



招商局商業房託基金
China Merchants Commercial REIT

China Merchants Commercial Real Estate Investment Trust

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

Stock Code: 01503

全球發售
GLOBAL OFFERING

Managed by



招商局置地資產管理有限公司
China Merchants Land Asset Management Co., Limited

Sole Listing Agent




Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



CMS  招商證券國際



Financial Advisor to CMSK

CMS  招商證券國際

IMPORTANT

IMPORTANT: If you are in any doubt about the contents of this Offering Circular, you should seek independent professional financial advice.



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GLOBAL OFFERING

Number of Units under the Global Offering : 750,000,000 (subject to the Over-allotment Option)
Number of Units under the Hong Kong Public Offering : 75,000,000 (subject to reallocation)
Number of Units under the International Offering : 675,000,000 (subject to reallocation and the Over-allotment Option)
Maximum Offer Price : HK\$4.00 per Offer Unit, plus brokerage of 1.0%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027% (payable in full on application in Hong Kong dollars and subject to refund)

Stock code : 01503

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The Securities and Futures Commission of Hong Kong, Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

The Offer Price is expected to be determined by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and the REIT Manager on the Price Determination Date. The Price Determination Date is expected to be on or about Tuesday, 3 December 2019. The Offer Price will not be more than HK\$4.00 and is currently expected to be not less than HK\$3.42.

The Joint Global Coordinators (on behalf of the Underwriters), with the consent of the REIT Manager, may reduce the number of Units being offered under the Global Offering and/or the indicative Offer Price range below that stated in this Offering Circular (which is HK\$3.42 to HK\$4.00 per Offer Unit) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of China Merchants Commercial REIT at www.cmcreit.com and the Hong Kong Stock Exchange at www.hkexnews.hk not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Before submitting applications for the Hong Kong Public Offering Units, applicants under the Hong Kong Public Offering should note that applications cannot be withdrawn once submitted. However, if the number of Units being offered under the Global Offering and/or the Offer Price range is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications unless positive confirmations from the applicants to proceed with their applications are received. Further details are set forth in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Public Offering Units" in this Offering Circular.

The Offer Units have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States. The Offer Units are being offered and sold only outside the United States in offshore transactions in accordance with Regulation S under the U.S. Securities Act.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this Offering Circular, including the risk factors set out in the section headed "Risk Factors" in this Offering Circular. The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applications for the subscription of, the Hong Kong Public Offering Units, are subject to termination by the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the section headed "Underwriting" in this Offering Circular. It is important that you refer to that section for further details.

Thursday, 28 November 2019

EXPECTED TIMETABLE

Hong Kong Public Offering commences and **WHITE** and **YELLOW** Application Forms available from 9:00 am. on Thursday, 28 November 2019

Latest time for completing electronic applications under **HK eIPO White Form** service through one of the below ways⁽²⁾: 11:30 a.m. on Tuesday, 3 December 2019

(1) the **IPO App**, which can be downloaded by searching “IPO App” in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp

(2) the designated website at www.hkeipo.hk

Application lists open⁽³⁾. 11:45 a.m. on Tuesday, 3 December 2019

Latest time to (a) lodge **WHITE** and **YELLOW** Application Forms, (b) complete payment of **HK eIPO White Form** applications by effecting internet banking transfers or PPS payment transfers, and (c) give **electronic application instructions** to HKSCC⁽⁴⁾ 12:00 noon on Tuesday, 3 December 2019

Application lists close⁽³⁾. 12:00 noon on Tuesday, 3 December 2019

Expected Price Determination Date Tuesday, 3 December 2019

(1) Announcement of the Offer Price, the level of indications of interest in the International Offering, the results of applications in the Hong Kong Public Offering, and the basis of allocations of the Hong Kong Public Offering Units and the final number of Hong Kong Public Offering Units to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before Monday, 9 December 2019

(2) Results of allocations in the Hong Kong Public Offering to be available through a variety of channels as described in the section headed “How to Apply for Hong Kong Public Offering Units — D. Publication of Results” in this Offering Circular from Monday, 9 December 2019

(3) Announcement containing (1) and (2) above to be published on the websites of China Merchants Commercial REIT at www.cmcreit.com and the Hong Kong Stock Exchange at www.hkexnews.hk, respectively, from Monday, 9 December 2019

EXPECTED TIMETABLE

Despatch of Unit certificates and **HK eIPO White Form**
e-Auto Refund payment instructions or refund
cheques on or before⁽⁴⁾ Monday, 9 December 2019

Dealings in Units on the Hong Kong Stock Exchange
expected to commence on 9:00 a.m. on
Tuesday, 10 December 2019

Notes:

- (1) All dates and times refer to Hong Kong dates and times, except where otherwise stated.
- (2) You will not be permitted to submit your application through the **IPO App** or the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the **IPO App** or the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of the application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning signal, an announcement of “extreme conditions” by the Government in accordance with the revised “Code of Practice in Times of Typhoons and Rainstorms” issued by the Hong Kong Labour Department in June 2019 and/or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 3 December 2019, the application lists will not open on that day. See the section headed “How to Apply for Hong Kong Public Offering Units — C. Effect of Bad Weather on the Opening and Closing of the Application Lists” in this Offering Circular for further information.
- (4) Unit certificates are expected to be issued on or before Monday, 9 December 2019, but will only become valid at 8:00 a.m. on Tuesday, 10 December 2019, provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination by the Hong Kong Underwriters” in this Offering Circular has not been exercised. Investors who trade Units on the basis of publicly available allocation details or prior to the receipt of the Unit certificates or prior to the Unit certificates becoming valid do so entirely at their own risk.

For details of the structure of the Global Offering, including its conditions and the procedures for applying for Hong Kong Public Offering Units, see the sections headed “Structure of the Global Offering” and “How to Apply for Hong Kong Public Offering Units” in this Offering Circular, respectively.

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OFFERING CIRCULAR SUMMARY

The following summary aims to provide you with an overview of the information contained in this Offering Circular and should be read in conjunction with the full text of this Offering Circular. As it is a summary only, it does not contain all the information that may be important to you. You should read the whole Offering Circular carefully before deciding to invest in the Units. There are risks involved in any investment. Some of the particular risks involved in investing in the Units are set out in the section headed "Risk Factors" in this Offering Circular, which you should read carefully before you decide to invest in the Units.

In making your investment decision, you should rely on the information contained in this Offering Circular. Neither China Merchants Commercial REIT, CMG, CMSK, Eureka, CML, the REIT Manager, the Trustee, the Underwriters, the Sole Listing Agent nor any of their respective directors, agents, employees or advisers or any other persons involved in the Global Offering has authorised anyone to provide you with information or make any representation that is different from that contained in this Offering Circular.

Statements contained in this summary that are not historical facts may be forward-looking statements, based on certain reasonable assumptions, expectations and beliefs of the REIT Manager. You are cautioned that there are certain risks and uncertainties associated with China Merchants Commercial REIT and the actual results may differ materially from those projected by such forward-looking statements.

A REIT AS AN INVESTMENT VEHICLE

A REIT is a collective investment scheme constituted as a unit trust that invests primarily in income-generating properties and uses the income to provide stable returns to its unitholders. Holding units in a REIT allows investors to share the benefits and risks of owning the properties held by the REIT. An investment in the units of a REIT in Hong Kong is governed primarily by the REIT Code and also the trust deed constituting the REIT and offers the following benefits:

- certainty as to business focus of the REIT, as a REIT does not have complete discretion to diversify outside of the real estate sector or to own significant non-real estate assets;
- a distribution which is required by the REIT Code to be at least 90% of the REIT's audited net income after tax for each financial year, subject to certain adjustments;
- significantly enhanced liquidity in comparison to direct investments in real estate;
- a REIT manager licensed and regulated on an ongoing basis by the SFC; and
- a corporate governance framework, compliance with which is overseen by an independent trustee.

OFFERING CIRCULAR SUMMARY

OVERVIEW OF CHINA MERCHANTS COMMERCIAL REIT

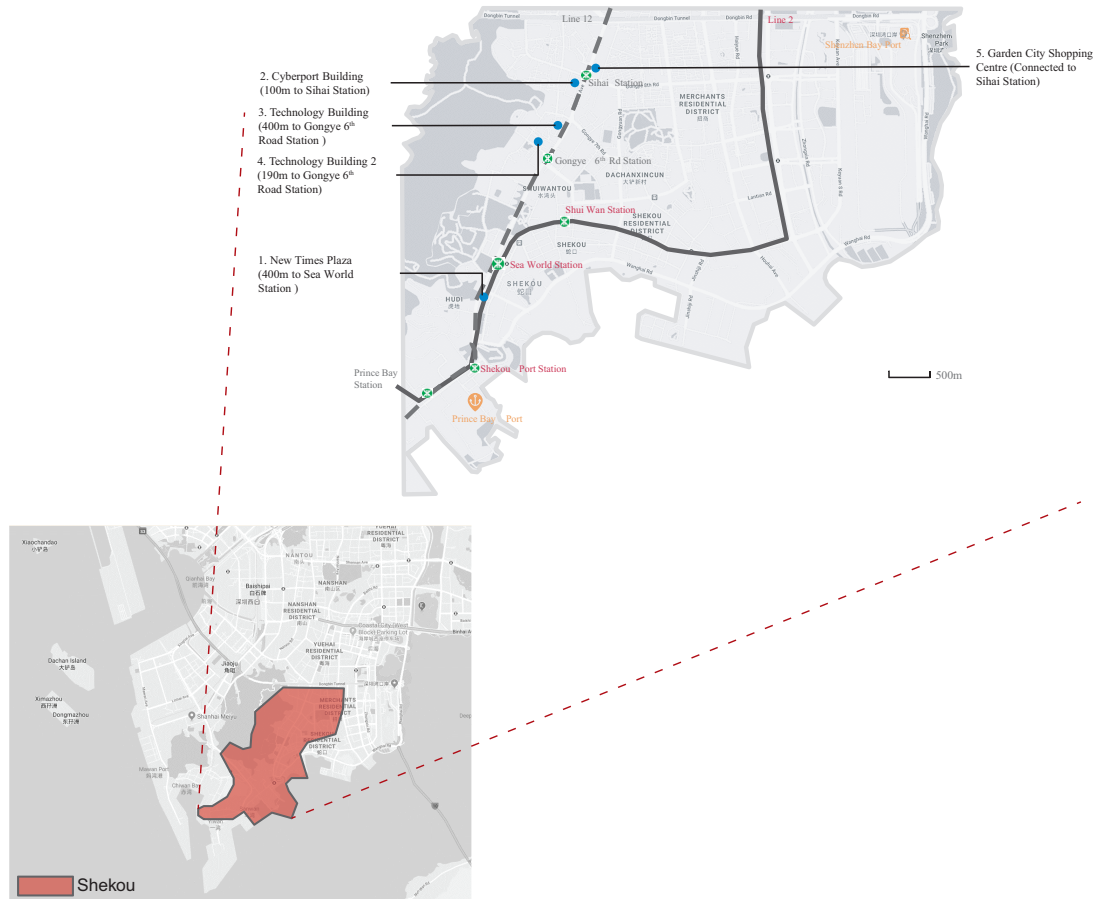
China Merchants Commercial REIT is a Hong Kong collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO. China Merchants Commercial REIT is a REIT formed to primarily own and invest in high quality income-generating commercial properties in the PRC (including Hong Kong and Macao but excluding the CML Cities). It will initially focus on: (i) the Greater Bay Area (other than Foshan and Guangzhou, being two of the CML Cities), which is where the initial five Properties are situated; and (ii) Beijing and Shanghai. China Merchants Commercial REIT is managed by the REIT Manager whose key investment objectives are to provide Unitholders with stable distributions, sustainable and long-term distribution growth, and enhancement in the value of China Merchants Commercial REIT's properties.

China Merchants Commercial REIT's portfolio initially comprises the following five Properties in Shekou, Shenzhen, all of which are (i) well-served by public transportation network and (ii) equipped with car parking spaces:

- New Times Plaza, a Grade A office building with an aggregate Gross Floor Area of 87,337.0 sq.m. located adjacent to Sea World commercial area and Prince Bay, the latter of which being an emerging office and retail commercial area;
- Cyberport Building, Technology Building and Technology Building 2, three office building complexes technically zoned for industrial use with an aggregate Gross Floor Area of 124,545.0 sq.m., and located in Shekou Net Valley, a business hub for high-tech companies and startups which has been earmarked by the Nanshan Government for promoting and developing emerging industries; and
- Garden City Shopping Centre, the first large-scale comprehensive commercial complex integrating shopping, dining, lifestyle and entertainment facilities in Shekou sub-district, with an aggregate Gross Floor Area of 50,496.9 sq.m..

OFFERING CIRCULAR SUMMARY

The following maps set out the location of Shekou, and the corresponding locations of the Properties:



As at 30 September 2019, the Properties had an aggregate Gross Floor Area and Gross Rentable Area of approximately 262,378.9 sq.m. and 249,990.8 sq.m., respectively, and an average Occupancy Rate of 84.1% based on Gross Rentable Area. The total Appraised Value of the Properties as at 30 September 2019 was RMB6,579.0 million. The Properties have a diverse and quality tenant base. The top five tenants in terms of total monthly Base Rent for the month ended 30 September 2019 of the Properties have business operations in different industries, including real estate, scientific research and technical services, petroleum, medical devices manufacturing and logistics sectors. These tenants contributed to approximately 18.5% of the total monthly Base Rent of the Properties for the month ended 30 September 2019.

OFFERING CIRCULAR SUMMARY

KEY INVESTMENT HIGHLIGHTS OF CHINA MERCHANTS COMMERCIAL REIT

The REIT Manager believes that China Merchants Commercial REIT presents Unitholders with an attractive investment portfolio:

- **Strategically located Properties and with diverse and quality tenants**

Strategic location

The Properties are strategically located in Shekou. They are well-positioned to capture the opportunities arising from their strategic location, the development of Shekou, the favourable government policies and the expected growth of the Greater Bay Area.

The Properties are all located in the Qianhai-Shekou Pilot FTZ, and well-connected to the innovative industry hubs and the central business district of Shenzhen. It takes less than one hour to travel by public transportation from Shekou to Guangzhou, Hong Kong, Macao and Zhuhai. The Properties are located in a well-developed community with lifestyle and cultural amenities nearby. In particular, Cyberport Building, Technology Building and Technology Building 2 are located in Shekou Net Valley, which the Nanshan Government plans to transform into an area promoting and developing emerging industries. Garden City Shopping Centre will also benefit from its connection to Metro Line 12, which is expected to commence operation in 2022. New Times Plaza is close to a wide variety of business, residential, recreational and entertainment amenities.

Diverse and quality tenants

The Properties have a diverse tenant base with tenants from different industries such as the new-generation information technology, real estate, and food and beverage industries. The Properties have a high quality tenant base which is evidenced by high retention rates and low delinquency rates. Various activities have been organised from time to time for tenants of different industry sectors to promote business collaborations and synergies among them. The REIT Manager believes that (i) the tenant and industry concentration risks are limited; (ii) the diverse tenant mix and the quality tenants provide a high degree of income stability to China Merchants Commercial REIT; and (iii) the value-added services provided by the managers of the Properties serve to promote interactions and bonding among tenants and to maintain high occupancy rate and attract quality tenants.

- **Strong organic growth potential and future acquisitions**

Organic growth of existing properties

The upward market trend is likely to translate into the growth of rental income. Given their strategic locations and the diverse and quality tenant base, the Properties are well-positioned to benefit from higher rental reversion after the expiry of the existing tenancies. The REIT Manager may also deploy asset enhancement initiatives to optimise the Properties' rental income growth and improve tenant diversity and occupancy levels.

OFFERING CIRCULAR SUMMARY

Future acquisition growth sponsored by CMSK

China Merchants Commercial REIT is sponsored by CMSK, a reputable state-owned enterprise listed on the Shenzhen Stock Exchange and one of the flagship subsidiaries of CMG. CMSK has been actively developing, selling and managing various types of properties in the PRC. It is experienced in property development and operation and has in-depth knowledge of the market and China Merchants Commercial REIT's existing tenants and portfolio. As a result, China Merchants Commercial REIT may leverage the extensive industry experience and expertise of CMSK to assess suitable potential acquisition opportunities. The grant of a ROFR by CMSK to China Merchants Commercial REIT to acquire certain properties from CMSK is also crucial in complementing such strategy.

- **Highly experienced and committed management team with a proven track record**

China Merchants Commercial REIT is managed by the REIT Manager, which has delegated some property management functions to the Operations Manager and the Property Manager. The REIT Manager, the Operations Manager and the Property Manager are wholly-owned subsidiaries of either CML or CMSK. As a result, they can benefit from CMSK and CML's large resource base, experienced management team, proven track record as well as brand name and recognition in the PRC. The Board and the senior executives of the REIT Manager have extensive experience in property investment and property management. The management team's experience and insight, complemented by their familiarity with the market practice and economic dynamics of the PRC property market, will enable China Merchants Commercial REIT to capitalise on market growth and achieve optimal operational results.

For further details, see the section headed "Key Investment Highlights of China Merchants Commercial REIT" in this Offering Circular.

OBJECTIVES AND INVESTMENT STRATEGIES OF CHINA MERCHANTS COMMERCIAL REIT

The REIT Manager's key objectives for China Merchants Commercial REIT are to provide Unitholders with stable distributions, sustainable and long-term distribution growth, and enhancement in the value of China Merchants Commercial REIT's properties. The REIT Manager intends to achieve this through holding and investing in high quality income-generating commercial properties in the PRC (including Hong Kong and Macao but excluding the CML Cities), with an initial focus on the Relevant Jurisdictions.

The REIT Manager's strategy can be broadly categorised as follows:

- **Asset management strategy:** Proactively managing China Merchants Commercial REIT's property portfolio to maintain optimal occupancy levels and operational efficiency; seeking asset enhancement opportunities through property upgrades and/or renovation to promote rental income growth.

OFFERING CIRCULAR SUMMARY


- **Investments and acquisition strategy:** Investing in and acquiring high quality properties in the PRC (including Hong Kong and Macao but excluding CML Cities) from CMG, CMSK or third parties that satisfy the REIT Manager's investment strategy.
- **Capital and risk management strategy:** Optimising returns on China Merchants Commercial REIT's portfolio and distributions to Unitholders, while maintaining an appropriate level of financial prudence.

For further details, please refer to the section headed "Strategy" in this Offering Circular.

China Merchants Commercial REIT may invest in Relevant Investments or engage or participate in Property Development and Related Activities if the REIT Manager considers it appropriate and in the interest of Unitholders to do so in the future. However, before China Merchants Commercial REIT may undertake such investments or activities, the REIT Manager will seek Unitholders' approval to amend the investment scope of China Merchants Commercial REIT set out in the Trust Deed and comply with all applicable requirements under the REIT Code.

OFFERING CIRCULAR SUMMARY


SUMMARY INFORMATION OF THE PROPERTIES AS AT 30 SEPTEMBER 2019

New Times Plaza (新時代廣場)	
Address	No. 1, Taizi Road, Nanshan District, Shenzhen City, Guangdong Province, the PRC
Description	New Times Plaza is an office building which comprises: (a) 2-storey commercial area partially leased for hotel use as at the Latest Practicable Date; (b) 34-storey office; and (c) 212 car parking spaces
	
Year of completion ⁽¹⁾	1997
Term of land use right ⁽²⁾	50 years until 27 January 2045
Occupancy Rate (excluding car parking spaces)	76.3% ⁽³⁾
Average Monthly Rental per Leased Square Metre (for the nine months ended 30 September 2019)	RMB161.4
Gross Floor Area	Office: 82,591.2 sq.m. Commercial: 4,745.8 sq.m.
Gross Rentable Area	67,600.0 sq.m.
Number of tenants	63
Number of tenancies	84 ⁽⁴⁾
Contribution of the top five tenants ⁽⁵⁾	Gross Rentable Area: 26,982.7 sq.m. % of total Gross Rentable Area: 39.9% % of total monthly Base Rent for the month ended 30 September 2019: 58.5%
Appraised Value ⁽⁶⁾	RMB2,046.0 million

Notes:

- (1) Year of completion refers to the year in which the real estate ownership certificate in respect of the development/building of which the Property form part was issued.
- (2) For further details, please refer to the section headed "The Properties and Business — Compliance with Paragraph 7.7 of the REIT Code — Title and Ownership" in this Offering Circular.
- (3) As at the Latest Practicable Date, the Occupancy Rate of New Times Plaza has improved to approximately 94.6%.
- (4) The number of tenancies exceeds the number of tenants as some tenants enter into more than one tenancy agreement for different units in the relevant Property.
- (5) Amongst the top five tenants, Shenzhen China Merchants Real Estate Co., Ltd* (深圳招商房地產有限公司), Sinotrans Logistics Ltd* (中外運物流有限公司) and China Merchants Energy Shipping Co., Ltd* (招商局能源運輸股份有限公司) are connected parties of China Merchants Commercial REIT. For details of the transactions with these connected parties, please refer to Note 21 of Appendix I to this Offering Circular. Save as disclosed above, none of the top five tenants of the relevant Property is a connected person of China Merchants Commercial REIT.
- (6) As determined by the Independent Property Valuer in its valuation report dated 30 September 2019 (see Appendix IV to this Offering Circular).


OFFERING CIRCULAR SUMMARY

Cyberport Building (數碼大廈)	
Address	No. 1079, Nanhai Avenue, Nanshan District, Shenzhen City, Guangdong Province, the PRC
Description	 <p>Cyberport Building is an office building complex which comprises: (a) a 9-storey office building and a 6-storey office building connected by a corridor at Level 1 and Level 2 respectively; (b) commercial units for retail use located at Level 1; and (c) 255 car parking spaces</p>
Year of completion ⁽¹⁾	2009
Term of land use right ⁽²⁾	50 years until 22 May 2057
Occupancy Rate (excluding car parking spaces)	84.1%
Average Monthly Rental per Leased Square Metre (for the nine months ended 30 September 2019)	RMB106.5
Gross Floor Area	Office: 38,957.6 sq.m. Commercial: 1,477.5 sq.m.
Gross Rentable Area ⁽³⁾	40,441.3 sq.m.
Number of tenants	38
Number of tenancies	40 ⁽⁴⁾
Contribution of the top five tenants ⁽⁵⁾	Gross Rentable Area: 12,193.8 sq.m. % of total Gross Rentable Area: 30.2% % of total monthly Base Rent for the month ended 30 September 2019: 36.8%
Appraised Value ⁽⁶⁾	RMB1,038.0 million

Notes:

- (1) Year of completion refers to the year in which the real estate ownership certificate in respect of the development/building of which the Property form part was issued.
- (2) For further details, please refer to the section headed “The Properties and Business — Compliance with Paragraph 7.7 of the REIT Code — Title and Ownership” in this Offering Circular.
- (3) The Gross Rentable Area is larger than the Gross Floor Area for Cyberport Building as certain common area has been let as rentable area. According to the PRC Legal Advisors, the letting of common area is permissible under the PRC laws and the relevant tenancy agreements are legally binding, valid and enforceable.
- (4) The number of tenancies exceeds the number of tenants as some tenants enter into more than one tenancy agreement for different units in the relevant Property.
- (5) There is no connected person of China Merchants Commercial REIT amongst the top five tenants.
- (6) As determined by the Independent Property Valuer in its valuation report dated 30 September 2019 (see Appendix IV to this Offering Circular).


OFFERING CIRCULAR SUMMARY

Technology Building (科技大廈)	
Address	No. 1067, Nanhai Avenue, Nanshan District, Shenzhen City, Guangdong Province, the PRC
Description	Technology Building is an office building complex which comprises: (a) a 7-storey main building; (b) a 6-storey annex building; and (c) 110 car parking spaces 
Year of completion ⁽¹⁾	2002
Term of land use right ⁽²⁾	50 years until 7 January 2051
Occupancy Rate (excluding car parking spaces)	100.0%
Average Monthly Rental per Leased Square Metre (for the nine months ended 30 September 2019)	RMB86.5
Gross Floor Area	Office: 41,578.5 sq.m.
Gross Rentable Area	41,534.3 sq.m.
Number of tenants	20
Number of tenancies	25 ⁽³⁾
Contribution of the top five tenants ⁽⁴⁾	Gross Rentable Area: 22,311.9 sq.m. % of total Gross Rentable Area: 53.7% % of total monthly Base Rent for the month ended 30 September 2019: 58.5%
Appraised Value ⁽⁵⁾	RMB867.0 million

Notes:

- (1) Year of completion refers to the year in which the real estate ownership certificate in respect of the development/building of which the Property form part was issued.
- (2) For further details, please refer to the section headed “The Properties and Business — Compliance with Paragraph 7.7 of the REIT Code — Title and Ownership” in this Offering Circular.
- (3) The number of tenancies exceeds the number of tenants as some tenants enter into more than one tenancy agreement for different units in the relevant Property.
- (4) There is no connected person of China Merchants Commercial REIT amongst the top five tenants.
- (5) As determined by the Independent Property Valuer in its valuation report dated 30 September 2019 (see Appendix IV to this Offering Circular).


OFFERING CIRCULAR SUMMARY

Technology Building 2 (科技大廈二期)	
Address	No. 1057, Nanhai Avenue, Nanshan District, Shenzhen City, Guangdong Province, the PRC
Description	Technology Building 2 is an office building complex which comprises: (a) two 6-storey industrial workshops; and (b) 220 car parking spaces
	
Year of completion ⁽¹⁾	2010
Term of land use right ⁽²⁾	50 years until 29 June 2057
Occupancy Rate (excluding car parking spaces)	88.0%
Average Monthly Rental per Leased Square Metre (for the nine months ended 30 September 2019)	RMB100.0
Gross Floor Area	Office: 42,531.4 sq.m.
Gross Rentable Area ⁽³⁾	43,093.5 sq.m.
Number of tenants	29
Number of tenancies	33 ⁽⁴⁾
Contribution of the top five tenants ⁽⁵⁾	Gross Rentable Area: 22,110.3 sq.m. % of total Gross Rentable Area: 51.3% % of total monthly Base Rent for the month ended 30 September 2019: 57.1%
Appraised Value ⁽⁶⁾	RMB1,079.0 million

Notes:

- (1) Year of completion refers to the year in which the real estate ownership certificate in respect of the development/building of which the Property form part was issued.
- (2) For further details, please refer to the section headed “The Properties and Business — Compliance with Paragraph 7.7 of the REIT Code — Title and Ownership” in this Offering Circular.
- (3) The Gross Rentable Area is larger than the Gross Floor Area for Technology Building 2 as certain common area has been let as rentable area. According to the PRC Legal Advisors, the letting of common area is permissible under the PRC laws and the relevant tenancy agreements are legally binding, valid and enforceable.
- (4) The number of tenancies exceeds the number of tenants as some tenants enter into more than one tenancy agreement for different units in the relevant Property.
- (5) Amongst the top five tenants, Shenzhen China Merchants Shekou Asset Management Co., Ltd* (深圳市招商蛇口資產管理有限公司) and China Merchants International Information Technology Co., Ltd* (招商局國際信息技術有限公司) are connected parties of China Merchants Commercial REIT. For details of the transactions with these connected parties, please refer to Note 21 of Appendix I to this Offering Circular. Save as disclosed above, none of the top five tenants of the relevant Property is a connected person of China Merchants Commercial REIT.
- (6) As determined by the Independent Property Valuer in its valuation report dated 30 September 2019 (see Appendix IV to this Offering Circular).

OFFERING CIRCULAR SUMMARY

Garden City Shopping Centre (花園城)	
Address	No. 1086, Nanhai Avenue, Nanshan District, Shenzhen City, Guangdong Province, the PRC
Description	<p>Garden City Shopping Centre is a shopping centre which comprises: (a) a 5-storey shopping centre; (b) 644 car parking spaces; and (c) other ancillary facilities located in a 2-storey basement to facilitate the operations of the shopping centre</p> 
Year of completion ⁽¹⁾	2006
Term of land use right ⁽²⁾	40 years until 14 April 2044
Occupancy Rate (excluding car parking spaces)	79.1% ⁽³⁾
Average Monthly Rental per Leased Square Metre (for the nine months ended 30 September 2019)	RMB162.6
Gross Floor Area	Commercial: 50,496.9 sq.m.
Gross Rentable Area ⁽⁴⁾	57,321.8 sq.m.
Number of tenants	129
Number of tenancies	134 ⁽⁵⁾
Contribution of the top five tenants ⁽⁶⁾	<p>Gross Rentable Area: 11,474.4 sq.m.</p> <p>% of total Gross Rentable Area: 20.0%</p> <p>% of total monthly Base Rent for the month ended 30 September 2019: 17.8%</p>
Appraised Value ⁽⁷⁾	RMB1,549.0 million

Notes:

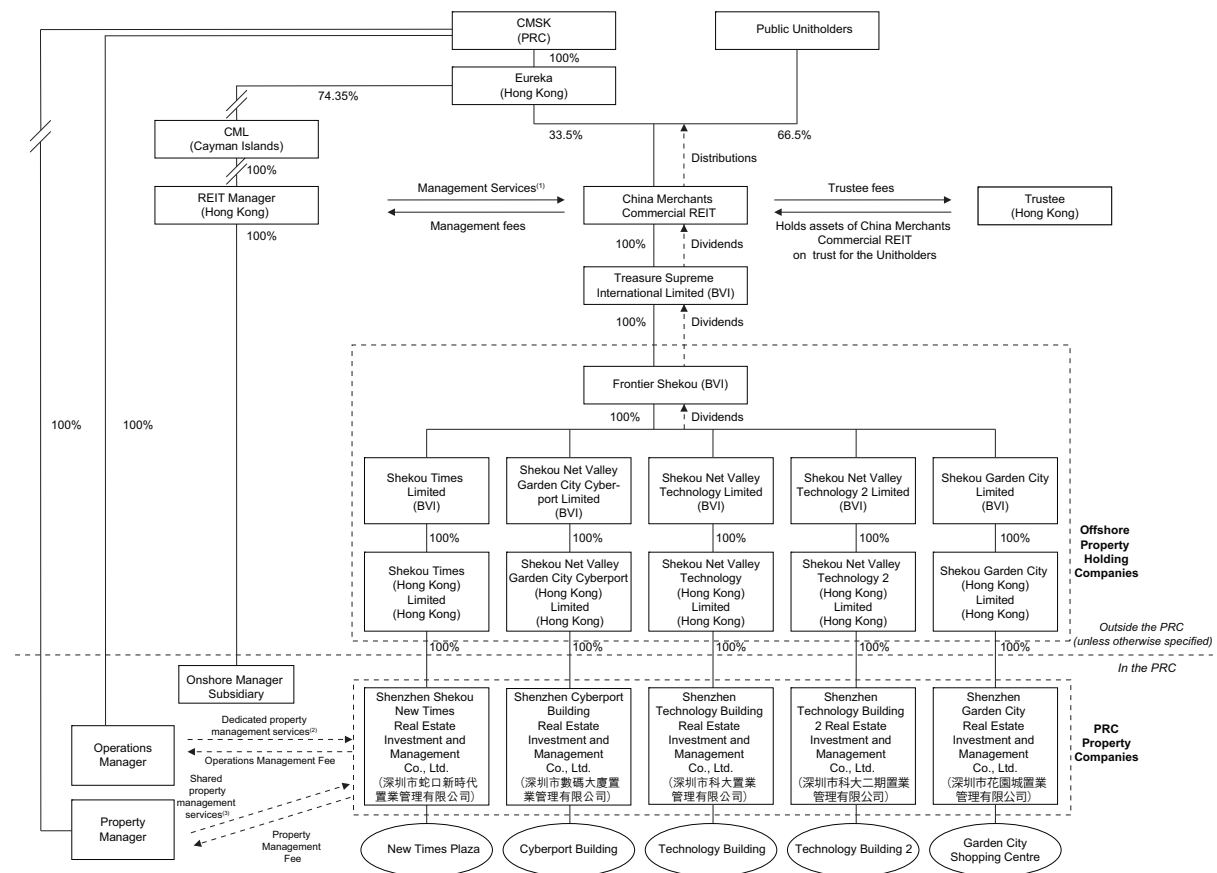
- (1) Year of completion refers to the year in which the real estate ownership certificate in respect of the development/building of which the Property form part was issued.
- (2) For further details, please refer to the section headed "The Properties and Business — Compliance with Paragraph 7.7 of the REIT Code — Title and Ownership" in this Offering Circular.
- (3) The Occupancy Rate of Garden City Shopping Centre decreased to approximately 79.6% as at 30 June 2019 and maintained at approximately 79.1% as at 30 September 2019 due to the termination of tenancy with an anchor tenant upon the expiry of tenancy agreement in May 2019. Such tenancy was not renewed due to the Property's strategy to upgrade its tenant mix and to optimise its rental income. Garden City Shopping Centre has started refurbishment of the relevant area aiming to introduce diverse tenants to reinforce its image as a community-oriented shopping centre, and such refurbishment is expected to be completed in early 2020. As at the Latest Practicable Date, the Occupancy Rate of Garden City Shopping Centre was approximately 77.6% and approximately 9.2% of the Gross Rentable Area was under discussions with potential tenants.
- (4) The Gross Rentable Area is larger than the Gross Floor Area for Garden City Shopping Centre as certain common area has been let as rentable area. According to the PRC Legal Advisors, the letting of common area is permissible under the PRC laws and the relevant tenancy agreements are legally binding, valid and enforceable.
- (5) The number of tenancies exceeds the number of tenants as some tenants enter into more than one tenancy agreement for different units in the relevant Property.
- (6) There is no connected person of China Merchants Commercial REIT amongst the top five tenants.
- (7) As determined by the Independent Property Valuer in its valuation report dated 30 September 2019 (see Appendix IV to this Offering Circular).

OFFERING CIRCULAR SUMMARY

As at 30 September 2019, 205,658.6 sq.m. of Gross Floor Area in the Properties was used as office space and 56,720.2 sq.m. of Gross Floor Area in the Properties was used as commercial space. The REIT Manager intends to implement asset enhancement initiatives in respect of the Properties, which are expected to be completed in one to two years after the Listing Date, subject to internal assessments and actual conditions of the market.

OVERVIEW OF CHINA MERCHANTS COMMERCIAL REIT'S STRUCTURE

The following chart provides a general overview of the ownership structure of China Merchants Commercial REIT and the Properties (assuming the Over-allotment Option is not exercised) and the primary structural and contractual relationships between China Merchants Commercial REIT, the Unitholders, the REIT Manager, the Trustee, the Onshore Manager Subsidiary, the Operations Manager and the Property Manager as at the Listing Date:



“//” indicates indirect ownership

Notes:

- (1) Pursuant to the Trust Deed, the REIT Manager will provide management services for China Merchants Commercial REIT and will receive management fees from China Merchants Commercial REIT. Please refer to the section headed “The REIT Manager — Further Details Regarding the REIT Manager — Fees, Costs and Expenses of the REIT Manager” in this Offering Circular for further details.

OFFERING CIRCULAR SUMMARY

- (2) Pursuant to the Operations Management Agreement, the Operations Manager will provide certain dedicated property management services in respect of the Properties including, among other things, leasing, marketing and tenancy management services, and will receive Operations Management Fee from the PRC Property Companies. Please refer to the section headed “The Operations Manager and the Property Manager — The Operations Management Agreement” in this Offering Circular for further details.
- (3) Pursuant to the Property Management Agreements, the Property Manager will provide shared property management services such as, among other things, daily maintenance, cleaning and security services in respect of the Properties, and will receive Property Management Fee from the PRC Property Companies. Please refer to the section headed “The Operations Manager and the Property Manager — The Property Management Agreements” in this Offering Circular for further details.

THE REIT MANAGER

The REIT Manager is a company incorporated in Hong Kong under the Companies Ordinance on 22 June 2019. The REIT Manager is an indirect wholly-owned subsidiary of CML, which is a company incorporated in the Cayman Islands whose shares are listed on the Hong Kong Stock Exchange (stock code: 00978) and is the sole offshore listed flagship platform for CMG’s property business. CML is principally engaged in development, sale and management of properties.

The REIT Manager is licensed by the SFC to conduct the regulated activity of asset management. The REIT Manager is responsible for the overall management of China Merchants Commercial REIT and ensuring compliance with the applicable provisions of the REIT Code, the SFO and other relevant legislation, the Listing Rules, the Trust Deed and all relevant contracts.

For further details on the REIT Manager, see the section headed “The REIT Manager” in this Offering Circular.

The REIT Manager will be supported by the Onshore Manager Subsidiary, which is a direct wholly-owned subsidiary of the REIT Manager incorporated in the PRC functioning as the REIT Manager’s local headquarters in the PRC. The Onshore Manager Subsidiary will generally assist the REIT Manager in executing the asset and investment management strategies of China Merchants Commercial REIT as determined by the REIT Manager from time to time, and overseeing and supervising the Operations Manager and the Property Manager to ensure quality of services provided by these entities. The Onshore Manager Subsidiary will also assist the REIT Manager to discharge investor relations, project development, risk management, finance and compliance functions in the PRC, but will at all times be subject to the ongoing supervision and regular monitoring by the REIT Manager who shall make final decisions on such matters for China Merchants Commercial REIT. Two of the senior executives of the REIT Manager, ZHONG Ning and XIONG Jing, are employed by the Onshore Manager Subsidiary and based in the PRC. For further details on the experiences of Mr. Zhong and Mr. Xiong, see the section headed “The REIT Manager — Executive Officers of the REIT Manager and the Onshore Manager Subsidiary — Senior Executives”. For the avoidance of doubt, the fees payable to the Onshore Manager Subsidiary will be borne solely and entirely by the REIT Manager in its personal capacity pursuant to the agreement between them, and such fees will not be reimbursable under the Trust Deed or otherwise be borne by China Merchants Commercial REIT.

OFFERING CIRCULAR SUMMARY

THE TRUSTEE

The trustee of China Merchants Commercial REIT is DB Trustees (Hong Kong) Limited. The Trustee is a company incorporated in Hong Kong and registered as a trust company under section 77 of the Trustee Ordinance. The Trustee is an indirect wholly-owned subsidiary of Deutsche Bank AG. The Trustee is qualified to act as a trustee of collective investment schemes authorised under the SFO pursuant to the REIT Code.

The Trustee has the fiduciary duty to hold assets of China Merchants Commercial REIT for the benefit of the Unitholders, and to oversee the activities of the REIT Manager for compliance with the relevant constitutive documents of, and relevant regulatory requirements applicable to, China Merchants Commercial REIT. This includes ensuring that all investment activities carried out by the REIT Manager are in line with the investment objective and policy of China Merchants Commercial REIT and its constitutive documents, and are in the interest of the Unitholders.

For details of the Trustee's obligations under the Trust Deed and the REIT Code, see the section headed "The Trust Deed" in this Offering Circular.

THE OPERATIONS MANAGER

The Operations Manager is a company incorporated in the PRC and a direct wholly-owned subsidiary of CMSK and therefore a connected person of China Merchants Commercial REIT. The Operations Manager has entered into the Operations Management Agreement with the PRC Property Companies, pursuant to which the Operations Manager will provide Operations Management Services to the PRC Property Companies, subject to the oversight and supervision of the REIT Manager and the Onshore Manager Subsidiary and in accordance with the principles set out in the agreement.

The Operations Management Services provided by the Operations Manager pursuant to the Operations Management Agreement include, among other things, leasing, marketing and tenancy management services. The Operations Manager will provide the Operations Management Services for the PRC Property Companies on an exclusive basis.

The Operations Manager is a newly established company, but its key personnel of the Operations Manager have at least five years of experience in managing real estate. As such, the REIT Manager is of the view that the Operations Manager has sufficient experience and is fit and proper to provide the Operations Management Services.

For details of the Operations Management Agreement and the Operations Management Services, please refer to the section headed "The Operations Manager and the Property Manager — The Operations Manager" in this Offering Circular.

THE PROPERTY MANAGER

The Property Manager is a company incorporated in the PRC and is an indirect wholly-owned subsidiary of CMSK and therefore a connected person of China Merchants Commercial REIT. The Property Manager has entered into a Property Management Agreement with each of the PRC Property Companies, pursuant to which the Property Manager will continue to provide Property Management Services to such PRC Property Company in accordance with the principles set out in those agreements.

