instruments – interest rate swaps (Note 24)	(9,531)	–	(9,531)
Net foreign exchange loss	(23)	–	(23)
Others	(893)	869	329
	<u>7,792</u>	<u>8,512</u>	<u>(1,362)</u>

### (a) Government grants

Government grants mainly represented subsidy income from the government relating to costs and are recognized at their fair value over the period necessary to match them with the costs that they are intended to compensate.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 11 FINANCE COSTS – NET

	Year ended 31 December		For the period from 10 July 2013 (date of listing) to 31 December 2013
	2013	2012	
	RMB'000	RMB'000	RMB'000
<b>Finance income</b>			
– Interest income derived from bank deposits and other lendings ( <i>Note 31</i> )	14,248	60,657	299
– Unrealised net foreign exchange gains on financing activities	11,571	–	11,571
	<u>25,819</u>	<u>60,657</u>	<u>11,870</u>
<b>Finance costs</b>			
– Interest expense on bank borrowings and other borrowings repayable within 5 years	(52,198)	(100,864)	(22,719)
– Interest expense on bank borrowings and other borrowings repayable over 5 years	–	(3,750)	–
– Amortisation of transaction costs of the bank borrowings	(5,165)	–	(5,165)
– Agency fee	(400)	–	(400)
	<u>(57,763)</u>	<u>(104,614)</u>	<u>(28,284)</u>
<b>Finance costs – net</b>	<u>(31,944)</u>	<u>(43,957)</u>	<u>(16,414)</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 12 INCOME TAX EXPENSE

	Year ended 31 December		For the period
	2013	2012	from 10 July 2013
	RMB'000	RMB'000	(date of listing) to
			31 December 2013
			RMB'000
Current income tax			
– PRC corporate income tax	<b>31,651</b>	29,667	12,569
Deferred income tax			
– PRC corporate income tax (Note 18)	<b>(58,518)</b>	6,832	(51,436)
Tax (credited)/charged	<b>(26,867)</b>	36,499	(38,867)

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to (loss)/profit of the consolidated income statement as follows:

	Year ended 31 December		For the period
	2013	2012	from 10 July 2013
	RMB'000	RMB'000	(date of listing) to
			31 December 2013
			RMB'000
(Loss)/profit before taxation	<b>(157,519)</b>	113,869	(186,066)
Tax calculated at statutory tax rates			
applicable to each group entity	<b>(25,854)</b>	28,467	(32,994)
Expenses not deductible for tax purpose	<b>3,088</b>	1,212	712
Utilisation and recognition of previously unrecognized tax losses	<b>(4,101)</b>	(550)	(6,585)
Withholding tax in respect of subsidiaries' undistributed profit	<b>–</b>	7,370	–
Tax (credited)/charged	<b>(26,867)</b>	36,499	(38,867)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 12 INCOME TAX EXPENSE (CONTINUED)

### (a) Hong Kong profits tax

Enterprises incorporated in Hong Kong are subject to profits tax rates of 16.5% throughout the year 2013 and 2012. No Hong Kong profits tax has been provided for as the Group has no assessable profits in Hong Kong for the year ended 31 December 2013 and 2012.

### (b) PRC corporate income tax

Enterprises incorporated in the PRC are subject to income tax rates of 25% throughout the year 2013 and 2012.

The income tax provision of the Group in respect of its operations in the PRC 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 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 Group's subsidiaries located in the PRC.

### (c) PRC withholding income tax

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of their earnings generated from 1 January 2008.

The REIT Manager has resolved that the profit of the subsidiaries incorporated in the PRC from the date of listing to 31 December 2013 will not be distributed in the future to the parent company outside PRC. Hence, deferred income tax liabilities as at 31 December 2013 have not been recognised for the withholding taxes that would be payable on the unremitted earnings of certain subsidiaries incorporated in the PRC.

## 13 DIVIDENDS

Dividends declared for the years ended 31 December 2013 and 2012 represent dividends declared or proposed by the relevant subsidiaries of the Group out of their retained earnings to the equity holders of the respective companies, after eliminating intra-group dividends. The dividends paid in 2013 were RMB388,004,852, withholding tax exclusive (2012: RMB630,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 14 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities RMB'000	Machinery and equipment RMB'000	Office and electronic equipment RMB'000	Motor Vehicles RMB'000	Fixture and fittings RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
<b>At 1 January 2012</b>								
Cost	1,149,477	235,510	149,203	10,095	308,373	33,298	814	1,886,770
Accumulated depreciation	(208,647)	(127,006)	(114,328)	(7,417)	(124,681)	(27,487)	-	(609,566)
Net book amount	<u>940,830</u>	<u>108,504</u>	<u>34,875</u>	<u>2,678</u>	<u>183,692</u>	<u>5,811</u>	<u>814</u>	<u>1,277,204</u>
<b>Year ended 31 December 2012</b>								
Opening net book amount	940,830	108,504	34,875	2,678	183,692	5,811	814	1,277,204
Transferred from construction in progress	989	1,674	6,636	40	1,891	-	(11,230)	-
Additions	2,490	2,054	4,542	94	125	2,542	12,211	24,058
Disposals	(106)	(87)	(565)	(8)	-	-	-	(766)
Depreciation (Note 7)	(29,970)	(22,120)	(12,961)	(988)	(20,050)	(4,762)	-	(90,851)
Closing net book amount	<u>914,233</u>	<u>90,025</u>	<u>32,527</u>	<u>1,816</u>	<u>165,658</u>	<u>3,591</u>	<u>1,795</u>	<u>1,209,645</u>
<b>At 31 December 2012</b>								
Cost	1,152,850	238,957	149,727	10,097	310,389	35,840	1,795	1,899,655
Accumulated depreciation	(238,617)	(148,932)	(117,200)	(8,281)	(144,731)	(32,249)	-	(690,010)
Net book amount	<u>914,233</u>	<u>90,025</u>	<u>32,527</u>	<u>1,816</u>	<u>165,658</u>	<u>3,591</u>	<u>1,795</u>	<u>1,209,645</u>
<b>Year ended 31 December 2013</b>								
Opening net book amount	<b>914,233</b>	<b>90,025</b>	<b>32,527</b>	<b>1,816</b>	<b>165,658</b>	<b>3,591</b>	<b>1,795</b>	<b>1,209,645</b>
Transferred from construction in progress	<b>3,654</b>	-	-	-	-	-	<b>(3,654)</b>	-
Additions	<b>281</b>	<b>1,210</b>	<b>1,506</b>	<b>403</b>	<b>1,245</b>	<b>856</b>	<b>1,943</b>	<b>7,444</b>
Disposals	<b>(18,495)</b>	<b>(195)</b>	<b>(1,339)</b>	<b>(1,569)</b>	-	<b>(69)</b>	-	<b>(21,667)</b>
Depreciation (Note 7)	<b>(19,851)</b>	<b>(9,630)</b>	<b>(5,380)</b>	<b>(400)</b>	<b>(3,730)</b>	<b>(4,378)</b>	-	<b>(43,369)</b>
Reclassification to investment properties (Note 17)	<b>(879,822)</b>	<b>(81,410)</b>	<b>(27,314)</b>	<b>(34)</b>	<b>(163,173)</b>	-	<b>(84)</b>	<b>(1,151,837)</b>
Closing net book amount	<u>-</u>	<u>-</u>	<u>-</u>	<u>216</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>216</u>
<b>At 31 December 2013</b>								
Cost	-	-	-	565	-	-	-	565
Accumulated depreciation	-	-	-	(349)	-	-	-	(349)
Net book amount	<u>-</u>	<u>-</u>	<u>-</u>	<u>216</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>216</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2012, certain buildings and facilities with carrying amount of RMB512,322,000 were pledged as collaterals for the borrowings of the Group (Note 25); certain buildings and facilities with carrying amount of RMB162,706,000 were pledged as collaterals for the borrowings of the related parties (Note 31(b)) (2013: Nil).