OFFERING CIRCULAR SUMMARY

The Property Management Services provided by the Property Manager pursuant to the Property Management Agreements are routine management services, which include, among other things, daily maintenance, cleaning and security services in respect of the Properties.

The Property Manager has an aggregate track record period of three years in managing the Properties, and its key personnel have at least five years of experience in property management. As such, the REIT Manager is of the view that the Property Manager has sufficient experience and is fit and proper to provide the Property Management Services.

For details of the Property Management Agreements and Property Management Services, please refer to the section headed “The Operations Manager and Property Manager — The Property Manager” in this Offering Circular.

CORPORATE GOVERNANCE

With the objectives of establishing and maintaining high standards of corporate governance, certain policies and procedures have been put in place to promote the operation of China Merchants Commercial REIT in a transparent manner and with built-in checks and balances. The Trustee and the REIT Manager are independent of each other, with their respective roles in relation to China Merchants Commercial REIT set out in the REIT Code and the Trust Deed. The REIT Manager is required under the REIT Code to act in the best interests of Unitholders, to whom the Trustee also owes fiduciary duties.

The Board comprises seven members, three of whom are independent non-executive Directors.

Policies and procedures have been established for, amongst other things, monitoring and supervising dealings in Units by the Directors and the REIT Manager. For further details, see the section headed “Corporate Governance” in this Offering Circular.

SUMMARY FINANCIAL INFORMATION

The following tables set forth summary financial information on a historical basis for the Predecessor Group.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of financial position, the consolidated statements of changes in equity and the consolidated statements of cash flows in statements for each of the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 have been derived from the Predecessor Group’s financial information and related notes thereto, which have been included in Appendix I to this Offering Circular. Such financial information and related notes have been prepared in accordance with IFRS and have been audited by Deloitte, the reporting accountants. The consolidated statements of profit or loss and other comprehensive income and the consolidated statements of cash flows for the six months ended 30 June 2018 have been derived from the Predecessor Group’s unaudited financial information and related notes thereto, which have been included in Appendix I to this Offering Circular.

OFFERING CIRCULAR SUMMARY

The summary financial information for the Predecessor Group included below and set forth in Appendix I to this Offering Circular is not indicative of China Merchants Commercial REIT's future performance. You should read the following summary of financial information together with the sections headed "The Properties and Business", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Unaudited Pro Forma Statement of Financial Position" in this Offering Circular and the historical financial information of the Predecessor Group and related notes thereto set forth in Appendix I to this Offering Circular. For a discussion of China Merchants Commercial REIT's future financial condition and results of operations, please refer to the section headed "Management's Discussion and Analysis of Future Operations" in this Offering Circular.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Revenue	366,901	359,501	389,472	182,303	190,737
Other income	3,967	7,397	5,028	1,926	3,066
Operating expenses . . .	(121,692)	(86,771)	(90,062)	(39,566)	(43,146)
Fair value changes on investment properties	216,000	707,252	1,200,833	922,748	381,507
Net reversal of (provision for) impairment losses for receivables	6	(34)	(240)	(2)	(55)
Depreciation	(512)	(230)	(179)	(89)	(66)
Exchange (loss) gain . .	—	(131)	31	3	2
Finance costs	—	—	(22,411)	(9,864)	—
Profit before tax	464,670	986,984	1,482,472	1,057,459	532,045
Income tax expense . . .	(116,229)	(261,655)	(383,256)	(270,092)	(140,159)
Profit and total comprehensive income for the year/period . . .	<u>348,441</u>	<u>725,329</u>	<u>1,099,216</u>	<u>787,367</u>	<u>391,886</u>

OFFERING CIRCULAR SUMMARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Investment properties	4,226,000	4,933,252	6,135,000	6,517,000
Property, plant and equipment . .	704	555	376	310
	<u>4,226,704</u>	<u>4,933,807</u>	<u>6,135,376</u>	<u>6,517,310</u>
Current assets				
Trade and other receivables . . .	1,318	2,917	1,427	2,310
Amounts due from related companies	42,113	540,396	1,035,730	1,168,114
Bank balances and cash	549,006	282,519	20,213	25,812
	<u>592,437</u>	<u>825,832</u>	<u>1,057,370</u>	<u>1,196,236</u>
Current liabilities				
Trade and other payables	85,523	84,391	75,344	87,341
Amounts due to related companies	156,988	3,816,806	3,814,989	3,714,226
Current tax liabilities	8,180	9,975	13,400	45,743
	<u>250,691</u>	<u>3,911,172</u>	<u>3,903,733</u>	<u>3,847,310</u>
Net current assets (liabilities) .	<u>341,746</u>	<u>(3,085,340)</u>	<u>(2,846,363)</u>	<u>(2,651,074)</u>
Total assets less current liabilities	<u>4,568,450</u>	<u>1,848,467</u>	<u>3,289,013</u>	<u>3,866,236</u>
Non-current liability				
Deferred tax liabilities	293,771	514,219	855,549	940,223
Net assets	<u>4,274,679</u>	<u>1,334,248</u>	<u>2,433,464</u>	<u>2,926,013</u>
Equity				
Share capital	10,000	—	—	—
Reserves	4,264,679	1,334,248	2,433,464	2,926,013
Total equity	<u>4,274,679</u>	<u>1,334,248</u>	<u>2,433,464</u>	<u>2,926,013</u>

OFFERING CIRCULAR SUMMARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net cash from operating activities	214,703	228,063	246,199	128,168	130,907
Net cash used in investing activities . . .	(215,387)	(240,226)	(423,493)	(846,671)	(124,962)
Net cash (used in) from financing activities . . .	(8,592)	(4,507)	(22,131)	581,626	(346)
Net (decrease) increase in cash and cash equivalents	(9,276)	(16,670)	(199,425)	(136,877)	5,599
Cash and cash equivalents at beginning of the year/period	245,584	236,308	219,638	219,638	20,213
Cash and cash equivalents at end of the year/period, represented by : Bank balance and cash . . .	236,308	219,638	20,213	82,761	25,812

PROFIT FORECAST FOR THE PERIOD FROM THE LISTING DATE TO 31 DECEMBER 2019

The REIT Manager forecasts that, in the absence of unforeseen circumstances and on the bases and assumptions set out in the section headed “Profit Forecast for the Profit Forecast Period” in this Offering Circular, the profit attributable to Unitholders and the distributable income of China Merchants Commercial REIT for the period from the Listing Date to 31 December 2019 (being the Profit Forecast Period) will be not less than RMB6.2 million and RMB9.2 million, respectively.

The profit forecast assumes that the anticipated Listing Date will be Tuesday, 10 December 2019 and will vary if the actual Listing Date is different.

OFFERING CIRCULAR SUMMARY

The following table sets forth summarised Profit Forecast of China Merchants Commercial REIT for the Profit Forecast Period.

	For the Profit Forecast Period RMB'000 Forecast
Revenue	23,848
Other income	114
Operating expenses	(7,620)
Fair value changes on investment properties.	—
Net reversal of (provision for) impairment loss.	—
Depreciation.	(2)
Exchange (loss) gain	—
Finance costs.	(3,881)
REIT Manager's fees	(1,000)
Trustee's fees	(269)
Profit before tax	11,190
Income tax expense	(4,950)
Profit and total comprehensive income for the period	<u>6,240</u>
 Distribution Data:	
Profit for the period.	6,240
Adjustments ⁽¹⁾	<u>3,009</u>
Distributable income for the Profit Forecast Period	<u>9,249</u>

	For the Profit Forecast Period	
	Minimum Offer Price	Maximum Offer Price
Offer price (HK\$)	3.42	4.00
Assumed number of Units outstanding as of 31 December 2019 for the Profit Forecast Period (in thousand)	1,127,820	1,127,820
Forecast distribution per Unit ("DPU") (HK\$) ⁽¹⁾	0.0093	0.0093
Annualised DPU (HK\$)	0.1538	0.1538
Forecast annualised DPU yield ⁽²⁾	4.5%	3.8%
Annualised Committed DPU (HK\$) ⁽³⁾	0.2360	0.2360
Annualised Committed DPU yield ⁽⁴⁾	6.9%	5.9%

Note:

(1) Forecast DPU is calculated from profit for the Profit Forecast Period of RMB6,240,000 as adjusted by (i) RMB2,477,000 in respect of the deferred tax charged, (ii) RMB2,000 in respect of the depreciation charged, (iii) RMB280,000 in respect of non-cash loan arrangement fees amortised under finance costs, and (iv) RMB250,000 in respect of the portion of the REIT Manager's fee to be paid in the form of Units. Assuming that the number of Units outstanding as at 31 December 2019 for the Profit Forecast Period is 1,127,820,000, forecast DPU is RMB0.0082. The translation of RMB to HK\$ was made at the rate of RMB0.8844 to HK\$1.

OFFERING CIRCULAR SUMMARY

- (2) The annualised forecast distribution yields are provided for illustrative purpose only. The annualised actual distribution yield may differ from the annualised forecast distribution yield based on the forecast DPU for the Profit Forecast Period. The annualised forecast distribution yields have been calculated with the reference to the Minimum Offer Price and Maximum Offer Price only. Such yield will vary for investors who purchase Units in the secondary market at a market price that differs from the Minimum Offer Price and the Maximum Offer Price or for investors who do not hold Units for the entire Profit Forecast Period.
- (3) Pursuant to the DPU Commitment Deed dated 22 November 2019.
- (4) The Annualised Committed DPU yields are provided for illustrative purpose only. The annualised actual distribution yield may differ from the Annualised Committed DPU yield for the Profit Forecast Period. The Annualised Committed DPU yields have been calculated with the reference to the Minimum Offer Price and Maximum Offer Price only. Such yield will vary for investors who purchase Units in the secondary market at a market price that differs from the Minimum Offer Price and the Maximum Offer Price or for investors who do not hold Units for the entire Profit Forecast Period.

THE PURCHASE CONSIDERATION AND THE DISCOUNT TO THE APPRAISED VALUE OF THE PROPERTIES

The amount of Purchase Consideration payable to the Vendor for the acquisition of the Frontier Share and the assignment of the Assigned Frontier Payables is dependent on the final Offer Price. The following table illustrates the impact of the Offer Price on the Illustrative Adjusted Consideration and the discount to the Appraised Value of the Properties, respectively:

	Based on the Minimum Offer Price of HK\$3.42	Based on the Maximum Offer Price of HK\$4.00
Illustrative Adjusted Consideration ⁽¹⁾ (HK\$ million)	5,822.3	6,466.6
Appraised Value of the Properties (HK\$ million)	7,438.9	7,438.9
Discount to Appraised Value of the Properties	-21.7%	-13.1%

Note:

- (1) The “**Illustrative Adjusted Consideration**” represents the part of the Purchase Consideration that is attributable only to the Properties. For the purpose of a like-for-like comparison with the Appraised Value (which only concerns the Properties), the Illustrative Adjusted Consideration does not take into account the impact of other assets and liabilities of the Predecessor Group on the Purchase Consideration. Specifically, the Adjusted NAV of Frontier Shekou as at 30 June 2019 (being HK\$12.8 million) and the Final Payment are disregarded from the calculation of the Illustrative Adjusted Consideration.

OFFERING CIRCULAR SUMMARY

CERTAIN FEES AND CHARGES

The following is a summary of certain fees and charges payable by China Merchants Commercial REIT in connection with the establishment and ongoing management of China Merchants Commercial REIT:

Payable by China Merchants Commercial REIT

(a) REIT Manager's fees⁽¹⁾ . . .

Amount Payable

Base Fee

10.0% per annum of the Base Fee Distributable Income, payable on a semi-annual basis. The first Base Fee shall be payable for the period from the Listing Date to 30 June 2020.

Payable by China Merchants Commercial REIT

Amount Payable

Variable Fee

25.0% per annum of the difference in DPU in a financial year compared to the preceding financial year multiplied by the weighted average number of Units in issue for such financial year. For the purpose of calculating the Variable Fee only, the DPU shall be calculated before accounting for the Variable Fee but after accounting for the Base Fee for the relevant financial year. No Variable Fee shall accrue or be payable for the period from the Listing Date to 31 December 2022.

Acquisition Fee

Not exceeding the rate of 1.0% (and being 1.0% as of the date of the Trust Deed) of the acquisition price of each real estate asset (other than the Properties) acquired by China Merchants Commercial REIT.

Divestment Fee

Not exceeding the rate of 0.5% (and being 0.5% as at the date of the Trust Deed) of the sale price of each real estate asset sold by China Merchants Commercial REIT.

Note:

- (1) The REIT Manager may elect at its sole discretion to receive the Base Fee and/or the Variable Fee in the form of cash or entirely or partly in the form of Units. If no election is made, the most recent valid election made by the REIT Manager in a prior calendar year (if any) shall apply and, if there is no such prior calendar year election by the REIT Manager, the Base Fee and/or the Variable Fee shall be paid in cash. Any Acquisition Fee and/or Divestment Fee may be paid to the REIT Manager in the form of cash or, at the election of the REIT Manager at such time, entirely or partly in the form of Units.

OFFERING CIRCULAR SUMMARY

Payable by China Merchants Commercial REIT

Amount Payable

(b) Trustee's fees	<p>Currently 0.015% to 0.025% per annum of the value of the Deposited Property payable semi-annually in arrears, which may be adjusted from time to time but subject to a minimum of RMB56,000 per month and a maximum cap of 0.06% per annum of the value of the Deposited Property. Based on the value of the Deposited Property as at 30 September 2019, the rate of the Trustee's fee in respect of the Deposited Property would be 0.02% per annum of the Value of the Deposited Property. China Merchants Commercial REIT will also pay to the Trustee a one-off acceptance fee of HK\$180,000 upon Listing.</p> <p>The Trustee may also charge China Merchants Commercial REIT additional fees on a time-cost basis at a rate to be agreed with the REIT Manager from time to time if the Trustee were to undertake duties that are of an exceptional nature or otherwise outside the scope of its normal duties in the ordinary course of normal day-to-day business operation of China Merchants Commercial REIT, such as acquisition or divestment of investments by China Merchants Commercial REIT after Listing.</p>
(c) Operations Manager's fees	<p>The aggregate of: (i) an amount equivalent to 5% of the monthly rental income of the PRC Property Companies, payable on a monthly basis; and (ii) an amount equivalent to 2.5% of the PRC Property Companies' semi-annual capital expenditure for refurbishment and renovation of the Properties, payable on a semi-annual basis.</p>
(d) Property Manager's fees	<p>(a) with respect to Garden City Shopping Centre, an amount equivalent to RMB650,000 per annum; and (b) with respect to the other Properties, an amount equivalent to 12% of the aggregate amount of the fees and charges (except air-conditioning charges and promotional fees) and car parking fees collected by the Property Manager each month.</p>

OFFERING CIRCULAR SUMMARY

The following is a summary of certain fees and charges payable by Unitholders, in HK\$, in connection with the subscription or purchase of Units in the Global Offering:

<u>Payable by Unitholders directly</u>	<u>Amounts Payable⁽¹⁾</u>
Brokerage	1.0% of Maximum Offer Price
Hong Kong Stock Exchange trading fee	0.005% of Maximum Offer Price
SFC transaction levy.	0.0027% of Maximum Offer Price

Note:

(1) Subject to refund if the Offer Price is lower than the Maximum Offer Price.

USE OF PROCEEDS

The REIT Manager estimates that the total proceeds from the Global Offering, will be approximately HK\$3,000.0 million (based on the Maximum Offer Price), and approximately HK\$2,565.0 million (based on the Minimum Offer Price), assuming the Over-allotment Option is not exercised.

The following table sets forth the sources of China Merchants Commercial REIT's funds following the completion of the Global Offering and the intended application of those funds (assuming that the Over-allotment Option is not exercised):

	Based on the Minimum Offer Price of HK\$3.42	Based on the Maximum Offer Price of HK\$4.00
	(HK\$ million)	
Sources of funds:		
750,000,000 Units issued pursuant to the Global Offering.	2,565.0	3,000.0
377,819,549 Units issued to the Vendor ⁽¹⁾	1,292.2	1,511.3
Bank Loan Drawdown Amount	2,148.3	2,148.3
Total	<u>6,005.5</u>	<u>6,659.6</u>
Uses of funds:		
Acquisition of Predecessor Group	5,835.1	6,479.5
Transaction costs ⁽²⁾	113.9	123.6
General corporate purposes	56.5	56.5
Total	<u>6,005.5</u>	<u>6,659.6</u>

Notes:

(1) Units issued to Eureka, a wholly-owned company of CMSK, as nominee of the Vendor.

(2) Transaction costs comprise expenses relating to the Global Offering, which include underwriting commissions payable to the Underwriters (based on the final size of Global Offering), legal fees, printing costs, auditors' fees, listing costs, advertisement and marketing related expenses (including roadshow expenses) and other administrative expenses.

OFFERING CIRCULAR SUMMARY

RISK FACTORS

There are risks associated with any investment. These risks include (i) risks relating to China Merchants Commercial REIT; (ii) risks relating to the Properties; (iii) risks relating to the real estate industry and the PRC; and (iv) risks relating to an investment in the Units. Some of the key risks in investing in the Units are set out below:

Risks Relating to China Merchants Commercial REIT

- future changes in government policies in the PRC and the Greater Bay Area could materially and adversely affect the business, results of operations and prospects of China Merchants Commercial REIT;
- the Properties are all located in Shekou, which exposes China Merchants Commercial REIT to economic and property market conditions in Shekou and the PRC;
- there are discrepancies between the land and building use rights stated in the real estate ownership certificates and the actual use of some of the Properties;
- China Merchants Commercial REIT's results of operations may be adversely affected if the Operations Manager or the Property Manager fails to operate and manage the Properties in an effective and efficient manner or the REIT Manager decides to terminate the Operations Management Agreement or the Property Management Agreements before expiration or decides not to renew such agreements upon expiration;
- the DPU Commitment will expire on 31 December 2022, after which the amount of distributions will depend on the operating results of China Merchants Commercial REIT, which may not be sufficient to support similar level of distributions made during the DPU Commitment Period; and
- the REIT Manager may not be able to achieve its key objectives for China Merchants Commercial REIT and its stated strategies for accomplishing such objectives may change.

Risks Relating to the Properties

- China Merchants Commercial REIT may be unable to renew tenancy agreements or re-let vacant space at the same or higher rental rates or at all upon expirations or early terminations of tenancy agreements;
- the loss of key tenants or any breach of their obligations under the tenancy agreements may have an adverse effect on China Merchants Commercial REIT's financial condition and results of operations;
- the Properties are located on land which is under long-term land use rights granted by the PRC Government. There is uncertainty about the amount of land grant premium which the PRC Property Companies will have to pay and additional conditions which may be imposed if the REIT Manager decides to seek an extension or renewal of the land use rights for the Properties; and

OFFERING CIRCULAR SUMMARY

- the land which the Properties occupy or parts thereof may be resumed compulsorily by the PRC Government when the term of the land expires or before the end of such term where a legitimate public interest for requisition of such land is established, and any compensation paid to China Merchants Commercial REIT may not be sufficient.

Risks Relating to the Real Estate Industry and the PRC

- the real estate industry may be adversely affected by changes in laws and regulations in the future;
- there are uncertainties in the PRC legal system; and
- the Offshore Property Holding Companies and China Merchants Commercial REIT may be classified as “resident enterprise” for the purposes of EIT, which could result in unfavourable PRC tax consequences for China Merchants Commercial REIT and the Unitholders.

Risks Relating to an Investment in the Units

- the Units have never been publicly traded and the Global Offering may not result in an active or liquid market for the Units; and
- China Merchants Commercial REIT cannot be privatised by way of the scheme of arrangement or compulsory acquisition mechanisms provided under the Companies Ordinance.

For further information, please refer to the section headed “Risk Factors” in this Offering Circular. Investors should read that entire section carefully before they decide to invest in the Units.

DEFINITIONS

In this Offering Circular, unless the context otherwise requires, the following terms shall have the meanings set out below:

“Accountants’ Report”	means the accountants’ report produced by Deloitte, as set out in Appendix I to this Offering Circular.
“Acquisition Fee”	means, as used in the Trust Deed, the acquisition fee not exceeding 1% (and being 1% as at the date of the Trust Deed) of the acquisition price of any real estate acquired directly or indirectly by China Merchants Commercial REIT (pro-rated if applicable to the proportion of China Merchants Commercial REIT’s interest in the real estate acquired) payable to the REIT Manager pursuant to the Trust Deed.
“Acquisition Value” . . .	means HK\$5,822.3 million, which represents the agreed value of the Properties between the parties based on the Minimum Offer Price and having regard to the Adjusted NAV of Frontier Shekou as at 30 June 2019.
“Adjusted NAV of Frontier Shekou” . . .	an amount equal to the net asset value of Frontier Shekou, disregarding certain assets and liabilities stated in the Sale and Purchase Deed, and which shall be agreed or determined in accordance with the Sale and Purchase Deed.
“Adjustments”	has the meaning set out in the section headed “Distribution Policy” in this Offering Circular.
“Affected Units”	has the meaning set out in the section headed “The Trust Deed — Deemed Application of Part XV of the SFO” in this Offering Circular.
“AIFMD”	means the Alternative Investment Fund Managers Directive.
“Annual Distributable Income”	has the meaning set out in the section headed “Distribution Policy” in this Offering Circular.
“Annualised Committed DPU”	means the corresponding figures set out in the table contained in the section headed “Material Agreements and Other Documents — DPU Commitment” in this Offering Circular.
“Annualised Provisional DPU”	has the meaning set out in the section headed “Material Agreements and Other Documents — DPU Commitment” in this Offering Circular.
“Applicable Rules” . . .	means the SFO, the REIT Code, the Listing Rules and all other law, rules and regulations applicable to China Merchants Commercial REIT.

DEFINITIONS

“Application Form(s)”	means the WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or where the context so requires, any of them.
“Appraised Value”	means the value of the Properties as at 30 September 2019, as appraised by the Independent Property Valuer and set out in Appendix IV to this Offering Circular.
“Asset Injection”	means the transactions contemplated under the Sale and Purchase Deed.
“Asset Injection Completion”	means completion of the Asset Injection.
“Asset Injection Completion Date”	means the date of Asset Injection Completion.
“Assigned Frontier Payables”	means the Frontier Payables excluding the Unassigned Frontier Payables.
“associate”	has the meaning ascribed to it under the SFO.
“Audit Committee”	means the audit committee of the REIT Manager.
“Bank Loan Drawdown Amount”	means the gross amount borrowed by the Holding Company under the Facilities.
“Banking Ordinance”	means the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), as amended, supplemented or otherwise modified for the time being.
“Base Fee”	means the base fee payable to the REIT Manager on a semi-annual basis under the Trust Deed, being 10.0% per annum of the Base Fee Distributable Income.
“Base Fee Distributable Income”	has the meaning set out in the section headed “The REIT Manager — Further Details Regarding the REIT Manager — Base Fee” in this Offering Circular.
“Belt and Road Initiative”	the short form of the strategic concept of “Silk Road Economic Belt” and “21 st Century Maritime Silk Road” adopted by the PRC Government.
“Board”	means the board of Directors.
“Borrowers”	means the Offshore Borrower and the Onshore Borrowers.

DEFINITIONS

“Building Surveyor” . . .	means Knight Frank Petty Limited.
“Bulletin 7”	has the meaning ascribed to it in the section headed “Taxation” in this Offering Circular.
“Bulletin 7 Withholding Amount”	has the meaning set out in the section headed “Material Agreements and Other Documents — Sale and Purchase Deed” in this Offering Circular.
“Bulletin 9”	means the Bulletin on Certain Issues relating to “Beneficial Owners” in Tax Treaties, State Taxation Administration Bulletin 2018 No.9, issued by the SAT.
“Business Day”	means any day (excluding Saturdays, Sundays, public holidays and any day on which a tropical cyclone warning no. 8 or above or a “black” rainstorm warning signal is hoisted in Hong Kong at any time between the hours of 9:00 a.m. and 5:00 p.m.) on which licensed banks are open for general business in Hong Kong.
“BVI”	means the British Virgin Islands.
“BVI Companies”	has the meaning set out in the section headed “Taxation — BVI Taxation of China Merchants Commercial REIT” in this Offering Circular.
“BVI Property Holding Companies”	means, collectively, Shekou Times (BVI), Net Valley Cyberport (BVI), Net Valley Technology (BVI), Net Valley Technology 2 (BVI) and Garden City (BVI), each a “BVI Property Holding Company”.
“CAGR”	means compound annual growth rate.
“CCASS”	means the Central Clearing and Settlement System established and operated by HKSCC.
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant.
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant.
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation.
“CCASS Participant” . . .	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant.

DEFINITIONS

“Chairman”	means the chairman of the Board.
“Chief Investment and Asset Management Officer”	means the chief investment and asset management officer of the REIT Manager.
“Circular 82”	means the Circular on the Determination of Chinese-Controlled Offshore-Incorporated Enterprises as China Tax Resident Enterprises on the Basis of Place of Effective Management, Guo Shui Fa 2009 No.82, issued by the SAT.
“CM Connected Persons Group”	has the meaning set out in the section headed “Connected Party Transactions — Waivers for Certain Connected Party Transactions and Connected Persons” in this Offering Circular.
“CM Continuing CPTs”	has the meaning set out in the section headed “Connected Party Transactions — Waivers for Certain Connected Party Transactions and Connected Persons” in this Offering Circular.
“CM Tenancies”	has the meaning set out in the section headed “Connected Party Transactions — Waivers for Certain Connected Party Transactions and Connected Persons” in this Offering Circular.
“China Merchants Commercial REIT”	means China Merchants Commercial Real Estate Investment Trust, a collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO.
“China Merchants Commercial REIT Group”	has the meaning set out in the section headed “Connected Party Transactions — Introduction” in this Offering Circular.
“CMCP”	means China Merchants Commercial Property Investment (Shenzhen) Co., Ltd.* (深圳招商商置投資有限公司), a company incorporated in the PRC.
“CMG”	means China Merchants Group Limited (招商局集團有限公司), a company incorporated in the PRC.
“CML”	means China Merchants Land Limited (招商局置地有限公司), a company incorporated in the Cayman Islands, and whose shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 00978).
“CML Cities”	means cities where CML has its property business including Chongqing, Foshan, Guangzhou, Nanjing, Jurong and Xi’an.

DEFINITIONS

“CMSK”	means China Merchants Shekou Industrial Zone Holdings Co., Ltd. (招商局蛇口工業區控股股份有限公司), a company incorporated in the PRC, and whose shares are listed on the Shenzhen Stock Exchange (stock code: 001979.SZ).
“CMSK Relevant Subsidiaries”	has the meaning set out in the section headed “Material Agreements and Other Documents — Deed of Right of First Refusal” in this Offering Circular.
“Companies Ordinance”	means the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified for the time being.
“Completion Statement”	means the report of the Predecessor Group as at the close of business on Determination Date, which will be prepared by the Vendor within two months following the Listing Date and agreed among the Vendor, the Holding Company and the REIT Manager (in its capacity as manager of China Merchants Commercial REIT) within ten Business Days following the receipt of the statement by the Holding Company and the REIT Manager, and failing such agreement, performed agreed procedures or reviewed by the auditors as specified in or appointed in accordance with the Sale and Purchase Deed.
“connected party rules”	has the meaning set out in the section headed “Connected Party Transactions — Introduction” in this Offering Circular.
“connected person” . .	has the meaning ascribed to it in the REIT Code.
“Consideration Units” .	means 377,819,549 Units issued by China Merchants Commercial REIT to Eureka (as nominee for the Vendor) on the Asset Injection Completion Date.
“Convertible Instruments”	means any securities convertible or exchangeable into Units, or any options or warrants or similar rights for the subscription or issue of Units (or securities convertible or exchangeable into Units), issued by the REIT Manager on behalf of China Merchants Commercial REIT or any Special Purpose Vehicle; and references to an issue of Units “pursuant to” any Convertible Instruments means an issue of Units pursuant to exercise of any conversion, exchange, subscription or similar rights (as the case may be) under the terms and conditions of such Convertible Instruments.
“Cyberport Building” . .	means 數碼大廈, an office building complex technically zoned for industrial use located at No. 1079, Nanshan Avenue, Nanshan District, Shenzhen City, Guangdong Province, the PRC.

DEFINITIONS

“DB Group”	has the meaning set out in the section headed “Connected Party Transactions — Waivers for Certain Connected Party Transactions and Connected Persons — Waivers for Certain Connected Party Transactions between China Merchants Commercial REIT Group and Trustee Connected Persons or DB Group” in this Offering Circular.
“DB Group intermediaries”	has the meaning set out in the section headed “Connected Party Transactions — Waivers for Certain Connected Party Transactions and Connected Persons — Waivers for Certain Connected Party Transactions between China Merchants Commercial REIT Group and Trustee Connected Persons or DB Group” in this Offering Circular.
“DBS China”	DBS Bank (China) Ltd, being the lender under the Onshore Facility.
“DBS Hong Kong”	DBS Bank Ltd., Hong Kong Branch, being the lender under the Offshore Facility.
“Deloitte”	means Deloitte Touche Tohmatsu.
“Deposited Property”	means, as used in the Trust Deed, all of the assets of China Merchants Commercial REIT, including all its authorised investments for the time being held or deemed to be held upon the trusts of the Trust Deed and any interest arising on subscription monies from the issuance of Units.
“Determination Date”	means the day immediately preceding the Listing Date.
“Directors”	means the directors of the REIT Manager.
“Disclosures Committee”	means the disclosures committee of the REIT Manager.
“distribution yield”	means DPU, on an annualised basis, divided by the market price of a Unit.
“Divestment Fee”	means the divestment fee not exceeding 0.5% (and being 0.5% as at the date of the Trust Deed) of the sale price of any real estate sold or divested directly or indirectly by China Merchants Commercial REIT (pro-rated if applicable to the proportion of China Merchants Commercial REIT’s interest in the real estate sold) payable to the REIT Manager pursuant to the Trust Deed.
“DMC”	means the Deed of Mutual Covenant and Management Agreement.

DEFINITIONS

“DPU”	means distribution(s) per Unit.
“DPU Commitment”	means the DPU Commitment deed dated 22 November 2019 and entered into by Eureka, the Trustee (in its capacity as trustee of China Merchants Commercial REIT) and the REIT Manager (in its capacity as manager of China Merchants Commercial REIT) under which Eureka provides a commitment that the DPU of China Merchants Commercial REIT for the periods during the DPU Commitment Period will not be less than the Annualised Committed DPU for that period pursuant to the terms of the deed.
“DPU Commitment Period”	means the period from the Listing Date to 31 December 2022.
“ECL”	means expected credit loss.
“EIT”	means the PRC enterprise income tax.
“EIT Law”	means the PRC Enterprises Income Tax Law.
“Eureka”	means Eureka Investment Company Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of CMSK.
“Facilities”	has the meaning set out in the section headed “Material Agreements and Other Documents — Facility Agreements” in this Offering Circular.
“Final Payment”	has the meaning set out in the section headed “Material Agreements and Other Documents — Sale and Purchase Deed” in this Offering Circular.
“Frontier Payables”	means the entire amount owing from Frontier Shekou to the Vendor.
“Frontier Share”	means the sole issued share of Frontier Shekou.
“Frontier Shekou”	means Frontier Shekou Commercial Holdings Limited, a BVI business company incorporated in the BVI.
“Garden City (BVI)”	means Shekou Garden City Limited, a BVI business company incorporated in the BVI and the indirect sole shareholder of Garden City (PRC).
“Garden City (HK)”	means Shekou Garden City (Hong Kong) Limited, a company incorporated in Hong Kong and the direct sole shareholder of Garden City (PRC).

DEFINITIONS

“Garden City (PRC)” . . .	means Shenzhen Garden City Real Estate Investment and Management Co., Ltd.* (深圳市花園城置業管理有限公司), a company established in the PRC and the direct owner of Garden City Shopping Centre.
“Garden City Shopping Centre”	means 花園城, a shopping centre located at No. 1086, Nanhai Avenue, Nanshan District, Shenzhen City, Guangdong Province, the PRC.
“GDP”	means gross domestic product.
“Global Offering”	means the Hong Kong Public Offering and the International Offering.
“Greater Bay Area” . . .	means the integrated economic and business hub which includes the cities of Hong Kong, Macao, Guangzhou, Shenzhen, Zhuhai, Foshan, Zhongshan, Dongguan, Huizhou, Jiangmen and Zhaoqing.
“GREEN Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider.
“HK eIPO White Form”	means the application for the Hong Kong Public Offering Units to be issued in the applicant’s own name by submitting applications online through the IPO App or the designated website of HK eIPO White Form Service Provider at www.hkeipo.hk .
“HK eIPO White Form Service Provider” . . .	means the HK eIPO White Form service provider as specified in the IPO App and the designated website at www.hkeipo.hk .
“HK Property Holding Companies”	means, collectively, Shekou Times (HK), Net Valley Cyberport (HK), Net Valley Technology (HK), Net Valley Technology 2 (HK) and Garden City (HK), each a “HK Property Holding Company”.
“HK\$”, “HKD” or “Hong Kong dollars”.	means Hong Kong dollars, the lawful currency of Hong Kong.
“HKSCC”	means Hong Kong Securities Clearing Company Limited.
“HKSCC Nominees” . . .	means HKSCC Nominees Limited.
“Holding Company” . . .	means Treasure Supreme International Limited, a BVI business company incorporated in the BVI and a wholly-owned subsidiary of China Merchants Commercial REIT.
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC.

DEFINITIONS

“Hong Kong Government”	means the Government of the Hong Kong Special Administrative Region.
“Hong Kong Public Offering”	means the offer of Units to the public in Hong Kong at the Offer Price, on and subject to the terms and conditions described in this Offering Circular and the Application Forms.
“Hong Kong Public Offering Units”	means the 75,000,000 new Units initially being offered by China Merchants Commercial REIT pursuant to the Hong Kong Public Offering (subject to reallocation as described in the section headed “Structure of the Global Offering” in this Offering Circular).
“Hong Kong Stock Exchange”	means The Stock Exchange of Hong Kong Limited or any successor thereto.
“Hong Kong Underwriter(s)”	means the underwriters of the Hong Kong Public Offering whose names are set out in the section headed “Underwriting — Hong Kong Underwriters” in this Offering Circular.
“Hong Kong Underwriting Agreement”	means the underwriting agreement dated on 27 November 2019 relating to the Hong Kong Public Offering and entered into by, among others, the REIT Manager, Eureka, the Joint Global Coordinators and the Hong Kong Underwriters, as further described in the section headed “Underwriting” in this Offering Circular.
“Hong Kong Unit Registrar”	means Tricor Investor Services Limited.
“IFRS”	means International Financial Reporting Standards.
“Illustrative Adjusted Consideration”	has the meaning set out in the section headed “Offering Circular Summary — The Purchase Consideration and the Discount to the Appraised Value of the Properties” in this Offering Circular.
“Independent Property Valuer”	means Cushman & Wakefield Limited.
“Independent Unitholders”	means Unitholders other than those who have a material interest in the relevant transactions within the meaning of paragraph 8.11 of the REIT Code.
“Initial Adjustment Sum”	has the meaning set out in the section headed “Material Agreements and Other Documents — Sale and Purchase Deed” in this Offering Circular.

DEFINITIONS

“Initial Consideration” .	has the meaning set out in the section headed “Material Agreements and Other Documents — Sale and Purchase Deed” in this Offering Circular.
“Interim Distributable Income”	means, for any distribution period, the amount calculated by the REIT Manager (based on the interim unaudited financial statements of China Merchants Commercial REIT for that distribution period) as representing the consolidated net profit of China Merchants Commercial REIT for that distribution period, after provision for tax, and taking into account the Adjustments and, for the avoidance of doubt, excludes any additional discretionary distributions out of capital.
“International Offering”	means the offer of International Offering Units for cash at the Offer Price solely to institutional, professional and other investors as further described in the section headed “Structure of the Global Offering” in this Offering Circular.
“International Offering Units”	means the 675,000,000 Units initially available to investors in the International Offering and up to an additional 37,500,000 Units pursuant to the Over-allotment Option.
“International Underwriters”	means the group of underwriters of the International Offering.
“International Underwriting Agreement”	means the underwriting agreement relating to the International Offering expected to be entered into on or around 3 December 2019 by, among others, the REIT Manager, the Joint Global Coordinators and the International Underwriters, as further described in the section headed “Underwriting” in this Offering Circular.
“Investment Committee”	means the investment committee of the REIT Manager.
“IPO App”	means the mobile application for HK eIPO White Form service which can be downloaded by searching “IPO App” in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp .
“Joint Bookrunners and Joint Lead Managers”	means Citigroup Global Markets Asia Limited (in relation to the Hong Kong Public Offering only), Citigroup Global Markets Limited (in relation to the International Offering only), China Merchants Securities (HK) Co., Limited and DBS Asia Capital Limited.
“Joint Global Coordinators”	means Citigroup Global Markets Asia Limited, China Merchants Securities (HK) Co., Limited and DBS Asia Capital Limited.

DEFINITIONS

“Land Use Grant Rules”	means the Rules Regarding the Grant of State-owned Land Use Rights by Way of Tender, Auction and Listing-for-sale of the PRC which are effective from 1 July 2002.
“LAT”	means Land Appreciation Tax.
“Lapse Event”	has the meaning set out in the section headed “Material Agreements and Other Documents — Deed of Right of First Refusal — Failure to Exercise the Right of First Refusal” in this Offering Circular.
“Latest Practicable Date”	means 19 November 2019, being the latest practicable date for the purposes of ascertaining certain information contained in this Offering Circular.
“Licensees”	has the meaning set out in the section headed “Material Agreements and Other Documents — Trademark and Brand Licence Agreement” in this Offering Circular.
“Licensed Brands”	has the meaning set out in the section headed “Material Agreements and Other Documents — Trademark and Brand Licence Agreement” in this Offering Circular.
“Licensed Subjects”	has the meaning set out in the section headed “Material Agreements and Other Documents — Trademark and Brand Licence Agreement” in this Offering Circular.
“Licensed Trademarks”	has the meaning set out in the section headed “Material Agreements and Other Documents — Trademark and Brand Licence Agreement” in this Offering Circular.
“Listing”	means the listing of the Units on the Main Board of the Hong Kong Stock Exchange.
“Listing Agreement”	means the agreement entered into by and among the Trustee, the REIT Manager (as an operator of a collective investment scheme) and the Hong Kong Stock Exchange in relation to the post-regulatory regime applicable to China Merchants Commercial REIT.
“Listing Date”	means the date, expected to be on 10 December 2019, on which the Units are first listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange.
“Listing Rules”	means the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

DEFINITIONS

“Macao”	means Macao Special Administrative Region of the PRC.
“Main Board”	means the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with GEM.
“Management Person(s)”	has the meaning set out in the section headed “Corporate Governance — Interests of, and Dealings in Units by, Directors, the REIT Manager or the Significant Unitholders” in this Offering Circular.
“Market Consultant”	means Knight Frank Petty Limited, an independent industry consultant.
“Market Consultant Report”	means a market consultant report prepared by the Market Consultant in connection with the Global Offering.
“Maximum Offer Price”	means the maximum price of HK\$4.00 per Offer Unit payable in full by applicants under the Hong Kong Public Offering (exclusive of brokerage of 1.0%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%).
“Metro Line”	means line of Shenzhen Metro.
“Metro Line 2”	means line 2 of Shenzhen Metro.
“Metro Line 12”	means line 12 of Shenzhen Metro.
“Metro Line 9 Extension Line”	means the extension line of line 9 of Shenzhen Metro.
“Minimum Offer Price”	means the expected minimum price of HK\$3.42 per Offer Unit payable in full by applicants under the Hong Kong Public Offering (exclusive of brokerage of 1.0%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%).
“MOFCOM”	means the Ministry of Commerce of the PRC.
“NAV”	means net asset value, which is calculated as total assets minus total liabilities.
“Nanshan Government”	the People’s Government of Nanshan District of Shenzhen.
“Net Valley Cyberport (BVI)”	means Shekou Net Valley Garden City Cyberport Limited, a BVI business company incorporated in the BVI and the indirect sole shareholder of Net Valley Cyberport (PRC).

DEFINITIONS

“Net Valley Cyberport (HK)”	means Shekou Net Valley Garden City Cyberport (Hong Kong) Limited, a company incorporated in Hong Kong and the direct sole shareholder of Net Valley Cyberport (PRC).
“Net Valley Cyberport (PRC)”	means Shenzhen Cyberport Building Real Estate Investment and Management Co., Ltd.* (深圳市數碼大廈置業管理有限公司), a company established in the PRC and the direct owner of Cyberport Building.
“Net Valley Technology (BVI)”	means Shekou Net Valley Technology Limited, a BVI business company incorporated in the BVI and the indirect sole shareholder of Net Valley Technology (PRC).
“Net Valley Technology (HK)”	means Shekou Net Valley Technology (Hong Kong) Limited, a company incorporated in Hong Kong and the direct sole shareholder of Net Valley Technology (PRC).
“Net Valley Technology (PRC)”	means Shenzhen Technology Building Real Estate Investment and Management Co., Ltd.* (深圳市科大置業管理有限公司), a company established in the PRC and the direct owner of Technology Building.
“Net Valley Technology 2 (BVI)”	means Shekou Net Valley Technology 2 Limited, a BVI business company incorporated in the BVI and the indirect sole shareholder of Net Valley Technology 2 (PRC).
“Net Valley Technology 2 (HK)”	means Shekou Net Valley Technology 2 (Hong Kong) Limited, a company incorporated in Hong Kong and the direct sole shareholder of Net Valley Technology 2 (PRC).
“Net Valley Technology 2 (PRC)”	means Shenzhen Technology Building 2 Real Estate Investment and Management Co., Ltd.* (深圳市科大二期置業管理有限公司), a company established in the PRC and the direct owner of Technology Building 2.
“New Industries Use”	has the meaning set out in the section headed “The Properties and Business — Legal and Regulatory Compliance” in this Offering Circular.
“New Times Plaza”	means 新時代廣場, an office building located at No. 1, Taizi Road, Nanshan District, Shenzhen City, Guangdong Province, the PRC.
“Nomination and Remuneration Committee”	means the nomination and remuneration committee of the REIT Manager.

DEFINITIONS

- “Notice” means the Notice on Problems Regarding Strengthening the Supply and Regulation of Land Used for Real Estates Supply promulgated by the Ministry of Land and Resources on 8 March 2010.
- “Offer Price” means the final Hong Kong dollar price per Unit (exclusive of brokerage of 1.0%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%) at which the Units are to be issued and allotted pursuant to the Global Offering, to be determined as further described in the section headed “Structure of the Global Offering” in this Offering Circular.
- “Offer Unit(s)” means the Hong Kong Public Offering Units and the International Offering Units (including any additional Units sold pursuant to the exercise of the Over-allotment Option).
- “Offering Circular” means this offering circular issued in connection with the Global Offering and the Listing.
- “Offshore Borrower” has the meaning set out in the section headed “Material Agreements and Other Documents — Facility Agreements” in this Offering Circular.
- “Offshore Facility” has the meaning set out in the section headed “Material Agreements and Other Documents — Facility Agreements” in this Offering Circular.
- “Offshore Investors” has the meaning set out in the section headed “Taxation — PRC Taxation of China Merchants Commercial REIT — China Indirect Transfer Tax” in this Offering Circular.
- “Offshore Property Holding Companies” means, collectively, Frontier Shekou, the BVI Property Holding Companies and the HK Property Holding Companies.
- “Onshore Borrowers” has the meaning set out in the section headed “Material Agreements and Other Documents — Facility Agreements” in this Offering Circular.
- “Onshore Facility” has the meaning set out in the section headed “Material Agreements and Other Documents — Facility Agreements” in this Offering Circular.

DEFINITIONS

“Onshore Manager Subsidiary”	means China Merchants Land Enterprise Management Consulting (Shenzhen) Co., Ltd (招商局置地企業管理諮詢(深圳)有限公司), a company incorporated in the PRC and a direct wholly-owned subsidiary of the REIT Manager and an indirect wholly-owned subsidiary of CML and whose registered address is at 413, Venture One, 43 Yanshan Road, Yanshan Community, China Merchants Sub-district, Nanshan District, Shenzhen City, Guangdong Province, the PRC.
“Operations Management Agreement”	means the operations management agreement entered into between the Operations Manager and the PRC Property Companies relating to the provision of Operations Management Services in respect of the Properties.
“Operations Management Fee” . . .	has the meaning set out in the section headed “The Operations Manager and the Property Manager — The Operations Management Agreement” in this Offering Circular.
“Operations Management Services”	has the meaning set out in the section headed “The Operations Manager and the Property Manager — The Operations Management Agreement” in this Offering Circular.
“Operations Manager” .	means China Merchants Shekou Enterprise Management (Shenzhen) Co., Ltd.* (招商蛇口企業管理(深圳)有限公司), a company established in the PRC and a direct wholly-owned subsidiary of CMSK and whose registered address is at No. 505, Venture One, 43 Yanshan Road, Nanshan District, Shenzhen City, Guangdong Province, the PRC.
“Ordinary Resolution” .	means a resolution of Unitholders proposed and passed by a simple majority 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 registered as holding together not less than 10% of Units for the time being in issue.
“Outline Development Plan”	Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (粵港澳大灣區發展規劃綱要) published by Central Committee of the Chinese Communist Party and the State Council of the PRC in February 2019.
“Over-allotment Option”	means the option to be granted by Eureka to the International Underwriters pursuant to the International Underwriting Agreement to require Eureka to sell at the Offer Price up to 37,500,000 Units, representing 5% of the total number of Units initially available under the Global Offering, to be offered to investors as part of the International Offering to, among other things, cover the over-allocations of Units, if any.

DEFINITIONS

“PBOC”	means The People’s Bank of China.
“Percentage Threshold”	has the meaning set out in “The Trust Deed — Issue of Units and/or Convertible Instruments and Issue Price” in this Offering Circular.
“PRC”	means The People’s Republic of China excluding, for the purposes of this Offering Circular only (unless otherwise expressly specified), Hong Kong, Macao and Taiwan.
“PRC GAAP”	means the Generally Accepted Accounting Principles of the PRC.
“PRC Government” . . .	means the Government of the PRC.
“PRC Legal Advisors” .	means Zhong Lun Law Firm.
“PRC Property Companies”	means the respective direct owners of the Properties, being (i) Shekou Times (PRC), in relation to New Times Plaza; (ii) Net Valley Cyberport (PRC), in relation to Cyberport Building; (iii) Net Valley Technology (PRC), in relation to Technology Building; (iv) Net Valley Technology 2 (PRC), in relation to Technology Building 2; and (v) Garden City (PRC), in relation to Garden City Shopping Centre, and “PRC Property Company” means any one of them.
“PRC RE”	means a PRC resident enterprise.
“Predecessor Group” .	means Frontier Shekou and its subsidiaries, whose results of operations are set out in the consolidated financial statements in Appendix I to this Offering Circular.
“Price Determination Date”	means the date, expected to be on 3 December 2019, on which the Offer Price is determined for the purposes of the Global Offering.
“Profit Forecast Period”	means the period from the Listing Date to 31 December 2019.
“Promissory Note” . . .	has the meaning set out in the section headed “Reorganisation, Structure and Organisation of China Merchants Commercial REIT — Reorganisation” in this Offering Circular.
“Promotional Expenses”	has the meaning set out in the section headed “Modifications, Waivers and Licensing Conditions — Payment of Promotional Expenses from the Properties of China Merchants Commercial REIT — Paragraph 9.13(B) of the REIT Code” in this Offering Circular.

DEFINITIONS

“Properties”	means (i) New Times Plaza; (ii) Cyberport Building; (iii) Technology Building; (iv) Technology Building 2; and (v) Garden City Shopping Centre, and “Property” means any one of them.
“Property Companies”	means, collectively, the Holding Company, the Offshore Property Holding Companies and the PRC Property Companies, and “Property Company” means any one of them.
“Property Development and Related Activities”	means the acquisition of incomplete units in a building by a REIT and property developments (including both new development projects and re-development of existing properties) undertaken in accordance with Chapter 7 of the REIT Code.
“Property Management Agreements”	means the property management agreements entered into by each of the PRC Property Companies respectively with the Property Manager relating to the provision of certain property management services in respect of the Properties.
“Property Management Fee”	has the meaning set out in the section headed “The Operations Manager and the Property Manager — The Property Management Agreements” in this Offering Circular.
“Property Management Services”	has the meaning set out in the section headed “The Operations Manager and the Property Manager — The Property Management Agreements” in this Offering Circular.
“Property Manager”	means Shenzhen China Merchants Property Holding Management Co., Ltd.* (深圳招商物業管理有限公司), a company incorporated in the PRC and an indirect wholly-owned subsidiary of CMSK and whose registered address is at 730–736, China Merchants Mansion, Zhaoshang Road, Nanshan District, Shenzhen City, Guangdong Province, the PRC.
“Public Float Percentage”	has the meaning set out in the section headed “The Trust Deed — Public Float Requirement” in this Offering Circular.
“Purchase Consideration”	means the Initial Consideration as adjusted by the Final Payment.
“Purchaser”	means the Holding Company.
“Qianhai-Shekou Pilot FTZ”	China (Guangdong) Pilot Free Trade Zone, Qianhai & Shekou Area of Shenzhen (中國(廣東)自由貿易試驗區深圳前海蛇口片區).
“RE”	means a “resident enterprise” for the purposes of EIT.

DEFINITIONS

“record date”	means the date or dates in respect of each distribution period determined by the REIT Manager for the purpose of determining the distribution entitlement to the distribution amount of the Unitholders.
“Registration Regulations”	means the Land Registration Regulations promulgated by the State Land Administration Bureau on 28 December 1995 and implemented on 1 February 1996.
“Regulation S”	means Regulation S under the U.S. Securities Act.
“REIT”	means real estate investment trust.
“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 to by published practice statements or in any particular case, by specific written guidance issued or exemptions or waivers granted by the SFC.
“REIT Manager”	means China Merchants Land Asset Management Co., Limited.
“REIT Manager’s Remuneration”	has the meaning set out in the section headed “Modifications, Waivers and Licensing Conditions — Payment of REIT Manager’s Fee by way of Units — Chapter 12 of the REIT Code” in this Offering Circular.
“Relevant Date”	means, as the case may be, the date of the relevant agreement or other instrument for the issue or proposed issue of any Units or Convertible Instruments, or the date of the grant of any Convertible Instruments, whichever is the earlier.
“Relevant Investments”	means the following financial instruments which a REIT may invest in as permitted under the REIT Code: (a) securities listed on the Hong Kong Stock Exchange or other internationally recognised stock exchanges; (b) unlisted debt securities; (c) government and other public securities; and (d) local or overseas property funds.
“Relevant Jurisdictions”	means the Greater Bay Area (other than Foshan and Guangzhou), Beijing and Shanghai.
“Relevant Period”	has the meaning set out in the section headed “Material Agreements and Other Documents — DPU Commitment” in this Offering Circular.

DEFINITIONS

“Relevant Persons” . . .	means the Sole Listing Agent, the Joint Global Coordinators, the Joint Bookrunners and Joint Lead Managers, the Underwriters, CMSK, any of their or the REIT Manager’s respective directors, officers or representatives or any other persons involved in the Global Offering.
“Relevant Property” . . .	has the meaning set out in the section headed “Material Agreements and Other Documents — Deed of Right of First Refusal — Scope of Coverage” in this Offering Circular.
“Reorganisation”	has the meaning set out in the section headed “Reorganisation, Structure and Organisation of China Merchants Commercial REIT — Reorganisation” in this Offering Circular.
“Responsible Officer” . . .	means a responsible officer of the REIT Manager appointed pursuant to the requirements of the SFO.
“RET”	means Real Estate Tax.
“RMB”	means Renminbi, the lawful currency of the PRC.
“ROFR”	has the meaning set out in the section headed “Material Agreements and Other Documents — Deed of Right of First Refusal” in this Offering Circular.
“SAFE”	means the State Administration of Foreign Exchange of the PRC.
“Sale and Purchase Deed”	means the sale and purchase deed dated 25 November 2019 and entered into by and among the Purchaser, the REIT Manager (in its capacity as manager of China Merchants Commercial REIT), the Vendor and Eureka for the acquisition of Frontier Share and the assignment of the Assigned Frontier Payables, as described in “Material Agreements and Other Documents — Sale and Purchase Deed” in this Offering Circular.
“Sale Notice”	has the meaning set out in the section headed “Material Agreements and Other Documents — Deed of Right of First Refusal — Sale Notice” in this Offering Circular.
“SASAC”	means the State-owned Assets Supervision and Administration Commission of the State Council of the PRC.
“SAT”	means the State Administration of Taxation of the PRC.
“SFC”	means the Securities and Futures Commission of Hong Kong.

DEFINITIONS

“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified for the time being.
“Shekou”	refers to the Shekou sub-district* (蛇口街道), China Merchants sub-district* (招商街道) and certain portion of the Dananshan sub-district* (大南山片區), which are sub-districts of Nanshan District, Shenzhen City, and are together generically known as Shekou. For a clear delineation of Shekou, please refer to the section headed “Offering Circular Summary” in this Offering Circular.
“Shekou Net Valley” . .	means Shekou Net Valley Industrial Zone (蛇口網谷工業園區).
“Shekou Times (BVI)” .	means Shekou Times Limited, a BVI business company incorporated in the BVI and the indirect sole shareholder of Shekou Times (PRC).
“Shekou Times (HK)” .	means Shekou Times (Hong Kong) Limited, a company incorporated in Hong Kong and the direct sole shareholder of Shekou Times (PRC).
“Shekou Times (PRC)”	means Shenzhen Shekou New Times Real Estate Investment and Management Co., Ltd.* (深圳市蛇口新時代置業管理有限公司), a company established in the PRC and the direct owner of New Times Plaza.
“Significant Unitholder(s)”	means any person who is a “significant holder” as defined under the REIT Code.
“Sole Listing Agent” . .	means Citigroup Global Markets Asia Limited.
“Special Purpose Vehicle(s)”	means an entity which is wholly or majority owned directly or indirectly by China Merchants Commercial REIT in accordance with the REIT Code through which China Merchants Commercial REIT holds or owns real estate.
“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 registered as holding together not less than 25% of the Units for the time being in issue.
“Stabilising Manager” .	means Citigroup Global Markets Asia Limited.

DEFINITIONS

“Stamp Duty Ordinance”	means Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong), as amended, supplemented or otherwise modified for the time being.
“State Council”	means the State Council of the PRC (中華人民共和國國務院).
“Statement of Financial Position”	means the statement of financial position of Frontier Shekou delivered to the Trustee and the REIT Manager.
“Subject Land”	has the meaning set out in the section headed “The Properties and Business — Legal and Regulatory Compliance” in this Offering Circular.
“Subject Properties”	means Cyberport Building, Technology Building and Technology Building 2, each a “Subject Property”.
“Subject Properties Indemnity”	has the meaning set out in the section headed “Material Agreements and Other Documents — Sale and Purchase Deed” in this Offering Circular.
“Subject Property Companies”	means Net Valley Cyberport (PRC), Net Valley Technology (PRC) and Net Valley Technology 2 (PRC), each a “Subject Property Company”.
“Successor REIT Manager”	has the meaning set out in the section headed “The REIT Manager — Further Details Regarding the REIT Manager — Retirement or Removal of the REIT Manager” in this Offering Circular.
“Takeovers Code”	means the Codes on Takeovers and Mergers and Share Buy-backs published by the SFC, as amended, supplemented or otherwise modified for the time being.
“Technology Building”	means 科技大廈, an office building complex technically zoned for industrial use located at No. 1067, Nanhai Avenue, Nanshan District, Shenzhen City, Guangdong Province, the PRC.
“Technology Building 2”	means 科技大廈二期, an office building complex technically zoned for industrial use located at No. 1057, Nanhai Avenue, Nanshan District, Shenzhen City, Guangdong Province, the PRC.
“tenancy”	means a tenancy in respect of a premises within the Properties granted to a tenant and “tenancies” shall be construed accordingly.
“Tier 1 Cities”	means the cities of Beijing, Shanghai, Guangzhou and Shenzhen in the PRC.

DEFINITIONS

“Track Record Period”	means the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019.
“Trademark and Brand Licence Agreement”	has the meaning set out in the section headed “Material Agreements and Other Documents — Trademark and Brand Licence Agreement” in this Offering Circular.
“Transition Period” . . .	has the meaning set out in the section headed “The REIT Manager — Further Details Regarding the REIT Manager — Retirement or Removal of the REIT Manager” in this Offering Circular.
“Trust Deed”	means the trust deed dated 15 November 2019 between the Trustee (in its capacity as trustee of China Merchants Commercial REIT) and the REIT Manager constituting China Merchants Commercial REIT, as amended by any supplemental deed.
“Trustee”	means DB Trustees (Hong Kong) Limited, the trustee of China Merchants Commercial REIT.
“Trustee Connected Persons”	has the meaning set out in the section headed “Connected Party Transactions — Waivers for Certain Connected Party Transactions and Connected Persons — Waivers for Certain Connected Party Transactions between China Merchants Commercial REIT Group and Trustee Connected Persons or DB Group” in this Offering Circular.
“Trustee Continuing CPTs”	has the meaning set out in the section headed “Connected Party Transactions — Waivers for Certain Connected Party Transactions and Connected Persons — Waivers for Certain Connected Party Transactions between China Merchants Commercial REIT Group and Trustee Connected Persons or DB Group” in this Offering Circular.
“Trustee Continuing CPTs General Conditions”	has the meaning set out in the section headed “Connected Party Transactions — Waivers for Certain Connected Party Transactions and Connected Persons — Waivers for Certain Connected Party Transactions between China Merchants Commercial REIT Group and Trustee Connected Persons or DB Group — General Conditions and Undertakings” in this Offering Circular.
“Trustee Ordinance” . .	means the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong), as amended, supplemented or otherwise modified for the time being.

DEFINITIONS

“Unassigned Frontier Payables”	means the following portions of the Frontier Payables, but only to the extent such portions have not been paid on or prior to the Asset Injection Completion Date: (a) the dividend of RMB319,337,000 declared by Frontier Shekou for the six months ended 30 June 2019 but not yet paid to the Vendor; and (b) the amount of the Frontier Payables to be repaid from the proceeds of the PRC Property Companies’ ongoing capital reduction exercise, being RMB637,000,000.
“Underwriter(s)”	means the Hong Kong Underwriters and the International Underwriters.
“Underwriting Agreements”	means the Hong Kong Underwriting Agreement and the International Underwriting Agreement, and each an “Underwriting Agreement”.
“Unit”	means a unit of China Merchants Commercial REIT.
“United States” or “U.S.”	means the United States of America.
“Unitholder”	means any person registered as holding a Unit.
“USD” or “US\$”	means United States dollars, the lawful currency of the United States.
“U.S. Securities Act”	means the United States Securities Act of 1933, as amended.
“Valuation Report”	means the valuation report produced by the Independent Property Valuer, as set out in Appendix IV to this Offering Circular.
“Variable Fee”	means the variable fee payable to the REIT Manager on an annual basis under the Trust Deed, being 25.0% per annum of the difference in DPU in a financial year compared to the preceding financial year, multiplied by the weighted average number of Units in issue for such financial year. For the purpose of calculating the Variable Fee only, the DPU shall be calculated before accounting for the Variable Fee but after accounting for the Base Fee for the relevant financial year.
“VAT”	means Value-Added Tax.

DEFINITIONS

“Vendor”	means Jumbo Pacific Holdings Limited, a BVI business company incorporated in the BVI and the direct owner of the sole issued share of Frontier Shekou prior to Asset Injection Completion.
“WHITE Application Form(s)”	the form of application for the Hong Kong Public Offering Units for use by the public who require such Hong Kong Public Offering Units to be issued in the applicants’ own name.
“YELLOW Application Form(s)”	the form of application for the Hong Kong Public Offering Units for use by the public who require such Hong Kong Public Offering Units to be deposited directly into CCASS.

* *For identification purpose only*

TECHNICAL TERMS

In this Offering Circular, unless the context otherwise requires, the following terms shall have the meanings set out below:

- “Average Delinquency Rate” calculated by dividing the average delinquency balance by the total rental income during the relevant period. Delinquency refers to rental receivables that remain unpaid for over 90 days after their due dates.
- “Average Monthly Rental per Leased Square Metre” means, in respect of a relevant period, the Gross Rental Income divided by the aggregate of leased area under the tenancy agreements during each month in that relevant period.
- “Base Rent” means Gross Rental Income as at the relevant time or for the relevant period (as the case may be) from the Properties or the relevant Property (as the case may be) as provided for in the tenancy agreements, exclusive of any Turnover Rent, rent free period, rental escalation and discount.
- “Charge-Out Collections” means the air conditioning charges, management fees, promotional charges, government rates, government rents, utility charges, cleaning and other charges payable by the tenants and licensees of the Properties.
- “commission basis” means a revenue generating model for the Predecessor Group’s management fees with effect from June 2017 whereby management fees charged from tenants of New Times Plaza and all expenses incurred in property management are attributable to the Property Company of New Times Plaza, and a specified percentage of commission is paid to the property management service provider and accounted for as an expense in the Predecessor Group’s consolidated financial statements.
- “Grade A office building” means an office building that is usually located at a central location; 5 to 10 minutes away from a metro station; has good visibility; has a built area of more than 30,000 sq.m. and floor area of more than 1,300 sq.m.; has raised flooring installed; has at least two floor headroom for the lobby; well-designed with high quality material; well-decorated at the public area; has central air conditioning system and multiple fan coil system, managed by well-known facility management company; less than ten years old; has elevator service and parking facilities. For details, please refer to “Industry Overview — A. Shenzhen Office Market” in this Offering Circular.

TECHNICAL TERMS

- “Grade B office building” means an office building that is usually located at a sub-central area; more than 10 minutes away from a metro station; has visibility; has a built area of more than 10,000 sq.m. and floor area of more than 800 sq.m.; designed with good quality material; has tile-paved surface for the lobby and middle-level decoration at the public area; has central air conditioning system; managed by local facility management; more than ten years old; has elevator service and parking facilities. For details, please refer to “Industry Overview — A. Shenzhen Office Market” in this Offering Circular.
- “Gross Floor Area” or “GFA” means, in respect of a Property, the gross floor area of that Property being the area contained within the external walls of the building measured at each floor level (including any floor below the level of the ground), together with the area of each balcony in the building, which shall be calculated from the overall dimensions of the balcony (including the thickness of the sides thereof), and the thickness of external walls of the building excluding any floor space that is constructed or intended to be used solely for parking motor vehicles, loading or unloading of motor vehicles, or for refuse storage chambers, material recovery chambers, refuse chutes, refuse hopper rooms and other types of facilities provided to facilitate the separation of refuse, or for access facilities for telecommunications and broadcasting services, or occupied solely by machinery or equipment for any lift, air-conditioning or heating system or any similar service.
- “Gross Rentable Area” means, in respect of a Property, consists of that portion of the Gross Floor Area of that Property determined by the relevant PRC Property Company at any given time to be rentable.
- “Gross Rental Income” means rental income (including Turnover Rent) due from the tenants under their tenancy agreements for space in the Properties excluding any rental related income, management fee income, income generated from car parking spaces and early termination.

TECHNICAL TERMS

- “lump sum basis” means a revenue generating model for the Predecessor Group’s management fees prior to June 2017 whereby all management fees charged from tenants of New Times Plaza and all expenses incurred in providing property management thereto were attributable to the property management service provider, which were not recognised in the Predecessor Group’s consolidated financial statements.
- “market value” means the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.
- “Net Property Income”
or “NPI” means total revenue minus property related expenses, including, without limitation, advertising and promotion, agency fee, insurance, property management expenses, operations management expenses, other taxes related to the Properties (including urban real estate tax, land use right tax, urban construction and maintenance tax, education surcharge, local education surcharge and stamp duties), expenses related to repairs and maintenance, for each Property.
- “Occupancy Rate” . . . means, in respect of the Properties or the relevant Property (as the case may be), the Gross Rentable Area occupied by tenants as a percentage of total Gross Rentable Area of the Properties or the relevant Property (as the case may be).
- “sq.m.” means square metre.
- “Turnover Rent” means rent calculated by reference to a pre-determined percentage of a tenant’s sales turnover.

THE GLOBAL OFFERING

THE GLOBAL OFFERING

The following is a description of the key elements of the Global Offering:

China Merchants Commercial REIT	China Merchants Commercial Real Estate Investment Trust, a collective investment scheme constituted as a unit trust by the Trust Deed and authorised under section 104 of the SFO.
The REIT Manager	China Merchants Land Asset Management Co., Limited, a company incorporated in Hong Kong under the Companies Ordinance on 22 June 2019 and an indirect wholly-owned subsidiary of CML.
The Trustee	DB Trustees (Hong Kong) Limited.
The Hong Kong Public Offering . . .	An initial offer of 75,000,000 Units to the public in Hong Kong, subject to adjustment and reallocation.
The International Offering	An initial offer of 675,000,000 Units to institutional, professional, and other investors outside the United States in offshore transactions in reliance on Regulation S, subject to reallocation and the Over-allotment Option.
The Global Offering	A total offering of 750,000,000 Units, consisting of the Hong Kong Public Offering and the International Offering (subject to the Over-allotment Option).
Reallocation of Units.	The Units to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated between these offerings. Please refer to the section headed “Structure of the Global Offering” in this Offering Circular.
Structure	The Units are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S. The Units have not been and will not be registered under the US Securities Act or any state securities law in the United States.
Offer Price Range.	The Offer Price of the Units will not be more than HK\$4.00 and is expected to be not less than HK\$3.42.

THE GLOBAL OFFERING

- Charges Payable by Investors In addition to the Maximum Offer Price, investors applying for Units in the Global Offering must pay brokerage of 1.0%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%, calculated on the Maximum Offer Price and subject to refund if the Offer Price is lower than the Maximum Offer Price.
- Over-allotment Option The International Underwriters are expected to be granted an option by Eureka, exercisable by the Joint Global Coordinators on behalf of the International Underwriters in full or in part, on one or more occasions at any time from the date of the International Underwriting Agreement up to (and including) the date which is the 30th day after the last day for lodging applications under the Hong Kong Public Offering, to purchase from Eureka up to an aggregate of 37,500,000 Units at the Offer Price. The exercise of the Over-allotment Option will not increase the total number of Units in issue. The total number of Units subject to the Over-allotment Option will constitute not more than 5% of the total number of Units initially available under the Global Offering.
- Use of Proceeds. Please refer to the section headed “Use of Proceeds” in this Offering Circular for details of how the proceeds from the Global Offering will be applied.
- Issuance of Units to Eureka. Prior to and not as part of the Global Offering, 377,819,549 Units will be issued by China Merchants Commercial REIT to Eureka at Asset Injection Completion pursuant to the Sale and Purchase Deed.

THE GLOBAL OFFERING

Lock-ups	The REIT Manager has given certain lock-up undertakings to the Sole Listing Agent, the Joint Global Coordinators and the Hong Kong Underwriters that China Merchants Commercial REIT will not issue any new Units for a period of six months from the Listing Date, subject to certain exceptions. Eureka has given certain undertakings to the REIT Manager, the Sole Listing Agent, the Joint Global Coordinators and the Hong Kong Underwriters that it will not (a) transfer or dispose of any Units held by it for a period of six months from the Listing Date and (b) transfer or dispose of any Units which would result in it ceasing to hold at least 30% of the Units then in issue during the following period of six months, subject to certain exceptions. Please refer to the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Undertakings” in this Offering Circular.
Market Capitalisation	HK\$4,511.3 million, based on the Maximum Offer Price, or HK\$3,857.1 million, based on the Minimum Offer Price.
NAV per Unit Upon Completion of the Global Offering	HK\$3.75 and HK\$3.75 based on the Maximum Offer Price and Minimum Offer Price, respectively. The calculation of the NAV per Unit is arrived at on the basis of the net assets attributable to Unitholders extracted from the Unaudited Pro Forma Statement of Financial Position of China Merchants Commercial REIT set out in Appendix II to this Offering Circular based on the Maximum Offer Price and Minimum Offer Price and on the basis that 1,127,819,549 Units will be in issue upon completion of the Global Offering.
Listing and Trading	Prior to the Global Offering, there has been no market for the Units.

THE GLOBAL OFFERING

Preliminary approval has been granted by the Hong Kong Stock Exchange for the listing of, and permission to deal in, all the Units on the Main Board of the Hong Kong Stock Exchange. Dealings in Units on the Hong Kong Stock Exchange are expected to commence on Tuesday, 10 December 2019. If the Hong Kong Stock Exchange grants formal approval for the listing of, and permission to deal in, the Units on the Main Board of the Hong Kong Stock Exchange and the China Merchants Commercial REIT complies with the stock admission requirements of HKSCC, the Units will be accepted as eligible securities by HKSCC for deposit, clearance, and settlement in CCASS, with effect from the Listing Date or any other date that HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Hong Kong Stock Exchange business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Units to be admitted into CCASS.

Stabilisation In connection with the Global Offering, the Stabilising Manager may over-allocate or effect transactions with a view to stabilising or supporting the market price of the Units at a level higher than that which might otherwise prevail for a period of 30 days after the last day for lodging applications under the Hong Kong Public Offering.

No Redemption Right for Unitholders Unitholders have no right to request that the REIT Manager redeem their Units at any time. Listing of the Units on the Hong Kong Stock Exchange does not guarantee a liquid market for the Units.

THE GLOBAL OFFERING

Profit Forecast (for the period from the Listing Date to 31 December 2019)	The REIT Manager forecasts that, in the absence of unforeseen circumstances and on the bases and assumptions set out in the section headed “Profit Forecast for the Profit Forecast Period” in this Offering Circular, the profit attributable to Unitholders and the distributable income of the China Merchants Commercial REIT for the period from the Listing Date to 31 December 2019 will be not less than RMB6.2 million and RMB9.2 million, respectively. For further details, including the principal assumptions on which the forecast is based, Please refer to the section headed “Profit Forecast for the Profit Forecast Period” in this Offering Circular.
Distributions.	The REIT Manager’s policy is to distribute to Unitholders an amount of no less than 90% of China Merchants Commercial REIT’s Annual Distributable Income for each financial year, as more fully described in the section headed “Distribution Policy” in this Offering Circular. Pursuant to the Trust Deed, the REIT Manager may at its discretion from time to time direct the Trustee to make distributions over and above the minimum 90% of the Annual Distributable Income. The REIT Manager currently intends to distribute 100% of the Annual Distributable Income for the DPU Commitment Period. Distributions will be declared in Hong Kong dollars. Please refer to the section headed “Distribution Policy” in this Offering Circular for further information on China Merchants Commercial REIT’s distribution policy. See the section headed “Risk Factors” in this Offering Circular for a discussion of factors that may adversely affect the ability of the China Merchants Commercial REIT to make distributions to Unitholders.

THE GLOBAL OFFERING

Statement of Distributions	Unitholders will be paid, in the absence of unforeseen circumstances, a forecast DPU of HK\$0.0093 in respect of the period from the Listing Date to 31 December 2019, representing an annualised distribution yield of 3.8% based on the Maximum Offer Price and 4.5% based on the Minimum Offer Price (in each case excluding other transaction costs) assuming no new Units will be issued during such period. The annualised forecast distribution yields are provided for illustrative purposes only. The annualised actual distribution yield for the first distribution period (being from the Listing Date to 30 June 2020) may differ from the annualised forecast distribution yields based on the forecast DPU for the period from the Listing Date to 31 December 2019.
Tax Considerations	Please refer to the section headed “Taxation” in this Offering Circular for information on certain tax consequences of the purchase, ownership, and disposal of the Units.
Governing Law	The Trust Deed, pursuant to which China Merchants Commercial REIT is constituted, is governed by Hong Kong law.
Termination of China Merchants Commercial REIT	China Merchants Commercial REIT may be terminated by the Trustee or the REIT Manager in the circumstances set out in the Trust Deed. Please refer to the section headed “The Trust Deed — Termination of China Merchants Commercial REIT” in this Offering Circular for further information.
Risk Factors	Prospective investors should carefully consider the risks connected with an investment in the Units. Certain of these risks are discussed in the section headed “Risk Factors” in this Offering Circular.

INFORMATION ABOUT THIS OFFERING CIRCULAR AND THE GLOBAL OFFERING

THE REIT MANAGER'S RESPONSIBILITY FOR THE CONTENTS OF THIS OFFERING CIRCULAR

The REIT Manager and the Directors (whose names appear in the section headed "Parties Involved in the Global Offering" in this Offering Circular) collectively and individually accept full responsibility for the accuracy of the information contained in this Offering Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this Offering Circular misleading.

SFC AUTHORISATION

China Merchants Commercial REIT has been authorised by the SFC under section 104 of the SFO. The SFC does not take any responsibility for the financial soundness of China Merchants Commercial REIT or for the correctness of any statements made or opinions expressed in this Offering Circular and other documents relating to China Merchants Commercial REIT. SFC authorisation is not a recommendation or endorsement of China Merchants Commercial REIT nor does it guarantee the commercial merits of China Merchants Commercial REIT or its performance. It does not mean China Merchants Commercial REIT is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

Underwriting

This Offering Circular is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this Offering Circular and the related application forms contain the terms and conditions of the Hong Kong Public Offering. The Global Offering is managed by the Joint Global Coordinators. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters. Pursuant to the International Underwriting Agreement, the International Offering is expected to be underwritten by the International Underwriters. Further details about the Hong Kong Underwriters and the underwriting arrangements are contained in the section headed "Underwriting" in this Offering Circular.

Distribution and Selling Restrictions

The Hong Kong Public Offering Units are offered solely on the basis of the information contained and representations made in this Offering Circular and the related application forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Hong Kong Public Offering or to make any representation not contained in this Offering Circular, and any information or representation not contained herein must not be relied upon as having been authorised by China Merchants Commercial REIT, CMG, CMSK, Eureka, CML, the REIT Manager, the Trustee, the Joint Global Coordinators, the Sole Listing Agent, or the Underwriters, or any of their respective directors, agents, employees, or advisors, or any other parties involved in the Global Offering.

The Units have not been, and will not be, registered under the US Securities Act or any state securities law in the United States. The Global Offering is being made in accordance with Regulation S.

INFORMATION ABOUT THIS OFFERING CIRCULAR AND THE GLOBAL OFFERING

No action has been or will be taken in any jurisdiction that would permit a public offering of the Units, or the possession, circulation, or distribution of this Offering Circular or any other offering or publicity material relating to China Merchants Commercial REIT or the Units, in any country or jurisdiction other than Hong Kong. Accordingly, the Units are being offered and sold only outside the United States in offshore transactions in accordance with Regulation S. The Units may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material, circular, form of application or advertisement in connection with the Global Offering of the Units may be distributed or published, in, to, or from any country or jurisdiction except under circumstances that will result in compliance with all applicable rules and regulations of any such country or jurisdiction.

Each person acquiring Units will be required to confirm, or by the acquisition of Units will be deemed to have confirmed, that he is aware of the restrictions on offers of Units described in this Offering Circular. **Applicants for the Units are recommended to consult their professional advisers if they are in any doubt as to the regulatory implications of subscribing for, purchasing, holding, disposal of or otherwise dealing in Units.**

Application for the Listing

Prior to the Global Offering, there has been no market for the Units. Preliminary approval has been granted by the Hong Kong Stock Exchange for the Listing and permission to deal in the Units on the Main Board of the Hong Kong Stock Exchange. No part of the Units is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future. Dealings in the Units on the Hong Kong Stock Exchange are expected to commence on Tuesday, 10 December 2019. The Units will be traded in board lots of 1,000 Units each. The stock code of China Merchants Commercial REIT is 01503.

Eligibility for Admission into CCASS

Subject to the granting of formal approval for the Listing and permission to deal in the Units on the Hong Kong Stock Exchange and compliance with the stock admission requirements of HKSCC, the Units will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Units on the Hong Kong Stock Exchange or any other date that HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Hong Kong Stock Exchange business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Units to be admitted into CCASS.

Stamp Duty

No Hong Kong stamp duty is payable in connection with the initial issue of Units to successful applicants under the Hong Kong Public Offering. Subsequent dealings in the Units will be subject to Hong Kong stamp duty.

INFORMATION ABOUT THIS OFFERING CIRCULAR AND THE GLOBAL OFFERING

Professional Tax Advice Recommended

Persons who are unsure about the taxation implications of the subscription, purchase, holding, disposal of, dealing in, or the exercise of any rights in relation to the Units should consult a professional adviser.

None of China Merchants Commercial REIT, CMG, CMSK, Eureka, CML, the REIT Manager, the Trustee, the Sole Listing Agent, the Directors, the Underwriters nor any other person involved in the Offering accepts any responsibility for any tax effects on or liabilities resulting from the subscription for, purchase, holding, disposal of, dealing in or the exercise of any rights in relation to the Units.

Offer Price

The Maximum Offer Price is HK\$4.00 per Offer Unit and the actual Offer Price is expected to be determined by agreement between the REIT Manager and the Joint Global Coordinators (on behalf of the Underwriters) on the Price Determination Date. Please refer to the section headed “Structure of The Global Offering” in this Offering Circular.

All applicants are required to pay the Maximum Offer Price of HK\$4.00 per Offer Unit (plus brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%), subject to an appropriate refund if the Offer Price is less than the Maximum Offer Price. Please refer to the sub-section headed “Procedures for Application for Hong Kong Public Offering Units” immediately below.

Procedures for Application for Hong Kong Public Offering Units

The procedures for applying for the Hong Kong Public Offering Units are set out in the sections headed “How to Apply for Hong Kong Public Offering Units” in this Offering Circular and in the relevant Application Forms.

The Joint Global Coordinators will have full discretion to reject any application for Hong Kong Public Offering Units in full or in part.

Conditions of the Hong Kong Public Offering

Details of the conditions of the Hong Kong Public Offering are set out in the sections headed “Structure of The Global Offering — The Hong Kong Public Offering” in this Offering Circular.

Structure of the Global Offering

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of The Global Offering” in this Offering Circular.

INFORMATION ABOUT THIS OFFERING CIRCULAR AND THE GLOBAL OFFERING

Exchange Rates

Certain RMB and US\$ amounts in this Offering Circular have been translated into, and presented as, Hong Kong dollar amounts based on an exchange rate of HK\$1.00 = RMB0.8844 and HK\$1.00 = US\$0.1277, respectively, unless otherwise specified. These translations are provided for reference and convenience only, and no representation is made, and no representation should be construed as being made, that any amounts in Renminbi, Hong Kong dollars or United States dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

Properties, Tenants' Names and Business Sectors

Certain Properties and the tenants in the Properties do not have English names. Translations of the Chinese names of these Properties and tenants have been provided in this Offering Circular for the convenience of readers. Such translations have not been approved by the relevant PRC Property Company and/or tenants. This Offering Circular contains certain information with respect to the business sector and/or sub-sectors of certain tenants in the Properties. The REIT Manager has determined the business sector and/or sub-sectors in which these tenants are primarily involved based on the REIT Manager's general understanding of the business activities conducted by such tenants in the premises occupied by them. The REIT Manager's knowledge of the business activities of such tenants is necessarily limited and such tenants may conduct business activities that are in addition to, or different from, those indicated herein.

Language

Translated English names of Chinese laws and regulations, governmental authorities, departments, entities, institutions, natural persons, facilities, certificates, titles and the like included in this Offering Circular and for which no official English translation exists are unofficial translations for identification purposes only.

Rounding

For the purpose of consistency, where applicable and not otherwise stated, percentage figures in this Offering Circular have been rounded up to one decimal place and certain financial figures have been rounded to the nearest thousand or million, or up to one decimal place, as applicable. Such figures and calculations derived from such figures are therefore subject to rounding adjustments.

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding adjustments.