Depreciation of property, plant and equipment has been charged to the consolidated income statement (Note 7) as follows:

	Year ended 31 December		For the period
	2013	2012	from 10 July 2013 (date of listing) to 31 December 2013
	RMB'000	RMB'000	RMB'000
Cost of sales	43,261	90,235	–
Operating expenses	108	616	54
	<u>43,369</u>	<u>90,851</u>	<u>54</u>

## 15 LAND USE RIGHTS

As at 31 December 2012, the Group's land use rights represent prepaid operating lease payments for land located in the PRC, which were developed for hotel buildings. The net book amounts are analysed as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
In the PRC		
– Lease of 35-40 years	–	72,605
	<u>–</u>	<u>72,605</u>

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Opening net book amount	72,605	74,915
Amortisation charge (Note 7)	(1,154)	(2,310)
Reclassification to investment properties (Note 17)	(71,451)	–
Closing net book amount	<u>–</u>	<u>72,605</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 15 LAND USE RIGHTS (CONTINUED)

As at 31 December 2012, certain land use rights with carrying amount of RMB68,262,000 were pledged as collaterals for the borrowings of the Group (Note 25); certain land use rights with carrying amount of RMB1,340,000 were pledged as collaterals for the borrowings of the related parties (Note 31(b)) (2013: Nil).

The amortisation of land use rights has been charged to the consolidated income statement (Note 7) as follows:

	Year ended 31 December		For the period from 10 July 2013 (date of listing) to 31 December 2013
	2013	2012	
	RMB'000	RMB'000	RMB'000
Cost of sales	<u>1,154</u>	<u>2,310</u>	<u>-</u>

## 16 INTANGIBLE ASSETS

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Computer software	<u>-</u>	<u>360</u>

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Opening net book amount	360	475
Additions	340	236
Disposals	(72)	-
Amortisation charge (Note 7)	<u>(628)</u>	<u>(351)</u>
Closing net book amount	<u>-</u>	<u>360</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 16 INTANGIBLE ASSETS (CONTINUED)

The amortisation of intangible assets has been charged to the consolidated income statement (Note 7) as follows:

	Year ended 31 December		For the period from 10 July 2013 (date of listing) to 31 December 2013
	2013	2012	
	RMB'000	RMB'000	RMB'000
Cost of sales	163	170	–
Operating expenses	465	181	–
	<u>628</u>	<u>351</u>	<u>–</u>

## 17 INVESTMENT PROPERTIES

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Investment properties	<u>4,190,000</u>	<u>–</u>

The investment properties were located in the PRC held on land use rights of 35 – 40 years.

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
<b>At fair value</b>		
Reclassification from property, plant and equipment and land use rights (a)	4,410,000	–
Additions	16,281	–
Fair value losses (b)	(236,281)	–
Closing balance	<u>4,190,000</u>	<u>–</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 17 INVESTMENT PROPERTIES (CONTINUED)

- (a) It represents the reclassification from property, plant and equipment and land use rights to investment properties upon date of listing, when the Group ceased its hotel operation and became engaged in business of leasing the Hotel Properties. The investment properties was stated at fair value of RMB4,410,000,000 by reference to the fair market valuation made by an independent professional property valuer, DTZ Debenham Tie Leung Limited.
- (b) The investment properties were revalued at 31 December 2013 by DTZ Debenham Tie Leung Limited.

As at 31 December 2013, all the investment properties were pledged as collateral for the Group's bank borrowings (Note 25).

### Fair value hierarchy

Description	Fair value measurements at 31 December 2013 using			
	Quoted prices in active markets for identical assets (Level 1) RMB'000	Significant other observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
	Recurring fair value measurements			
	Investment properties:			
	– Hotel Properties	-	-	4,190,000

Recurring fair value measurements

Investment properties:

– Hotel Properties

-
-
4,190,000

There were no transfers between Levels 1, 2 and 3 during the year of 2013.

### Fair value measurements using significant unobservable inputs (Level 3)

	Hotel Properties RMB'000
Reclassification from property, plant and equipment and land use rights	4,410,000
Additions	16,281
Fair value losses	<u>(236,281)</u>
As at 31 December 2013	<u><u>4,190,000</u></u>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 17 INVESTMENT PROPERTIES (CONTINUED)

### Valuation processes of the Group

The Group's investment properties were valued at 31 December 2013 by qualified independent professional valuer, DTZ Debenham Tie Leung Limited, who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates to the highest and best use.

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

At each financial year end, the Group's 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 report;
- Holds discussions with the independent valuer and the FIC.

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

### Valuation techniques

For Hotel Properties, the valuation was determined using discounted cash flow ("DCF") projections based on significant unobservable inputs. These input 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;
Maintenance costs	Including necessary investments to maintain functionality of the property for its expected useful life;
Terminal value	Taking into account assumptions regarding maintenance costs, vacancy rates and market rents.

There were no changes to the valuation techniques during the period from the date of listing to 31 December 2013.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 17 INVESTMENT PROPERTIES (CONTINUED)

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

Description	Fair value at 31 Dec 2013 (RMB'000)	Valuation technique	Unobservable inputs	Range of unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Hotel Properties	4,190,000	Discounted cash flow	Rental value	<p>For rental income from Hotel Properties:</p> <p>Base Rent is a pre-determined fixed amount per annum and Total Rent is calculated as 20% of the Lessees' total revenue, plus 34% of the Lessees' Gross Operating Profit from operating the Hotel Properties. 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:</p> <p>Total monthly rental range from RMB58,000 to RMB1,630,000</p>	The higher the input value, the higher the fair value
			Average daily room rate ("ADR")	2014 – Range from RMB380 to RMB808	
			Annual growth in ADR	Stabilized at 4%	
			Occupancy rate on available room basis	2014 – Range from 58% to 68% Stabilized at range from 65% to 72%	
			Food and beverage revenue	37% to 75% of gross revenue	
			Terminal growth rate	4%	
			Furniture, fixtures and equipment (FF&E) provision	2% of gross revenue	
			Discount rate	9%	

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 18 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 balance after offsetting are as follows:

	<b>As at 31 December</b>	
	<b>2013</b>	2012
	<b>RMB'000</b>	RMB'000
Deferred income tax assets:		
– to be recovered after more than 12 months	–	1,007
– to be recovered within 12 months	–	–
	<u>–</u>	<u>–</u>
	<u>–</u>	<u>1,007</u>
Deferred income tax liabilities:		
– to be settled after more than 12 months	<b>749,662</b>	4,763
– to be settled within 12 months	<b>208</b>	7,953
	<u>749,870</u>	<u>12,716</u>
Net deferred income tax liabilities	<u><b>749,870</b></u>	<u>11,709</u>

The movement on the net deferred income tax liabilities is as follows:

	<b>Year ended 31 December</b>	
	<b>2013</b>	2012
	<b>RMB'000</b>	RMB'000
Opening balance	<b>11,709</b>	4,877
(Credited)/charged to the consolidated income statement	<b>(58,518)</b>	6,832
Credited to other comprehensive income	<b>796,679</b>	–
	<u>749,870</u>	<u>11,709</u>
Closing balance	<u><b>749,870</b></u>	<u>11,709</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 18 DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITIES (CONTINUED)

Movement in deferred income tax assets and liabilities during the years ended 31 December 2013 and 2012, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

Deferred income tax assets	Tax losses RMB'000	Temporary differences on expense RMB'000	Total RMB'000
<b>At 31 December 2011</b>	–	816	816
Credited to the consolidated income statement	–	191	191
<b>At 31 December 2012</b>	–	1,007	1,007
Credited/(charged) to the consolidated income statement	3,948	(1,007)	2,941
<b>At 31 December 2013</b>	<b>3,948</b>	<b>–</b>	<b>3,948</b>