PARTIES INVOLVED IN THE GLOBAL OFFERING

China Merchants Commercial REIT	As constituted by the Trust Deed entered into on 15 November 2019 in Hong Kong
REIT Manager	China Merchants Land Asset Management Co., Limited Room 2603 to 2606, 26/F China Merchants Tower, Shun Tak Centre Nos. 168-200 Connaught Road Central Hong Kong
Directors of the REIT Manager	<i>Chairman</i> HUANG Junlong <i>Executive Director</i> GUO Jin <i>Non-executive Directors</i> HUANG Junlong YU Zhiliang LIU Ning <i>Independent Non-executive Directors</i> LIN Hua LIN Chen LAU Sze Wan, Serena
Responsible Officers of the REIT Manager	GUO Jin CHOO Chong Yao, Patrick ZHONG Ning
Trustee	DB Trustees (Hong Kong) Limited Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong
Hong Kong Unit Registrar	Tricor Investor Services Limited Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
Sole Listing Agent	Citigroup Global Markets Asia Limited 50/F, Champion Tower, 3 Garden Road, Central, Hong Kong

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Global Coordinators

Citigroup Global Markets Asia Limited
50/F, Champion Tower,
3 Garden Road, Central,
Hong Kong

China Merchants Securities (HK) Co., Limited
48/F., One Exchange Square,
Central,
Hong Kong

DBS Asia Capital Limited
73/F The Center,
99 Queen's Road Central,
Central,
Hong Kong

Joint Bookrunners and Joint Lead Managers

Citigroup Global Markets Asia Limited
50/F Champion Tower,
3 Garden Road, Central,
Hong Kong
(in relation to the Hong Kong Public Offering only)

Citigroup Global Markets Limited
33 Canada Square
Canary Wharf
London E14 5LB
United Kingdom
(in relation to the International Offering only)

China Merchants Securities (HK) Co., Limited
48/F., One Exchange Square,
Central,
Hong Kong

DBS Asia Capital Limited
73/F The Center,
99 Queen's Road Central,
Central,
Hong Kong

Financial Advisor to CMSK

China Merchants Securities (HK) Co., Limited
48/F., One Exchange Square,
Central,
Hong Kong

PARTIES INVOLVED IN THE GLOBAL OFFERING

**Auditor and Reporting
Accountant**

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

**Legal Advisors to the REIT
Manager**

as to Hong Kong and United States laws:
Baker & McKenzie
14th Floor, One Taikoo Place
979 King's Road, Quarry Bay
Hong Kong

as to PRC law:
Zhong Lun Law Firm
8–10/F, Tower A, Rongchao Tower
6003 Yitian Road
Futian District, Shenzhen 518026
The People's Republic of China

as to BVI law:
Maples and Calder (Hong Kong) LLP
53rd Floor, The Center
99 Queen's Road Central
Hong Kong

**Legal Advisors to the Sole Listing
Agent and the Underwriters**

as to Hong Kong and United States laws:
Freshfields Bruckhaus Deringer
55th Floor, One Island East
Taikoo Place, Quarry Bay
Hong Kong

as to PRC law:
JunHe LLP
Suite 2803–04, 28/F
Tower Three, Kerry Plaza No. 1–1
Zhongxinsi Road, Futian District
Shenzhen 518048
The People's Republic of China

Legal Advisors to the Trustee

Allen & Overy LLP
50 Collyer Quay,
#09–01 OUE Bayfront,
Singapore 049321

Independent Property Valuer

Cushman & Wakefield Limited
16/F, Jardine House,
1 Connaught Place, Central,
Hong Kong

PARTIES INVOLVED IN THE GLOBAL OFFERING

Building Surveyor

Knight Frank Petty Limited
4/F, Shui On Centre,
6-8 Harbour Road, Wanchai,
Hong Kong

Market Consultant

Knight Frank Petty Limited
4/F, Shui On Centre,
6-8 Harbour Road, Wanchai,
Hong Kong

Receiving Banks

DBS Bank (Hong Kong) Limited
11/F, The Center
99 Queen's Road Central
Hong Kong

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

RISK FACTORS

An investment in the Units involves significant risks. Prospective investors should consider carefully, together with all other information contained in this Offering Circular, the risk factors described below before deciding to invest in the Units.

As an investment in a collective investment scheme is meant to produce returns over the long term, investors should not expect to obtain short-term gains.

Investors should be aware that the price of the Units, and the income from them, may rise or fall. Investors should note that they may not get back their original investment and that they may not receive any distributions. The occurrence of any of the following events could harm China Merchants Commercial REIT. If any of these events occurs, the trading price of the Units could decline and you may lose all or part of your investment.

Before deciding to invest in the Units, prospective investors should seek professional advice from their advisors regarding their prospective investment in the context of their particular circumstances.

RISKS RELATING TO CHINA MERCHANTS COMMERCIAL REIT

Future changes in government policies in the PRC and the Greater Bay Area could materially and adversely affect the business, results of operations and prospects of China Merchants Commercial REIT

The Properties are all located in Shekou, Shenzhen, which is part of the Greater Bay Area. The PRC Government has issued a succession of policies to promote the development of the Greater Bay Area, including policies to support scientific and technological innovation, infrastructure construction, modern industry development, financial services, residence and travel. The policy to support the Greater Bay Area's development is one of the national core strategies of the PRC and is expected to bring great development potential for China Merchants Commercial REIT. However, if the PRC Government's Greater Bay Area initiative is revised or cancelled, the development of the Greater Bay Area may slow down or come to a halt, thereby materially and adversely affecting the business, results of operations and prospects of China Merchants Commercial REIT.

The Properties are all located in Shekou, which exposes China Merchants Commercial REIT to economic and property market conditions in Shekou and the PRC

The Properties are all located in Shekou, which exposes China Merchants Commercial REIT to the risk of a downturn in economic and property market conditions in Shekou. The value of the Properties may be adversely affected by a number of local property market conditions, such as oversupply of commercial properties, the performance of other competing commercial properties and reduced demand for commercial space.

China Merchants Commercial REIT's business and financial conditions and results of operations also depend, to a large extent, on the performance of the economy of Shenzhen and of the PRC. An economic downturn or a downturn in the property market in Shenzhen or the PRC could adversely affect China Merchants Commercial REIT.

RISK FACTORS

There are also numerous industrial buildings, office buildings, shopping centres and other types of commercial properties in Shenzhen, including properties owned by CMSK such as China Merchants Tower (招商局廣場), that may compete with the Properties for tenants and cause downward pressure on rental rates.

If, after the Global Offering, comparable new properties are built or existing properties are upgraded or refurbished in the areas where the Properties are located, the rental income of China Merchants Commercial REIT may be reduced, thereby adversely affecting China Merchants Commercial REIT's cash flow and the amount of funds available for distribution to Unitholders.

There are discrepancies between the land and building use rights stated in the real estate ownership certificates and the actual use of some of the Properties

As stated in the real estate ownership certificates for Cyberport Building, Technology Building and Technology Building 2 (being the Subject Properties, which comprises three out of five Properties in the initial portfolio of China Merchants Commercial REIT), the designated land use of the Subject Properties is industrial, which allows the development of buildings such as factories and research and development facilities. However, most of the Gross Floor Area of the Subject Properties have been leased for office or other commercial use, which do not conform to such designated uses.

Based on its consultation with the competent authority, the REIT Manager understands that: (i) the land on which the Subject Properties are situated (being the Subject Land) is a piece of land designated for New Industries Use, including but not limited to technology research and development, information services, financial technology and cultural and creative industries; (ii) the current land and building use of the Subject Properties is consistent with New Industries Use; and (iii) there is no non-compliance nor reason for such authority to take any enforcement actions. Such competent authority has also confirmed in writing on 23 August 2019 that the Subject Land is a piece of land designated for New Industries Use and the positioning and industry orientation for the Subject Land is intended to capture emerging industries such as technology research and development, information services, financial technology and cultural and creative industries. The PRC Legal Advisors have confirmed that such authority is the competent authority to give such confirmations.

The PRC Legal Advisors have confirmed that as at the Listing Date, China Merchants Commercial REIT shall hold good marketable legal and beneficial title in the Subject Properties. Further, they are also of the view that as at the Latest Practicable Date: (i) the non-conformity described above will not prevent the Subject Properties from being leased, bought, sold or being accepted by banks as security for mortgages; (ii) the subsisting non-conforming tenancies at the Subject Properties remain legal and enforceable; and (iii) the risk of any enforcement action (including fines, rectification orders and repossession) being imposed in respect of the non-conformity with the designated land use or the designated building use of the Subject Properties, is practically non-existent. However, there is no assurance that the Subject Property Companies will not be subject to any enforcement actions in the future. In the event the REIT Manager is unable or unsuccessful in defending China Merchants Commercial REIT against these actions, they could result in fines, rectification orders and/or repossession by the relevant PRC land authority. Furthermore, if the relevant PRC land authority requires any of the Subject Properties' real estate ownership certificate use to be changed, such change may require payment of a land premium. Accordingly, despite the Subject Properties Indemnity which China Merchants Commercial

RISK FACTORS

REIT has obtained from Eureka in connection with such actions, these actions (if imposed) could adversely impact the operation and financial performance of China Merchants Commercial REIT. For further details, please refer to the section headed “The Properties and Business — Legal and Regulatory Compliance” in this Offering Circular.

China Merchants Commercial REIT’s results of operations may be adversely affected if the Operations Manager or the Property Manager fails to operate and manage the Properties in an effective and efficient manner or the REIT Manager decides to terminate the Operations Management Agreement or the Property Management Agreements before expiration or decides not to renew such agreements upon expiration

After establishment of the new Operations Manager, the Operations Manager will be engaged to provide certain property management services. The PRC Property Companies have entered into the Operations Management Agreement with the Operations Manager for the provision of certain dedicated property management services in respect of the Properties including, among other things, leasing, marketing and tenancy management services. In addition, the PRC Property Companies have also entered into the Property Management Agreements with the Property Manager for the provision of property management services such as, among other things, daily maintenance, cleaning and security services in relation to the Properties.

The failure of the Operations Manager and the Property Manager to manage the Properties effectively and efficiently will adversely affect the underlying value of the Properties and China Merchants Commercial REIT’s results of operations and ability to make distributions to Unitholders and pay amounts due on its indebtedness. In addition, any adverse changes in China Merchants Commercial REIT’s relationship with the Operations Manager and Property Manager could hinder its abilities to manage China Merchants Commercial REIT’s operations and its property portfolio.

In the event of early termination or non-renewal of the Operations Management Agreement and/or the Property Management Agreements, subject to market conditions then prevailing, the PRC Property Companies may not be able to substitute the relevant Operations Manager or the Property Manager in a timely manner, or on terms similar to those under the Operations Management Agreement or the Property Management Agreements respectively. During any period where there is no operations manager or property manager in place, the REIT Manager will have to operate the Properties directly and China Merchants Commercial REIT could face a substantial disruption to its operations and an increase in costs incurred for management of the Properties and for certain corporate and administrative services.

RISK FACTORS

The DPU Commitment will expire on 31 December 2022, after which the amount of distributions will depend on the operating results of China Merchants Commercial REIT, which may not be sufficient to support similar level of distributions made during the DPU Commitment Period

Pursuant to the DPU Commitment, Eureka (being the holding company of the Vendor) has committed that the DPU of China Merchants Commercial REIT for each distribution period during the period from the Listing Date to 31 December 2022 will not be less than the relevant Committed DPU. The DPU Commitment should not be relied on as an indicator of the actual performance of China Merchants Commercial REIT. It has a finite term and will expire on 31 December 2022, after which the amount of distributions made by China Merchants Commercial REIT will depend on the results of the operating activities of China Merchants Commercial REIT. The operating results of China Merchants Commercial REIT after the expiry of the DPU Commitment may not be sufficient to support similar level of distributions as if the DPU Commitment were in place, and there may still be a gap between the Annualised Committed DPU and the actual DPU then. Any significant increase in cash finance costs or insufficient growth in rental income, or any major economic or property downturn could also cause a substantial drop in the net property income of China Merchants Commercial REIT, and distributions to Unitholders may be materially adversely affected.

The REIT Manager may not be able to achieve its key objectives for China Merchants Commercial REIT and its stated strategies for accomplishing such objectives may change

The REIT Manager's key objectives for China Merchants Commercial REIT are to provide Unitholders with stable distributions, sustainable and long-term distribution growth, and enhancement in the value of China Merchants Commercial REIT's properties by implementing specific strategies outlined in the section headed "Strategy" in this Offering Circular. There is no assurance that the REIT Manager will be able to successfully accomplish such objectives, or that it will be able to do so in a timely and cost effective manner. Unitholders and potential investors should also note that, subject to the requirements of the REIT Code, the Trust Deed, the Listing Agreement and applicable laws and regulations, the REIT Manager has absolute discretion to determine the strategies of China Merchants Commercial REIT. As a result, the strategies outlined in the section headed "Strategy" in this Offering Circular may change.

For example, the successful implementation of the investment strategy will depend on a number of factors, including availability and timely identification of attractive property investments that meet the investment criteria, property market conditions, and the successful integration of these property investments. China Merchants Commercial REIT's ability to make new property acquisitions may also be adversely affected by active competition in acquiring suitable properties. There is no assurance that China Merchants Commercial REIT will be able to compete effectively against other property investors. The asset management strategy will also depend on a number of factors, such as the ability of the REIT Manager to actively manage early renewal of tenancy agreements, optimising tenant diversity and implement competitive leasing programmes. There is no assurance that the REIT Manager will be able to implement these strategies in a timely or effective manner or at all.

RISK FACTORS

Under the REIT Code, China Merchants Commercial REIT will be required to distribute at least 90% of its audited annual net income after tax to Unitholders and China Merchants Commercial REIT's aggregate borrowings shall not at any time exceed 45% of its total gross asset value. As a result, China Merchants Commercial REIT will need to rely primarily on external financing, either by issuing additional Units or by increasing its borrowings, to fund future acquisitions. Additional equity or debt financing is subject to prevailing conditions in the equity and debt markets and may not be available on favourable terms or at all.

Accordingly, there is no assurance that the REIT Manager will be able to successfully implement its stated strategies, or that any modifications or departure from existing strategies will be successful, or that any changes will be done in a timely and cost effective manner.

The outlook for the financial markets and economic conditions is uncertain and China Merchants Commercial REIT may be adversely affected by economic slowdown caused by the trade dispute between the PRC and the U.S.

The trade dispute between the PRC and the U.S. started in March 2018. The PRC and the U.S. have gone through several rounds of negotiations but the dispute remains unresolved. Most notably, the U.S. government has made significant changes in its trade policy and has taken actions that may materially affect international trade, such as announcing new tariffs which have provoked the PRC and other countries to impose tariffs against the U.S. The trade dispute between the PRC and the U.S. may adversely affect the regional and worldwide economies and the outlook for financial markets and create uncertainties. In the short term, the trade dispute may result in reduction in business activities and corporate disposable incomes in the PRC and the rest of the world. A decline in economic conditions in the PRC may lead to decreases in leasing demand, rental prices and occupancy rates of commercial properties in the PRC, which in turn could adversely affect China Merchants Commercial REIT's results of operations and future growth.

Adverse economic conditions could negatively affect China Merchants Commercial REIT if they result in:

- a negative impact on the ability of tenants to pay their rent in a timely manner or to continue their tenancies;
- a negative impact on China Merchants Commercial REIT's ability to attract new tenants, retain existing tenants and maintain high occupancy and rental rates;
- an increased likelihood that one or more of (i) China Merchants Commercial REIT's lending banks or (ii) China Merchants Commercial REIT's insurers becoming unable to honour or renew their financial commitments to China Merchants Commercial REIT, or that China Merchants Commercial REIT cannot obtain sufficient funding for its operations or refinance its indebtedness when necessary; or
- an increase in counterparty risk (being the risk of monetary loss which China Merchants Commercial REIT may be exposed to if any of its counterparties fails to meet its obligations under the terms of its respective transactions).

Any of these factors could have a material adverse effect on China Merchants Commercial REIT's business, financial condition, results of operations and prospects.

RISK FACTORS

China Merchants Commercial REIT's investments or acquisitions in the future may not be successful, which may adversely affect the results of operations of China Merchants Commercial REIT

China Merchants Commercial REIT may invest in or acquire other high quality income-generating commercial properties in the future. These assets may expose China Merchants Commercial REIT to additional local real estate market conditions, such as competition and supply and demand. The success of any investment or acquisition will depend on a number of factors, including the REIT Manager's ability to identify suitable acquisition targets, complete and integrate successfully the acquisition into China Merchants Commercial REIT's business, and execute the acquisition strategies. As a result, there is no assurance that China Merchants Commercial REIT's investments or acquisitions in the future will be successful, which in turn may incur loss and adversely affect the business, financial condition, the results of operations and prospects of China Merchants Commercial REIT.

China Merchants Commercial REIT, the REIT Manager, the Onshore Manager Subsidiary and the Operations Manager are all newly established entities and do not have established operating histories for investors to rely on in making an investment decision

China Merchants Commercial REIT was established on 15 November 2019 and the REIT Manager, the Onshore Manager Subsidiary and the Operations Manager were incorporated on 22 June 2019, 4 November 2019 and 5 November 2019, respectively. Accordingly, China Merchants Commercial REIT, the REIT Manager, the Onshore Manager Subsidiary and the Operations Manager have no operating history by which their respective past performance may be judged and investors may find it difficult to evaluate their business and prospects. In particular, the historical financial information of the Predecessor Group included in this Offering Circular may not necessarily reflect China Merchants Commercial REIT's results of operations, financial condition and cash flows in the future. Moreover, there is no assurance that the REIT Manager will be able to successfully operate China Merchants Commercial REIT as a REIT or as a publicly listed entity, and there is no assurance that China Merchants Commercial REIT will be able to generate sufficient revenue from operations to make distributions in line with those set out in the section headed "Distribution Policy" in this Offering Circular.

China Merchants Commercial REIT's results of operations may be adversely affected if it fails to retain or replace certain key personnel of the REIT Manager, the Onshore Manager Subsidiary, the Operations Manager and the Property Manager, or if the Trustee retires or is removed

China Merchants Commercial REIT's success depends, in part, upon the continued service and performance of the key executive officers and certain other key senior personnel of the REIT Manager, the Onshore Manager Subsidiary, the Operations Manager and the Property Manager. These persons may leave in the future, and may thereafter compete with China Merchants Commercial REIT. The loss of any of these individuals and the inability to recruit suitable replacements could have a material adverse effect on China Merchants Commercial REIT's business, financial condition, results of operations and prospects.

RISK FACTORS

The Trustee may retire or be removed in the future. Pursuant to the REIT Code, the Trustee shall not retire except upon the appointment of a new trustee whose appointment has been approved by the SFC and the retirement of the Trustee shall take effect at the same time as the new trustee takes up office. However, such retirement of the Trustee may incur disruption to the regular management and operation of China Merchants Commercial REIT. For more details on the retirement and removal of the Trustee, please refer to the section headed “The Trust Deed — Retirement and Removal of the Trustee” in this Offering Circular. There is no assurance that the new trustee will be found and appointed in a timely manner or the terms of the new trust deed will be the same or similar to the current Trust Deed.

China Merchants Commercial REIT’s portfolio growth depends on its ability to obtain external sources of capital

The REIT Manager’s policy is to distribute to Unitholders an amount equal to 100% of the Annual Distributable Income for the DPU Commitment Period and thereafter at least 90% of the Annual Distributable Income for each financial year. Also, in order to maintain China Merchants Commercial REIT’s qualification as a REIT, the REIT Code requires China Merchants Commercial REIT to annually distribute at least 90% of its audited net income after tax. In addition, the REIT Manager has the discretion to distribute any additional amounts (including capital). Therefore, China Merchants Commercial REIT may not be able to fund future capital needs, including any necessary acquisition financing, from operating cash flow. Consequently, it may need to rely on external sources of funding to expand its property portfolio, which may not be available on commercially acceptable terms or at all. If China Merchants Commercial REIT cannot obtain capital from external sources, it may not be able to acquire properties when strategic opportunities exist, satisfy its debt obligations or make the necessary cash distributions to the Unitholders to maintain its qualification as a REIT.

The amount that China Merchants Commercial REIT can borrow is limited, which may affect the operations of China Merchants Commercial REIT

China Merchants Commercial REIT’s borrowings are limited by the REIT Code to no more than 45% of its total gross asset value. Upon Listing, China Merchants Commercial REIT is expected to have aggregate borrowings of RMB1,900 million, which represent the amounts that will be drawn down under the Facilities. Other than such amounts, China Merchants Commercial REIT is not expected to have any borrowings at the time of Listing. The abovementioned borrowings, which for the avoidance of doubt excludes the Unassigned Frontier Payables, represent 28.3% of the value of the Deposited Property (based on the Minimum Offer Price and aggregate pro forma non-current and current assets figure presented in Appendix II to this Offering Circular). Correspondingly, and consistent with Appendix II to this Offering Circular, the Deposited Property shall also exclude the cash earmarked for the settlement of the Unassigned Frontier Payables. China Merchants Commercial REIT’s borrowings may exceed 45% of its total gross asset value as a result of a decrease in the market value of its properties, whether following a revaluation of its assets or otherwise. In such case, the REIT Manager will be required to retain funds that could otherwise be distributed to the Unitholders so as to increase China Merchants Commercial REIT’s total gross asset value, and China Merchants Commercial REIT may have to refrain from engaging in further borrowing. From time to time, China Merchants Commercial REIT may need to drawdown on its banking facilities and to use overdrafts for general corporate or other purposes, but it may be prohibited from doing so due to the 45% borrowing limit pursuant to the REIT Code. China Merchants Commercial REIT may also face

RISK FACTORS

difficulties in securing financing in a timely manner and on favourable commercial terms. In addition, the use of leverage may increase the exposure of China Merchants Commercial REIT to adverse economic factors such as rising interest rates and economic downturns.

China Merchants Commercial REIT may face risks associated with debt financing and the debt covenants in the facility agreements which could limit or adversely affect China Merchants Commercial REIT's operations

China Merchants Commercial REIT's level of debt and the covenants to which it is subject under its current facility agreements or future debt financing could have significant adverse consequences, including, but not limited to, the following: (i) its cash flow may be insufficient to meet its required principal and interest payments; (ii) it may not be able to borrow additional funds as needed or on commercially acceptable terms; (iii) it may not be able to refinance its indebtedness upon maturity or may only be able to do so with less favourable terms; (iv) it may default on its obligations, and the lenders or mortgagees may foreclose on its properties and require a forced sale of the mortgaged property, or foreclose on its interests in the entities that own the properties and require a forced sale of such entities; (v) it is subject to restrictive covenants under the facility agreements and may be subject to similar covenants in future loan agreements, which may limit or adversely affect China Merchants Commercial REIT's operations, such as their ability to incur additional indebtedness, acquire properties, make certain other investments, make capital expenditures, or make distributions from the PRC-incorporated property-holding companies to China Merchants Commercial REIT and from China Merchants Commercial REIT to Unitholders; and (vi) it may also be subject to certain affirmative covenants, which may obligate it to set aside funds for maintenance or submit required information on a timely and regular basis. Further, the terms of China Merchants Commercial REIT's facility agreements may require China Merchants Commercial REIT to comply with certain financial covenants. China Merchants Commercial REIT's ability to meet these financial covenants may be affected by events beyond its control, such as a downward revaluation of assets, and the REIT Manager cannot guarantee that China Merchants Commercial REIT will always be able to meet these covenants.

Failure of China Merchants Commercial REIT to meet any payment obligation or to comply with any covenant may, after expiration of the applicable cure period, constitute an event of default. China Merchants Commercial REIT's default under any one of its loan agreements may result in a cross-default under its other loan agreements. In such case, the lending banks may declare an event of default and demand immediate repayments of all outstanding loans and other sums payable under such loan agreements.

If any one of these events were to occur, China Merchants Commercial REIT's financial condition, cash flow, cash available for distributions to Unitholders, trading price per Unit, and its ability to satisfy its debt service obligations could be materially and adversely affected.

RISK FACTORS

China Merchants Commercial REIT is subject to interest rate risks

The business of China Merchants Commercial REIT is affected by local, national and international economic conditions. In particular, fluctuations in interest rates may increase the interest costs under borrowings obtained by China Merchants Commercial REIT and may adversely affect the financial position of China Merchants Commercial REIT and the ability of China Merchants Commercial REIT to make distributions to Unitholders. Additionally, fluctuations in interest rates, as well as changes in other economic market conditions, may have an adverse effect on the property market, and may have a material adverse effect on the revenue of China Merchants Commercial REIT, the value of its properties, and its financial performance and condition. For details of the borrowings of China Merchants Commercial REIT, please refer to the section headed “Material Agreements and Other Documents — Facility Agreements” in this Offering Circular.

Currency fluctuations, especially in the value of RMB, could adversely affect the amount of distributions to Unitholders, and in turn, the price of the Units

China Merchants Commercial REIT may be subject to exchange rate risk in satisfying its foreign currency denominated obligations. The income and profit of China Merchants Commercial REIT from its assets are denominated in RMB, which will have to be converted into Hong Kong dollars for the payment of the distributions to the Unitholders. Fluctuations in the exchange rate of RMB against Hong Kong dollars may therefore have a material adverse impact on the level of distributions to Unitholders. The value of RMB against Hong Kong dollar and other foreign currencies fluctuates and is affected by changes in the PRC and international political and economic conditions and many other factors outside China Merchants Commercial REIT’s control.

In addition, fluctuations in RMB may increase the interest costs incurred from China Merchants Commercial REIT’s facility agreements and therefore may adversely affect the financial position of China Merchants Commercial REIT and the ability of China Merchants Commercial REIT to make distributions to Unitholders.

There are potential conflicts of interest between China Merchants Commercial REIT, CMSK and CML

China Merchants Commercial REIT invests in commercial properties in the PRC (including Hong Kong and Macao but excluding the CML Cities). CMSK is engaged in and manages entities that are engaged in investment, development and management of commercial properties in the PRC. Therefore, there may be circumstances where China Merchants Commercial REIT will compete directly with CMSK and its associates (acting on their own behalf or as manager of third party entities).

RISK FACTORS

The REIT Manager is a direct subsidiary of CML, which is a subsidiary of CMSK. The REIT Manager may have conflicts of interest with potential acquisitions from CMSK or its affiliates and in agreeing to the terms of such potential acquisitions. There is no assurance that CMSK will direct attractive investment opportunities to China Merchants Commercial REIT instead of other entities, including other subsidiaries or affiliates of CMSK, subject to the terms of the ROFR. China Merchants Commercial REIT may compete for suitable investment opportunities with other subsidiaries or affiliates of CMSK. Any such potential conflicts of interests may not necessarily be resolved in favour of China Merchants Commercial REIT. The REIT Manager (as a subsidiary of CML) and the Operations Manager (as a subsidiary of CMSK) may also face conflicts of interests in other activities of CMSK, CML and their subsidiaries or affiliates at an operational level in connection with identifying potential tenants and procuring services. HUANG Junlong, LIU Ning and YU Zhiliang of the REIT Manager are also directors of CMSK/CML and certain affiliated companies of CMSK/CML and, as a result, may have a conflict of interest in their involvement in the business, policies and other affairs of both China Merchants Commercial REIT and CMSK/CML and their affiliated companies.

Despite the corporate governance measures currently in place, conflicts of interest between China Merchants Commercial REIT and CMSK or CML in relation to acquisitions of properties, competition for tenants and property management matters may arise in the future. For further details, please refer to the section headed “Connected Party Transactions” in this Offering Circular.

The business of China Merchants Commercial REIT relies on certain “China Merchants” trademarks and brands and China Merchants Commercial REIT may lose the right to use such trademarks and brands

China Merchants Commercial REIT is branded and marketed as a real estate investment trust which is managed by CML (through its wholly-owned subsidiary) and sponsored and supported by CMG and CMSK. Pursuant to the Trademark and Brand Licence Agreement, CML has granted the REIT Manager and the Onshore Manager Subsidiary the right and licence to use certain “China Merchants” trademarks and brands in their respective company names and in connection with the business and for the benefit of China Merchants Commercial REIT. However, degrading or adverse market developments relating to the “China Merchants” brand or any negative publicity affecting CMG, CMSK, CML or any of their subsidiaries or associates may result in negative perceptions of China Merchants Commercial REIT and the REIT Manager. In addition, if CML (or CMG, being the ultimate owner of the Licensed Subjects) revokes the right of the REIT Manager and the Onshore Manager Subsidiary to use the Licensed Subjects, China Merchants Commercial REIT may lose the right to be named as the “China Merchants REIT”, and China Merchants Commercial REIT’s financial condition, results of operations and prospects may be materially and adversely affected.

RISK FACTORS

The REIT Manager's operations are subject to regulations and licensing conditions

The REIT Manager is required to be licensed under the SFO for the regulated activity of asset management. No assurance can be given that the REIT Manager will be operated and managed in accordance with its licensing and approval conditions. In particular, if any of the responsible officers departs the REIT Manager which makes the REIT Manager having less than two responsible officers, this will result in the REIT Manager suspending or ceasing its business to manage China Merchants Commercial REIT. There is no assurance that the REIT Manager will be able to retain its responsible officers or find replacements for any departing responsible officers on commercially acceptable terms and on a timely basis in order to continue the REIT Manager's business and maintain its licence. In the event that the REIT Manager ceases to be licensed under the SFO or ceases or suspends its business, China Merchants Commercial REIT may need to appoint other management companies as its manager. In the event that no other management companies duly licensed or approved can be identified to replace the existing REIT Manager, the Trustee may terminate China Merchants Commercial REIT.

China Merchants Commercial REIT's internal control policies and procedures may not be effective and China Merchants Commercial REIT may not be able to detect and prevent fraud or other misconduct committed by its tenants, employees of the REIT Manager and other third parties

The REIT Manager has established corporate governance policies and operational procedures that aim to prevent misconduct and fraud in operation and financial management of China Merchants Commercial REIT. However, there is no assurance that these policies and procedures will prove effective and eliminate misconduct and fraud by the management team and employees of the REIT Manager. In addition, China Merchants Commercial REIT is managed by management teams based in two jurisdictions (the PRC and Hong Kong) which may increase the risk of violations of these policies and procedures. If China Merchants Commercial REIT's internal control policies and procedures are not effective, China Merchants Commercial REIT's business, financial condition, results of operations and prospects may be adversely affected. The aforementioned misconduct includes:

- (a) hiding unauthorised or unsuccessful activities, resulting in unknown and unmanaged risks or losses;
- (b) intentionally concealing material facts or failing to perform necessary due diligence procedures designed to identify potential risks, which are material to China Merchants Commercial REIT when deciding whether to invest in or dispose of an asset;
- (c) maliciously vandalising China Merchants Commercial REIT's properties, or offering bribes to counterparties in return for any type of benefits or gains;
- (d) improperly using or disclosing confidential information;
- (e) misappropriating funds;
- (f) engaging in misrepresentation or fraudulent, deceptive or otherwise improper activities;

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- (g) engaging in unauthorised or excessive transactions to the detriment of the tenants;
or
- (h) violating applicable laws or China Merchants Commercial REIT's internal policies and procedures.

RISKS RELATING TO THE PROPERTIES

China Merchants Commercial REIT may be unable to renew tenancy agreements or re-let vacant space at the same or higher rental rates or at all upon expirations or early terminations of tenancy agreements

The REIT Manager cannot guarantee that the tenancy agreements will be renewed when they expire or that the Properties will be re-let at rental rates equal to or above the current average rental rates. Further, when the tenants of the Properties decide not to renew their tenancy agreements or decide to terminate early, China Merchants Commercial REIT may not be able to re-let the space in a timely manner or at all. Even if tenants decide to renew or let new space, the terms of renewals or new tenancy agreements, including the cost of required renovations or concessions to tenants, may be less favourable to China Merchants Commercial REIT than current tenancy terms. For details on the expiry profile of China Merchants Commercial REIT's portfolio, please refer to the section headed "The Properties and Business — Portfolio of China Merchants Commercial REIT's Properties — Duration of the Tenancy Agreements" in this Offering Circular. If the rental rates for the Properties decrease, or China Merchants Commercial REIT's existing tenants do not renew their tenancy agreements or China Merchants Commercial REIT does not re-let a significant portion of the spaces for which tenancy agreements are scheduled to expire, China Merchants Commercial REIT's business, financial condition, results of operations, cash flow and cash available for distributions to Unitholders could be materially and adversely affected.

The loss of key tenants or any breach of their obligations under the tenancy agreements may have an adverse effect on China Merchants Commercial REIT's financial condition and results of operations

In the event that any key tenant experiences a downturn in its businesses, it may be unable to make timely rental payments. Factors that affect the ability of such major tenants to meet their obligations include, but are not limited to: (i) their financial position; (ii) the local economic conditions impacting business operations; (iii) the ability of such major tenants to compete with their competitors; (iv) where such major tenants have sub-let the Properties, the failure of the sub-tenants to pay rent; and (v) material losses in excess of insurance proceeds. China Merchants Commercial REIT's claims for unpaid rent against a bankrupt tenant may not be paid in full. In addition, China Merchants Commercial REIT would incur time and expense relating to any eviction proceedings and would be unable to collect rent during such proceedings. As a result of these events, China Merchants Commercial REIT's cash flow, rental income and profit could decrease and it may not be able to make distributions to Unitholders. Furthermore, loss of major tenants, especially tenants who are international or national leading brands, may adversely affect the attractiveness and prestige of the Properties and thus China Merchants Commercial REIT's business, financial condition, results of operations and prospects.

RISK FACTORS

The Properties are located on land which is under long-term land use rights granted by the PRC Government. There is uncertainty about the amount of land grant premium which the PRC Property Companies will have to pay and additional conditions which may be imposed if the REIT Manager decides to seek an extension or renewal of the land use rights for the Properties

The Properties are directly held by the respective PRC Property Companies under land use rights granted by the PRC Government. Under PRC laws, the maximum term of the land use rights is 40 years for commercial use purposes and 50 years for mixed-use purposes. The existing terms of land use rights in respect of the Properties will expire in years between 2044 and 2057. For details, please refer to the section headed “The Properties and Business — Portfolio of China Merchants Commercial REIT’s Properties” in this Offering Circular. Upon expiration, the land use rights will return to the PRC Government unless the holder of land use rights applies for and is granted an extension of the term of the land use rights.

These land use rights do not have automatic rights of renewal and the holders of land use rights are required to apply for extension of the land use rights one year prior to the expiration of their terms under the PRC laws. If an application for extension is granted (and such grant would usually be given by the PRC Government unless the land in issue is to be taken back for the purpose of public interests), the holder of land use rights will be required to, among other things, pay a land grant premium. An additional land premium may also be payable if the holder of land use rights elects to change the use stated on the real estate ownership certificate of the land in issue. If no application for extension is made, or such application is not granted, the properties upon the land use rights will be disposed of in accordance with the land use right grant contracts. As none of the land use rights granted by the PRC Government similar to those granted for the Properties has, as at the Listing Date, run its full term, there is no precedent to provide an indication of the amount of the land grant premium which the PRC Property Companies will have to pay and any additional conditions which may be imposed if the REIT Manager decides to seek an extension of the land use rights for the Properties upon the expiry thereof.

If the PRC Government charges a high land grant premium, imposes additional conditions, or does not grant an extension of the term of the land use rights of any Properties, the operations and business of the relevant Property Companies could be disrupted, and the business, financial condition and results of operations of China Merchants Commercial REIT could be materially and adversely affected.

RISK FACTORS

The land which the Properties occupy or parts thereof may be resumed compulsorily by the PRC Government when the term of the land expires or before the end of such term where a legitimate public interest for requisition of such land is established, and any compensation paid to China Merchants Commercial REIT may not be sufficient

The PRC Government has the right to resume compulsorily any land in the PRC pursuant to the provisions of applicable legislation. In certain circumstances, the PRC Government may, where it considers to be in the public interest, terminate land use rights before the expiration of the term. In the event of any compulsory resumption of property in the PRC, the amount of compensation to be awarded will be based on the open market value of a property and is assessed on the basis prescribed in the relevant law. If the Properties are subsequently resumed by the PRC Government, the level of compensation paid to China Merchants Commercial REIT pursuant to this basis of calculation may be less than the price which China Merchants Commercial REIT has paid or would have paid for such properties. In addition, the PRC Government has the right to terminate long-term land use rights and expropriate the land in the event the grantee fails to observe or perform certain terms and conditions pursuant to the land use rights grant contracts, in which case China Merchants Commercial REIT may not be entitled to any compensation. Any of the above cases may have a material adverse effect on the business, financial condition, results of operations and prospects of China Merchants Commercial REIT.

The Properties may face increasing competition from other properties in Shekou, Nanshan District and Shenzhen

The Properties face competition from other properties in Shekou and the neighbouring sub-districts in varying degrees. New Times Plaza faces competition from other Grade A office buildings in Shekou and also from Grade A office buildings in Nanshan District, mainly in the Houhai sub-district. Cyberport Building, Technology Building and Technology Building 2 face competition from Grade B office buildings in Shekou. Garden City Shopping Centre also faces competition from other retail buildings which, according to the Market Consultant Report, is expected to intensify as supply of retail buildings increases in Shekou and the neighbouring sub-districts. For further details regarding the competitive landscape for office and retail buildings in Shekou, please refer to the section headed “The Properties and Business — Competition” in this Offering Circular.

The competitiveness and attractiveness of the Properties as the office also depend on policies promulgated by the PRC Government from time to time concerning the positioning of Shekou, Nanshan District and Shenzhen. Such policies may adversely affect the competitive and attractiveness of Shekou as an office location for companies from particular industries. If a significant number of tenants relocate their office buildings or businesses to other cities in the Greater Bay Area or the PRC, China Merchants Commercial REIT’s business, financial condition, results of operations and prospects may be materially and adversely affected.

Furthermore, there can be no assurance that new or existing competing properties will not offer lower rental rates or greater convenience, service, amenities or environmental conditions in the market in which the Properties operate. An inability to compete effectively could result in loss of tenants and rental income, and a material adverse effect on China Merchants Commercial REIT’s business, financial condition, results of operations and prospects.

RISK FACTORS

The building standards applicable in the PRC may become more stringent and China Merchants Commercial REIT may incur significant costs to ensure conformity with such amended standards

The Properties have passed the examination process and obtained completion certifications certifying that it can be handed over for occupation or use in accordance with the building standards that currently apply to the Properties. However, the building standards that apply to the Properties may become more stringent in the future. There can be no assurance that the Properties will remain in conformity with the latest building standards from time to time in the PRC. Compliance with the latest amended building standards may be required retrospectively, which could incur significant costs for China Merchants Commercial REIT. In addition, if any of the Properties does not meet the most recent requirements for building standards and materials, it may be less desirable than developments which have been built in accordance with the latest standards, which may affect the ability to sell or let the relevant Property and consequently may materially affect the business, financial condition, results of operations and prospects of China Merchants Commercial REIT.

The Appraised Value is based on various assumptions and the price at which China Merchants Commercial REIT is able to sell the Properties may be different from the Appraised Value or the initial acquisition price of the Properties

The Independent Property Valuer's Valuation Report is contained in Appendix IV to this Offering Circular. In conducting its valuation of the Properties, the Independent Property Valuer primarily adopted an income capitalisation method and discounted cash flow method. The valuation was based on certain assumptions and required a subjective determination of certain factors relating to the Properties, such as its relative market position, its financial and competitive strengths, location and its physical condition.

There can be no assurance that the assumptions are accurate measures of the market or that the Properties were valued accurately. Further, the Appraised Value of the Properties is not an indication of, and does not guarantee, a sale price at that value at present or in the future. The price at which China Merchants Commercial REIT may sell the Properties in the future may be lower than the Appraised Value or the initial acquisition price of the Properties. These factors may have a material adverse effect on the business, financial condition, results of operations and prospects of China Merchants Commercial REIT.

Decrease in the fair value of the Properties at revaluation

The Properties held by China Merchants Commercial REIT are subject to regular revaluation as required under the REIT Code. Under China Merchants Commercial REIT's accounting policy as currently required under the REIT Code and by the applicable IFRS, any decrease in the valuation of its investment property could result in non-cash charges to the statement of profit or loss and other comprehensive income, and may give rise to a substantial decline in annual consolidated net profit. Under the Trust Deed, Annual Distributable Income for a financial year is the amount calculated by the REIT Manager (based on the audited financial statements of China Merchants Commercial REIT for that financial year) as representing the consolidated audited net profit after tax of China Merchants Commercial REIT and the Special Purpose Vehicles for that financial year, taking into account the Adjustments (as defined in the section headed "Distribution Policy" in this Offering Circular). In the event a property revaluation results in a reduction in China Merchants Commercial REIT's gross asset value and consequently China Merchants

RISK FACTORS

Commercial REIT's borrowings as a proportion of its total gross asset value rise above the applicable borrowing limit requirement, the REIT Manager would be required to retain funds that would otherwise be distributable to the Unitholders so as to increase China Merchants Commercial REIT's total gross asset value and China Merchants Commercial REIT may be constrained from further borrowing.

The due diligence exercise on the Properties may not have identified all material defects, breaches of laws and regulations and other deficiencies

In connection with the Global Offering, due diligence reviews, surveys and inspections of the Properties have been conducted by the Building Surveyor. A letter from the Building Surveyor in relation to its due diligence survey report is set out in Appendix V to this Offering Circular. The due diligence survey comprised, among other things: (i) visual inspection of the Properties; (ii) visual inspection of the current building layouts and usage against the latest approved building plans; (iii) visual inspection of major accessible building elements, including the façade, units, external walls, roofs, corridors, lavatories, electrical and mechanical plant rooms; and (iv) visual inspection of all major building services installations, including mechanical ventilation, air-conditioning, fire services, electricity, lifts and plumbing. Nevertheless, the due diligence process with respect to the physical condition of the Properties has been limited. There can be no assurance that such reviews, surveys or inspections (or the relevant review, survey or inspection reports on which China Merchants Commercial REIT, CMG, CMSK, Eureka, CML, the REIT Manager, the Trustee and the Sole Listing Agent have relied on) would have revealed all defects or deficiencies affecting the Properties. In particular, there can be no assurance as to the absence of: (i) latent or undiscovered defects or deficiencies; or (ii) inaccuracies or deficiencies in such reviews, surveys or inspection reports.

Design, construction or other latent property or equipment defects in the Properties, or any other properties that may in the future be in China Merchants Commercial REIT's portfolio, may require additional capital expenditure, special repair or maintenance expenses or the payment of damages or other obligations to third parties, other than those disclosed in this Offering Circular. Costs or liabilities arising from such property or equipment defects may involve significant and potentially unpredictable patterns and levels of expenditure which may have a material adverse effect on China Merchants Commercial REIT's earnings and cash flows. The costs of maintaining the Properties and the risk of unforeseen maintenance or repair requirements tend to increase over time as the Properties age. The business and operation of the Properties may be disrupted and adversely affected as a result of renovation works and it may not be possible to collect the full rate of, or, as the case may be, any rental income on the space affected by such renovation work.

RISK FACTORS

The Properties may require significant capital expenditure to be maintained in good condition and China Merchants Commercial REIT may not have sufficient cash to make such capital expenditure

There can be no assurance as to the physical state of the Properties or the capital expenditure necessary to maintain the Properties in the future. The Properties will require periodic capital expenditure, refurbishments, renovation and improvements to remain competitive and in good condition. China Merchants Commercial REIT may not be able to fund capital improvements solely from cash from its operating activities. This may be due to, among other things, the requirement for China Merchants Commercial REIT to distribute at least 90% of its audited annual net income after tax to Unitholders each financial year. Consequently, China Merchants Commercial REIT may need to rely on external sources of funding to conduct significant maintenance works on its Properties, which may not be available on favourable terms or at all and which is subject to a gearing ratio of 45% of its total gross asset value under the REIT Code.

Physical damage to the Properties resulting from fire or other causes may also impose unbudgeted costs on China Merchants Commercial REIT and lead to a significant disruption to the business and operation of the Properties. This may result in an adverse impact on the business, financial condition, results of operations and prospects of China Merchants Commercial REIT and its ability to make distributions to Unitholders.

Asset enhancement initiatives deployed by the REIT Manager may not achieve their desired results or may incur significant costs to China Merchants Commercial REIT

The REIT Manager may deploy asset enhancement initiatives and operation improvements to optimise the Properties' rental income growth, improve tenant diversity and occupancy levels, and prudently control property expenses in order to achieve organic and sustainable growth for China Merchants Commercial REIT. For further information, please refer to the section headed "Strategy — Asset Management Strategy" in this Offering Circular. These asset enhancement initiatives may incur significant costs to China Merchants Commercial REIT, and there is no assurance that any such initiatives will achieve the intended and desired results for China Merchants Commercial REIT.

Existing or planned amenities and transport infrastructure near the Properties may be closed, relocated, terminated, delayed or uncompleted

There is no assurance that the amenities and transportation infrastructure and public transport services near the Properties will not be closed, relocated, terminated, delayed or uncompleted, or that there will be no impediment to the traffic flow in the vicinity. Such closure, relocation, termination, delay, non-completion or impediment may adversely affect the accessibility of the Properties. This may then have an adverse effect on the attractiveness and marketability of the Properties to customers and may adversely affect the business, financial condition, results of operations and prospects of China Merchants Commercial REIT, thereby reducing the ability of China Merchants Commercial REIT to make distributions to the Unitholders.

RISK FACTORS

The representations, warranties and indemnities given by the Vendor and Eureka under the Sale and Purchase Deed are subject to limitations

The representations, warranties and indemnities given by the Vendor and Eureka (as co-warrantors) under the Sale and Purchase Deed are subject to limitations as to their scope and as to the amount and timing of claims which can be made thereunder. Generally, all claims made under the Sale and Purchase Deed must be made within three years from the Asset Injection Completion Date (other than claims relating to fundamental warranties and tax, which must be made within seven years from the Asset Injection Completion Date). In addition, the aggregate maximum liability of the Vendor and Eureka (as co-warrantors) in respect of all claims under the representations and warranties shall not exceed the Purchase Consideration. Furthermore, all claims under the Subject Properties Indemnity given by the Vendor and Eureka in respect of the non-conforming use of the Subject Properties must be made prior to the expiry of the land use rights of the relevant Subject Property and be limited to the portion of the Purchase Consideration payable in respect of that Subject Property. Accordingly, there is no assurance that any breaches by the Vendor and/or Eureka of such representations, warranties and indemnities can be identified and claimed against within such limitation periods or that China Merchants Commercial REIT will be compensated for all losses or liabilities suffered or incurred as a result of such breaches.

China Merchants Commercial REIT may suffer material losses not covered by insurance or in excess of insurance proceeds

The Properties could suffer physical damage caused by fire or other causes and China Merchants Commercial REIT may suffer public liability claims, resulting in losses (including loss of rent), which may not be fully compensated by insurance proceeds. In addition, China Merchants Commercial REIT has not obtained insurance covering certain types of losses, such as losses from war and nuclear contamination. Should an uninsured loss or a loss in excess of insured limits occur, China Merchants Commercial REIT or the PRC Property Companies could be required to pay compensation and/or lose the capital invested in the Properties as well as anticipated future revenue from the Properties. Nonetheless, China Merchants Commercial REIT or the PRC Property Companies would remain liable for any debt or other financial obligation, such as committed capital expenditures, related to the relevant Properties. It is also possible that third-party insurance carriers will not be able to maintain reinsurance sufficient to cover any losses that may be incurred. Any material uninsured loss could materially and adversely affect China Merchants Commercial REIT's business, financial condition, results of operations and prospects.

In addition, when its current insurance policies expire, China Merchants Commercial REIT will have to seek renewal of the policies and negotiate acceptable terms of coverage, exposing it to the volatility of the insurance markets, including the possibility of increased premiums. The REIT Manager will regularly monitor the state of the insurance market, but it cannot anticipate what coverage will be available on commercially reasonable terms in future policy years. Any material increase in insurance premiums or decrease in available coverage in the future could adversely affect China Merchants Commercial REIT's business, financial condition and results of operations.

RISK FACTORS

Accidents in China Merchants Commercial REIT's business may expose it to liability and reputational risk

Accidents may occur during the course of China Merchants Commercial REIT's business. China Merchants Commercial REIT provides repair and maintenance services to the Properties through its Property Manager or third-party service providers. Repair and maintenance services such as elevator maintenance involve the operation of heavy machinery and therefore, are generally subject to certain risks of accidents. These occurrences could result in damage to, or destruction of, properties of the communities, personal injury or death and legal liability. Working in a dangerous environment presents risks to its employees and third-party service providers. In addition, China Merchants Commercial REIT may be exposed to claims that may arise due to employees' or third-party service providers' negligence or recklessness when performing repair and maintenance services. China Merchants Commercial REIT may be held liable for the employees', service providers' or tenants' injuries or deaths. China Merchants Commercial REIT may also experience interruptions to its business and may be required to change the manner in which it operates as a result of governmental investigations or the implementation of safety measures upon occurrence of accidents. Any of the foregoing could adversely affect China Merchants Commercial REIT's reputation, business, financial position and results of operations.

China Merchants Commercial REIT may be adversely affected by increases in operating expenses without a corresponding increase in revenue in the same period

China Merchants Commercial REIT's results of operations and ability to make distributions to Unitholders may be adversely affected if its operating expenses increase without a corresponding increase in revenue. Factors which could lead to an increase in operating expenses include, but are not limited to, the following: (i) increases in taxes and other statutory charges; (ii) changes in statutory laws, regulations or government policies which increase the cost of compliance with such laws, regulations or policies; (iii) changes in direct or indirect tax policies, laws or regulations; (iv) increases in sub-contracted service costs; (v) increases in repair and maintenance costs; (vi) increases in the rate of inflation; (vii) defects affecting China Merchants Commercial REIT's properties; (viii) environmental pollution in connection with China Merchants Commercial REIT's properties; (ix) increases in insurance premium; (x) increases in the cost of utilities; (xi) costs and expenses not covered by the existing insurance policies; and (xii) increases in labour costs.

RISKS RELATING TO THE REAL ESTATE INDUSTRY AND THE PRC

The real estate industry may be adversely affected by changes in laws and regulations in the future

The real estate industry is subject to extensive governmental regulations. As with other property owners in the PRC, China Merchants Commercial REIT must comply with various requirements mandated by the PRC laws and regulations, including the policies and procedures established by local authorities designed for the implementation of such laws and regulations. In particular, the PRC Government exerts considerable direct and indirect influence on the development of the PRC property sector by imposing industry policies and other economic measures, such as control of foreign exchange, taxation, financing and foreign investment. Among other things, these measures include raising benchmark interest rates of commercial banks, placing additional limitations on the ability of commercial banks to

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make loans to property developers, imposing additional taxes and levies on property sales, restricting foreign investment in the PRC property sector and restricting domestic individuals to purchase properties in some cities in the PRC.

For additional information on the PRC laws and regulations relating to the real estate market, please refer to Appendix VI to this Offering Circular. Many of the real estate industry policies carried out by the PRC Government are unprecedented and are expected to be refined and improved over time. This refining and adjustment process may not necessarily have a positive effect on China Merchants Commercial REIT's operations and future business development. The REIT Manager cannot assure that the PRC Government will not adopt additional and more stringent industry policies and regulations governing, for example, property ownership and tenancy matters, in the future. If China Merchants Commercial REIT fails to adapt its operations to comply with new policies and regulations that may come into effect from time to time with respect to the real estate industry, or such policy changes disrupt China Merchants Commercial REIT's business prospects or cause China Merchants Commercial REIT to incur additional costs, China Merchants Commercial REIT's business, financial condition, results of operations and prospects may be adversely affected.

There are uncertainties in the PRC legal system

The taxation and real estate laws and in particular, the laws relevant to the rights of foreign investors and the entities through which they may invest are often unclear in the PRC.

The PRC legal system is based on written statutes and prior court decisions can only be cited as reference. Since 1979, the PRC Government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial law. However, as these laws and regulations are continually evolving in response to changing economic and other conditions, and because of the limited volume of published cases and their non-binding nature, any particular interpretation of PRC laws and regulations may not be definitive. The PRC may not accord equivalent rights (or protection for such rights) to those rights investors might expect in countries with more sophisticated real estate laws and regulations.

Furthermore, the PRC is geographically large and divided into various provinces and municipalities and as such, different laws, rules, regulations and policies apply in different provinces and they may have different and varying applications and interpretations in different parts of the PRC. Legislation or regulations, particularly for local applications, may be enacted without proper prior notice or announcement to the public. Accordingly, the REIT Manager may not be aware of the existence of new legislation or regulations if China Merchants Commercial REIT invests in the PRC property market in the future.

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There is at present also no integrated system in the PRC from which information can be obtained in respect of legal actions, arbitrations or administrative actions. Even if an individual court-by-court search was performed, each court may refuse to make the documentation which it holds available for inspection. Accordingly, there is a risk that the PRC entities being acquired by China Merchants Commercial REIT in the future may be subject to proceedings which may not have been disclosed. Agreements which are governed under the PRC laws may be more difficult to enforce by legal or arbitral proceedings in the PRC than in countries with more mature legal systems. Even if the agreements generally provide for arbitral proceedings for disputes arising out of the agreements to be in another jurisdiction, it may be difficult for China Merchants Commercial REIT to obtain effective enforcement in the PRC of an arbitral award obtained in that jurisdiction.

The Offshore Property Holding Companies and China Merchants Commercial REIT may be classified as “resident enterprise” for the purposes of EIT, which could result in unfavourable PRC tax consequences for China Merchants Commercial REIT and the Unitholders

The EIT Law provides that non-resident enterprises whose “place of effective management” are located in the PRC are considered “resident enterprises” for EIT purposes and would be subject to EIT at a rate of 25% on their worldwide taxable income. Under the Implementation Rules to the EIT Law, a “place of effective management” is defined as the place where substantive and overall management and control over production and business operations, personnel, finance and accounting, and properties, etc., of the enterprise is conducted.

The SAT has issued Circular 82 to provide guidance on whether an offshore enterprise with a PRC enterprise as its primary controlling shareholder is a PRC RE. Circular 82 sets forth four conditions for determining if an offshore enterprise with a PRC enterprise as its primary controlling shareholder has established effective management and control in the PRC for RE purposes. The PRC RE status is recognised only when confirmation from the SAT is obtained via self-application or if this is deemed so by the tax authorities. Circular 82 is targeted at offshore enterprises with PRC enterprises as their primary controlling shareholder. It is possible that the SAT may make reference to the conditions used in Circular 82 when determining whether an offshore enterprise controlled by a non-PRC enterprise is a PRC RE. As advised by the PRC Legal Advisors, it remains unclear how the PRC tax authorities will interpret such a broad definition and whether China Merchants Commercial REIT or any of the offshore entities of China Merchants Commercial REIT will be deemed to be a PRC RE. As at the Latest Practicable Date, none of the offshore entities of China Merchants Commercial REIT has been notified or informed by the PRC tax authorities that it is considered as a PRC RE for EIT purposes.

If the PRC tax authorities subsequently determine that China Merchants Commercial REIT or the Offshore Property Holding Companies are deemed to be or should be classified as PRC REs, they will be subject to EIT at a rate of 25% on their worldwide taxable income. In addition, any dividends paid by the PRC RE to its Unitholders or foreign shareholders and gains derived from the disposal of Units or equity interest in the PRC RE by its Unitholders or foreign shareholders would be subject to PRC withholding tax at a rate of 10%, subject to applicable tax treaty relief.

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Therefore, if any of the Offshore Property Holding Companies or China Merchants Commercial REIT is deemed to be a PRC RE, this may adversely affect the amount of distributions made by China Merchants Commercial REIT to the Unitholders.

In addition, should there be any change to the existing PRC tax laws or regulations as mentioned above or the interpretation thereof, or any new PRC laws or regulations promulgated in the future, which have the effect of increasing the rate of withholding tax or restricting or withdrawing the preferential tax treatment, or which otherwise adversely affect the tax payable in respect of the distributions by China Merchants Commercial REIT, there may be a material adverse impact on the Unitholders.

China Merchants Commercial REIT may be adversely affected by the illiquidity of property investments

China Merchants Commercial REIT invests solely in real properties. In particular, the high value properties in which China Merchants Commercial REIT may from time to time invest are relatively illiquid. The market for acquiring or disposing of commercial building properties has historically not been very active in the PRC and is affected by many factors, such as general economic conditions, availability of financing, interest rate, supply and demand of real property and other factors beyond China Merchants Commercial REIT's control. In addition, commercial buildings may become unprofitable due to competition, age, decreased demand or other factors, but commercial buildings may not be readily converted for alternative uses. Conversion of a commercial building to a building with an alternative use would also generally require extra capital expenditures. Such factors, together with the fact that the tenancy agreements usually continue following the sale of commercial properties, may reduce the attractiveness of the properties to potential purchasers, thus affecting the ability of China Merchants Commercial REIT to dispose of its property investments when required or warranted to do so. Although it is intended that the properties of China Merchants Commercial REIT will be held on a long-term basis and the REIT Manager will thus have a longer time horizon for implementing any plans to dispose of China Merchants Commercial REIT's interest in any property that has reached a stage such that it offers only limited scope for growth, these factors could nonetheless have a material adverse effect on China Merchants Commercial REIT's business, financial condition, results of operations, prospects and ability to make expected distributions to Unitholders.

RMB is not freely convertible

The ability of the PRC Property Companies to remit RMB offshore and of China Merchants Commercial REIT to make distributions to the Unitholders is subject to foreign exchange controls. The PRC Government continues to regulate conversion between RMB and foreign currencies, including Hong Kong dollar, despite PRC Government's significant relaxation of control in recent years over routine foreign exchange transactions on the current account.

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The SAFE, under the authority of PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations. Transactions involving conversion between foreign currencies and RMB are subject to significant foreign exchange controls and the approval of the SAFE. PRC Government continues to regulate conversion between RMB and foreign currencies, including Hong Kong dollars, despite the significant reduction over the years by PRC Government in controlling routine foreign exchange transactions on the current account. There is no assurance that the current policies regarding conversion of RMB into foreign currencies will not be subject to tighter controls or restrictions in the future. In this regard, in the event that China Merchants Commercial REIT invests in the PRC property market, any changes to the foreign exchange regulations of the PRC may result in foreign exchange losses to China Merchants Commercial REIT and subsequently reduce the distribution payable to Unitholders.

In addition, there is no assurance that the PRC Government will continue to gradually liberalise the level of control over cross-border remittances in the future or that new PRC regulations which have the effect of restricting remittances into or out of the PRC will not be promulgated. China Merchants Commercial REIT's results of operations and the amount distributable to Unitholders would be adversely affected by any changes to the foreign exchange and cross-border remittance regulations in the PRC if it invests in the PRC property market. In the event that a problem arises in the future with respect to the repatriation of proceeds originating from the Properties out of the PRC, the REIT Manager will consider an alternative arrangement at the time, including credit facilities or the establishment of reserves, in order to meet its obligation to make distributions on a timely basis.

The ability of China Merchants Commercial REIT's PRC-incorporated companies to declare and pay dividends is limited by the availability of retained earnings and other factors, which may in turn have an impact on China Merchants Commercial REIT's distributions to Unitholders

China Merchants Commercial REIT operates principally through the PRC Property Companies established in the PRC and relies on dividend payments and other payments and/or distributions from the PRC Property Companies for its income and cash flows to satisfy its payment obligations and to make distributions to Unitholders.

Under PRC law, a PRC enterprise is only permitted to declare and repatriate dividends on after-tax earnings after deducting amounts for mandated reserves. These reserve funds, if set aside discretionally by the board of directors of a Sino-foreign joint venture or mandatorily by law, cannot be repatriated even if an enterprise has no losses or likely prospect of losses or these reserve funds are not needed for their prescribed purpose. Additionally, dividends may only be paid from after-tax earnings after taking into account depreciation expense, which is a non-cash charge. These reserves and depreciation charges potentially create a significant pool of trapped cash that cannot be used to pay dividends. If there are not enough retained earnings for these reserves, the amount of dividends that the PRC Property Companies can declare will be limited, thereby potentially reducing the amount of cash that can be used for distribution to Unitholders.

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In the event that the PRC Property Companies are unable to obtain tax clearance certificates from the PRC tax authorities in a timely manner, China Merchants Commercial REIT's ability to make distributions to Unitholders will also be adversely affected. As advised by the PRC Legal Advisors, there is no impediment on the remittance of dividends on retained earnings of the PRC Property Companies out of the PRC to China Merchants Commercial REIT provided that such remittance is made in accordance with the procedures set out under the relevant PRC foreign investment and foreign exchange laws and regulations. The ability to make payments to China Merchants Commercial REIT may also be restricted by applicable laws and regulations that may restrict the repatriation in RMB out of the PRC. Please refer to the paragraph headed "RMB is not freely convertible" in this section in this Offering Circular.

Further, the profits available for distribution by the PRC Property Companies are determined in accordance with PRC GAAP. Such profits available for distribution by the PRC Property Companies may differ from those by China Merchants Commercial REIT, which will be determined using IFRS, in certain significant respects, including but not limited to differences in the accounting treatments of depreciation, amortisation and impairment loss in the Properties and other fixed assets of the PRC Property Companies and deferred tax thereon. Thus, the amount of profit which is available for distribution by the PRC Property Companies as determined pursuant to the relevant PRC laws and accounting requirements could be less than the amount of any distribution determined to be payable by China Merchants Commercial REIT to the Unitholders under IFRS pursuant to its distribution policy.

Accordingly, there can be no assurance that China Merchants Commercial REIT will receive sufficient dividends from the PRC Property Companies to meet China Merchants Commercial REIT's own distribution requirements. In such circumstances, China Merchants Commercial REIT may be required to take loan facilities to satisfy the payment of distributions to Unitholders. If China Merchants Commercial REIT utilises loan facilities or other forms of borrowings to support the making of distributions to Unitholders, additional finance costs may be incurred and that in turn will reduce the distributable income of China Merchants Commercial REIT.

China Merchants Commercial REIT is subject to extensive PRC regulatory control on foreign investment in the real estate sector

Pursuant to the Circular on Strengthening Administration of Approval and Filing of Foreign Investment in Real Estate Industry (關於加強外商投資房地產業審批備案管理的通知), real estate enterprises funded by foreign capital are not permitted to seek profit by purchasing and reselling real estate property in the PRC that is either completed or under construction. The regulation is believed to be aimed at controlling inflow of foreign capital by curtailing the practice of reselling properties for profit adopted by some foreign investors.

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The promulgation of the regulation is an indication that the PRC Government has been imposing stricter policies on foreign investment in the real estate industry. There can be no assurance that the PRC Government will not deem any transaction of real estate property or any transfer of equity interest in real estate companies as making profit through transaction of real estate. There is also no assurance that the PRC Government will not implement additional restrictions on foreign investment in the real estate industry and sale and purchase of real estate property by foreign investors. Such measures may adversely affect China Merchants Commercial REIT's investments as it may experience difficulty in remitting profits generated from the PRC Property Companies or residual income from liquidation of the PRC Property Companies to overseas. In addition, in accordance with the laws and regulations of the PRC, the PRC Property Companies are required to obtain and maintain various valid licences, permits, or satisfy filing requirements in order to commence and operate their business including, without limitation, certificate of approval, business licence, property management qualification certificate, and filing with MOFCOM as a foreign invested real estate company. The PRC Property Companies are required to comply with applicable laws, regulations and standards and are subject to regular and random inspections for compliance by the relevant PRC authorities. Failure to pass these inspections, or the loss of or failure to obtain or renew any licences and permits, could disrupt the operations and business of the PRC Property Companies and the business, financial condition, results of operations and prospects of China Merchants Commercial REIT could be materially and adversely affected.

Changes in the political, economic and social conditions in the PRC may have a material adverse effect on China Merchants Commercial REIT's financial condition and results of operations

Currently, all of the Properties are located in the PRC. Accordingly, China Merchants Commercial REIT's business, financial condition, results of operations and prospects depend to a significant extent on the economic developments in the PRC. The political, economic and social conditions in the PRC differ from those in most developed countries in many respects, including: (i) economic and political structure; (ii) level of development; (iii) growth rate; (iv) control of foreign exchange; and (v) allocation of resources.

While the PRC Government has implemented economic reform measures emphasising utilisation of market forces in the development of the PRC economy and the PRC economy has experienced significant growth in the past 40 years, growth has been uneven, both geographically and among different sectors of the economy. In addition, the PRC Government continues to regulate industries' development by imposing top-down policies and control over the PRC's economic growth through various means such as the allocation of resources, monetary policy, control over foreign currency denominated payment obligations and the provision of preferential treatment to particular industries and companies. The REIT Manager cannot predict whether changes in the PRC's political, economic and social conditions will have any material adverse effect on China Merchants Commercial REIT's business, financial condition, results of operations or prospects.

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There are significant uncertainties under the EIT Law relating to the withholding tax liabilities of the PRC Property Companies

Under the EIT Law and its implementation rules, the profits of a foreign-invested enterprise generated in 2008 and onwards which are distributed to its immediate holding company outside the PRC are generally subject to a withholding tax rate of 10%. However, the withholding tax rate of 10% may be reduced under an applicable tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated containing a provision that specifically reduces such withholding tax. Pursuant to the avoidance of double taxation arrangement between Hong Kong and the PRC, such rate is lowered to 5% if a Hong Kong tax resident enterprise owns over 25% of a PRC company, and the Hong Kong tax resident enterprise is the “beneficial owner” of the dividends distributed by the PRC company.

The SAT promulgated rules concerning the determination of a recipient’s beneficial owner status under tax treaties. In that regard, the currently applicable rules are principally set out in the Bulletin 9. Bulletin 9 provides that a “beneficial owner” is a person who has the ownership and control over the relevant income or the rights or properties that generate the relevant income. A beneficial ownership analysis will be made based on a totality of facts of each case and the “substance-over-form” principle to determine whether a recipient is entitled to tax treaty benefits. As advised by the PRC legal advisors of the REIT Manager, generally speaking, a conduit or shell company without substantial business activities will not be recognised as a “beneficial owner”.

The SAT grants certain exceptions for a listed company in Bulletin 9. Where the recipient of the dividend income is an overseas resident enterprise which is listed or is 100% directly or indirectly held by a listed company and the listed company and the overseas resident enterprise and all intermediate holding companies between the listed company and the overseas resident enterprise are resident in the same country/jurisdiction, the overseas resident enterprise could be recognised as the beneficial owner of the dividend income.

The Properties are currently directly owned by the PRC Property Companies, which are held by the HK Property Holding Companies. Although the REIT Manager believes that the HK Property Holding Companies, which are directly held by the BVI Property Holding Companies, may have the opportunity to qualify as the “beneficial owner” of the dividends from the PRC Property Companies, so as to avail themselves of the avoidance of double taxation agreement between Hong Kong and the PRC under the listed company exception in Bulletin 9, there is no assurance that China Merchants Commercial REIT will be able to enjoy the reduced withholding tax rate of 5% under the avoidance of double taxation arrangement between Hong Kong and the PRC for dividends distributed by the PRC Property Companies.

Moreover, according to a tax circular issued by the SAT in February 2009, if the main purpose of an offshore arrangement is to obtain a preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate for which an offshore entity would otherwise be eligible. Furthermore, if there is any change to the existing PRC tax laws or regulations or the interpretation thereof, or any new PRC laws or regulations are promulgated in the future which have the effect of increasing the rate of withholding tax or restricting or withdrawing the preferential tax treatment, or which otherwise adversely affect the tax payable in respect of the dividend payment by the PRC Property Companies, there may be a material adverse impact on China Merchants Commercial REIT’s ability to make distributions to the Unitholders.

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RISKS RELATING TO AN INVESTMENT IN THE UNITS

The Units have never been publicly traded and the Global Offering may not result in an active or liquid market for the Units

Prior to the Global Offering, there has been no public market for the Units and an active public market for the Units may not develop or be sustained after the Global Offering. Although the Units will be listed on the Hong Kong Stock Exchange following the completion of the Global Offering, this does not guarantee that a trading market for the Units will develop or, if a market does develop, the liquidity of that market. The REIT Manager is required under the Trust Deed to use best efforts to ensure that a minimum of 25% (or such other percentage specified or permitted by the SFC from time to time) of the outstanding Units are held by the public. There can be no assurance as to the percentage of Units which will be held by the public or as to the number of Unitholders in China Merchants Commercial REIT at any time.

China Merchants Commercial REIT cannot be privatised by way of the scheme of arrangement or compulsory acquisition mechanisms provided under the Companies Ordinance

China Merchants Commercial REIT is not a company and the Companies Ordinance is not applicable to China Merchants Commercial REIT. Therefore, the scheme of arrangement mechanism and the compulsory acquisition mechanism as provided under the Companies Ordinance which may be used to privatise a company listed on the Hong Kong Stock Exchange and to which the Companies Ordinance applies cannot be used to privatise China Merchants Commercial REIT.

An investment in the Units presents taxation risk

China Merchants Commercial REIT, as a collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO, is exempt from Hong Kong profits tax, although the Special Purpose Vehicles and the Property Companies are subject to taxation in the respective jurisdictions in which they were incorporated and the Properties are subject to taxation in the PRC. Any change in the tax status of China Merchants Commercial REIT, the Property Companies or any other entities which are controlled by China Merchants Commercial REIT, or in taxation legislation in the PRC, Hong Kong or the Cayman Islands generally or any other jurisdiction affecting the Unitholders could affect the value of the investments held by China Merchants Commercial REIT or affect China Merchants Commercial REIT's ability to achieve its investment objectives or alter after-tax returns to the Unitholders. REITs in Hong Kong may differ in significant aspects, including tax treatment, from REITs in other jurisdictions. If there is any doubt as to tax position, investors should consult their own tax advisors.

Unitholders will be structurally subordinated to all existing and future claims of creditors of the Property Companies

The claims of creditors of the Property Companies will have priority to the assets of such entities over the claims of China Merchants Commercial REIT. The Property Companies may in the future incur unsecured or secured obligations directly. Secured creditors of the Property Companies would have prior rights of claim over the pledged assets. To a certain extent, direct creditors of the Property Companies would rank ahead of the claims of China Merchants Commercial REIT.

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Unitholders have no right to require the redemption of their Units

Unitholders have no right to require the redemption of their Units. Therefore, there can be no assurance that a Unitholder will be able to dispose of its Units at the Offer Price or any price, or at all. Accordingly, Unitholders may only be able to liquidate or dispose of their Units through a sale of such Units to third parties in the secondary market.

The price of the Units may decline after the Global Offering

The Offer Price of the Units will be determined by agreement between the REIT Manager, CMSK and the Joint Global Coordinators (on behalf of the Underwriters) and may not be indicative of the market price for the Units after completion of the Global Offering. The Units may trade at prices significantly below the Offer Price after the Global Offering and the price of the Units may be volatile. The price of the Units will depend on many factors, which may change from time to time, including but not limited to: (i) the perceived prospects of China Merchants Commercial REIT's business and investments and the PRC real estate market; (ii) differences between China Merchants Commercial REIT's actual financial and operating results and those expected by investors and analysts; (iii) changes in China Merchants Commercial REIT's revenues or earnings estimates or analysts' recommendations or projections; (iv) changes in general economic or market conditions both domestically and internationally; (v) the market value of China Merchants Commercial REIT's assets; (vi) changes in market valuations of similar companies; (vii) increases in interest rates; (viii) the perceived attractiveness of the Units against those of other equity securities, including those not relating to the real estate sector; (ix) the future size and liquidity of the market for the Units and the Hong Kong REIT market generally; (x) any future changes to the regulatory system, including the tax system, both generally and specifically in relation to Hong Kong REITs and owners and operators of property in Shenzhen or elsewhere; (xi) the ability on China Merchants Commercial REIT's part to implement successfully its investment and growth strategies and to retain its key personnel; and (xii) broad market fluctuations, including weakness of the equity market and increases in interest rates.

For these reasons, among other things, Units may trade at prices that are higher or lower than the attributable NAV per Unit. If China Merchants Commercial REIT retains operating cash flow for investment purposes, as working capital reserves or for other purposes, these retained funds, while increasing the value of its underlying assets, may not correspondingly increase the market price of the Units. Any failure on China Merchants Commercial REIT's part to meet market expectations with regard to future earnings and cash distributions may adversely affect the market price for the Units. In addition, there is no guarantee provided to investors. Unitholders may not get back their full investment amount. If China Merchants Commercial REIT is terminated or liquidated, it is possible that investors may lose all or part of their investment in the Units.

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The forward-looking statements and information in this Offering Circular, including the profit forecast, may prove inaccurate

This Offering Circular contains forward-looking statements regarding, among other things, forecast of net profits and distribution levels for the period from the Listing Date to 31 December 2019. These forward-looking statements are based on a number of assumptions regarding the REIT Manager's strategies and environment in which China Merchants Commercial REIT or the REIT Manager will operate in the future, which are subject to significant uncertainties and contingencies, many of which are outside of China Merchants Commercial REIT's control. Moreover, China Merchants Commercial REIT's revenue is dependent on a number of factors, including the ability of the REIT Manager to fully implement its strategies, the receipt of dividends and distributions, directly or indirectly, from each PRC Property Company as well as rent from the Properties. Such rent, dividends and distributions may decrease for a number of reasons, including the lowering of occupancy and rental rates, and insolvency or delay in rent payment by tenants, which may adversely affect China Merchants Commercial REIT's ability to achieve the forecast distributions as some or all events and circumstances assumed may not occur as expected, or events and circumstances which are not currently anticipated may arise. Because such statements and financial information reflect the REIT Manager's current view concerning future events, such statements and financial information necessarily involve risks, uncertainties and assumptions. These statements speak only as at the date they are made and reflect only the REIT Manager's views as at that time and the REIT Manager undertakes no obligation to update them in light of new information, circumstances or future developments. While the REIT Manager has no reason to doubt the reasonableness of its assumptions on which the forward-looking statements are based, there are known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of China Merchants Commercial REIT or the REIT Manager to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements and financial information.

Therefore, China Merchants Commercial REIT's actual results may be materially different from the forecast. Although the REIT Manager considers the assumptions to be reasonable, no assurance can be given that the assumptions will be realised.

Distributions to the Unitholders will be subject to the availability of cash flow from the companies held by China Merchants Commercial REIT

The Properties are held through the Property Companies, and China Merchants Commercial REIT will rely, directly or indirectly, on dividend payments and other distributions from the Property Companies for its income and cash flows. In addition, substantially all of the assets of China Merchants Commercial REIT consist of its shareholding in Frontier Shekou. In order to meet its payment obligations and to pay distributions to the Unitholders, China Merchants Commercial REIT will rely on the receipt of direct dividends, distributions, interest or intra-group loan repayments from the companies held by it.

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There can be no assurance that the Property Companies will have sufficient distributable or realised profits or surpluses in any future period to pay dividends, make distributions, pay interest, or make repayments or advances. The ability of the Property Companies to make such payments may be restricted by, among other things, their respective business and financial positions, any operating losses, the availability of distributable profits, changes in accounting standards, ability of obtaining financings, applicable laws and regulations which may restrict the payment of dividends, or the terms of agreements to which they are, or may become, a party. The occurrence of such factors would adversely affect the level of distributions paid to the Unitholders.

Property yield on real estate to be held by China Merchants Commercial REIT is not equivalent to yield on the Units

Generally, property yield depends on net property income and is calculated as the amount of revenue generated by the properties, less the expenses incurred in maintaining, operating, managing and leasing the properties compared against the current value of the properties. Distribution yield on the Units, however, depends on the distributions payable on the Units, after taking into account other expenses including (i) taxes, (ii) interest cost for any debt facilities, (iii) REIT management fees and trustee's fees, and (iv) other operating costs including administrative fees of China Merchants Commercial REIT, as compared with the purchase price of the Units.

The number of Units available for future sale could have adverse effects on the Unit price of China Merchants Commercial REIT

No prediction can be made as to the effect, if any, that the issue of Units in the future, or the availability of the Units for future sale, will have on the market price of the Units.

Upon completion of the Listing, it is expected that Eureka will own 33.5% (or 30.2% if the Over-allotment Option is exercised in full) of the Units. Although there are restrictions on the disposal of Units by Eureka for a lock-up period ending on the first anniversary of the Listing Date, there can be no assurance that sales of substantial numbers of Units by other parties will not occur or that Eureka will not dispose of a substantial portion of Units upon the lapse of such restrictions. Sales of a substantial number of Units by Eureka or other parties in the public market following the Global Offering, or the perception that such sales could occur, could adversely affect prevailing market prices for the Units.

The NAV per Unit will be diluted if further issues are priced below the existing NAV per Unit

The Trust Deed contemplates new issues of Units, the issue price for which may be above, at or below the current NAV of China Merchants Commercial REIT. Where new Units are issued at a price less than the existing NAV per Unit, this will result in dilution on a NAV per Unit basis.

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Unitholders' interests will be diluted if all or part of the REIT Manager's compensation is paid in Units

All or part of the REIT Manager's compensation may be paid in Units in lieu of cash, in which event Unitholders will experience dilution in their holdings of Units. In addition, any issue of the Units below China Merchants Commercial REIT's NAV for payment to the REIT Manager would result in immediate dilution to Unitholders. For further details, please refer to the section headed "The REIT Manager — Further Details Regarding the REIT Manager — Fees, Costs and Expenses of the REIT Manager" in this Offering Circular.

Certain laws, rules and regulations affecting companies listed on the Hong Kong Stock Exchange do not generally apply to REITs listed on the Hong Kong Stock Exchange or to holdings of Units and only limited information may be available in relation to the interests held by Significant Unitholders and other connected persons of China Merchants Commercial REIT

Unitholders' rights differ from, and may be less protected in certain respects than, those granted to shareholders of companies listed on the Hong Kong Stock Exchange, as more fully described below.

Although the REIT Code contains provisions which are intended to address certain issues under the Listing Rules, not all of the Listing Rules apply to REITs, including China Merchants Commercial REIT, as such entities are not "listed issuer(s)" within the meaning of those rules. For example, in accordance with the REIT Code, interests in Units held by connected persons of China Merchants Commercial REIT are required to be disclosed in the annual report of China Merchants Commercial REIT. However, as the SFO does not state that the rules on disclosure of interests set out in Part XV of the SFO apply to Units, and the provisions of the Trust Deed requiring Unitholders to disclose their interests in China Merchants Commercial REIT do not have the force of law, this may render it difficult for the REIT Manager to enforce such provisions.

Certain rights in relation to Units in which a person has an interest or is deemed to have an interest may be suspended under the provisions of the Trust Deed

The Trust Deed contains provisions that require relevant persons to disclose to the REIT Manager information in relation to the acquisition or disposal of interests in the Units. If the REIT Manager believes a person has not complied with such disclosure of interest provisions in the Trust Deed, irrespective of whether such person is a Unitholder, the REIT Manager may, in its absolute discretion, take certain actions in respect of all or part of the Units in which such person holds or is deemed to hold an interest. Such actions may include suspending the voting rights of such Units, suspending the payment of distributions on such Units, imposing an administrative fee for such non-compliance, suspending the registration and/or declining to register any transfer of such Units.

RISK FACTORS

The Units may be delisted from the Hong Kong Stock Exchange

The Hong Kong Stock Exchange imposes certain requirements for the continued listing of securities, including the Units, on the Hong Kong Stock Exchange. Investors cannot be assured that China Merchants Commercial REIT will continue to meet the requirements necessary to maintain the listing of Units on the Hong Kong Stock Exchange or that the Hong Kong Stock Exchange will not change the listing requirements. China Merchants Commercial REIT may be terminated if the Units are delisted from the Hong Kong Stock Exchange.

USE OF PROCEEDS

The REIT Manager estimates that the total proceeds from the Global Offering, will be approximately HK\$3,000.0 million (based on the Maximum Offer Price), and approximately HK\$2,565.0 million (based on the Minimum Offer Price), assuming the Over-allotment Option is not exercised.