Deferred income tax liabilities	Fair value change in investment properties RMB'000	Depreciation of property, plant and equipment RMB'000	Amortisation of transaction cost for the bank borrowings RMB'000	Withholding tax in respect of subsidiaries' undistributed profit RMB'000	Others RMB'000	Total RMB'000
<b>At 31 December 2011</b>	–	5,693	–	–	–	5,693
(Credited)/charged to the consolidated income statement	–	(347)	–	7,370	–	7,023
<b>At 31 December 2012</b>	–	5,346	–	7,370	–	12,716
(Credited)/charged to the consolidated income statement	(45,073)	(5,346)	1,758	(7,370)	454	(55,577)
Charged to other comprehensive income	796,679	–	–	–	–	796,679
<b>At 31 December 2013</b>	<b>751,606</b>	<b>–</b>	<b>1,758</b>	<b>–</b>	<b>454</b>	<b>753,818</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 19 OTHER LONG-TERM ASSETS

	<b>As at 31 December</b>	
	<b>2013</b>	2012
	<b>RMB'000</b>	RMB'000
Fee paid for un-drawn bank facilities	<b>13,870</b>	–
Other long-term assets	<b>877</b>	313
	<b>14,747</b>	313

## 20 INVENTORIES

	<b>As at 31 December</b>	
	<b>2013</b>	2012
	<b>RMB'000</b>	RMB'000
Low value consumables	<b>–</b>	10,265

The Group did not make any provision on obsolete inventories or write-down of inventories for the year ended 31 December 2012.

The cost of inventories recognised as cost of sales amounted to approximately RMB88,031,000 and RMB217,327,000 for the years ended 31 December 2013 and 2012 respectively (Note 7).

The inventory, which was mainly materials used for hotel operations, was transferred to related parties pursuant to the Reorganisation.

## 21 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	<b>As at 31 December</b>	
	<b>2013</b>	2012
	<b>RMB'000</b>	RMB'000
Trade receivables (a)	<b>3,763</b>	12,570
Less: provision for impairment of receivables (b)	<b>–</b>	(22)
Trade receivables – net	<b>3,763</b>	12,548
Interest receivables	<b>–</b>	1,643
Other receivables	<b>6</b>	6,163
Prepayments for goods, service and constructions	<b>2,778</b>	3,205
Trade and other receivables and prepayments – net	<b>6,547</b>	23,559

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 21 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

As at 31 December 2013 and 2012, the fair values of the trade and other receivables of the Group, except for the prepayments which are not financial assets, approximated their carrying amounts.

- (a) As at 31 December 2013, the trade receivables represent the rental income receivables from the lessees. The aging analysis of trade receivables, before provision for impairment, at 31 December 2013 and 2012 was as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Trade receivables, gross		
– Within 90 days	3,763	11,772
– Over 90 days and within 360 days	–	798
	<u>3,763</u>	<u>12,570</u>

Credit period granted to customers is normally 30 to 90 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods/rendering of service. This provision has been determined by reference to past default experience.

As at 31 December 2013, all the trade receivables were pledged as collateral for the Group's bank borrowings (Note 25).

- (b) Movements in impairment of trade receivables are as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
At beginning of the year	(22)	(18)
Provision for impairment	–	(8)
Reversal	–	4
Write-off	22	–
	<u>–</u>	<u>(22)</u>

Impairment provision for trade receivables is charged to operating expenses in the consolidated income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovery of additional cash.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 22 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	<b>As at 31 December</b>	
	<b>2013</b>	2012
	<b>RMB'000</b>	RMB'000
Cash at bank and on hand (a)	<b>170,126</b>	489,952
Less: Restricted cash (b)	<b>(24,403)</b>	(80,330)
Cash and cash equivalents	<b><u>145,723</u></b>	<u>409,622</u>

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

	<b>As at 31 December</b>	
	<b>2013</b>	2012
	<b>RMB'000</b>	RMB'000
Cash at bank and in hand:		
• RMB	<b>134,791</b>	489,952
• USD	<b>23,683</b>	–
• HKD	<b>11,652</b>	–
	<b><u>170,126</u></b>	<u>489,952</u>

- (a) All cash at bank are deposits with original maturity within 3 months. The Group earns interest on cash at bank, including restricted cash, at floating bank deposit rates.
- (b) Restricted cash represents guaranteed deposits held in reserve accounts pledged to the bank as security deposits under bank borrowing agreements (Note 25(a)).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 23 TRADE AND OTHER PAYABLES AND DEFERRED REVENUE

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Bills payable	–	2,223
Trade payables (c)	<b>9,823</b>	65,637
Other payables	<b>5,255</b>	26,260
Staff salaries and welfare payables	<b>18</b>	11,462
Advance from customers	<b>1,874</b>	–
Interest payables	<b>16,320</b>	1,201
Accrued taxes other than income tax	<b>6,809</b>	13,929
Dividends payable	<b>2,435</b>	2,020
Deposits for platinum gift card (a)	–	97,897
Deferred revenue (a)	–	8,990
Customer loyalty programme (Note 3.25)	–	2,366
Membership cards and other deposits (b)	–	84,251
	<b>42,534</b>	316,236

### (a) Deposits for platinum gift card

The balance of deposits on platinum gift cards represented the present value of deposits received from customers under a special promotion programme launched in September 2012. Such deposits will be refunded to the customers one year after the dates of receipts. During the promotion period, the holders of the platinum gift cards are entitled to free services like room rental, food and beverage and other ancillary services in the hotels operated by related parties, the total nominal value of which is equivalent to certain percentage of the deposits placed by the holders.

Deposits for platinum gift cards were initially recognised at fair value based on cash flows discounted at prevailing market interest rate for similar period, and subsequently amortised using the effective interest method. The differences between gross amount of the deposits received and the fair value of the payable upon initial recognition are recognised as deferred revenue and realised in the consolidated income statement upon the delivery of the related services during the service period of one year.

The Group has transferred all the liabilities to its related parties pursuant to the Reorganisation.

### (b) Membership card and other deposits

Membership card and other deposits mainly represented cash advance deposited by customers in the membership card of Zhejiang New Century Hotel, which could be used in its subsidiaries and subsidiaries of Zhejiang New Century Hotel Management Limited, including Hotel Properties and leased hotels, for room rental, food and beverage and other ancillary services. The Group has transferred all the liabilities to its related parties pursuant to the Reorganisation.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 23 TRADE AND OTHER PAYABLES AND DEFERRED REVENUE (CONTINUED)

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Trade payables		
– Within 90 days	5,390	51,523
– Over 90 days and within 360 days	637	11,317
– Over 360 days and within 720 days	3,110	493
– Over 720 days	686	2,304
	<u>9,823</u>	<u>65,637</u>

As at 31 December 2013 and 2012, all trade and other payables of the Group were non-interest bearing. Their fair values, except for the balance relative to membership cards and customer loyalty programme which are not financial liabilities, approximate their carrying amounts due to their short maturities.

The Group has transferred all the hotel operation related liabilities, including trade and other payables and deferred revenue to related parties approximately at the book value pursuant to the Reorganisation.