The following table sets forth the sources of China Merchants Commercial REIT's funds following the completion of the Global Offering and the intended application of those funds (assuming that the Over-allotment Option is not exercised):

	Based on the Minimum Offer Price of HK\$3.42 <u>(HK\$ million)</u>	Based on the Maximum Offer Price of HK\$4.00 <u>(HK\$ million)</u>
Sources of funds:		
750,000,000 Units issued pursuant to the Global Offering . . .	2,565.0	3,000.0
377,819,549 Units issued to the Vendor ⁽¹⁾	1,292.2	1,511.3
Bank Loan Drawdown Amount	2,148.3	2,148.3
Total	<u>6,005.5</u>	<u>6,659.6</u>
Uses of funds:		
Acquisition of Predecessor Group	5,835.1	6,479.5
Transaction costs ⁽²⁾	113.9	123.6
General corporate purposes	56.5	56.5
Total	<u>6,005.5</u>	<u>6,659.6</u>

Notes:

- (1) Units issued to Eureka, a wholly-owned company of CMSK, as nominee of the Vendor.
- (2) Transaction costs comprise expenses relating to the Global Offering, which include underwriting commissions payable to the Underwriters (based on the final size of Global Offering), legal fees, printing costs, auditors' fees, listing costs, advertisement and marketing related expenses (including roadshow expenses) and other administrative expenses.

OWNERSHIP OF AND INTEREST IN UNITS

OWNERSHIP OF AND INTEREST IN UNITS

So far as the Directors are aware, save as disclosed below, no person will, upon completion of the Global Offering, hold or be deemed to hold an interest in 5.0% or more of the issued Units.

The table and the notes below detail the number and percentage of Units to be held or, pursuant to Part XV of the SFO (which, except sections 328 and 351 thereof, will be deemed to have effect after the Listing Date under the terms of the Trust Deed), deemed to be interested in, by the following persons (i) upon completion of the Global Offering assuming no exercise of the Over-allotment Option; and (ii) upon completion of the Global Offering assuming full exercise of the Over-allotment Option:

	Upon completion of the Global Offering assuming no exercise of the Over-allotment Option		Upon completion of the Global Offering assuming full exercise of the Over-allotment Option	
	No. of Units	% of total Units in issue	No. of Units	% of total Units in issue
CMSK ⁽¹⁾	377,819,549	33.5%	340,319,549	30.2%
Public Unitholders	750,000,000	66.5%	787,500,000	69.8%
Total	1,127,819,549	100.0%	1,127,819,549	100.0%

Note:

- (1) Such Units represent the deemed interest of CMSK under the Trust Deed in the Units held by virtue of CMSK's direct interest in the entire issued share capital of Eureka.

Save as disclosed above, none of the Directors will be interested (for the purposes of the disclosure requirements under the compliance manual of the REIT Manager) in the Units immediately upon listing of the Units.

DISTRIBUTION POLICY

Distributions to Unitholders will, subject to compliance with applicable legal and regulatory requirements, be declared and paid in Hong Kong dollars. The REIT Manager's policy is to distribute to Unitholders an amount of no less than 90% of China Merchants Commercial REIT's Annual Distributable Income for each financial year.

For these purposes, and under the terms of the Trust Deed, "**Annual Distributable Income**" for a financial year is the amount calculated by the REIT Manager (based on the audited financial statements of China Merchants Commercial REIT for that financial year) as representing the consolidated audited net profit after tax of China Merchants Commercial REIT and its subsidiaries for that financial year, as adjusted for the Adjustments (as defined below) and, for the avoidance of doubt, calculated after accounting for the Base Fee and the Variable Fee payable to the REIT Manager and excludes any additional discretionary distributions out of capital. After eliminating the effects of these Adjustments, Annual Distributable Income may be different from the net profit recorded for the relevant financial year.

"**Adjustments**" means adjustments which are charged or credited to the consolidated statement of profit or loss and other comprehensive income of China Merchants Commercial REIT for the relevant financial year or the relevant distribution period (as the case may be), including: (i) unrealised property revaluation gain and losses, including impairment provisions and reversals of impairment provisions; (ii) goodwill impairment (charged) and/or negative goodwill (credited); (iii) differences between financial costs recognised on the financial statements and interest paid and payable in accordance with contractual obligations during that financial year or that distribution period (as the case may be); (iv) realised gains on the disposal of financial instruments or the disposal of properties and/or disposal of the Special Purpose Vehicle which holds such properties; (v) fair value gains and losses on financial instruments; (vi) deferred tax charges/credits in respect of property valuation movements, fair value changes on financial instruments and commercial building allowances/capital allowances, withholding tax on retained profits to be distributed and other tax losses or other deductions claimed; (vii) allocation of statutory reserve as required by applicable laws; (viii) the portion of the REIT Manager's fee that is paid in the form of Units; (ix) non-cash foreign exchange gains or losses; (x) costs of any public offering of Units, Convertible Instruments or other forms of debt and/or securities that are expensed through the consolidated statement of profit or loss and comprehensive income but are funded by proceeds from the issuance of such Units, Convertible Instruments or other forms of debt and/or securities; (xi) depreciation and amortisation in respect of a real estate directly or indirectly owned by China Merchants Commercial REIT, and its ancillary machinery, equipment and other fixed assets; (xii) other material non-cash gains/losses, in each case as recorded in the consolidated statement of profit or loss and comprehensive income for the financial year; and (xiii) the effects of any amount paid to the REIT Manager, the Trustee or China Merchants Commercial REIT pursuant to the DPU Commitment or otherwise for the express purpose of distribution to Unitholders. Based on and in sole reliance upon the information and assurances provided by the REIT Manager, and having regard to the minimum distribution requirement expressed in paragraph 7.12 of the REIT Code, the Trustee's duties under the REIT Code and the Trustee's fiduciary duties, the Trustee has no objection to the definition of "**Adjustments**" as described above.

DISTRIBUTION POLICY

The REIT Manager also has the discretion to direct the Trustee from time to time to make distributions over and above the minimum 90% of Annual Distributable Income if and to the extent China Merchants Commercial REIT, in the opinion of the REIT Manager, has funds surplus to its business requirements. The REIT Manager currently intends to distribute 100% of the Annual Distributable Income for the DPU Commitment Period.

Under the Trust Deed, the REIT Manager will, subject to applicable laws, endeavour to ensure that at least one distribution shall be made in respect of each financial year and paid no later than five months after the distribution calculation date for the relevant distribution period. China Merchants Commercial REIT's first distribution after the Listing Date will comprise (i) the distribution for the period from and including the Listing Date to 31 December 2019; and (ii) the interim distribution for the six months ending 30 June 2020, which will be paid together no later than the end of November 2020.

China Merchants Commercial REIT's initial distribution policy is that two distributions will be made in respect of each year, being distributions with respect to the six-month periods ending 30 June and 31 December. The Directors anticipate that interim and final distributions will be paid by the end of November and May in each year, respectively.

The REIT Manager may also adopt such rules as it considers appropriate for the reinvestment by Unitholders of any distributions to be made by China Merchants Commercial REIT in return for new Units but no Unitholder shall be obliged to receive Units in lieu of a cash distribution. Under Hong Kong's current tax law, distributions may be made free of withholdings or deductions on account of Hong Kong tax. It is understood that, under the Hong Kong Inland Revenue Department's current practice, Hong Kong profits tax will not be payable by a Unitholder on distributions made by China Merchants Commercial REIT. However, Unitholders should take advice from their own professional advisors as to their particular tax position.

Distributions to Unitholders will be declared and paid in Hong Kong dollars. China Merchants Commercial REIT's ability to make distributions is dependent on, among other things, the Trustee having sufficient cash in China Merchants Commercial REIT to make the payments required and the ability to remit profits generated from the PRC Property Companies from the PRC to overseas. If the Trustee does not have sufficient cash in China Merchants Commercial REIT to pay distributions, China Merchants Commercial REIT may be required to obtain financing to satisfy the payment of distributions to Unitholders. For further details, please refer to the sections headed "Risk Factors — Risks relating to the Real Estate Industry and the PRC — The ability of China Merchants Commercial REIT's PRC-incorporated companies to declare and pay dividends is limited by the availability of retained earnings and other factors, which may in turn impact China Merchants Commercial REIT's distributions to Unitholders" and "Risk Factors — Risks relating to the Real Estate Industry and the PRC — RMB is not freely convertible" in this Offering Circular.

DISTRIBUTION POLICY

China Merchants Commercial REIT may make distributions out of capital beyond the Annual Distributable Income. The composition of distributions declared by China Merchants Commercial REIT (including, but not limited to, the extent to which the distribution declared or made is composed of, and the types of, income and capital) shall be determined by the REIT Manager in its absolute discretion and will be disclosed in the relevant results announcements, semi-annual reports and annual reports of China Merchants Commercial REIT.

For information on the forecast distributions for the period from the Listing Date to 31 December 2019, please refer to the section headed “Statement of Distributions” in this Offering Circular.

KEY INVESTMENT HIGHLIGHTS OF CHINA MERCHANTS COMMERCIAL REIT

China Merchants Commercial REIT is a REIT formed to primarily own and invest in high quality income-generating commercial properties in the PRC (including Hong Kong and Macao but excluding the CML Cities), with an initial focus on the Relevant Jurisdictions. China Merchants Commercial REIT is managed by the REIT Manager whose key investment objectives are to provide Unitholders with stable distributions, sustainable and long-term distribution growth, and enhancement in the value of China Merchants Commercial REIT's properties.

China Merchants Commercial REIT shall initially comprise the following five Properties in Shekou, all of which are (i) well-served by public transportation network and (ii) equipped with car parking spaces:

- New Times Plaza, a Grade A office building with an aggregate Gross Floor Area of 87,337.0 sq.m. located adjacent to Sea World commercial area and Prince Bay, the latter of which being an emerging office and retail commercial area;
- Cyberport Building, Technology Building and Technology Building 2, being three office building complexes technically zoned for industrial use and located in Shekou Net Valley, a business hub for high-tech companies and startups which has been earmarked by the Nanshan Government for promoting and developing emerging industries, with an aggregate Gross Floor Area of 124,545.0 sq.m.; and
- Garden City Shopping Centre, the first large-scale comprehensive commercial complex integrating shopping, dining, lifestyle and entertainment facilities in Shekou sub-district, with an aggregate Gross Floor Area of 50,496.9 sq.m.

Immediately following the Listing, China Merchants Commercial REIT will be indirectly held by CMSK as to 33.5% (assuming the Over-allotment Option is not exercised) and managed by the REIT Manager, an indirect wholly-owned subsidiary of CML. CMSK and CML are listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange, respectively.

The REIT Manager believes that the Properties have the following competitive strengths:

- the Properties are strategically located and have a diverse and quality tenant base;
- the portfolio has strong growth potential and can be further augmented through asset enhancement initiatives and future acquisitions; and
- the Properties will be managed by highly experienced and committed management team with a proven track record.

STRATEGICALLY LOCATED PROPERTIES WITH QUALITY TENANTS**Strategic location**

Shenzhen is one of the core cities for the strategic development of the Greater Bay Area. According to the Market Consultant Report, Shenzhen is a fast-growing city with a year-on-year GDP growth of approximately 7.6% in 2018 and is the largest city in the Greater Bay Area in terms of GDP in 2018. The Greater Bay Area consists of nine cities in the Pearl River Delta, as well as Hong Kong and Macao. Its aggregated GDP accounted for approximately 12% of the GDP of China in 2018, and Hong Kong, Shenzhen and Guangzhou are leading the economic development in the region. Under the Outline Development Plan, the development of the Greater Bay Area is not only key to the reform and opening of China, but is also instrumental to the Belt and Road Initiative. Given the importance of Shenzhen in the Greater Bay Area, the PRC Government aims to, among other things, (i) promote Shenzhen as a science and technology innovation centre; (ii) strengthen Shenzhen's marine, air, expressway and high-speed railway transportation networks; and (iii) support Shenzhen for the innovation of financial and insurance products. In August 2019, the PRC Government issued the Opinions on Supporting Shenzhen's Establishment of the Pioneering Demonstration Zone under Socialism with Chinese Characteristics (關於支持深圳建設中國特色社會主義先行示範區的意見) that advocates Shenzhen to be developed as a comprehensive national science and technology innovation centre that will play a key role in the Greater Bay Area. Such policy is expected to increase the demand for office buildings, business parks and technology parks in Shenzhen as well as making a positive financial impact on Shenzhen.

Against this backdrop, the REIT Manager believes that given the Properties are all located in Shekou, the Properties are well-positioned to capture the opportunities arising from their strategic location, the development of Shekou, the favourable government policies and the expected growth of the Greater Bay Area. In particular:

- ***The Properties are all located in the Qianhai-Shekou Pilot FTZ***

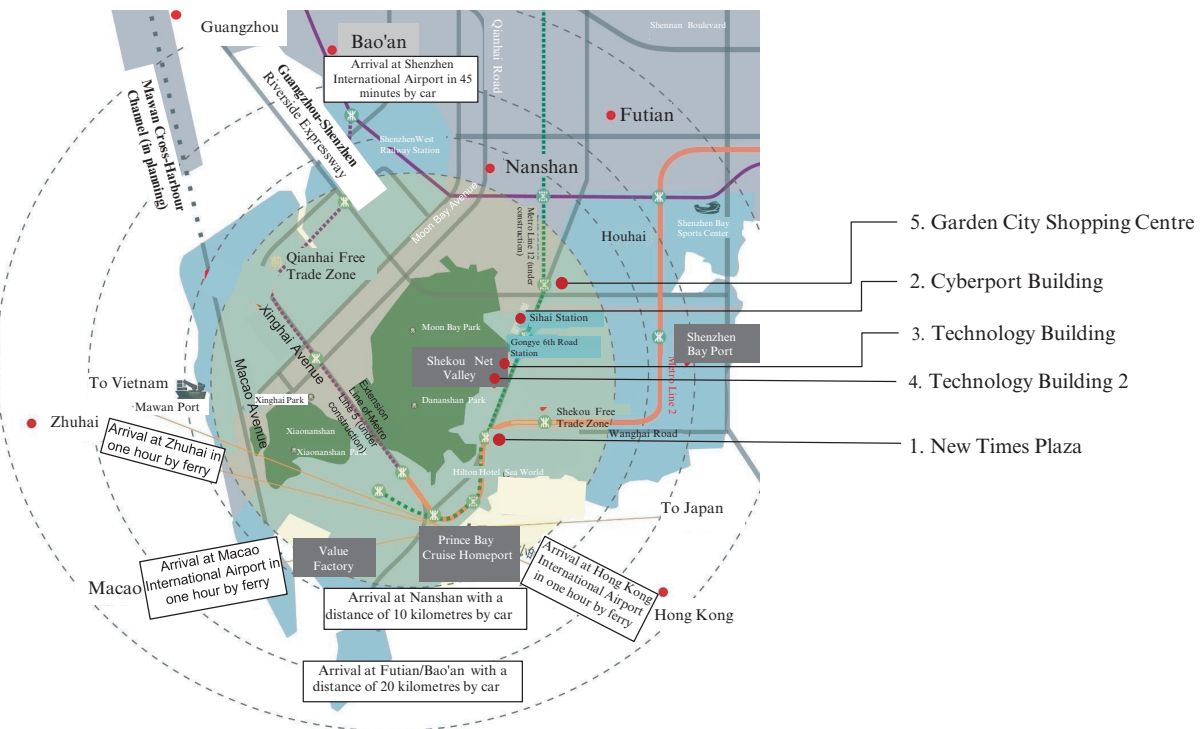
Shekou is one of the first places implementing the reform and opening policies of China, an incubator for institutional innovation and a pioneer of industrial transformation and upgrade. It has previously been designated as an industrial zone in 1979 at the early stage of the reform and opening of China, and has gradually transformed into a high-tech and service-oriented business district. In 2015, it was re-designated as part of the Qianhai-Shekou Pilot FTZ. The Qianhai-Shekou Pilot FTZ aims to integrate the resources of Shenzhen, Hong Kong and abroad for the development of new service industries. It is comprised of (i) Shekou sub-district, a business district which focuses on the development of emerging industries, including but not limited to, science and technology and cultural and creative services; (ii) Qianhai sub-district, a business district which focuses on the development of finance, information services, science and technology services, and professional services; and (iii) the western port area of Shenzhen, which focuses on port logistics, cross-border trade, supply chain management and high-end shipping services. The respective roles of different sub-districts in the Qianhai-Shekou Pilot FTZ create synergies and are complementary to each other. The Properties are all located in the Qianhai-Shekou Pilot FTZ. Three out of the five Properties — Cyberport Building, Technology Building and Technology Building 2 — are located in Shekou Net Valley, which the Nanshan Government plans to transform into an industrial park focusing on emerging industries. The REIT Manager believes that the favourable policies and the economic development of the region will lead to an increase in demand for office space in the long run.

KEY INVESTMENT HIGHLIGHTS OF CHINA MERCHANTS COMMERCIAL REIT

- **The Properties are well-connected to the innovative industry hubs and central business district of Shenzhen**

Shekou has three major ports, including Shekou Port, Shenzhen Bay Port and Shenzhen Prince Bay Cruise Homeport, and is linked to Bao'an, Zhuhai, Macao and Hong Kong international airports. It is also accessible by Metro Line 2, and will be accessible by Metro Line 9 Extension Line and Metro Line 12, which are both under construction and expected to commence operation in 2020 and 2022, respectively. Given its geographical advantage, Shekou has the potential to be the centre of the development of emerging industries such as science and technology services, and cultural and creative services.

The map below shows the neighbouring districts in Shenzhen that are within one-hour commute from Shekou:



The Properties are easily accessible by public transportation. It takes less than one hour to travel by public transportation from Shekou to Hong Kong, Macao and Zhuhai and approximately an hour to travel by high speed train from Shekou to Guangzhou. The Properties are all accessible by Metro Line 2 and several bus lines. The REIT Manager expects the Properties to have strong growth potential as they will be further supported by multiple metro lines that are currently under construction, including Metro Line 12 which is expected to commence operation in 2022. For example, Garden City Shopping Centre is expected to be directly connected to Sihai metro station of Metro Line 12 and thus bring higher customer traffic coming from multiple districts in Shenzhen. According to the Market Consultant, the potential catchment population of Garden City Shopping Centre brought by Metro Line 12 from the Sihai station is expected to be approximately 300,000. Garden City Shopping Centre will also be connected to the Prince Bay Cruise Homeport, which has ferry services to Zhuhai, Hong Kong and Macao. Prince Bay Cruise Homeport is close to the Prince Bay Port station, which will be only three stations away from Sihai metro station on the same metro line.

KEY INVESTMENT HIGHLIGHTS OF CHINA MERCHANTS COMMERCIAL REIT

- ***The Properties are located in a well-developed community***

Shekou is a well-developed community with approximately 220,000 habitual residents in 2017. It also has a large-scale leisure and commercial development, Sea World (海上世界), which contains commercial buildings, entertainment facilities, restaurants, shopping centres, hotels, residential properties and an art centre. The lifestyle, entertainment and other amenities in Shekou have attracted people from the neighbouring districts in Shenzhen and increased the consumption demand in Shekou.

For example, New Times Plaza, is close to a wide variety of business, residential, recreational and entertainment amenities, including Sea World, Shekou Hilton, Nanshan Park and Shekou Arts Centre.

The REIT Manager believes that the geographical advantage of Shekou, together with the Outline Development Plan, will drive the economic growth of Shekou. Given the Properties are located in a well-developed community, the REIT Manager also believes that China Merchants Commercial REIT is well-positioned to capture growth opportunities in Shenzhen and more broadly in the Greater Bay Area.

Diverse and quality tenants

The Properties have a diverse tenant base with tenants from different industries, including new-generation information technology, real estate and food and beverage, with the exception of Garden City Shopping Centre, which houses mainly companies in the food and beverage and retail industries. The tenants of the Properties include various domestic and international brands from France, Japan and the United States and certain Fortune 500 companies. The monthly Base Rent attributable to the Predecessor Group's top tenant and top five tenants respectively contributed approximately 7.4% and approximately 18.5% of the total monthly Base Rent of the Properties for the month ended 30 September 2019. No single industry group accounted for more than 30% of the Gross Rental Income over the Properties for the month ended 30 September 2019. Given the diversity of tenants, the REIT Manager believes that the tenant and industry concentration risks are limited.

The Properties have a high quality tenant base which is evidenced by the high retention rates and low delinquency rates. The Properties have a large number of long-standing tenants. As at 30 September 2019, the Properties had a total of 279 tenants. For each of the three years ended 31 December 2018, the six months ended 30 June 2019 and the nine months ended 30 September 2019, the retention rate of the Properties (calculated by dividing Gross Rentable Area under renewed tenancies by the total expired area of all Properties during the relevant period) was approximately 71.7%, 80.8%, 86.2%, 59.5% and 49.7%, respectively. The decrease in retention rate for the six months ended 30 June 2019 was mainly attributable to the refurbishment of the floor space previously occupied by a major tenant in Garden City Shopping Centre starting in June 2019 and the plan for refurbishment and upgrade of tenant mix for Cyberport Building. For each of the three years ended 31 December 2018, the six months ended 30 June 2019 and the nine months ended 30 September 2019, the Average Delinquency Rate of the Properties was nil, nil, 0.3%, 0.6% and 0.1%, respectively. During the Track Record Period, there was no major dispute on rent collection. The REIT Manager believes that the diverse tenant mix and the quality of the tenants provide a high degree of income stability to China Merchants Commercial REIT.

KEY INVESTMENT HIGHLIGHTS OF CHINA MERCHANTS COMMERCIAL REIT

In relation to Cyberport Building, Technology Building and Technology Building 2, roundtable discussions, social and networking events, industry workshops, information exchange forums and industry updates and presentations have been organised from time to time for tenants of different industry sectors so as to promote business collaborations and synergies among the tenants. The REIT Manager believes that such value-added services not only serve to promote interactions and bonds among the tenants, but also serve to maintain high occupancy rate and attract quality tenants.

STRONG ORGANIC GROWTH AND FUTURE ACQUISITIONS

Organic growth of existing properties

According to the Market Consultant Report, the average monthly rents for Grade A office and Grade B office buildings in Shekou is expected to rise from RMB245 and RMB137 per sq.m. in 2018 to RMB304 and RMB164 per sq.m. in 2023, respectively, representing a CAGR of approximately 4.4% and 3.7%, respectively. The upward market trend is likely to translate into the growth of rental income. Given their strategic location and the diverse and quality tenants, the Properties are well-positioned to benefit from higher rental reversion after the expiry of the existing tenancies.

Approximately 9.9%, 17.6%, 15.2%, 22.0% and 19.5% of the existing tenancies (in terms of total Gross Rentable Area) for the Properties as at 30 September 2019 will expire respectively in 2019, 2020, 2021, 2022 as well as 2023 and beyond. The REIT Manager expects that the Gross Rentable Area under the relevant tenancy agreements can potentially be leased at a higher rent after expiry in the coming few years, provided that the market condition is steady and the assumptions set out in the section headed “Profit Forecast for the Profit Forecast Period — Bases and Assumptions” in this Offering Circular are met.

In addition, the REIT Manager may deploy asset enhancement initiatives and operation improvements to optimise the Properties’ rental income growth, improve tenant diversity and occupancy levels, and prudently control property expenses in order to achieve organic and sustainable growth for China Merchants Commercial REIT. For further information, please refer to the section headed “Strategy — Asset Management Strategy” in this Offering Circular.

Future acquisition growth sponsored by CMSK

China Merchants Commercial REIT is sponsored by CMSK, a reputable state-owned enterprise listed on the Shenzhen Stock Exchange, which is expected to indirectly hold 33.5% of China Merchants Commercial REIT (assuming the Over-allotment Option is not exercised) at the time of Listing. CMSK is one of the flagship subsidiaries of CMG, a leading state-owned enterprise. After the Shekou Industrial Zone was founded in 1979, CMSK has since been actively developing, selling and managing various types of properties in the PRC. As at 31 December 2018, CMSK (i) had investment in properties valued at RMB39.8 billion and had 28 composite development projects and 9 commercial development projects; (ii) had nearly 10 million sq.m. gross floor area of premium land in Shenzhen, including the Sea World, Prince Bay, Qianhai Ma Bay and Shenzhen International Convention and Exhibition Centre in Shenzhen Bao’an International Airport; and (iii) held 95% or more ownership interests in six composite development and commercial development projects. The six projects are located in

KEY INVESTMENT HIGHLIGHTS OF CHINA MERCHANTS COMMERCIAL REIT

four cities in the PRC, namely, Shenzhen, Shanghai, Zhuhai and Hangzhou. As at the Latest Practicable Date, the construction of office buildings and/or shopping centres had been completed or in progress in those six projects.

CMSK has granted a ROFR to China Merchants Commercial REIT to acquire CMSK's properties that meet the following criteria: (i) the property is an office building and/or shopping centre located in the Relevant Jurisdictions, which will be the initial investment focus of China Merchants Commercial REIT as at the date of Listing; and (ii) CMSK holds at least 95% ownership interests in the property. For further details on the ROFR granted by CMSK to China Merchants Commercial REIT and certain potential pipeline assets that may be injected to China Merchants Commercial REIT, please refer to the section headed "Material Agreements and Other Documents — Deed of Right of First Refusal" in this Offering Circular.

Given its experience in property development and operation, CMSK has in-depth knowledge of the property market and its existing tenants and property portfolio. China Merchants Commercial REIT may leverage the extensive industry experience and expertise of CMSK in assessing suitable potential acquisition opportunities.

In view of the above, the REIT Manager believes that China Merchants Commercial REIT's relationship with CMSK will facilitate China Merchants Commercial REIT's future growth. As at the Latest Practicable Date, the REIT Manager had not identified any acquisition target and did not have any plan for China Merchants Commercial REIT to acquire any property in the twelve-month period starting from the Listing Date.

HIGHLY EXPERIENCED AND COMMITTED MANAGEMENT TEAM WITH A PROVEN TRACK RECORD

The REIT Manager has the power to manage China Merchants Commercial REIT and has delegated: (i) some operation functions such as rental and marketing to the Operations Manager; and (ii) the property management function to the Property Manager.

The REIT Manager is wholly-owned by CML, and the Operations Manager and the Property Manager are wholly-owned by CMSK. As a result, such wholly-owned entities can benefit from CMSK and CML's large resource base, experienced management team with a proven track record as well as brand name and recognition in the PRC, especially in Shenzhen where the Properties are located.

Furthermore, the Board and the senior executives of the REIT Manager have extensive experience in property investment and property management. The REIT Manager is able to leverage its management team's wealth of experience. For example, Mr. GUO Jin, an executive Director, a Responsible Officer, and the Chief Investment and Asset Management Officer of the REIT Manager, has abundant experience in the real estate and financial industry. He used to serve at Savills Investment Management (Hong Kong) Limited where he took the position of the Head of Greater China and was also a responsible officer for Type 1, Type 4 and Type 9 regulated activities under the SFO. At the Board level, he is supported by a group of non-executive Directors — including, Mr. YU Zhiliang, who has been an executive director of CML since June 2012. Senior executives of the REIT Manager also play a crucial role in assisting the Board. In particular, Mr. ZHONG Ning is a Responsible Officer and the Chief Operating Officer of the REIT Manager and is employed by the Onshore Manager Subsidiary. He was an investment director of CML from February 2017 until October 2019, a portfolio director of China Merchants and SPF Investment Fund Management Co., Ltd. (招商

KEY INVESTMENT HIGHLIGHTS OF CHINA MERCHANTS COMMERCIAL REIT

局穩石投資基金管理有限公司) from September 2017 until October 2019 and an investment director of Grand Synergy Asset Management Co., Ltd. (偉邦資產管理顧問有限公司) from October 2017 until October 2019. For details of the Board and senior executives, please refer to the section headed “The REIT Manager” in this Offering Circular.

Based on the foregoing, the REIT Manager believes that the management team’s experience and insight in property development, investment, management, marketing, leasing and financing, which are complemented by the team’s familiarity with the market practice and economic dynamics of the PRC property market, will enable China Merchants Commercial REIT to capitalise on market growth and achieve optimal operational results.

STRATEGY

The REIT Manager's key objectives for China Merchants Commercial REIT are to provide Unitholders with stable distributions, sustainable and long-term distribution growth, and enhancement in the value of China Merchants Commercial REIT's properties. The REIT Manager intends to achieve this through holding and investing in high quality income-generating commercial properties located in the PRC (including Hong Kong and Macao but excluding the CML Cities), with an initial focus on the Relevant Jurisdictions.

The REIT Manager's strategy can be broadly categorised as follows:

- **Asset management strategy:** Proactively managing China Merchants Commercial REIT's property portfolio to maintain optimal occupancy level and operational efficiency; seeking asset enhancement opportunities through property upgrade and/or renovation to promote rental income growth.
- **Investments and acquisition strategy:** Investing in and acquiring high quality properties in the PRC (including Hong Kong and Macao but excluding CML Cities) from CMG, CMSK or third parties that satisfy the REIT Manager's investment strategy.
- **Capital and risk management strategy:** Optimising returns on China Merchants Commercial REIT's portfolio and distributions to Unitholders, while maintaining an appropriate level of financial prudence.

China Merchants Commercial REIT may invest in Relevant Investments or engage or participate in Property Development and Related Activities if the REIT Manager considers it appropriate and in the interest of Unitholders to do so in the future. However, before China Merchants Commercial REIT may undertake such investments or activities, the REIT Manager will seek Unitholders' approval to amend the investment scope of China Merchants Commercial REIT set out in the Trust Deed and comply with all applicable requirements under the REIT Code.

Asset Management Strategy

The REIT Manager will take proactive measures to enhance the current distributions and the long-term capital growth prospect of China Merchants Commercial REIT's property portfolio. The key of this strategy is to maintain optimal occupancy rate and realise sustainable growth in rental income and Net Property Income. Accordingly, the REIT Manager intends to undertake the following initiatives and strategies:

- actively manage the early renewal of tenancy agreements for the Properties to minimise downtime arising from expiration of tenancy agreements;
- implement aggressive marketing strategies and competitive leasing programmes to achieve and maintain high occupancy rates and rental increments where appropriate;
- optimise tenant diversity and increase the return through asset enhancement;
- increase tenant retention rates by maintaining strong relationships with existing tenants through the provision of value-added services;

STRATEGY

- work with the Operations Manager and the Property Manager to provide high-standard and professional services to meet the tenants' ongoing needs and to enhance their loyalty; and
- regularly review workflow processes to improve the efficiency of employees with an aim of reducing and managing the operational costs of the Properties.

The REIT Manager will explore different strategies and opportunities to carry out asset enhancement initiatives to upgrade or renovate the Properties to further enhance and improve the rate of return of the Properties, such as undertaking upgrade of facilities; renovating and/or reconstructing the common area. For details, please refer to the section headed "The Properties and Business — Proposed Asset Enhancement Initiatives" in this Offering Circular.

Investments and Acquisition Strategy

The REIT Manager will pursue acquisition opportunities with income growth potential for Unitholders. The REIT Manager intends to proactively source and acquire high quality income-generating commercial properties located in the PRC (including Hong Kong and Macao but excluding the CML Cities), with an initial focus on the Relevant Jurisdictions.

In evaluating potential acquisition opportunities, the REIT Manager will focus on the following criteria that are in line with the REIT Manager's strategy and in accordance with the investment mandate:

- ***Yield requirements***

The REIT Manager will seek to acquire properties that will enhance the overall distribution to the Unitholders. It will seek to identify properties that have value-enhancement potential after considering the regulatory, commercial, political and other relevant factors, and to acquire properties with yields that are estimated to be higher than the cost of capital and properties that are expected to maintain or enhance returns to Unitholders while balancing the various risks associated with such investments.

- ***Geographical location and growth potential***

The REIT Manager will assess each property's location in the PRC (including Hong Kong and Macao but excluding the CML Cities). In addition, the REIT Manager will assess the growth potential of each property from time to time in the market as well as its impact on the overall geographic diversification of China Merchants Commercial REIT's asset portfolio in the Relevant Jurisdictions. The REIT Manager will evaluate the surroundings of the properties, including, but not limited to, their ease of access and connectivity to major business and transportation hubs. Other factors that the REIT Manager will consider include the visibility of the properties in the neighbourhood and the presence and concentration of competitors in the vicinity of the properties.

STRATEGY

- ***Occupancy and tenant characteristics***

The REIT Manager will assess the properties' rental and tenant retention rates as compared to those of the competing properties in their respective areas. In addition, the REIT Manager will evaluate the quality of the tenants and estimate the occupancy rates prior to the acquisition of such new properties.

- ***Asset enhancement potential***

The REIT Manager may also consider a property's price appreciation potential as part of its asset management, market repositioning and other asset enhancement initiatives.

- ***Building and facilities specifications***

With respect to potential properties to be acquired by China Merchants Commercial REIT, the REIT Manager will adhere to relevant legal and zoning regulations as well as quality specifications, with consideration to be given to the size and age of the buildings. The properties will be assessed by independent experts with respect to their repairs, maintenance and capital expenditure requirements in the short to medium term.

To mitigate against the risk that may arise from future acquisitions, the REIT Manager will implement appropriate policies and conduct proper due diligence on potential acquisition targets. Relevant due diligence will focus on, among others, the ownership and title of the property, government approval and town planning requirements, restrictions on property usage and foreign ownership, safety requirements, land premium requirements, encumbrances on the property, zoning and building requirements, current and prospective tenancies and material agreements, maintenance and operational expenses, the scope and value of insurance policies in place, foreign exchange and all other relevant government approval.

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 that property (either in whole or in part) through either the disposal of China Merchants Commercial REIT's interest in that property directly or the disposal of China Merchants Commercial REIT's interest in the relevant special purpose vehicle and recycling capital from the sale proceeds to pursue other opportunities.

As at the Latest Practicable Date, the REIT Manager had not identified any acquisition targets and did not have any plan for China Merchants Commercial REIT to acquire any properties in the twelve-month period starting on the Listing Date.

Capital and Risk Management Strategy

The REIT Manager will operate China Merchants Commercial REIT in accordance with the REIT Code with respect to borrowing, whereby China Merchants Commercial REIT's borrowings will not exceed 45% (or such other percentage as may, from time to time, be prescribed in the REIT Code) of its total gross asset value. The REIT Manager intends to use an appropriate mix of debt and equity financing for its property investments and enhancements, and may adopt interest rate hedging strategies to optimise China Merchants Commercial REIT's distributions to the Unitholders. The gearing ratio of China Merchants Commercial REIT is expected to be lower than 30% upon Listing, which is in compliance with the requirement of the REIT Code. The REIT Manager will adopt a prudent financial policy to ensure that the gearing ratio does not exceed the threshold percentage under the REIT Code.

The objectives of the REIT Manager in relation to capital management are as follows:

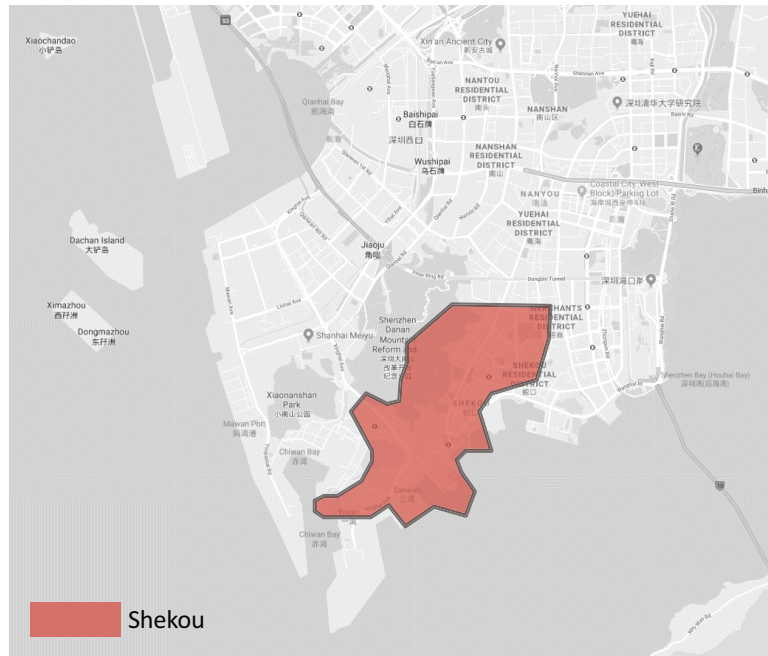
- maintaining a strong balance sheet with a healthy gearing ratio within the limits set out in the REIT Code;
- securing diversified sources of funding from financial institutions and the capital markets, including adopting a combination of debt and equity financing to fund future acquisitions and asset enhancements;
- where appropriate, adopting a proactive interest rate management and hedging strategy to manage risks related to interest rate fluctuations; and
- managing the cost of financing and the debt maturity profile to minimise repayment or refinancing risks, including reviewing and optimising fixed and floating rates profile of China Merchants Commercial REIT's borrowings and evaluating its refinancing options which may include long-term borrowings, bonds and medium-term notes.

The REIT Manager may enter into hedging arrangements in order to manage exposure to foreign exchange risks. The REIT Manager will periodically review China Merchants Commercial REIT's capital management policies with respect to its aggregate borrowings and modify the policy as the REIT Manager deems prudent in light of the prevailing market conditions. As at the Latest Practicable Date, the REIT Manager had not entered into any hedging arrangement or transaction to manage its exposure to foreign exchange risks.

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OVERVIEW OF THE CHINA MERCHANTS COMMERCIAL REIT

Upon completion of the Reorganisation, China Merchants Commercial REIT's portfolio shall comprise five Properties, one of which is a Grade A office building; three of which are office building complexes technically zoned for industrial use; and one of which is a shopping centre; all located in Shekou, Nanshan District, Shenzhen City, with an aggregate Gross Rentable Area of 249,990.8 sq.m as at 30 September 2019. The Properties are New Times Plaza, Cyberport Building, Technology Building, Technology Building 2 and Garden City Shopping Centre. The following map sets out the delineation of Shekou:



Source: Area based on statutory plan of Nanshan District

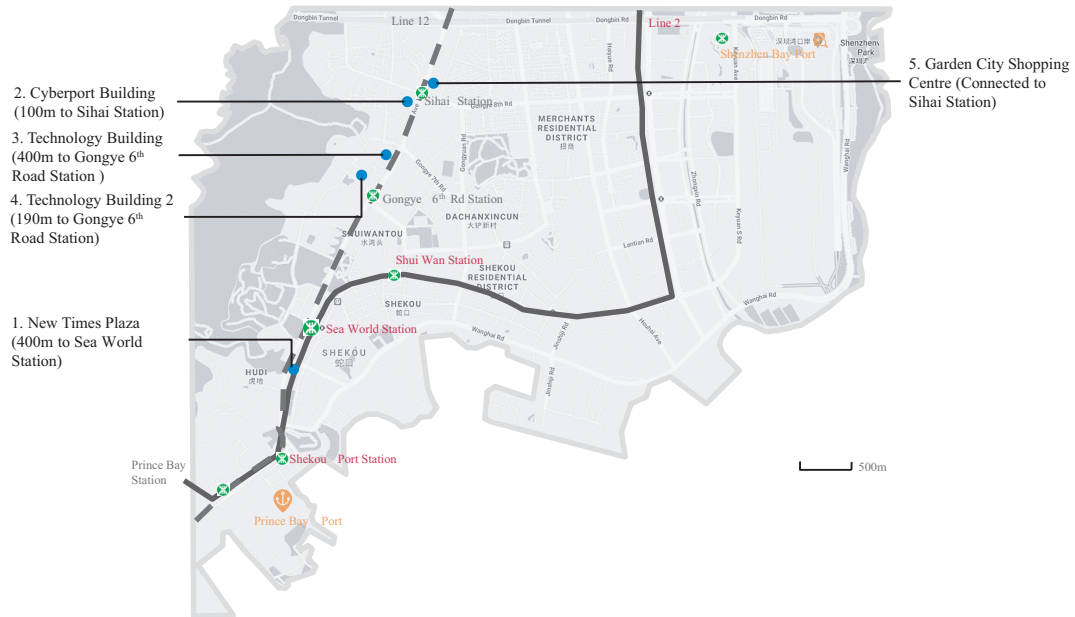
The REIT Manager believes that the Properties have the following competitive strengths:

- the Properties are strategically located and have a diverse and quality tenant base;
- the portfolio has strong growth potential and can be further augmented through asset enhancement initiatives and future acquisitions; and
- the Properties will be managed by highly experienced and committed management team with a proven track record.