## 24 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Interest rate swaps	<u>9,531</u>	<u>–</u>

During the year ended 31 December 2013, the Group entered into interest rate swaps with commercial banks, which have the economic effect of converting 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. As at 31 December 2013, the notional principal amounts of the outstanding interest rate swaps were USD146,670,000 (2012: Nil) and the fixed interest rate was 3.50% per annum. Gains and losses arising from the fair value change of the interest rate swap were recognised in the consolidated income statement in “Other gains/(losses) – net” (Note 10).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 25 BORROWINGS

	<b>As at 31 December</b>	
	<b>2013</b>	2012
	<b>RMB'000</b>	RMB'000
<b>Non-current</b>		
Principle of bank borrowings – secured (a)	<b>937,624</b>	1,290,000
Less: Transaction costs	<b>(28,107)</b>	–
Current portion of non-current bank borrowings	<b>(492)</b>	(210,000)
	<b>909,025</b>	1,080,000
<b>Current</b>		
Corporate bond (b)	<b>250,000</b>	–
Current portion of non-current bank borrowings	<b>492</b>	210,000
Bank borrowings – secured (a)	<b>–</b>	214,500
	<b>250,492</b>	424,500

The Group's borrowings are denominated in the following currencies:

	<b>As at 31 December</b>	
	<b>2013</b>	2012
	<b>RMB'000</b>	RMB'000
• RMB	<b>299,167</b>	1,504,500
• USD	<b>860,350</b>	–
	<b>1,159,517</b>	1,504,500

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

	<b>6 months or less</b>	<b>Between 6 and 12 months</b>	<b>Over 1 year</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
As at 31 December 2012	375,000	599,500	530,000	1,504,500
As at 31 December 2013	<b>250,000</b>	<b>–</b>	<b>909,517</b>	<b>1,159,517</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 25 BORROWINGS (CONTINUED)

The maturity of borrowings is as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
On demand or within 1 year	250,492	424,500
Between 1 and 2 years	492	380,000
Between 2 and 3 years	908,533	260,000
Between 3 and 5 years	–	390,000
Over 5 years	–	50,000
	<u>1,159,517</u>	<u>1,504,500</u>

The weighted average effective interest rates at each balance sheet date were as follows:

	Year ended 31 December		For the period
	2013	2012	from 10 July 2013 (date of listing) to 31 December 2013
Borrowings – current			
– RMB	<u>5.21%</u>	<u>6.63%</u>	<u>4.89%</u>
Borrowings – non-current			
– USD	<u>4.08%</u>	–	<u>4.08%</u>
– RMB	<u>7.43%</u>	<u>7.22%</u>	<u>6.77%</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 are as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
<b>Carrying amount</b>		
Bank borrowings	<u>909,025</u>	<u>1,080,000</u>
<b>Fair value</b>		
Bank borrowings	<u>883,607</u>	<u>1,085,992</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 25 BORROWINGS (CONTINUED)

The fair values are based on cash flows discounted using a rate based on the borrowing rate and are within level 2 of the fair value hierarchy.

The Group had the following undrawn bank borrowing facilities:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
USD facilities	261,008	–
RMB facilities	310,000	220,000
	<u>571,008</u>	<u>220,000</u>

All the bank borrowing facilities above will be due as at 10 July 2016.

### (a) Bank borrowings – secured

Bank borrowings of the Group as at 31 December 2013 are secured by the following:

- Investment properties (Note 17), bank deposits (Note 22) and trade receivables (Note 21 and Note 31), and guaranteed by Spearhead Investments Limited and Sky Town Investments Limited, subsidiaries of the Group (2012: secured by property, plant and equipment (Note 14), land use rights (Note 15), time deposits and bank deposits (Note 22), and guaranteed by related parties (Note 31));
- Equity interest of Zhejiang New Century Hotel, 浙江蕭山賓館股份有限公司 (Zhejiang Xiaoshan Hotel Limited), 寧波開元銳至投資有限公司 (Ningbo New Century Spearhead Investment Limited), 長春開元名都大酒店有限公司 (Changchun New Century Grand Hotel 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), Spearhead Global Limited, Spearhead Investments Limited and Sky Town Investments Limited, subsidiaries of the Group (2012: Nil).

### (b) Corporate bond

In April 2013, Zhejiang New Century Hotel has issued a short-term corporate bond of RMB250,000,000, which will be due in April 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 26 NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AND LOSS PER UNIT

	Number of units (‘000)	For the period from 10 July 2013 (date of listing) to 31 December 2013 RMB‘000
Net proceeds from issuance of new units		533,993
– Issuance of units (b)	<b>772,000</b>	2,135,971
– Units issued for acquisition of subsidiaries (a)		(1,601,978)
Transactions with the Controlling Shareholders		(362,804)
Cash consideration paid for acquisition of subsidiaries (a)		(1,296,876)
Reclassification from equity to net assets attributable to unitholders		934,072
Unit issue costs		(28,088)
Reclassification from property, plant and equipment and land use rights to investment properties carried at fair value, net of tax (c)		2,371,773
Loss for the period		(146,859)
	<b>772,000</b>	<b>2,368,015</b>

- (a) Upon listing on 10 July 2013, the Trustee and the REIT Manager entered into the Sales and Purchase Agreement with Huge Harvest International Limited, Weiliang International Limited, Carlyle Blue Sky and New Century Tourism Group Limited (collectively, the “Vendors”), which was supplemented by the Amended Agreement, pursuant to which New Century REIT has acquired all the issued shares of Spearhead Global Limited at the date of listing with the consideration of the issuance of 579,000,000 units of New Century REIT and cash consideration of HKD556,310,659 and USD139,663,400.
- (b) Upon listing on 10 July 2013, New Century REIT issued 772,000,000 units at HKD 3.50, equivalent to RMB2,135,971,000.
- (c) Upon the date of listing, the Group ceased hotel operation and became engaged in business of leasing Hotel Properties. The relevant property, plant and equipment and land use rights were reclassified to investment properties accordingly.

As at 31 December 2013, the net assets attributable to unitholders per unit of RMB3.0674 is calculated by dividing the net assets attributable to unitholders of RMB2,368,015,000 by the number of unit in issue of 772,000,000.

The calculation of basic loss per unit amount is based on the loss attributable to unitholders for the period from 10 July 2013 (date of listing) to 31 December 2013 of RMB146,859,000 and the number of units in issue of 772,000,000. The basic loss per unit for the period from 10 July 2013 (date of listing) to 31 December 2013 amounted to RMB0.1902.

The diluted loss per unit amount is the same as the basic loss per unit amount as there were no diluted instruments in issue during the period from 10 July 2013 (date of listing) to 31 December 2013.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 27 OTHER RESERVES

	<b>As at 31 December</b>	
	<b>2013</b>	2012
	<b>RMB'000</b>	RMB'000
Statutory reserve (1)	-	8,393
Merger reserve (2)	-	920,361
Share based payments reserve (3)	-	8,745
	<u>-</u>	<u>937,499</u>

### (1) Statutory reserve

In accordance with their Articles of Association and board resolutions, certain subsidiaries incorporated in the PRC (the "PRC Subsidiaries") appropriate certain percentage of the annual statutory net profits, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing any dividends. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into paid-in-capital. Statutory reserve was reclassified to net assets attributable to unitholders upon the date of listing.

### (2) Merger reserve

	RMB'000
<b>At 1 January 2012</b>	669,829
Contribution to subsidiaries by the Controlling Shareholders (a(i))	<u>250,532</u>
<b>At 31 December 2012</b>	<b>920,361</b>
Contribution to subsidiaries by the Controlling Shareholders (a(ii))	<b>176,951</b>
Reclassification from merger reserve to net assets attributable to unitholders (b)	<u><b>(1,097,312)</b></u>
<b>At 31 December 2013</b>	<u><u>-</u></u>

Merger reserve represents capital contributed by the Controlling Shareholders to the companies comprising the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 27 OTHER RESERVES (CONTINUED)

### (2) Merger reserve (continued)

#### (a) Contribution to subsidiaries by the Controlling Shareholders

- (i) Represented cash contribution amounting to RMB9,770,000 received from companies controlled by the Controlling Shareholders; dividends amounting to RMB98,167,000 received from the Transferred-out Businesses; and consideration amounting to RMB142,595,000 arising from disposal of the Transferred-out Businesses.
- (ii) Represented dividends amounting to RMB107,379,000 received from the Transferred-out Businesses; consideration amounting to RMB65,000,000 arising from disposal of the Transferred-out Businesses and transaction difference amounting to RMB4,572,000 from disposal of Hotel Operating Business of Hotel Properties pursuant to the Reorganisation.