For details of the competitive strengths of the Properties, please refer to the section headed “Key Investment Highlights of China Merchants Commercial REIT” in this Offering Circular.

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Furthermore, the Properties are easily accessible via the Shenzhen Metro. Upon commencement of operation of Metro Line 12 in 2022, the accessibility to the Properties is expected to be further enhanced and the leasing demand for the Properties is expected to increase. The map below illustrates the location of the Properties in Shenzhen in relation to the Shenzhen Metro network:



Source: Knight Frank market data

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The table below provides an overview of the Properties in China Merchants Commercial REIT's portfolio:

<u>Property</u>	<u>Nature</u>	<u>Vicinity</u>	<u>Accessibility</u>
1. New Times Plaza	Office building	Located near reputable hotels, banks and international convention centre	Approximately 5-minute walking distance from the Sea World Metro Station of Metro Line 2 and Metro Line 12 ⁽¹⁾
2. Cyberport Building	Office building complex	Located near a kindergarten, a shopping centre, a large scale hypermarket, reputable banks and a local hospital	Approximately 10-minute walking distance from the Shuiwan Metro Station of Metro Line 2 and approximately 1-minute walking distance from the Sihai Metro Station of Metro Line 12 ⁽¹⁾
3. Technology Building	Office building complex	Located near schools, hotels, restaurants and food street with reputable banks accessible nearby	Approximately 15-minute walking distance from the Shuiwan Metro Station of Metro Line 2 to Technology Building and Technology Building 2 and approximately 5-minute and 1-minute walking distance from the Gongye 6 th Road Metro Station of Metro Line 12 to Technology Building and Technology Building 2 respectively ⁽¹⁾
4. Technology Building 2	Office building complex		
5. Garden City Shopping Centre	Shopping centre	Located near hotels, restaurants, reputable banks and a hypermarket accessible nearby	Approximately 1-minute walking distance from a footbridge connecting Garden City Shopping Centre and a residential complex. One of the exits of Metro Line 12 ⁽¹⁾ will be connected to the shopping centre upon commencement of operation of Metro Line 12

Note:

- Metro Line 12 is expected to commence operation in 2022. The new metro line will link parts of Nanshan District with Bao'an District. The connectivity to Bao'an District will give the residents of Bao'an easier access to Shekou and the residents and the working population of Shekou easier access to Shenzhen Bao'an International Airport. It is therefore expected that the opening of Metro Line 12 will have a positive impact on the operating performance of the Properties.

For further details of each Property in the portfolio, please refer to the subsection headed "The Properties" of this section in this Offering Circular.

As at 30 September 2019, the Properties had an aggregate Gross Rentable Area of approximately 249,990.8 sq.m. with an Appraised Value of RMB6,579.0 million. The average Occupancy Rate of the Properties as at 30 September 2019 was approximately 84.1%. For further details of the portfolio's operating data, please refer to the subsection headed "Portfolio of China Merchants Commercial REIT's Properties" of this section in this Offering Circular.

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The Properties have a diverse base of tenants. As at 30 September 2019, the Properties housed a total of 279 tenants, with the top five tenants in terms of total monthly Base Rent contributing to approximately 18.5% of the total monthly Base Rent for the month ended 30 September 2019. Approximately 18.6% of the tenants (in terms of Gross Rentable Area) are from the new-generation information technology sector and the remaining tenants include those from the real estate, food and beverage, department store, logistics and petroleum sectors. For further details of the tenant profile of China Merchants Commercial REIT, please refer to the subsection headed “Tenant Profile of China Merchants Commercial REIT” of this section in this Offering Circular.

PORTFOLIO OF CHINA MERCHANTS COMMERCIAL REIT’S PROPERTIES

The table below sets forth certain details regarding the Properties as at 30 September 2019:

Property	Nature	Gross Floor Area (sq.m.)	Gross Rentable Area (sq.m.) ⁽¹⁾	Year of completion ⁽²⁾	Expiry of land use right	Appraised Value (RMB'million) ⁽³⁾	Number of tenants	Number of tenancies ⁽⁴⁾	Number of car parking spaces
1. New Times Plaza	Office building	87,337.0	67,600.0	1997	27 January 2045	2,046.0	63	84	212
2. Cyberport Building	Office building complex technically zoned for industrial use	40,435.1	40,441.3	2009	22 May 2057	1,038.0	38	40	255
3. Technology Building	Office building complex technically zoned for industrial use	41,578.5	41,534.3	2002	7 January 2051	867.0	20	25	110
4. Technology Building 2	Office building complex technically zoned for industrial use	42,531.4	43,093.5	2010	29 June 2057	1,079.0	29	33	220
5. Garden City Shopping Centre	Shopping centre	50,496.9	57,321.8	2006	14 April 2044	1,549.0	129	134	644
Total		262,378.9	249,990.8						

Notes:

- (1) The Gross Rentable Area is larger than the Gross Floor Area for Cyberport Building, Technology Building 2 and Garden City Shopping Centre as certain common area has been let as rentable area. According to the PRC Legal Advisors, the letting of common area is permissible under the PRC laws and the relevant tenancy agreements are legally binding, valid and enforceable.
- (2) Year of completion refers to the year in which the real estate ownership certificate in respect of the development/building of which the Properties form part was issued.
- (3) As determined by the Independent Property Valuer in its valuation report dated 30 September 2019 (see Appendix IV to this Offering Circular).
- (4) The number of tenancies exceeds the number of tenants as some tenants enter into more than one tenancy agreement for different units in the same Property.

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The table below sets out the Gross Rental Income and Net Property Income of the Properties during the Track Record Period:

Property	Gross Rental Income				Net Property Income ^(note)			
	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2018	For the six months ended 30 June 2019	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2018	For the six months ended 30 June 2019
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
New Times Plaza	103,015	83,901	86,504	45,364	78,320	73,842	78,722	40,940
Cyberport Building	43,082	37,593	42,768	21,928	34,013	34,159	38,611	20,605
Technology Building	35,474	35,251	39,214	17,980	27,189	31,055	35,309	16,051
Technology Building 2	40,582	42,960	46,299	24,206	32,122	40,079	42,902	22,547
Garden City Shopping Centre	96,448	103,664	110,008	50,863	74,542	94,434	104,290	47,538
Total	318,601	303,369	324,793	160,341	246,186	273,569	299,834	147,681

Note:

Net property income for the years ended 31 December 2016, 2017 and 2018 and for the six months ended 30 June 2019 represent total revenue minus advertising and promotion, agency fee, insurance, property management expenses, other taxes and repairs and maintenance, for each Property.

The table below sets out the Occupancy Rate of each Property, the average Occupancy Rate of the Properties, and the Average Monthly Rental per Leased Square Metre during the Track Record Period and for the nine months ended 30 September 2019:

Property	Occupancy Rate					Average Monthly Rental per Leased Square Metre				
	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019	As at 30 September 2019	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2018	For the six months ended 30 June 2019	For the nine months ended 30 September 2019
	(%)	(%)	(%)	(%)	(%)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)
New Times Plaza	78.6	75.0	74.2	74.5	76.3% ⁽¹⁾	148.8	146.7	146.5	156.1	161.4
Cyberport Building	93.3	75.0	92.9 ⁽²⁾	79.9 ⁽³⁾	84.1%	94.4	92.9	101.2	105.4	106.5
Technology Building	80.3	89.4	92.1	85.5 ⁽³⁾	100.0%	76.9	83.1	85.1	87.3	86.5
Technology Building 2	100.0	100.0	99.3	89.8 ⁽³⁾	88.0%	79.6	85.2	94.7	99.4	100.0
Garden City Shopping Centre	100.0	98.5	99.8	79.6 ⁽⁴⁾	79.1%	140.5	151.2	160.8	154.9	162.6
Average	89.9	87.1	90.4	81.0	84.1%					

Notes:

- (1) As at the Latest Practicable Date, the Occupancy Rate of New Times Plaza has improved to approximately 94.6%.
- (2) The Occupancy Rate of Cyberport Building decreased to approximately 75.0% as at 31 December 2017 from approximately 93.3% as at 31 December 2016, which is primarily attributable to the decrease in leased area and the early termination of certain tenants as a result of their internal operation adjustment. The Occupancy Rate of Cyberport Building recovered to approximately 92.9% as at 31 December 2018.
- (3) The Occupancy Rate of Cyberport Building, Technology Building and Technology Building 2 as at 30 June 2019 decreased compared to that as at 31 December 2018 as a result of the construction of Metro Line 12 nearby. The construction work started in January 2019 and has had a temporary adverse effect on the accessibility of the Properties. In addition, some of the Properties have adopted a strategy to proactively upgrade its tenant mix and try to seek new tenants with a focus on the emerging industries.

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- (4) The Occupancy Rate of Garden City Shopping Centre decreased to approximately 79.6% as at 30 June 2019 and maintained at approximately 79.1% as at 30 September 2019 due to the termination of tenancy with an anchor tenant upon expiry of the tenancy agreement in May 2019. Such tenancy was not renewed due to the Property's strategy to upgrade its tenant mix and to optimise its rental income. Garden City Shopping Centre has started refurbishment of the relevant area aiming to introduce diverse tenants to reinforce its image as a community-oriented shopping centre, and such refurbishment is expected to be completed in early 2020. As at the Latest Practicable Date, the Occupancy Rate of Garden City Shopping Centre was approximately 77.6% and approximately 9.2% of the Gross Rentable Area was under discussions with potential tenants.

Tenant Profile of China Merchants Commercial REIT

The Properties housed a total of 279 tenants as at 30 September 2019, with the top five tenants in terms of total monthly Base Rent in the portfolio contributing to approximately 18.5% of total monthly Base Rent for the month ended 30 September 2019. The top five tenants of the Properties included those from the real estate, scientific research and technical services, petroleum, medical device manufacturing and logistics sectors. For the same period, other than one tenant who is a connected person of China Merchants Commercial REIT from the real estate sector whose monthly Base Rent accounted for approximately 7.4% of total monthly Base Rent from the Properties, no single tenant's Base Rent contributed to more than 5% of total monthly Base Rent from the Properties.

The REIT Manager believes that the portfolio faces limited tenant and industry concentration risks as no single tenant accounted for more than 10% of the total monthly Base Rent and no single industry accounted for more than 30% of the total Gross Rental Income for the month ended 30 September 2019 over the Properties.

Tenants' Industry Sectors

The following table sets out details of the Properties' tenants by reference to industry sectors, their Gross Rentable Area as a percentage of the total Gross Rentable Area as at 30 September 2019, and the percentages of their respective contributions to the Gross Rental Income for the month ended 30 September 2019:

Tenants' Industry Sectors⁽¹⁾	Gross Rentable Area as a percentage of the total Gross Rentable Area as at 30 September 2019 (%)	Gross Rental Income as a percentage of total Gross Rental Income for the month ended 30 September 2019 (%)
New-generation information technology	18.6	25.8
Food and beverage	14.8	11.9
Leasing and business service	10.5	9.0
Real estate	9.5	11.4
Life services	7.6	8.4
Department store	5.3	10.8
Logistics	4.6	6.6
Petroleum	3.7	5.7
Manufacturing ⁽²⁾	3.6	3.4
Banking and financial investment	1.8	3.2
Others ⁽³⁾	4.1	3.8
Total	84.1	100.0

THE PROPERTIES AND BUSINESS

Note:

- (1) The tenants' industry sectors are based on the classification of the REIT Manager.
- (2) Manufacturing includes tenants who engage in the business of manufacturing medical devices, electronics and digital products. They use their leased premises as office.
- (3) Others include tenants who engage in the general service, retail, cultural, environmental, trading and telecommunication industry sectors.

Top Five Tenants

The following table below sets out information on the five largest tenants in terms of total monthly Base Rent for the month ended 30 September 2019⁽¹⁾:

Tenant	Industry sector	Property	Expiry date	Gross Rentable Area attributable to tenant (sq.m.)	Percentage of total Gross Rentable Area attributable to tenant (%)	Percentage of total monthly Base Rent attributable to tenant (%)
Tenant 1 ⁽²⁾ . . .	Real estate	New Times Plaza	31 October 2019, 31 December 2019 ⁽³⁾	10,606.4	4.2	7.4
Tenant 2	Scientific research and technical services	Technology Building 2	31 July 2023	9,511.6	3.8	3.4
Tenant 3	Petroleum	New Times Plaza	30 April 2022	4,626.9	1.9	2.9
Tenant 4	Manufacturing (medical devices)	Technology Building	31 October 2020, 31 December 2020, 31 May 2021, 30 June 2021	6,023.4	2.4	2.4
Tenant 5 ⁽²⁾ . . .	Logistics	New Times Plaza	30 April 2021	4,016.0	1.6	2.4
Total				<u>34,784.3</u>	<u>13.9</u>	<u>18.5</u>

Note:

- (1) The above table sets out the five largest tenants as determined by the amount of total monthly Base Rent for the month ended 30 September 2019 by tenancy agreements. For information of the top five tenants grouped under common control for the six months ended 30 June 2019, please refer to note (4) below.
- (2) Tenant 1 (Shenzhen China Merchants Real Estate Co., Ltd 深圳招商房地產有限公司) and Tenant 5 (Sinotrans Logistics Ltd) are connected persons of China Merchants Commercial REIT. Approximately 9.8% of the total monthly Base Rent for the month ended 30 September 2019 was contributed by such connected persons.
- (3) The tenancy agreement with tenant 1 has expired on 31 October 2019 but the tenant has continued to occupy the relevant property and the tenancy relationship continued under PRC law as at the Latest Practicable Date. Discussions are currently taking place over the terms of the renewal of the tenancy agreement expired on 31 October 2019 and due to expire on 31 December 2019.
- (4) In order to provide more information for investors, set out below is an analysis of the top five tenants which are grouped under common control for the six months ended 30 June 2019 in accordance with IFRS8.34. The largest tenant is CMG who itself and/or its subsidiaries are tenants in New Times Plaza, Technology Building 2 and Garden City Shopping Centre, contributing to approximately 16.1% of China Merchants Commercial REIT's total Gross Rental Income, and approximately 14.8% of China Merchants Commercial REIT's total revenue.

THE PROPERTIES AND BUSINESS

Tenant (grouped under common control ("GUCC"))	Principal business activities	Property/properties	Percentage of Gross Rental Income attributable to tenant (%)	Percentage of revenue attributable to tenant (%)
GUCC Tenant 1 — CMG	Please refer to the section headed "Information about Eureka, CMSK and CMG" in this Offering Circular	New Times Plaza, Technology Building 2, Garden City Shopping Centre	16.1	14.8
GUCC Tenant 2	Under water construction, design and maintenance	Technology Building, Technology Building 2	3.3	3.1
GUCC Tenant 3	Offshore oil and gas exploration	New Times Plaza	3.3	3.0
GUCC Tenant 4	Computer system design	Technology Building 2	3.1	2.9
GUCC Tenant 5	Operator of a network of co-working space	New Times Plaza, Cyberport Building	2.2	1.9

As at the Latest Practicable Date, save for tenant 1, tenant 5 and GUCC tenant 1, none of the five largest tenants of the Properties set out in the above tables was a connected person (as defined in the REIT Code) of China Merchants Commercial REIT.

Duration of the Tenancy Agreements

The terms of the tenancy agreements for the Properties mostly range from one to five years. In accordance with internal policies of CMSK over the Properties, negotiation on potential renewal shall take place approximately two to three months prior to the expiry of a tenancy agreement. As at 30 September 2019, save for Garden City Shopping Centre, more than half of the tenancy agreements were for a term of at least three years or above. Shorter or longer terms may be agreed on a case-by-case basis. The REIT Manager believes that Garden City Shopping Centre generally has a shorter duration of tenancy due to the REIT Manager's strategic decision to optimise tenancy mix from time to time.

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The following table sets out the expiry periods of the tenancies for the Properties by reference to their respective percentages of Gross Rentable Area and Gross Rental Income as compared to the total Gross Rentable Area as at 30 September 2019 and the total Gross Rental Income for the month ended 30 September 2019, respectively:

<i>Expiry Period</i>	Gross Rentable Area of the tenancies expiring during the relevant expiry periods as a percentage of the total Gross Rentable Area as at 30 September 2019 (%)	Gross Rental Income generated from the tenancies expiring during the relevant expiry periods as a percentage of the total Gross Rental Income for the month ended 30 September 2019 (%)
Prior to 31 December 2019 ⁽¹⁾	9.9	14.4
Year ending 31 December 2020	17.6	23.4
Year ending 31 December 2021	15.2	21.1
Year ending 31 December 2022	22.0	23.5
Year ending 31 December 2023 and beyond	19.5	17.6
Vacant	15.8	—
Total	100.0	100.0

Note:

(1) As at the Latest Practicable Date, amongst those tenancies expiring in the period between 1 October 2019 and 31 December 2019 (the “**Expiring Tenancies**”), approximately 34.9%, 52.8%, 12.3% and nil of the Gross Rentable Area over the Expiring Tenancies (i) were renewed or signed with new tenants; (ii) were in discussions over renewal terms; (iii) would not be renewed after expiry and currently identifying new tenants; and (iv) had not reached the appropriate stage to discuss renewal terms and conditions due to the internal policies as aforementioned.

Provisions in Tenancy Agreements

The tenancy agreements entered into by the tenants, in respect of each of the Properties, are largely based on standard form agreements and do not contain any unusual feature compared with other commercial tenancy agreements in Shenzhen. In some of the major tenants’ tenancy agreements, changes to the standard form agreements have been made to provide for maximum rent limits on rent review upon renewal of the tenancies.

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At the time of entering into a tenancy agreement, tenants of the Properties are usually required to pay a security deposit in cash equal to approximately two months' rent. Security deposits do not bear interest. Tenants are required to pay their monthly rent at a specified period of time each month. Further, consistent with market practice, the tenancy agreements generally allow new tenants to enjoy rent-free periods ranging from two to three months for Garden City Shopping Centre and four to eight weeks for the commercial properties. In order to increase the Properties' competitive advantage and as an incentive to the tenants when they first enter into tenancy agreements with the Properties, longer rent-free periods are provided for in certain tenancy agreements with key tenants.

Under the tenancy agreements, tenants are normally responsible for payment of outgoings such as property management fees. Tenants are generally also responsible for repairing, and payment of all other expenses relating to, the interior of the premises, while the landlord is generally responsible for repairing the public facilities and main structures. In the event that the premises or a substantial part of it are rendered unfit for use or inaccessible by force majeure or by any cause other than the result of the negligence or fault of the tenants, the tenants are usually entitled to rent abatement until the premises shall again be rendered fit for occupation and in some tenancy agreements, either the landlords or the tenants are entitled to terminate the tenancy agreement if the premises are not reinstated after a certain period of time. Tenants are generally not permitted to assign or sublet the premises without the written consent of the landlord.

The majority of tenancy agreements give the tenants the right to terminate their tenancies prior to the scheduled expiration dates upon a one-month prior written notice, while granting the landlord the right to forfeit the tenant's security deposit. The tenants also have the right to an early termination in limited situations such as when there are major defects in the premises under the tenancy agreement that are not rectified within a reasonable time. The landlord has the right to terminate a tenancy agreement with one-month notice and upon the return of rental deposit and payment of liquidated damages which are equal to the amount of rental deposit. The landlord has the right to terminate the tenancy agreement upon the occurrence of certain events, such as non-payment of rent or breach of covenants by the tenants. In addition, the tenants are required to use the premises for the permitted purposes only and otherwise in accordance with all applicable laws and regulations in the PRC. Such non-compliance and the failure to rectify within a reasonable period of time after receiving notice from the landlord requesting rectification will allow the landlord to unilaterally terminate the tenancy agreement without penalty, and the landlord will also have the right to forfeit the tenant's security deposit.

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The following provides details of the different features and strengths of each of the Properties in China Merchants Commercial REIT's portfolio, including their locations, size and surroundings, their tenant profiles, duration of the tenancy agreements, ownership and transaction history.

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1. NEW TIMES PLAZA (新時代廣場)

New Times Plaza was completed in 1997 and is a Grade A office building with a total Gross Rentable Area of 67,600.0 sq.m. It is comprised of (a) a 2-storey commercial area partially leased for hotel use as at the Latest Practicable Date; (b) a 34-storey office area; and (c) 212 car parking spaces.

New Times Plaza is well-recognised for its excellent architectural design and high quality construction workmanship. It has received numerous awards throughout the years, such as:

- the China Construction Engineering Luban Prize* (中國建築工程魯班獎) from the Ministry of Construction of the PRC (中華人民共和國建設部) (currently known as the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房及城鄉建設部)) and China Construction Industry Association (中國建築業協會) in December 1999;
- the Shenzhen Outstanding Building for Property Management* (深圳市物業管理優秀大廈) by the Housing and Construction Bureau of Shenzhen Municipality (深圳市住建局) in 1999;
- the Building of National Standard* (全國物業管理示範大廈) by the Ministry of Construction of the PRC (中華人民共和國建設部) (currently known as the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房及城鄉建設部)) in 2000; and
- recognition as a Garden Style Building (Development)* (園林式 • 花園式達標單位 (社區)) by the Shenzhen Municipal People's Government Municipality Administration Office (深圳市人民政府城市管理辦公室) and Housing Bureau of Shenzhen Municipality (深圳市住宅局) in 2001.

It is located at the eastern side of Nanhai Avenue in Sea World commercial area, a populated commercial and recreational district. As at the Latest Practicable Date, a certain portion of Nanhai Avenue is closed due to nearby construction works of Shenzhen Metro. The current blocked portion is adjacent to New Times Plaza and the accessibility of New Times Plaza is partially affected. It is envisaged that after the construction works are completed in 2020, Nanhai Avenue will therefore be fully accessible by buses and cars and hence increasing the traffic flow of New Times Plaza. There are reputable hotels and banks, a large international convention centre with guest rooms and apartments, conference rooms, office

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buildings, and food and beverage outlets near New Times Plaza. The area is well-served by public transportation and New Times Plaza is approximately 5-minutes' walking distance from the Sea World Metro Station of both Metro Line 2 and Metro Line 12. According to the Market Consultant Report, Metro Line 12 is expected to commence operations in 2022 and bring favourable impact to the rental rate growth and occupancy growth to New Times Plaza. For details of Metro Line 12, please refer to the subsection headed "Overview of the China Merchants Commercial REIT" of this section in this Offering Circular.



New Times Plaza, No. 1 Taizi Road, Nanshan District, Shenzhen City, Guangdong Province⁽¹⁾

Currently, New Times Plaza is planning for comprehensive refurbishment and renovation, including a complete upgrade of the lobby, office areas and other facilities. The refurbishment and renovation are expected to further enhance its attractiveness and the level of rent of the property. For details of the asset enhancement initiatives for the Properties, please refer to the subsection headed "Proposed Asset Enhancement Initiatives" of this section in this Offering Circular.

Note:

- (1) As at the Latest Practicable Date, New Times Plaza is undergoing renovation works. The pictures of New Times Plaza showing the interior of the Property above depict certain areas of the Property where renovation works were completed as at the Latest Practicable Date.

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Tenant Profile of New Times Plaza

New Times Plaza housed a total of 63 tenants as at 30 September 2019, with the five largest tenants of New Times Plaza in terms of monthly Base Rent contributing to approximately 58.5% of total monthly Base Rent for the month ended 30 September 2019 and approximately 39.9% of total Gross Rentable Area as at 30 September 2019. Amongst the top five tenants, Shenzhen China Merchants Real Estate Co., Ltd* (深圳招商房地產有限公司), Sinotrans Logistics Ltd* (中外運物流有限公司) and China Merchants Energy Shipping Co., Ltd* (招商局能源運輸股份有限公司) are connected persons of China Merchants Commercial REIT. For details of the transactions with these connected persons, please refer to Note 21 of Appendix I to this Offering Circular. Save as disclosed above, none of the top five tenants of the relevant Property is a connected person of China Merchants Commercial REIT. New Times Plaza has a diverse and quality tenant base, including major tenants from the real estate, logistics, petroleum, finance and trading industry sectors.

The following table sets out details of New Times Plaza's tenants by reference to their industry sectors, the Gross Rentable Area occupied by them as a percentage of the total Gross Rentable Area as at 30 September 2019, and their respective contributions as a percentage of the Gross Rental Income for the month ended 30 September 2019:

Tenants' Industry Sectors⁽¹⁾	Gross Rentable Area as a percentage of the total Gross Rentable Area as at 30 September 2019 (%)	Gross Rental Income as a percentage of the total Gross Rental Income for the month ended 30 September 2019 (%)
Real estate	35.1	39.6
Logistics	17.1	23.2
Petroleum	11.8	17.7
Finance	6.6	11.1
Trading	1.3	2.0
Others ⁽²⁾	4.4	6.4
Total	76.3	100.0

Note:

(1) The tenants' industry sectors are based on the classification of the REIT Manager.

(2) Others include tenants who engage in the construction, science and technology, retail and food and beverage industry sectors.

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Duration of the Tenancy Agreements

The terms of the tenancy agreements for New Times Plaza range from one to 10 years. The following table sets out the expiry periods of the tenancy agreements for New Times Plaza by reference to their respective Gross Rentable Area and Gross Rental Income as compared to the total Gross Rentable Area as at 30 September 2019 and the total Gross Rental Income for the month ended 30 September 2019, respectively:

<i>Expiry Period</i>	Gross Rentable Area of the tenancies expiring during the relevant expiry periods as a percentage of the total Gross Rentable Area as at 30 September 2019 (%)	Gross Rental Income generated from the tenancies expiring during the relevant expiry periods as a percentage of the total Gross Rental Income for the month ended 30 September 2019 (%)
Prior to 31 December 2019	21.1	33.8
Year ending 31 December 2020	8.7	12.5
Year ending 31 December 2021	19.6	27.9
Year ending 31 December 2022	24.7	23.4
Year ending 31 December 2023 and beyond	2.2	2.4
Vacant	23.7	—
Total	100.0	100.0

Ownership and Five Year Transaction History

New Times Plaza is wholly-owned by China Merchants Commercial REIT through its PRC Property Company, Shekou Times (PRC). Shekou Times (PRC) is a Special Purpose Vehicle, the principal business activity of which is the ownership and operation of New Times Plaza.

The real estate ownership certificate (Shenzhen Property Title Deed No.4000594829) in respect of New Times Plaza was issued by the Shenzhen Real Estate Registration Centre (深圳市房地產產權登記中心 (currently known as 深圳市不動產登記中心)) on 29 July 2014 and evidences the right to use the land for a period of 50 years commencing on 28 January 1995 and ending on 27 January 2045.

Based on land searches dated 1 August 2019 and updated on 25 November 2019, there was no sale and purchase transaction for New Times Plaza in the past five years.

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2. CYBERPORT BUILDING (數碼大廈)

Cyberport Building was completed in 2009. It is a Grade B office building complex technically zoned for industrial use with a total Gross Rentable Area of 40,441.3 sq.m. Such building complex comprises (a) a 9-storey office building and a 6-storey office building connected by a corridor at Level 1 and Level 2 respectively; (b) commercial units for retail use located at Level 1; and (c) 255 car parking spaces. Cyberport Building has a centre lawn outside its lift lobby and has large windows that allow natural sunlight to penetrate into the Property to create an airy and spacious environment for its tenants.

Cyberport Building is located at the western side of Nanhai Avenue which is an e-commerce area. Nearby Cyberport Building, there is a kindergarten, a large scale hypermarket, a shopping centre, reputable banks and a local hospital. These surrounding amenities provide Cyberport Building with a sustainable and synergetic community that provides great convenience to its tenants. The area is also well-served by public transportation and Cyberport Building is approximately 10-minute walking distance from Shuiwan Metro Station of Metro Line 2 and is approximately 1-minute walking distance from Sihai Metro Station of Metro Line 12. For details of Metro Line 12, please refer to the subsection “Overview of the China Merchants Commercial REIT” of this section in this Offering Circular. According to the Market Consultant Report, the new Metro Line 12 will improve the accessibility of Cyberport Building and is expected to have a positive impact on the attractiveness of Cyberport Building in the office market.



**Cyberport Building, No. 1079, Nanhai Avenue, Nanshan District, Shenzhen City,
Guangdong Province**

Cyberport Building has adopted an industry oriented asset enhancement initiative as the district in which it is located has been earmarked by the Nanshan government and will be transformed into an area for promoting and developing emerging industries. This has led to Cyberport Building accelerating its refurbishments and renovation plans in response to the government’s development plans in the area and the needs of its prospective tenants. Cyberport Building has plans to provide online and offline support to its tenants in hope to transform into a hub to incubate startup companies, and to renovate its public area, external walls, landscape and other facilities. The REIT Manager anticipates that the asset enhancement initiatives will enhance the attractiveness and the level of rent of Cyberport Building. For details of the asset enhancement initiatives, please refer to the subsection “Proposed Asset Enhancement Initiatives” of this section in this Offering Circular.

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Tenant Profile of Cyberport Building

Cyberport Building housed a total of 38 tenants as at 30 September 2019, with its five largest tenants in terms of monthly Base Rent contributing to approximately 36.8% of total monthly Base Rent for the month ended 30 September 2019 and approximately 30.2% of total Gross Rentable Area as at 30 September 2019. None of the top five tenants is a connected person of China Merchants Commercial REIT. Cyberport Building has a diverse and industry oriented tenant base, including major tenants from the new-generation information technology, commerce, and innovative start-up sectors, which are mostly emerging industry sectors with high growth potential.

The following table sets out details of Cyberport Building's tenants by reference to their industry sectors, the Gross Rentable Area occupied by them as a percentage of the total Gross Rentable Area as at 30 September 2019, and their respective contributions as a percentage of the Gross Rental Income for the month ended 30 September 2019:

Tenants' Industry Sectors⁽¹⁾	Gross Rentable Area as a percentage of the total Gross Rentable Area as at 30 September 2019 (%)	Gross Rental Income as a percentage of the total Gross Rental Income for the month ended 30 September 2019 (%)
New-generation information technology	47.8	56.3
Commerce	12.4	16.2
Innovative start-up	4.5	5.4
Food and beverage	2.6	5.4
Others ⁽²⁾	16.8	16.7
Total	84.1	100.0

Note:

- (1) The tenants' industry sectors are based on the classification of the REIT Manager.
- (2) Others include tenants who engage in cultural, clothing design, electronics, finance, supermarket and real estate industry sectors.

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Duration of the Tenancy Agreements

The terms of the tenancy agreements for Cyberport Building range from one to five years. The following table sets out the expiry periods of the tenancy agreements for Cyberport Building by reference to their respective Gross Rentable Area and Gross Rental Income as compared to the total Gross Rentable Area as at 30 September 2019 and the total Gross Rental Income for the month ended 30 September 2019, respectively:

<i>Expiry Period</i>	Gross Rentable Area of the tenancies expiring during the relevant expiry periods as a percentage of the total Gross Rentable Area as at 30 September 2019 (%)	Gross Rental Income generated from the tenancies expiring during the relevant expiry periods as a percentage of the total Gross Rental Income of the month ended 30 September 2019 (%)
Prior to 31 December 2019	5.7	6.9
Year ending 31 December 2020	15.1	18.5
Year ending 31 December 2021	10.7	13.3
Year ending 31 December 2022	30.0	36.7
Year ending 31 December 2023 and beyond . . .	22.7	21.8
Vacant	15.8	2.8 ⁽¹⁾
Total	100.0	100.0

Note:

- (1) It represents the Gross Rental Income generated within the month of 30 September 2019 from tenancies which were still subsisting prior to 30 September 2019 but already expired as at 30 September 2019.

Ownership and Five Year Transaction History

Cyberport Building is wholly-owned by China Merchants Commercial REIT through its PRC Property Company, Net Valley Cyberport (PRC). Net Valley Cyberport (PRC) is a Special Purpose Vehicle, the principal business activity of which is the ownership and operation of Cyberport Building.

The real estate ownership certificate (Shenzhen Property Title Deed No. 400059516) in respect of Cyberport Building was issued by the Shenzhen Real Estate Registration Centre (深圳市房地產產權登記中心 (currently known as 深圳市不動產登記中心)) on 5 August 2014 and evidences the right to use the land for a period of 50 years commencing on 23 May 2007 and ending on 22 May 2057.

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Based on land searches dated 31 July 2019 and updated on 21 November 2019, there was no sale and purchase transaction for Cyberport Building in the past five years.

3. TECHNOLOGY BUILDING (科技大廈)

Technology Building was completed in 2002. It is a Grade B office building complex technically zoned for industrial use. Technology Building has a total Gross Rentable Area of 41,534.3 sq.m. Such building complex comprises of (a) a 7-storey main building; (b) a 6-storey annex building; and (c) 110 car parking spaces. Technology Building is a building focusing on serving tenants from high-tech industries in Shekou. Technology Building adopts a clean and sleek design with glass façades and from time to time organises networking events to support its high-tech industry tenants.

Technology Building is located at the western side of Nanhai Avenue in Shekou Net Valley, an e-commerce area integrated with high-tech and cultural industries including publishing, fine art, advertising and design. Nearby Technology Building, there are schools, hotels, restaurants, food streets and reputable banks. These amenities provide Technology Building with a sustainable and synergetic community that provides great convenience to its tenants. The area is well-served by public transportation and is approximately 15-minute walking distance from Shuiwan Metro Station of Metro Line 2 and approximately 5-minute walking distance from Gongye 6th Road Metro Station of Metro Line 12. For details of Metro Line 12, please refer to the subsection “Overview of the China Merchants Commercial REIT” of this section in this Offering Circular. According to the Market Consultant Report, the new Metro Line 12 is expected to bring greater accessibility to Technology Building and is expected to have a positive impact on the attractiveness of Technology Building in the office market upon its coming into operation in 2022.



Technology Building, No. 1067, Nanhai Avenue, Nanshan District, Shenzhen City, Guangdong Province

Technology Building has adopted an industry oriented asset enhancement initiative as the district in which it is located has been earmarked by the Nanshan Government and will be transformed into an area for promoting and developing emerging industries. This has led to Technology Building accelerating its refurbishments and renovation plans in response to the government’s development plans in the area and the needs of its prospective tenants. Technology Building has plans to provide online and offline support to its tenants in hope to transform into a hub to incubate startup companies, and to renovate its public area, external walls, landscape and other facilities. The REIT Manager anticipates that the asset enhancement initiatives will enhance the attractiveness and level of rent of Technology Building. For details of the asset enhancement initiatives, please refer to the subsection “Proposed Asset Enhancement Initiatives” of this section in this Offering Circular.

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Tenant Profile of Technology Building

Technology Building housed a total of 20 tenants as at 30 September 2019, with its five largest tenants in terms of monthly Base Rent contributing to approximately 58.5% of total monthly Base Rent for the month ended 30 September 2019 and approximately 53.7% of total Gross Rentable Area as at 30 September 2019. None of the top five tenants is a connected person of China Merchants Commercial REIT. Technology Building has a diverse tenant base, including major tenants from the leasing and business service, manufacturing, scientific research and technical services industry sectors.

The following table sets out details of the Technology Building's tenants by reference to their industry sectors, the Gross Rentable Area occupied by them as a percentage of the total Gross Rentable Area as at 30 September 2019, and their respective contributions as a percentage of the Gross Rental Income for the month ended 30 September 2019:

Tenants' Industry Sectors⁽¹⁾	Gross Rentable Area as a percentage of the total Gross Rentable Area as at 30 September 2019 (%)	Gross Rental Income as a percentage of the total Gross Rental Income for the month ended 30 September 2019 (%)
Leasing and business service	48.8	42.5
Manufacturing ⁽²⁾	21.8	24.0
Scientific research and technical services	29.4	33.5
Total	100.0	100.0

Note:

(1) The tenants' industry sectors are based on the classification of the REIT Manager.

(2) Manufacturing includes tenants who engage in the business of manufacturing electronics and digital products. They use their leased premises as office.

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Duration of the Tenancy Agreements

The terms of the tenancy agreements for Technology Building range from one to five years. The following table sets out the expiry periods of the tenancy agreements for Technology Building by reference to their respective Gross Rentable Area and the Gross Rental Income as compared to the total Gross Rentable Area as at 30 September 2019 and the total Gross Rental Income for the month ended 30 September 2019, respectively:

<i>Expiry Period</i>	Gross Rentable Area of the tenancies expiring during the relevant expiry periods as a percentage of the total Gross Rentable Area as at 30 September 2019 (%)	Gross Rental Income generated from the tenancies expiring during the relevant expiry periods as a percentage of the total Gross Rental Income for the months ended 30 September 2019 (%)
Prior to 31 December 2019	4.6	5.1
Year ending 31 December 2020	15.0	15.6
Year ending 31 December 2021	23.2	25.9
Year ending 31 December 2022	30.4	31.6
Year ending 31 December 2023 and beyond . . .	26.8	21.8
Vacant	—	—
Total	100.0	100.0

Ownership and Five Year Transaction History

Technology Building is wholly-owned by China Merchants Commercial REIT through its PRC Property Company, Net Valley Technology (PRC). Net Valley Technology (PRC) is a Special Purpose Vehicle, the principal business activity of which is the ownership and operation of Technology Building.

The real estate ownership certificate (Shenzhen Property Title Deed No.4000595344) in respect of Technology Building was issued by the Shenzhen Real Estate Registration Centre (深圳市房地產產權登記中心 (currently known as 深圳市不動產登記中心)) on 7 August 2014 and evidences the right to use the land for a period of 50 years commencing on 8 January 2001 and ending on 7 January 2051.

Based on land searches dated 31 July 2019 and updated on 21 November 2019, there was no sale and purchase transaction for Technology Building in the past five years.

4. TECHNOLOGY BUILDING 2 (科技大厦二期)

Technology Building 2 was completed in 2010. It is a Grade B office building complex technically zoned for industrial use. Technology Building 2 has a total Gross Rentable Area of 43,093.5 sq.m. Such building complex comprises of (a) two 6-storey industrial workshops; and (b) 220 car parking spaces.

Technology Building 2 is located at the western side of Nanhai Avenue in Shekou Net Valley. The surroundings of Technology Building 2 are similar to those of Technology Building. Nearby Technology Building 2, there are schools, hotels, restaurants, food streets and reputable banks. These amenities provide Technology Building 2 with a sustainable and synergetic community that provides great convenience to its tenants. The area is well-served by public transportation and Technology Building 2 is located within approximately 15-minute walking distance from Shuiwan Metro Station of Metro Line 2 and approximately 1-minute walking distance from Gongye 6th Road Metro Station of Metro Line 12. For details of Metro Line 12, please refer to the subsection “Overview of the China Merchants Commercial REIT” of this section in this Offering Circular. According to the Market Consultant Report, the new Metro Line 12 is expected to bring greater accessibility to Technology Building 2 and have a positive impact on the attractiveness of Technology Building 2 in the office market upon its coming into operation in 2022.



Technology Building 2, No. 1057, Nanhai Avenue, Nanshan District, Shenzhen City, Guangdong Province

Similar to Technology Building, Technology Building 2 has adopted an industry-oriented asset enhancement initiative that aims to complement the government’s development plans in the area and cater to the needs of its prospective tenants. Technology Building 2 plans to provide online and offline services to its tenants so as to transform into a hub for startup companies, and to renovate its public area, external walls, landscape and other facilities. The REIT Manager anticipates that the asset enhancement initiatives are likely to enhance the attractiveness and level of rent of Technology Building 2. For details of the asset enhancement initiatives, please refer to the subsection “Proposed Asset Enhancement Initiatives” of this section in this Offering Circular.

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Tenant Profile of Technology Building 2

Technology Building 2 housed a total of 29 tenants as at 30 September 2019, with its five largest tenants in terms of monthly Base Rent contributing to approximately 57.1% of total monthly Base Rent for the month ended 30 September 2019 and approximately 51.3% of total Gross Rentable Area as at 30 September 2019. Amongst the top five tenants, Shenzhen China Merchants Shekou Asset Management Co., Ltd* (深圳市招商蛇口資產管理有限公司) and China Merchants International Information Technology Co., Ltd* (招商局國際信息技術有限公司) are connected persons of China Merchants Commercial REIT. For details of the transactions with these connected persons, please refer to Note 21 of Appendix I to this Offering Circular. Save as disclosed above, none of the top five tenants of the relevant Property is a connected person of China Merchants Commercial REIT. Technology Building 2 has a diverse and industry oriented tenant base, including major tenants from the scientific research and technical services, banking and financial investment, food and beverage and real estate industry sectors.