#### (b) Reclassification from merger reserve to net assets attributable to unitholders

Other reserves were reclassified to net assets attributable to unitholders upon the date of listing.

### (3) Share based payment reserve

Pursuant to a board resolution of New Century Tourism Group, the parent company of Zhejiang New Century Hotel, passed on 1 September 2008 approving the establishment of a share option scheme (the "Share Option Scheme"), options to subscribe for a total of 7.8% of equity interest in New Century Tourism Group were conditionally granted to selected employees of New Century Tourism Group and its subsidiaries, including but not limited to the companies comprising the Group as a consideration of the services rendered by them to the Group. On 3 July 2011, the terms of the Share Option Scheme were revised pursuant to which New Century Hotel Group Limited, the parent company of New Century Tourism Group, will replace New Century Tourism Group and issue its shares in connection with the obligations under the Share Option Scheme immediately before the listing of New Century Hotel Group Limited.

Total proceeds receivable upon exercise of the granted options under the Share Option Scheme is RMB273,000,000. The options are exercisable with 20% evenly vested in a 5-year period after initial global offering of New Century Hotel Group Limited. The exercise of options are conditional on the employee completing the services up to the respective vesting dates, and become exercisable immediately after each vesting date. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

As at 31 December 2012, the total options granted by New Century Tourism Group and options granted to the directors and senior management of the Group were equal to 7.8% of equity interest in New Century Tourism Group, respectively, and the options granted to the directors and senior management of the Group were equal to 1.21%. As at 31 December 2012, all the outstanding options were not vested.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 27 OTHER RESERVES (CONTINUED)

### (3) Share based payment reserve (continued)

The fair value of the options granted determined using the binomial model was RMB53,065,000 at the grant date. The significant inputs to the model were spot price of RMB149,967,000 at the grant date, total proceeds receivable upon exercise of the granted options of RMB273,000,000, volatility ranging from 54.83% to 56.59%, expected dividend yield of 1.68%, an expected option life of 4 to 8 years and an annual risk-free interest rate of 3.90% to 4.16%. The volatilities were determined based on the historical volatilities of comparable companies of New Century Hotel Group Limited, as extracted from Bloomberg Terminal.

The balances represented the share based payment reserve attributable to the selected employees working for the Group which reflects the contribution to the Group by its parent companies in the form of the parent companies' shares through the granting of share options.

As all employees who were granted share options under the Share Option Scheme were transferred out of the Group prior to the date of listing pursuant to the Reorganisation and no employees of the Group are entitled to the benefits under the Share Option Scheme after the date of listing, no share-based payment expense is recognized in the consolidated financial statements of the Group upon and after the completion of such transfer. Share based payment reserve was reclassified to net assets attributable to unitholders upon the date of listing.

## 28 FINANCIAL GUARANTEES

As at 31 December 2012, the Group guaranteed the bank borrowings of related parties (Note 31). Under the terms of the financial guarantee contracts, the Group will make payments to reimburse the lenders upon failure of the guaranteed individual or entity to make payments when due. No consideration was involved for such guarantee contracts during the year ended 31 December 2012. The Group released the following financial guarantees prior to the date of listing pursuant to the Reorganisation. And there was no potential obligation from financial guarantee contracts persisted after the date of listing.

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Bank borrowings of related parties (Note 31)	-	576,960



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 29 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Year ended 31 December		For the period
	2013	2012	from 10 July 2013 (date of listing) to 31 December 2013
	RMB'000	RMB'000	RMB'000
(Loss)/profit before taxation tax for the year/period	<b>(157,519)</b>	113,869	(186,066)
Adjustments for:			
– Depreciation of property, plant and equipment (Note 14)	<b>43,369</b>	90,851	54
– Amortisation of land use rights (Note 15)	<b>1,154</b>	2,310	–
– Amortisation of intangible assets (Note 16)	<b>628</b>	351	–
– Amortisation of long-term assets	<b>208</b>	–	–
– Share based payment (Note 27(3))	<b>500</b>	1,357	–
– Fair value loss on derivative financial instruments (Note 24)	<b>9,531</b>	–	9,531
– Fair value losses on investment properties (Note 17)	<b>236,281</b>	–	236,281
– Loss on disposal of property, plant and equipment-net (Note 10)	<b>533</b>	489	–
– Loss on disposal of intangible assets-net (Note 10)	<b>72</b>	–	–
– Interest income from related parties (Note 31)	<b>(11,908)</b>	(56,958)	–
– Unrealised net foreign exchange gains on financing activities (Note 11)	<b>(11,571)</b>	–	(11,571)
– Finance costs (Note 11)	<b>52,198</b>	104,614	22,719
– Amortisation of transaction costs of bank borrowings (Note 11)	<b>5,165</b>	–	5,165
– Agency fee (Note 11)	<b>400</b>	–	400
– Provision for impairment of trade receivables, net (Note 21)	<b>–</b>	4	–
Changes in working capital:			
– Decrease/(increase) in trade and other receivables and prepayments	<b>18,658</b>	(2,055)	(6,384)
– Decrease/(increase) in amount due from related parties	<b>80,502</b>	136	(17,312)
– Decrease/(increase) in inventories	<b>10,265</b>	(1,271)	–
– Increase in restricted cash pledged for notes payable	<b>–</b>	(9,757)	–
– (Decrease)/increase in trade and other payables and deferred revenue	<b>(280,969)</b>	132,455	(15,851)
– Increase/(decrease) in amount due to related parties	<b>22,312</b>	(5,045)	–
Cash generated from operations	<b>19,809</b>	371,350	36,966

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 29 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

### (b) Proceeds from disposal of property, plant and equipment

In the consolidated cash flow statements, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December		For the period
	2013	2012	from 10 July 2013
	RMB'000	RMB'000	(date of listing) to 31 December 2013 RMB'000
Net book amount (Note 14)	21,667	766	18,720
Transfer out for Hotel Operating Business of Hotel Properties pursuant to the Reorganisation (Note 1)	(1,105)	–	–
Loss on disposal of property, plant and equipment, net (Note 10)	(533)	(489)	–
	<u>20,029</u>	<u>277</u>	<u>18,720</u>
Proceeds from disposal of property, plant and equipment	<u>20,029</u>	<u>277</u>	<u>18,720</u>

## 30 COMMITMENTS

### Capital commitments

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
In respect of investment properties, contracted but not provided for	<u>11,070</u>	<u>–</u>

## 31 CONNECTED PARTY TRANSACTIONS AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

In addition to the transactions and balances detailed elsewhere in the consolidated financial statements, the Group had the following material transactions with connected and related parties during the year/period:

### (a) Nature of relationship with connected/related parties

The table set forth below summaries the names of the connected/related parties and nature of their relationship with the Group as at 31 December 2013.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 31 CONNECTED PARTY TRANSACTIONS AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

### (a) Nature of relationship with connected/related parties (continued)

Connected/related party	Relationship with the Group
Chen Miaolin, Chen Canrong, Kong Weiliang and Zhang Guanming	Controlling Shareholders and significant holders of New Century REIT
Huang Yue'e	Associates of Chen Miaolin
Huang Yong	Associates of Chen Miaolin
Hangzhou Xiaoshan Chaoyi Carpet Limited	Associated corporation of significant holders of New Century REIT
Hangzhou Huang Chaoyi Printing Limited	Associated corporation of significant holders of New Century REIT
Beijing Gehua New Century Hotel Limited	Associated corporation of significant holders of New Century REIT
Beijing New Century Grand Hotel Limited	Associated corporation of significant holders of New Century REIT
Ningbo New Century Hotel Limited	Associated corporation of significant holders of New Century REIT
Hangzhou Qiandao Lake Resort Yacht Club Limited	Associated corporation of significant holders of New Century REIT
Zhejiang New Century Property Services Limited	Associated corporation of significant holders of New Century REIT
New Century Tourism Group Limited	Associated corporation of significant holders of New Century REIT
Chun'an Qiandao Lake Property Management Services Limited	Associated corporation of significant holders of New Century REIT
Hangzhou New Century International Travel Agency Limited	Associated corporation of significant holders of New Century REIT
Hangzhou New Century Real Estate Group Limited	Associated corporation of significant holders of New Century REIT
Hangzhou New Century Tourism Limited	Associated corporation of significant holders of New Century REIT
Hangzhou New Century Zhijiang Cleaning Chain Limited	Associated corporation of significant holders of New Century REIT
Hangzhou New Century Decorating Limited	Associated corporation of significant holders of New Century REIT
Deqing New Century Senbo Holiday Limited	Associated corporation of significant holders of New Century REIT
Hangzhou New Century Information System Engineering Limited	Associated corporation of significant holders of New Century REIT
Hangzhou Zhirong Trading Limited	Associated corporation of significant holders of New Century REIT
Zhejiang New Century Hotel Management Limited and other members of its group (collectively the "Hotel Group")	Hotel Properties management company and the Lessee
New Century Asset Management Ltd (the "REIT Manager")	The manager of New Century REIT
DB Trustees (Hong Kong) Limited (the "Trustee")	The Trustee of New Century REIT
DTZ Debenham Tie Leung Limited (the "Valuer")	The principal valuer of New Century REIT

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 31 CONNECTED PARTY TRANSACTIONS AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

### (b) Transactions with connected/related parties

#### *Purchase of goods and services:*

	Year ended 31 December		For the period
	2013	2012	from 10 July 2013
	RMB'000	RMB'000	(date of listing) to 31 December 2013 RMB'000
The Hotel Group	10,204	19,861	–
Hangzhou New Century Zhijiang Cleaning Chain Limited	3,337	7,200	–
Zhejiang New Century Property Services Limited	195	–	–
Hangzhou New Century Decorating Limited	–	4,528	–
Hangzhou Huang Chaoyi Printing Limited	93	421	–
Hangzhou Xiaoshan Chaoyi Carpet Limited	235	5,939	–
	<u>14,064</u>	<u>37,949</u>	<u>–</u>

#### *Rendering of services:*

	Year ended 31 December		For the period
	2013	2012	from 10 July 2013
	RMB'000	RMB'000	(date of listing) to 31 December 2013 RMB'000
Hangzhou New Century Real Estate Group Limited	–	1,373	–
New Century Tourism Group Limited	–	1,829	–
	<u>–</u>	<u>3,202</u>	<u>–</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 31 CONNECTED PARTY TRANSACTIONS AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

### (b) Transactions with connected/related parties (continued)

#### *Interest income from related parties:*

	Year ended 31 December		For the period
	2013	2012	from 10 July 2013
	RMB'000	RMB'000	(date of listing) to
			31 December 2013
			RMB'000
New Century Tourism Group Limited	11,908	51,941	–
Beijing Gehua New Century Hotel Limited	–	999	–
Beijing New Century Grand Hotel Limited	–	3,535	–
The Hotel Group	–	483	–
	<u>11,908</u>	<u>56,958</u>	<u>–</u>

#### *Borrowings guaranteed by related parties:*

	Year ended 31 December		For the period
	2013	2012	from 10 July 2013
	RMB'000	RMB'000	(date of listing) to
			31 December 2013
			RMB'000
New Century Tourism Group Limited	–	920,000	–
	<u>–</u>	<u>920,000</u>	<u>–</u>

#### *Provision of pledged property, plant and equipment, land use rights, time deposits and guarantee for bank borrowings of related parties:*

	Year ended 31 December		For the period
	2013	2012	from 10 July 2013
	RMB'000	RMB'000	(date of listing) to
			31 December 2013
			RMB'000
The Hotel Group	–	42,000	–
New Century Tourism Group Limited	–	534,960	–
	<u>–</u>	<u>576,960</u>	<u>–</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 31 CONNECTED PARTY TRANSACTIONS AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

### (b) Transactions with connected/related parties (continued)

#### Rental income received/receivable from:

	Year ended 31 December		For the period
	2013	2012	from 10 July 2013
	RMB'000	RMB'000	(date of listing) to 31 December 2013 RMB'000
The Hotel Group (1)	112,975	–	112,975
New Century Tourism Group Limited	1,828	–	914
Hangzhou New Century Real Estate Group Limited	1,370	–	686
Hangzhou New Century Tourism Limited	204	–	120
Deqing New Century Senbo Holiday Limited	132	–	132
Hangzhou New Century Zhijiang Cleaning Chain Limited	120	–	60
Hangzhou New Century Information System Engineering Limited	50	–	25
Hangzhou New Century Decorating Limited	84	–	56
Hangzhou Zhirong Trading Limited	33	–	33
	<b>116,796</b>	–	<b>115,001</b>

(1) The net rental income for the period from 10 July 2013 (date of listing) to 31 December 2013 is RMB111,600,000, calculated by gross rental income of RMB112,975,000, netting of value-added taxes of RMB1,375,000.

#### Rental deposit received from:

	Year ended 31 December		For the period
	2013	2012	from 10 July 2013
	RMB'000	RMB'000	(date of listing) to 31 December 2013 RMB'000
The Hotel Group	20,000	–	20,000

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 31 CONNECTED PARTY TRANSACTIONS AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

### (b) Transactions with connected/related parties (continued)

#### *Cash received from sales of properties, plant and equipment:*

	Year ended 31 December		For the period from 10 July 2013 (date of listing) to 31 December 2013
	2013	2012	
	RMB'000	RMB'000	RMB'000
The Hotel Group	<u>18,750</u>	–	<u>30</u>

#### *Other connected party transactions:*

	Year ended 31 December		For the period from 10 July 2013 (date of listing) to 31 December 2013
	2013	2012	
	RMB'000	RMB'000	RMB'000
REIT Manager fee payable to the REIT Manager	10,553	–	10,553
Trustee fee paid/payable to the Trustee	565	–	565
Valuation fee paid/payable to the Valuer	319	–	319
	<u>11,437</u>	–	<u>11,437</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 31 CONNECTED PARTY TRANSACTIONS AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(c) Balances with connected/related parties as at 31 December 2013 were as follows:

**Trade receivables due from:**

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
The Hotel Group	22,009	–
New Century Tourism Group Limited	152	–
Hangzhou New Century Tourism Limited	9	–
Hangzhou New Century Zhijiang Cleaning Chain Limited	2	–
	<u>22,172</u>	<u>–</u>

As at 31 December 2013, all the trade receivables due from related parties were pledged as collateral for the Group's bank borrowings (Note 25).

**Other receivables due from:**

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
New Century Tourism Group Limited	–	921,455
The Hotel Group	32	282,174
Hangzhou New Century Information System Engineering Limited	–	18,241
Chun'an Qiandao Lake Property Management Services Limited	–	836
Hangzhou New Century Real Estate Group Limited	–	459
The Valuer (i)	60	–
	<u>92</u>	<u>1,223,165</u>

(i) Other receivables due from the Valuer is recorded in "Trade and other receivables and prepayments" of the consolidated balance sheet.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 31 CONNECTED PARTY TRANSACTIONS AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(c) Balances with connected/related parties as at 31 December 2013 were as follows: (continued)

### Trade payables due to:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Hangzhou New Century Decorating Limited	4,341	–
The Hotel Group	–	3,082
	<u>4,341</u>	<u>3,082</u>

### Other payables due to:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
The Hotel Group	21,342	35,971
The REIT Manager	10,675	–
The Trustee (ii)	422	–
Hangzhou New Century Decorating Limited	11	–
Ningbo New Century Hotel Limited	–	7,000
Hangzhou Qiandao Lake Resort Yacht Club Limited	–	3,002
Hangzhou New Century Zhijiang Cleaning Chain Limited	–	436
Hangzhou New Century International Travel Agency Limited	–	807
	<u>32,450</u>	<u>47,216</u>

(ii) Other payables due to the Trustee is recorded in "Trade and other payables and deferred revenue" of the consolidated balance sheet.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 31 CONNECTED PARTY TRANSACTIONS AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

**(d) Key management compensation:**

	Year ended 31 December		For the period from 10 July 2013 (date of listing) to 31 December 2013
	2013	2012	
	RMB'000	RMB'000	RMB'000
Basic salaries and allowances	2,957	6,676	–
Discretionary bonuses	2,815	5,180	–
Other benefits including pension	172	388	–
	<u>5,944</u>	<u>12,244</u>	<u>–</u>

**(e) Director's emoluments**

No directors' emoluments were paid for or are payable by the Group for the years ended 31 December 2013 and 2012, respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 32 SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

Name	Date of incorporation	Issued and paid up capital/registered capital	Effective interests held by the Group (%)	Principal activities
<b>Incorporated in the PRC:</b>				
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	RMB811,000,000	100%	Investment holding and Hotel Properties leasing
浙江蕭山賓館股份有限公司 (Zhejiang Xiaoshan Hotel Limited)	8 September 1994	RMB102,571,739	95.46%	Hotel Properties leasing
寧波開元銳至投資有限公司 (Ningbo New Century Spearhead Investment Limited)	1 December 2004	RMB170,488,723	100%	Hotel Properties leasing
長春開元名都大酒店有限公司 (Changchun New Century Grand Hotel Limited)	13 November 2007	RMB120,000,000	100%	Hotel Properties leasing
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	RMB30,000,000	100%	Hotel Properties leasing
<b>Incorporated in British Virgin Islands:</b>				
Spearhead Global Limited	8 March 2013	20,000 ordinary shares of USD1 each	100%	Investment holding
<b>Incorporated in Hong Kong:</b>				
Spearhead Investments Limited	25 March 2013	1 ordinary share of HKD1 each	100%	Investment holding
Sky Town Investments Limited	22 May 2007	745,054,688 ordinary shares of HKD1 each	100%	Investment holding

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 33 FUTURE MINIMUM RENTAL RECEIVABLE

As at 31 December 2013, the Group has future minimum rental receivable under non-cancellable leases as follow:

	<b>As at 31 December</b>	
	<b>2013</b>	2012
	<b>RMB'000</b>	RMB'000
Within one year	<b>243,441</b>	–
Between one year and five years	<b>909,105</b>	–
Over five years	<b>857,004</b>	–
	<hr/>	<hr/>
	<b>2,009,550</b>	–
	<hr/> <hr/>	<hr/> <hr/>

## PERFORMANCE TABLE

As at 31 December 2013

	<b>2013</b>
Net asset value attributable to unitholders (RMB'000) (Equivalent to HK\$'000)	<b>2,368,015</b> <b>3,011,975</b>
Net asset value per unit (RMB) (Equivalent to HK\$)	<b>3.0674</b> <b>3.9015</b>
The highest traded price during the period from 10 July 2013 (date of listing) to 31 December 2013 (HK\$)	<b>3.8000</b>
The highest premium of the traded price to net asset value per unit (Note (b))	<b>N/A</b>
The lowest traded price during the period from 10 July 2013 (date of listing) to 31 December 2013 (HK\$)	<b>3.2100</b>
The highest discount of the traded price to net asset value per unit (Note (b))	<b>17.72%</b>
Distribution yield per unit (before taking into account the effect of Distribution Waivers) (Note (c))	<b>3.65%</b>
Annualised distribution yield per unit (before taking into account the effect of Distribution Waivers) (Note (c))	<b>7.62%</b>
Distribution yield per unit (after taking into account the effect of Distribution Waivers) (Note (d))	<b>4.28%</b>
Annualised distribution yield per Unit (after taking into account the effect of Distribution Waivers) (Note (d))	<b>8.93%</b>

*Notes:*

- (a) Hong Kong dollars amounts are based on an exchange rate of HK\$1 = RMB0.7862.
- (b) The highest traded price during the period from 10 July 2013 (date of listing) to 31 December 2013 was lower than the net asset value per unit attributable to unitholders as at 31 December 2013. Accordingly, no highest premium on the traded price to net assets value per unit attributable to unitholders is presented. The highest discount is calculated on the lowest traded price of HK\$3.2100 on The Stock Exchange of Hong Kong Limited during the period from 10 July 2013 (date of listing) to 31 December 2013.
- (c) Distribution yield per unit (before taking into account the effect of Distribution Waivers) for the period from 10 July 2013 (date of listing) to 31 December 2013 is calculated by dividing the distribution per unit (before taking into account the effect of Distribution Waivers) of RMB 0.1045 (equivalent to HK\$0.1329) over the closing price of HK\$3.64 as at 31 December 2013, being the last trading day for the year. Details of the distribution per unit are set out in the section "Distribution Statement" on page 93. The annualised distribution yield per unit is calculated based on a factor of 365/175.
- (d) Distribution yield per unit (after taking into account the effect of Distribution Waivers) for the period from 10 July 2013 (date of listing) to 31 December 2013 is calculated by dividing the distribution per unit (after taking into account the effect of Distribution Waivers) of RMB0.1225 (equivalent to HK\$0.1558) over the closing price of HK\$3.64 as at 31 December 2013, being the last trading day for the year. Details of the distribution per unit are set out in the section "Distribution Statement" on page 93. The annualised distribution yield per unit is calculated based on a factor of 365/175.

## CORPORATE INFORMATION

### THE REIT MANAGER

New Century Asset Management Limited  
Unit 4706, 47th Floor  
The Center, 99 Queen's Road Central  
Hong Kong  
Tel: (852) 3483 6481  
Fax: (852) 3488 6403

### BOARD OF DIRECTORS OF THE REIT MANAGER

CHEN Miaolin  
*(Chairman and non-executive Director)*  
CHEUNG Yat Ming  
*(Chief Executive Officer and executive Director)*  
ZHANG Guanming  
*(Non-executive Director)*  
ZHANG Chi  
*(Non-executive Director)*  
ANGELINI Giovanni  
*(Independent non-executive Director)*  
YU Hon To David  
*(Independent non-executive Director)*  
HE Jianmin  
*(Independent non-executive Director)*

### RESPONSIBLE OFFICERS OF THE REIT MANAGER

CHEUNG Yat Ming  
HONG Kam Kit, Eddie  
HO Wai Chu

### APPROVED PERSON OF THE REIT MANAGER

CHEUNG Yat Ming

### COMPANY SECRETARY OF THE REIT MANAGER

YU Hoi Zin

### AUDIT COMMITTEE OF THE REIT MANAGER

YU Hon To David *(Chairman)*  
ZHANG Chi  
HE Jianmin

### DISCLOSURES COMMITTEE OF THE REIT MANAGER

CHEUNG Yat Ming *(Chairman)*  
ZHANG Guanming  
YU Hon To David

### NOMINATION COMMITTEE OF THE REIT MANAGER

CHEN Miaolin *(Chairman)*  
ANGELINI Giovanni  
HE Jianmin

### FINANCE AND INVESTMENT COMMITTEE OF THE REIT MANAGER

CHEUNG Yat Ming *(Chairman)*  
HONG Kam Kit, Eddie  
HO Wai Chu

## CORPORATE INFORMATION

### TRUSTEE

DB Trustees (Hong Kong) Limited  
Level 52, International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

### AUDITOR

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

### PRINCIPAL VALUER

DTZ Debenham Tie Leung Limited  
16th Floor, 1063 King's Road  
Quarry Bay  
Hong Kong

### LEGAL ADVISER

Latham & Watkins  
18th Floor, One Exchange Square  
Central  
Hong Kong

### UNIT REGISTRAR

Tricor Investor Services Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Hong Kong  
*(Existing public office until 30 March 2014)*

Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong  
*(New public office with effect from 31 March 2014)*

### PROPERTY MANAGER

Zhejiang New Century Hotel Management Limited  
18th Floor, 818 Shixin Zhong Road Beigan Street  
Xiaoshan District  
Hangzhou  
PRC

### STOCK CODE

1275

### WEBSITE

[www.ncreit.com](http://www.ncreit.com)

## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

Acquisition fee	not exceeding the rate of 0.5% of the acquisition price of any real estate from the New Century Group and not exceeding the rate of 1% of the acquisition price of any real estate from third parties other than the New Century Group.
Carlyle Blue Sky	means Blue Sky Holdings Limited, an exempted company that engages in investment holding business and was incorporated in the Cayman Islands with limited liability on 1 March 2011.
Carlyle Cayman	means Clear Sky Holdings Limited, an exempted company that engages in investment holding business and was incorporated in the Cayman Islands with limited liability on 21 February 2013.
Carlyle Group	means The Carlyle Group, a global alternative asset manager with approximately US\$189 billion in assets under management with 118 funds and 100 fund of funds vehicles investing in corporate private equity, real assets, global market strategies and fund of funds solutions as at 31 December 2013.
Carlyle SPV	means Clear Ocean Holdings Limited, an exempted company that engages in investment holding business and was incorporated in the Cayman Islands with limited liability on 19 February 2013.
Changchun New Century Grand	means Changchun New Century Grand Hotel Limited* (長春開元名都大酒店有限公司), a wholly-owned subsidiary of Zhejiang New Century Hotel incorporated in the PRC on 13 November 2007.
Connected Person(s)	has the meaning ascribed to it in the REIT Code.
Divestment Fee	not exceeding the rate of 0.5% of the sale price of any real estate divested by New Century REIT.
Hangzhou New Century Real Estate	means Hangzhou New Century Real Estate Group Limited (杭州開元房地產集團有限公司), a company incorporated in the PRC on 6 July 2001.
Hong Kong Stock Exchange	means The Stock Exchange of Hong Kong Limited.
Hotel Lease and Management Agreements	means hotel lease and management agreements dated 14 June 2013 setting out general guidelines and principles for the hotel lease and management agreements between the Lessors and New Century Hotel Management as the Lessee and Hotel Manager, as the case may be.
Huge Harvest	means Huge Harvest International Limited (浩豐國際有限公司), a company incorporated in the British Virgin Islands on 11 January 2008, 83.90%, 9.29% and 6.81% of its issued shares are owned by Mr. Chen Miaolin, Mr. Chen Canrong and Mr. Zhang Guanming, respectively.



## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

Huge Harvest Group	means Huge Harvest, its direct and indirect subsidiaries and entities controlled by Mr. Chen Miaolin.
Individual Rent	means the rent payable under a Hotel Lease and Management Agreement.
Lessee	means New Century Hotel Management.
Lessor(s)	means the Property Companies.
New Century (Cayman)	means New Century Hotel Group Limited (開元酒店集團有限公司), a company incorporated in the Cayman Islands on 24 March 2011.
New Century Group	means New Century (Cayman) and its subsidiaries.
New Century Hotel Management	means Zhejiang New Century Hotel Management Limited* (浙江開元酒店管理有限公司), a company incorporated in the PRC on 17 December 2008 and whose registered address is 18th Floor, 818 Shixin Zhong Road Beigan Street, Xiaoshan District, Hangzhou, PRC.
New Century Tourism	means New Century Tourism Group Limited* (開元旅業集團有限公司), a company incorporated in the PRC on 9 January 2001.
Ningbo New Century Grand	means Ningbo New Century Spearhead Investment Limited* (寧波開元銳至投資有限公司), (previously 寧波開元名都大酒店有限公司), a wholly-owned subsidiary of Zhejiang New Century Hotel, which was incorporated in the PRC on 1 December 2004.
Non-Competition Deed	means the deed of non-competition entered into by Mr. Chen Miaolin, Huge Harvest, the REIT Manager and the Trustee and dated 14 June 2013.
Ordinary Resolution	means a resolution of Unitholders proposed and passed by a simple majority of the votes of those present and entitled to vote shall be taken by way of poll, but with a quorum of two or more Unitholders holding 10% of Units in issue.
PRC or China	means the People's Republic of China.
Property Companies	means Changchun New Century Grand, Zhejiang New Century Hotel, Ningbo New Century Grand, Qiandao Lake Resort and Xiaoshan Hotel Company collectively.
Qiandao Lake Resort	means Chun'an Qiandao Lake New Century Spearhead Investment Limited* (淳安千島湖開元銳至投資有限公司), (previously 杭州千島湖開元度假村開發有限公司), a wholly-owned subsidiary of Zhejiang New Century Hotel incorporated in the PRC on 15 January 2001.

## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

REIT Code	means the Code on Real Estate Investment Trusts published by the SFC as amended, supplemented or otherwise modified for the time being or, for the purpose 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.
Sky Town	means Sky Town Investments Limited, a company incorporated in Hong Kong on 22 May 2007 and a wholly-owned subsidiary of New Century REIT.
Special Purpose Vehicle(s) (“SPV(s)”)	means the entities wholly or majority owned directly or indirectly by New Century REIT in accordance with the REIT Code through which New Century REIT holds or owns real estate, and, as at the Listing Date, including SPV (BVI), SPV (HK), Sky Town and the Property Companies.
Special Resolution	means a resolution of Unitholders proposed and passed by a majority consisting of 75% or more of the votes of those present and entitled to vote in person or by proxy where the votes shall be taken by way of poll, but with a quorum of two or more Unitholders holding 25% of the Units in issue.
SPV (BVI)	means Spearhead Global Limited, a company incorporated in the British Virgin Islands on 8 March 2013 and a wholly-owned subsidiary of New Century REIT.
SPV (HK)	means Spearhead Investments Limited (銳至投資有限公司), a company incorporated in Hong Kong on 25 March 2013 and a wholly-owned subsidiary of New Century REIT.
Trust Deed	means the trust deed dated 10 June 2013 entered into between the Trustee and the REIT Manager constituting New Century REIT and as amended by the supplemental trust deed dated 20 June 2013.
Xiaoshan Hotel Company	means Zhejiang Xiaoshan Hotel Limited* (浙江蕭山賓館股份有限公司), a joint stock company (non-listed) incorporated in the PRC on 8 September 1994, which is approximately 95.46% owned by Zhejiang New Century Hotel, and approximately 4.54% owned by 29 independent third parties.
Zhejiang New Century Hotel	means Zhejiang New Century Hotel Investment & Management Group Limited* (浙江開元酒店投資管理集團有限公司), a company incorporated in the PRC on 30 November 2001.
Zhejiang New Century Real Estate	means Zhejiang New Century Real Estate Limited* (浙江開元置業有限公司), a company incorporated in the PRC on 21 May 2002.

*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.*





**New Century Real Estate Investment Trust**  
**開元產業投資信託基金**  
(Stock code: 1275)