The following table sets out details of Technology Building 2's tenants by reference to their industry sectors, the Gross Rentable Area occupied by them as a percentage of the total Gross Rentable Area as at 30 September 2019, and their respective contributions as a percentage of the Gross Rental Income for the month ended 30 September 2019:

Tenants' Industry Sectors⁽¹⁾	Gross Rentable Area as a percentage of the total Gross Rentable Area as at 30 September 2019 (%)	Gross Rental Income as a percentage of the total Gross Rental Income for the month ended 30 September 2019 (%)
Scientific research and technical services	71.2	81.6
Banking and financial investment	10.0	11.1
Food and beverage	2.3	5.7
Real estate	0.2	0.5
Others ⁽²⁾	4.3	1.1
Total	88.0	100.0

Note:

(1) The tenants' industry sectors are based on the classification of the REIT Manager.

(2) Others include tenants who engage in the cultural and general services industry sectors.

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Duration of the Tenancy Agreements

The terms of the tenancy agreements for Technology Building 2 range from 1 to 5 years. The following table sets out the expiry periods of the tenancy agreements for Technology Building 2 by reference to their respective Gross Rentable Area and Gross Rental Income as compared to the total Gross Rentable Area as at 30 September 2019 and the total Gross Rental Income for the month ended 30 September 2019, respectively:

<i>Expiry Period</i>	Gross Rentable Area of the tenancies expiring during the relevant expiry periods as a percentage of the total Gross Rentable Area as at 30 September 2019 (%)	Gross Rental Income generated from the tenancies expiring during the relevant expiry periods as a percentage of the total Gross Rental Income for the month ended 30 September 2019 (%)
Prior to 31 December 2019	7.9	7.9
Year ending 31 December 2020	29.3	34.3
Year ending 31 December 2021	6.5	8.7
Year ending 31 December 2022	8.6	10.1
Year ending 31 December 2023 and beyond . . .	35.6	39.0
Vacant	12.1	—
Total	100.0	100.0

Ownership and Five Year Transaction History

Technology Building 2 is wholly-owned by China Merchants Commercial REIT through its PRC Property Company, Net Valley Technology 2 (PRC). Net Valley Technology 2 (PRC) is a Special Purpose Vehicle, the principal business activity of which is the ownership and operation of Technology Building 2.

The real estate ownership certificate (Shenzhen Property Title Deed No.4000595343) in respect of Technology Building 2 was issued by the Shenzhen Real Estate Registration Centre (深圳市房地產產權登記中心 (currently known as 深圳市不動產登記中心)) on 7 August 2014 and evidences the right to use the land for a period of 50 years commencing on 30 June 2007 and ending on 29 June 2057.

Based on land searches dated 31 July 2019 and updated on 21 November 2019, there was no sale and purchase transaction for Technology Building 2 in the past five years.

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5. GARDEN CITY SHOPPING CENTRE (花園城)

Garden City Shopping Centre was completed in 2006 and is the first large-scale comprehensive commercial complex integrating shopping, dining, lifestyle and entertainment activities in Shekou sub-district. Garden City Shopping Centre has a total Gross Rentable Area of 57,331.8 sq.m. which is comprised of (a) a 5-storey shopping centre; (b) 644 car parking spaces; and (c) other ancillary facilities located in a 2-storey basement to facilitate the operations of the shopping centre.

Garden City Shopping Centre is located at the eastern side of Nantai Avenue and the southern side of Dong Bin Tunnel. Nearby Garden City Shopping Centre, there are hotels, restaurants, reputable banks and a hypermarket. There is also a footbridge which is of a 1-minute walking distance connecting Garden City Shopping Centre to a residential complex. The Property is located in a commercial and residential area that is well-served by public transportation such as franchised buses and taxis. The new Metro Line 12 will further enhance the accessibility and thereby increase the customer traffic of Garden City Shopping Centre as one of the exits of Metro Line 12 will be directly connected to Garden City Shopping Centre and attract consumers from multiple districts in Shenzhen. According to the Market Consultant, the potential catchment population of Garden City Shopping Centre brought by Metro Line 12 from the Sihai station is expected to be approximately 300,000. According to the Market Consultant Report, the enhanced accessibility of Garden City Shopping Centre is expected to have a positive impact on the rental growth rate of Garden City Shopping Centre.

Garden City Shopping Centre has been in operation for 13 years and as such has plans to renovate its external façade and improve its interior decorations. Furthermore, Garden City Shopping Centre intends to reinforce its image as a community-oriented shopping centre by optimising its tenant mix. In order to instil its image as a community oriented shopping centre, Garden City Shopping Centre intends to recruit potential tenants that are well known to and favoured by the general public and the community. The REIT Manager anticipates that the asset enhancement initiatives are likely to have a positive impact on the attractiveness of Garden City Shopping Centre and believes that these development and upgrade initiatives are beneficial to Garden City Shopping Centre for its long-term growth.



**Garden City Shopping Centre, No. 1086, Nantai Avenue, Nanshan District,
Shenzhen City, Guangdong Province**

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Tenant Profile of Garden City Shopping Centre

Garden City Shopping Centre housed a total of 129 tenants as at 30 September 2019, with its five largest tenants in terms of monthly Base Rent contributing to approximately 17.8% of total monthly Base Rent for the month ended 30 September 2019 and approximately 20.0% of total Gross Rentable Area as at 30 September 2019. Representative tenants of Garden City Shopping Centre include a well-known sportswear chain store headquartered in France; a famous casual wear retail brand headquartered in Japan; a prominent toddler education centre headquartered in the United States; a cinema chain headquartered in the PRC which has launched its high-end cinema line in Garden City Shopping Centre; and a leading gym operator headquartered in the PRC.

The following table sets out details of Garden City Shopping Centre's tenants by reference to their industry sectors, the Gross Rentable Area occupied by them as a percentage of the total Gross Rentable Area as at 30 September 2019, and their respective contributions as a percentage of the Gross Rental Income for the month ended 30 September 2019:

Tenants' Industry Sectors⁽¹⁾	Gross Rentable Area as a percentage of the total Gross Rentable Area as at 30 September 2019 (%)	Gross Rental Income as a percentage of the total Gross Rental Income for the month ended 30 September 2019 (%)
Department store	23.3	37.9
Food and beverage	23.3	33.4
Life services ⁽²⁾	22.0	19.7
Supermarket	7.2	5.0
Others ⁽³⁾	3.3	4.0
Total	79.1	100.0

Note:

- (1) The tenants' industry sectors are based on the classification of the REIT Manager.
- (2) Life services industry consists of those in the entertainment, education, beauty and wellness industry sectors.
- (3) Others consist of those in the digital industry sector.

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Duration of the Tenancy Agreements

The terms of the tenancy agreements for Garden City Shopping Centre range from one to 17 years. The following table sets out the expiry periods of the tenancy agreements for Garden City Shopping Centre by reference to their respective Gross Rentable Area and Gross Rental Income as compared to the total Gross Rentable Area as at 30 September 2019 and the total Gross Rental Income for the month ended 30 September 2019, respectively:

<i>Expiry Period</i>	Gross Rentable Area of the tenancies expiring during the relevant expiry periods as a percentage of the total Gross Rentable Area as at 30 September 2019 (%)	Gross Rental Income generated from the tenancies expiring during the relevant expiry periods as a percentage of the total Gross Rental Income as at 30 September 2019 (%)
Prior to 31 December 2019	4.8	6.7
Year ending 31 December 2020	22.8	35.3
Year ending 31 December 2021	13.7	21.8
Year ending 31 December 2022	17.4	19.8
Year ending 31 December 2023 and beyond	20.3	16.4
Vacant	21.0	—
Total	100.0	100.0

Ownership and Five Year Transaction History

Garden City Shopping Centre is wholly-owned by China Merchants Commercial REIT through its PRC Property Company, Garden City (PRC). Garden City (PRC) is a Special Purpose Vehicle, the principal business activity of which is the ownership and operation of Garden City Shopping Centre.

The real estate ownership certificate (Shenzhen Property Title Deed No.4000594827) in respect of Garden City Shopping Centre was issued by the Shenzhen Real Estate Registration Centre (深圳市房地產產權登記中心 (currently known as 深圳市不動產登記中心)) on 29 July 2014 and evidences the right to use the land for a period of 40 years commencing on 15 April 2004 and ending on 14 April 2044.

Based on land searches dated 30 July 2019 and updated on 21 November 2019, there was no sale and purchase transaction for Garden City Shopping Centre in the past five years.

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COMPETITION

Competition for office buildings in Shekou is relatively intense. Grade A office buildings in Shekou would face competition within Shekou and also from other Grade A office buildings in the Nanshan District, mainly in the Houhai sub-district. According to the Market Consultant Report, the primary competitors of New Times Plaza are Tower A, Centralcon Holdings Centre* (中洲控股中心A座), China Energy Storage Building* (中國儲能大廈), Aerospace Science and Technology Building* (航天科技廣場), China Merchants Tower (招商局廣場) and China Railway South Headquarters Building* (中鐵南方總部大廈). The secondary competitors are Sail Plaza* (海翔廣場), MIC International Plaza (美年廣場), Novel Park* (永新滙) and Water Bay 1979* (水灣1979). Competition for Grade B office buildings in Shekou mainly comes from the Grade B office buildings within the area. According to the Market Consultant Report, the competitors of Cyberport Building, Technology Building, Technology Building 2 are Sail Plaza* (海翔廣場), MIC International Plaza (美年廣場) and Kexing Science Park Phase I* (科興科學園一期). Sail Plaza* (海翔廣場) and MIC International Plaza (美年廣場) are also considered competitors of these buildings due to their proximity.

Competition for retail buildings in Shekou is moderate, with an expectation of such competition to intensify as supply increases in Shekou and the neighbouring sub-districts. According to the Market Consultant Report, the primary competitors of Garden City Shopping Centre are Raffles City (來福士廣場) and Baoneng All City* (寶能All City). The secondary competitors are Sea World (海上世界), Huigang Centre*(滙港中心), Coast City* (海岸城), Poly Culture Plaza* (保利文化廣場), Junshang 3019* (君尚3019), Haiya Mega Mall* (海雅繽紛廣場南山店), Vientiane City of Shenzhen BayOne* (深圳灣一號一灣滙) and Shenzhen Bay-The Mix City (深圳灣萬象城).

PROPOSED ASSET ENHANCEMENT INITIATIVES

The REIT Manager intends to implement asset enhancement initiatives for the Properties to maximise their long-term growth and optimise their operational performance.

Its asset enhancement initiatives are expected to complete in one to two years after the Listing Date. However, the detailed plans of the asset enhancement initiatives are subject to internal assessments and actual market condition. The total costs of the asset enhancement initiatives are estimated to be approximately RMB400 million, which are expected to be paid in stages using a combination of bank borrowings (including the Onshore Facility) and working capital of China Merchants Commercial REIT from its ongoing operation of the Properties.

All refurbishment and renovation enhancements will be subject to the required building and planning approvals having been obtained. In addition, the REIT Manager will need to plan and implement the execution of the enhancements in accordance with the terms of the relevant tenancy agreements or as otherwise agreed with the relevant tenants. The costs of such refurbishment will be financed by bank borrowings (including the Onshore Facility) and working capital of China Merchants Commercial REIT from its ongoing operation of the Properties. Other than the above asset enhancement initiatives and the usual recurring maintenance capital expenditures, the REIT Manager currently does not have any other plans to renovate, improve or redevelop the Properties. For details of the proposed asset enhancement initiative of each Property, please refer to the subsection headed "The Properties" of this section in this Offering Circular.

THE PROPERTIES AND BUSINESS

INSURANCE

China Merchants Commercial REIT has taken out insurance for the Properties that the REIT Manager believes is consistent with industry norm in Shenzhen. This includes comprehensive property insurance (including insurance against fire and flood) and public liability insurance. No significant or unusual excess or deductible amounts are required under such policies. There are, however, certain types of risks that are not covered by such insurance policies, including losses resulting from war, nuclear contamination, acts of terrorism, epidemics and/or other acts of God.

The REIT Manager believes that there are no significant differences between the extent of insurance coverage for the Properties and that for commercial and retail properties in the PRC generally, and that there are no significant differences between the claims recovery processes for the Properties and those for commercial and retail properties in the PRC generally. The REIT Manager also believes that the Properties are adequately covered by insurance which will be renewed when they expire.

LITIGATION

There may be disputes or proceedings involving the Properties from time to time that arise in the ordinary course of business, such as tenancy or rental payment disputes. However, as at the Latest Practicable Date, none of the members of the Predecessor Group and the REIT Manager were involved in any material litigation or administrative proceedings nor, to the best of the Directors' knowledge, was there any material litigation or administrative proceedings threatened against any such parties.

LEGAL AND REGULATORY COMPLIANCE

The PRC Legal Advisors have confirmed that each PRC Property Company has obtained the necessary approvals, permits, licences and certificates for its holding of the land and building use rights over their respective Property; and that as at the Latest Practicable Date, all material permits, licences and certificates had been obtained and are valid for conducting their respective current business and operating in the PRC. Except as disclosed below, each of the PRC Property Companies had complied with the relevant PRC laws and regulations in all material respects during the Track Record Period.

The PRC Legal Advisors have further confirmed that all tenancy agreements in respect of the Properties are legal, valid and binding and enforceable by or on behalf of China Merchants Commercial REIT in accordance with its terms.

As stated in the real estate ownership certificates in respect of three of the Properties in China Merchants Commercial REIT's initial portfolio, namely Cyberport Building, Technology Building and Technology Building 2 (the "**Subject Properties**"), the designated land use of the Subject Properties is industrial and the Subject Properties are designated to be used as factories and/or canteen or research and development and production facilities. However, most of the Gross Floor Area of the Subject Properties have been leased for office or commercial purposes which do not conform to such designated uses. Such non-conformity may subject the Subject Property Companies to certain enforcement actions including fines, rectification orders and/or repossession by the relevant PRC land authority. Further, if the relevant PRC land authority requires the Subject Property's real estate ownership certificate use to be changed, such change may require payment of a land premium.

THE PROPERTIES AND BUSINESS

Based on its consultation with the competent authority, the REIT Manager understands that: (i) the land on which the Subject Properties are situated (the “**Subject Land**”) is a piece of land designated for the use of new and emerging industries (新型產業用地) (“**New Industries Use**”), including but not limited to technology research and development, information services, financial technology and cultural and creative industries; (ii) the current land and building use of the Subject Properties is consistent with New Industries Use; and (iii) there is no non-compliance nor reason for such authority to take any enforcement actions. Such competent authority has also confirmed in writing on 23 August 2019 that the Subject Land is a piece of land designated for New Industries Use and the positioning and industry orientation for the Subject Land is intended to capture emerging industries such as technology research and development, information services, financial technology and cultural and creative industries. The PRC Legal Advisors have confirmed that such authority is the competent authority to give such confirmations.

The PRC Legal Advisors have confirmed that as at the Listing Date, China Merchants Commercial REIT shall hold good marketable legal and beneficial title in the Subject Properties. Further, they are of the view that as at the Latest Practicable Date: (i) the non-conformity described above will not prevent the Subject Properties from being leased, bought, sold or being accepted by banks as security for mortgages; (ii) the subsisting non-conforming tenancies at the Subject Properties remain legal and enforceable; and (iii) the risk of any enforcement actions (including fines, rectification orders and repossession) being imposed, whether in respect of the non-conformity with the designated land use or the designated building use of the Subject Properties, is practically non-existent.

The PRC Legal Advisors have also confirmed that, based on their public searches on 22 November 2019 and the Subject Property Companies’ confirmations, none of the Subject Property Companies have been subject to any notices, enquiries, investigations or administrative penalties in connection with the non-conforming uses of the Subject Properties since the completion of their development in 2009 (in the case of Cyberport Building), 2002 (in the case of Technology Building) and 2010 (in the case of Technology Building 2). Further, the Subject Property Companies have received compliance certificates issued by the Shenzhen Bureau of Urban Planning and Natural Resources (深圳市規劃和自然資源局), which confirms that there were no records of non-compliance in relation to land administration laws and regulations, or records of investigations being conducted or administrative penalties being imposed as a result of such non-compliance during the period between 25 April 2014 and 31 May 2019. The PRC Legal Advisors have confirmed that, the Shenzhen Bureau of Urban Planning and Natural Resources (深圳市規劃和自然資源局) is the relevant land administration authority in Shenzhen and the competent authority to give these compliance certificates.

The Vendor and Eureka, a wholly-owned subsidiary of CMSK with net assets of approximately RMB24.8 billion as at 31 December 2018, have irrevocably undertaken to indemnify China Merchants Commercial REIT, the Trustee, the REIT Manager and the Predecessor Group, to the fullest extent permissible by law, for any liability, losses, damages, fines, fees and costs (on a full indemnity basis) which any one of them may suffer in respect of the non-conforming uses of the Subject Properties. The Subject Properties Indemnity will, for each Subject Property, be limited to the portion of the Purchase Consideration payable in respect of that Subject Property and will terminate upon expiry of the land use rights of the relevant Subject Property. The Subject Property Indemnity will not cover only land premium payable for changing a Subject Property’s real estate ownership certificate use from industrial use to a use that is in line with the actual use of the Subject Property, if such application is

THE PROPERTIES AND BUSINESS

made by the Subject Property Companies on a voluntary basis. For further details, please refer to the section headed “Material Agreements and Other Documents — Sale and Purchase Deed” in this Offering Circular.

In addition, CMSK has undertaken to ensure that Eureka will maintain net assets in excess of the limitation cap of the aggregate Subject Properties Indemnity (being the aggregate consideration payable in respect of the Subject Properties) for so long as the Subject Properties Indemnity is in force.

Having regard to the above, including the PRC Legal Advisors’ advice and the indemnity proposed to be granted by the Vendor and Eureka, the REIT Manager is of the view that the non-conforming uses of the Subject Properties is not reasonably expected to have a material and adverse impact on the financial condition and business of China Merchants Commercial REIT.

COMPLIANCE WITH PARAGRAPH 7.7 OF THE REIT CODE

The REIT Manager has been advised by the PRC Legal Advisors, that China Merchants Commercial REIT (through the PRC Property Companies): (i) holds good marketable legal and beneficial title in all of the Properties; (ii) holds the entire or majority interest and control of the Properties; and (iii) has the right to dispose of its interest (subject to applicable requirements of the REIT Code).

Title and Ownership

An overview of the relevant property laws and regulations in the PRC is contained in Appendix VI to this Offering Circular. In the PRC, there are two registers for property interests. Land registration involves the issue of a land use right certificate (土地使用證) by the relevant authority to the land user. It is the evidence that the land user has obtained land use rights which can be assigned, mortgaged or leased. Building registration involves the issue of a building ownership certificate (房屋所有權證) or a real estate ownership certificate (房地產權證) to the owner. It is the evidence that the owner has obtained building ownership rights in respect of the building erected on a piece of land.

The two different systems are commonly maintained separately in many cities in the PRC. However, in Shenzhen and some other major cities, the two systems have been consolidated and a single composite real estate and ownership certificate (房地產證/不動產權證書) is issued to evidence the ownership of both land use rights and the buildings erected on the land. The holder of a real estate ownership certificate is entitled to deal freely with the property by, for example, transferring or granting leases in respect of the property or part thereof, and charging or mortgaging the land use rights in the property as security for any borrowings.

BUILDING SURVEYOR’S REPORT

The REIT Manager has commissioned Knight Frank Petty Limited, the Building Surveyor, to prepare a building survey report in respect of the Properties. A copy of the Building Surveyor’s report is included in Appendix V to this Offering Circular. The REIT Manager is not aware of any issues identified in the Building Surveyor’s report that are material to an investor’s decision to invest in the Units.

SELECTED FINANCIAL INFORMATION

The following discussion and the selected financial and operating information set forth below should be read in conjunction with the Accountants' Report set forth in Appendix I to this Offering Circular as well as the section headed "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Offering Circular. The Accountants' Report has been prepared in accordance with IFRS. The selected historical financial included below and set forth in Appendix I to this Offering Circular is not indicative of China Merchants Commercial REIT's future performance.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Revenue	366,901	359,501	389,472	182,303	190,737
Other income	3,967	7,397	5,028	1,926	3,066
Operating expenses . . .	(121,692)	(86,771)	(90,062)	(39,566)	(43,146)
Fair value changes on investment properties	216,000	707,252	1,200,833	922,748	381,507
Net reversal of (provision for) impairment losses for receivables	6	(34)	(240)	(2)	(55)
Depreciation	(512)	(230)	(179)	(89)	(66)
Exchange (loss) gain . .	—	(131)	31	3	2
Finance costs	—	—	(22,411)	(9,864)	—
Profit before tax	464,670	986,984	1,482,472	1,057,459	532,045
Income tax expense . . .	(116,229)	(261,655)	(383,256)	(270,092)	(140,159)
Profit and total comprehensive income for the year/period . . .	<u>348,441</u>	<u>725,329</u>	<u>1,099,216</u>	<u>787,367</u>	<u>391,886</u>

SELECTED FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Investment properties	4,226,000	4,933,252	6,135,000	6,517,000
Property, plant and equipment . .	704	555	376	310
	<u>4,226,704</u>	<u>4,933,807</u>	<u>6,135,376</u>	<u>6,517,310</u>
Current assets				
Trade and other receivables . . .	1,318	2,917	1,427	2,310
Amounts due from related companies	42,113	540,396	1,035,730	1,168,114
Bank balances and cash	549,006	282,519	20,213	25,812
	<u>592,437</u>	<u>825,832</u>	<u>1,057,370</u>	<u>1,196,236</u>
Current liabilities				
Trade and other payables	85,523	84,391	75,344	87,341
Amounts due to related companies	156,988	3,816,806	3,814,989	3,714,226
Current tax liabilities	8,180	9,975	13,400	45,743
	<u>250,691</u>	<u>3,911,172</u>	<u>3,903,733</u>	<u>3,847,310</u>
Net current assets (liabilities) .	<u>341,746</u>	<u>(3,085,340)</u>	<u>(2,846,363)</u>	<u>(2,651,074)</u>
Total assets less current liabilities	<u>4,568,450</u>	<u>1,848,467</u>	<u>3,289,013</u>	<u>3,866,236</u>
Non-current liability				
Deferred tax liabilities	293,771	514,219	855,549	940,223
Net assets	<u>4,274,679</u>	<u>1,334,248</u>	<u>2,433,464</u>	<u>2,926,013</u>
Equity				
Share capital	10,000	—	—	—
Reserves	4,264,679	1,334,248	2,433,464	2,926,013
Total equity	<u>4,274,679</u>	<u>1,334,248</u>	<u>2,433,464</u>	<u>2,926,013</u>

SELECTED FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net cash from operating activities	214,703	228,063	246,199	128,168	130,907
Net cash used in investing activities . . .	(215,387)	(240,226)	(423,493)	(846,671)	(124,962)
Net cash (used in) from financing activities . . .	(8,592)	(4,507)	(22,131)	581,626	(346)
Net (decrease) increase in cash and cash equivalents	(9,276)	(16,670)	(199,425)	(136,877)	5,599
Cash and cash equivalents at beginning of the year/period	245,584	236,308	219,638	219,638	20,213
Cash and cash equivalents at end of the year/period, represented by : Bank balance and cash . . .	236,308	219,638	20,213	82,761	25,812

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with the Predecessor Group's consolidated financial statements together with the accompanying notes set forth in the Accountants' Report included as Appendix I to this Offering Circular and the selected historical financial information and operating data included elsewhere in this Offering Circular. The Accountants' Report has been prepared in accordance with IFRS.

The Predecessor Group's historical results do not necessarily indicate results expected for any future periods. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Actual results may differ from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth in the section headed "Risk Factors".

OVERVIEW

China Merchants Commercial REIT is a Hong Kong collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO. China Merchants Commercial REIT is a REIT formed to primarily own and invest in high quality income-generating commercial properties in the PRC (including Hong Kong and Macao but excluding the CML Cities). It will initially focus on: (i) the Greater Bay Area (other than Foshan and Guangzhou, being two of the CML Cities) where the initial five Properties are situated; and (ii) Beijing and Shanghai. China Merchants Commercial REIT is managed by the REIT Manager whose key investment objectives are to provide Unitholders with stable distributions, sustainable and long-term distribution growth, and enhancement in the value of China Merchants Commercial REIT's properties.

China Merchants Commercial REIT's portfolio initially comprises the following Properties in Shekou, all of which are (i) well-served by public transportation network and (ii) equipped with car parking spaces:

- New Times Plaza, a Grade A office building with an aggregate Gross Floor Area of 87,337.0 sq.m. located adjacent to Sea World commercial area and Prince Bay, the latter of which being an emerging office and retail commercial area;
- Cyberport Building, Technology Building and Technology Building 2, three office building complexes technically zoned for industrial use with an aggregate Gross Floor Area of 124,545.0 sq.m., and located at Shekou Net Valley, a business hub for high-tech companies and startups which has been earmarked by the Nanshan Government for promoting and developing emerging industries; and
- Garden City Shopping Centre, the first large-scale comprehensive commercial complex integrating shopping, dining, lifestyle and entertainment facilities in Shekou sub-district, with an aggregate Gross Floor Area of 50,496.9 sq.m..

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BASIS OF PREPARATION

China Merchants Commercial REIT has no operating history and will be set up as part of the Reorganisation exercise on the date of this Offering Circular. The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Predecessor Group have been prepared as if the current group structure had been in existence throughout the two years ended 31 December 2017, or since the date of acquisition, whichever is shorter. The consolidated statements of financial position as at 31 December 2016 present the assets and liabilities of the entities now comprising the Predecessor Group. Potential investors should note, however, that these historical information may not be indicative of China Merchants Commercial REIT's future performance given the different legal, financial and operating structures after the Listing Date.

FACTORS AFFECTING RESULTS OF OPERATIONS

The major factors affecting China Merchants Commercial REIT's results of operations and financial condition include the following:

General Economic Conditions and Policy Changes

General economic conditions in the PRC, particularly those in the Greater Bay Area, especially in Shenzhen and Shekou, have affected and may continue to affect China Merchants Commercial REIT's business and results of operations. Typically, during periods of economic growth, the Properties may achieve higher rental rates. On the contrary, rental increases can be limited during periods of economic slowdown or significant market disruptions. Historically, China Merchants Commercial REIT's business and results of operations have also been affected by policy changes in the PRC, principally those in the Greater Bay Area, including Shenzhen and Shekou. Such policy changes include the introduction of the strategic plan of the Greater Bay Area by the PRC Government. Going forward, any policy developments of the central and local governments, such as the adjustment to the positioning of and policy support to Shekou, Shenzhen and the Greater Bay Area and the administrative measures adjusting the property market, may affect China Merchants Commercial REIT's business and results of operations.

In addition, challenges from e-commerce faced by traditional retail industry and fluctuations in consumer purchasing power may affect the demand for commercial premises such as shopping centres, which in turn could affect rental income from China Merchants Commercial REIT's Properties.

In particular, as part of China Merchants Commercial REIT's rental income, the monthly rental rate applicable to certain tenants of shopping centre is the higher of the fixed rental per leased square metre and a commission calculated at a certain percentage (ranging from 3% and 27%) of the total revenue of the tenants from retail business. As a result, depending on the financial performance of the tenants, which is affected by various factors, such as the general economic conditions, changes in government policies, and development of retail and other relevant industries in which the tenants of shopping centre engage, rental income from shopping centre may fluctuate.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Rental Rates and Occupancy Rates

China Merchants Commercial REIT's rental income depends principally on the rental rates and the occupancy rates of its properties.

Factors affecting rental rates and occupancy rates include the competitiveness of the Properties against other properties, the ability to minimise downtime as a result of expiries or early terminations of tenancy agreements, property renovation plan, traffic network surrounding the Properties, building conditions, property management capabilities, market conditions, and macroeconomic and supply/demand trends affecting the real estate market in Shekou, Shenzhen, as well as the Greater Bay Area and the PRC.

For details of the Occupancy Rates and Average Monthly Rental per Leased Square Metre of each of the Properties, please refer to the section headed "The Properties and Business — Portfolio of China Merchants Commercial REIT's Properties".

Scheduled Expiries and Renewals of Tenancies

The terms of the tenancy agreements for the Properties range from one to five years. Certain major tenants are granted options to renew their tenancies at expiry, based on arms' length negotiation with factors like prevailing market rates at the time of renewal being taken into consideration. As at 30 September 2019, tenancies accounting for approximately 9.9%, 15.2%, 22.0% and 19.5% of the Properties' Gross Rentable Area would expire for the years ending 31 December 2019, 2020, 2021, 2022 as well as 2023 and beyond, respectively. China Merchants Commercial REIT's ability to retain existing tenants upon expiry of the tenancy agreements and to re-let the expiring spaces will impact its results of operations.

For details of expiry profile for the Properties, please refer to the section headed "The Properties and Business — Portfolio of China Merchants Commercial REIT's Properties — Duration of the Tenancy Agreements".

Fluctuation of Operating Expenses

The Predecessor Group's operating expenses mainly comprise property management expenses, other taxes (including, among others, business tax and stamp duty) and advertising and promotion expenses. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, operating expenses accounted for 33.2%, 24.1%, 23.1% and 22.6%, respectively, of the total revenue of the same periods. Depending on the operation efficiency of the Properties, operating expenses may fluctuate, which may in turn affect China Merchants Commercial REIT's financial condition and results of operations.

After the Listing Date, there will be certain changes to China Merchants Commercial REIT's operating expenses structure. For example, certain historical expenses of the Predecessor Group, such as the service fees paid to CMCP prior to the acquisition of equity interest in the Predecessor Group by the Vendor on 13 February 2017 will no longer be costs of China Merchants Commercial REIT. Similarly, certain expenses, such as the REIT Manager's, Operations Manager's and Trustee's fees which were not expenses of the Predecessor Group historically, will become expenses of China Merchants Commercial REIT going forward.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Changes in Fair Value of Investment Properties

The revaluation of the Properties has had an impact on the results of operations of the Predecessor Group, and may in the future result in significant fluctuations in the results of operations of China Merchants Commercial REIT. For each of the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the Predecessor Group recorded gain from the increase in fair value of the Properties of RMB216.0 million, RMB707.3 million, RMB1,200.8 million and RMB381.5 million, respectively.

The fair value of the Properties can be affected by, among other factors, property market conditions, the rate of economic growth in Shenzhen, as well as interest rates, inflation, economic developments and policy changes in Shekou, Shenzhen, the Greater Bay Area and the PRC. The fair value of the Properties is valued by the independent property valuers based on appropriate methods and assumptions so as to reflect the market conditions. Future changes of the property market may result in significant fluctuations in the fair value of investment properties and China Merchants Commercial REIT's operating results. For a discussion of the risks relating to revaluation of the Properties, please refer to "Risk Factors — Risks Relating to the Properties — Decrease in the fair value of the Properties at revaluation".

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

For a discussion of the critical accounting policies, estimates and judgements that have the most significant effect on the amounts recognised in the financial statements, please refer to Notes 4 and 5 of the Accountants' Report of the Predecessor Group set out in Appendix I to this Offering Circular.

RESULTS OF OPERATIONS

The following summary of the Predecessor Group's operating results is extracted from the Accountants' Report set out in Appendix I to this Offering Circular. Please read the following summary together with the Accountants' Report and the notes thereto.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Consolidated Statements of Profit or Loss and Other Comprehensive Income

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Revenue	366,901	359,501	389,472	182,303	190,737
Other income	3,967	7,397	5,028	1,926	3,066
Operating expenses . . .	(121,692)	(86,771)	(90,062)	(39,566)	(43,146)
Fair value changes on investment properties	216,000	707,252	1,200,833	922,748	381,507
Net reversal of (provision for) impairment losses for receivables	6	(34)	(240)	(2)	(55)
Depreciation	(512)	(230)	(179)	(89)	(66)
Exchange (loss) gain . .	—	(131)	31	3	2
Finance costs	—	—	(22,411)	(9,864)	—
Profit before tax	464,670	986,984	1,482,472	1,057,459	532,045
Income tax expense . . .	(116,229)	(261,655)	(383,256)	(270,092)	(140,159)
Profit and total comprehensive income for the year/ period	348,441	725,329	1,099,216	787,367	391,886

DESCRIPTION OF SELECTED STATEMENTS OF PROFIT OR LOSS LINE ITEMS

Revenues

During the Track Record Period, the Predecessor Group generated revenues from (i) rental income from office buildings and shopping centre; (ii) management fee income; (iii) car park income; and (iv) others. Rental income represented the amounts recognised from tenants under their tenancies for office or retail space. Management fee income represents property management fees recognised for property management services the Predecessor Group provided to the tenants, including, among others, daily maintenance, cleaning and security in respect of the Properties. Car park income represented the amount recognised from short-term rental and long-term rental of car parking spaces. Others mainly comprised promotion fees, air-conditioning fees, fees for occupying public areas, utility service fees and other special service fees. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the revenues generated by the Predecessor Group

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

amounted to RMB366.9 million, RMB359.5 million, RMB389.5 million and RMB190.7 million, respectively. The table below sets forth a breakdown of the revenues for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Rental income from office buildings and shopping centre	318,601	86.8	303,369	84.4	324,793	83.4	151,369	83.0	160,341	84.1
Management fee income	37,231	10.2	39,591	11.0	42,600	10.9	20,775	11.4	19,334	10.1
Car park income	6,277	1.7	7,187	2.0	8,278	2.1	4,066	2.2	4,385	2.3
Others	4,792	1.3	9,354	2.6	13,801	3.6	6,093	3.4	6,677	3.5
Total	366,901	100.0	359,501	100.0	389,472	100.0	182,303	100.0	190,737	100.0

Other Income

The Predecessor Group's other income primarily comprised (i) interest income; and (ii) compensation income. For the years ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2019, the Predecessor Group's other income amounted to RMB4.0 million, RMB7.4 million, RMB5.0 million and RMB3.1 million, respectively.

Interest income represented interests generated from bank deposits. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the Predecessor Group's interest income amounted to RMB3.0 million, RMB5.7 million, RMB2.1 million and RMB45,000, respectively.

Compensation income primarily represented income from (i) compensation received from the tenants for the default of the tenants or early termination of the tenancies; and (ii) compensation received from the government. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the Predecessor Group's compensation income amounted to RMB0.7 million, RMB1.7 million, RMB2.2 million and RMB2.1 million, respectively.

The table below sets forth a breakdown of other income for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Interest income	2,982	75.2	5,666	76.6	2,146	42.7	1,703	88.4	45	1.5
Compensation income	725	18.3	1,676	22.7	2,182	43.4	164	8.5	2,081	67.9
Others	260	6.5	55	0.7	700	13.9	59	3.1	940	30.6
Total	3,967	100.0	7,397	100.0	5,028	100.0	1,926	100.0	3,066	100.0

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operating Expenses

The Predecessor Group's operating expenses primarily consisted of (i) property management expenses, which comprise property management costs and operation management costs; (ii) other taxes, including business tax, stamp duty, real estate tax, urban land use tax, urban construction tax, and education surcharge; and (iii) expenses for advertising and promotion, principally for attracting customers to visit Garden City Shopping Centre. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the Predecessor Group's operating expenses amounted to RMB121.7 million, RMB86.8 million, RMB90.1 million and RMB43.1 million, respectively. The table below sets forth a breakdown of operating expenses for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Property management expenses . . .	77,760	63.9	46,735	53.9	51,263	56.9	23,699	59.9	25,235	58.5
Other taxes	38,530	31.7	31,116	35.9	31,180	34.6	15,174	38.3	15,616	36.2
Advertising and promotion	3,796	3.1	5,247	6.0	4,734	5.3	394	1.0	2,114	4.9
Others ⁽¹⁾	1,606	1.3	3,673	4.2	2,885	3.2	299	0.8	181	0.4
Total	121,692	100.0	86,771	100.0	90,062	100.0	39,566	100.0	43,146	100.0

Note:

(1) Others primarily include agency fee, auditor's remuneration, bank charges, insurance and repairs and maintenance fees.

Fair Value Changes on Investment Properties

The Properties were valued as at 31 December 2016 by CBRE Limited, as at 31 December 2017 by Jones LaSalle Corporate Appraisal and Advisory Limited and as at 31 December 2018 and 30 June 2019 by the Independent Property Valuer. The valuations were performed in accordance with the valuation standards on properties issued by the Hong Kong Institute of Surveyors or Royal Institution of Chartered Surveyors or International Valuation Standards Council (where applicable). The fair value of the Properties as at 31 December 2016, 2017 and 2018 and 30 June 2019 was approximately RMB4,226.0 million, RMB4,933.3 million, RMB6,135.0 million and RMB6,517.0 million, respectively.

The fair value changes on the Properties resulted in gains recorded from the increase in fair value of investment properties of approximately RMB216.0 million, RMB707.3 million, RMB1,200.8 million and RMB381.5 million respectively, for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019.

Net Reversal of (Provision for) Impairment Losses for Receivables

For the year ended 31 December 2016, the Predecessor Group had net reversal of impairment losses for receivables of RMB6,000, while for the years ended 31 December 2017 and 2018 and the six months ended 30 June 2019, the Predecessor Group made net provision for impairment losses for receivables amounting to RMB34,000, RMB240,000 and RMB55,000, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Depreciation

Depreciation represented the depreciation of property, plant and equipment. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the Predecessor Group's depreciation amounted to RMB512,000, RMB230,000, RMB179,000 and RMB66,000, respectively.

Exchange (Loss) Gain

Exchange (loss) gain mainly represented the loss or gain recorded by the Predecessor Group on bank deposits denominated in foreign currencies. For the year ended 31 December 2016, the Predecessor Group did not recognise any exchange gain or loss. For the years ended 31 December 2017, the Predecessor Group's exchange loss amounted to RMB131,000. For the year ended 31 December 2018 and the six months ended 30 June 2019, the Predecessor Group's exchange gain amounted to RMB31,000 and RMB2,000, respectively.

Finance Costs

Finance costs of the Predecessor Group represents interest charged on bank borrowings. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the Predecessor Group's finance costs amounted to nil, nil, RMB22.4 million and nil, respectively. All bank loans were repaid in November 2018.

Income Tax Expense

Profits of the Predecessor Group were assessable at the statutory tax rate of 25% under the EIT Law in the PRC. During the Track Record Period, the Predecessor Group had no estimated assessable profits in Hong Kong and therefore was not subject to Hong Kong profits tax. Pursuant to the rules and regulations of the BVI, the Predecessor Group was not subject to any income tax in the BVI either.

Effective from 1 January 2008, under the EIT Law, the Predecessor Group is subject to PRC income tax at 25% unless otherwise specified. According to EIT Law and its implementation rules, dividends declared in respect of profits earned by the PRC subsidiaries are subject to withholding tax at a rate of 10% for profits earned since 1 January 2008, unless reduced by tax treaties or arrangements. In relation to the dividends declared for the year ended 31 December 2016 and the six months ended 30 June 2019, the respective withholding tax expenses was incurred and recognised by HK Property Holding Companies. The withholding tax was not noted in the Predecessor Group's financial statements in 2016 as HK Property Holding Companies were not consolidated until the Predecessor Group was acquired by the Vendor in February 2017. For the six months ended 30 June 2019, the Predecessor Group had a withholding tax expense of RMB31.9 million.

The Predecessor Group's income tax expense for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 were approximately RMB116.2 million, RMB261.7 million, RMB383.3 million and RMB140.2 million, respectively. The effective tax rates for the same periods were approximately 25.0%, 26.5%, 25.9% and 26.3%, respectively. Effective tax rate is derived from dividing income tax expense by profit before tax.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Deferred taxation was provided for all temporary differences between the carrying amounts of assets and liabilities in the historical financial information of Frontier Shekou and its subsidiaries as set out in the accountants' report in Appendix I to this Offering Circular and their tax base used in the computation of taxable profit, and such temporary differences include (i) accelerated tax depreciation; (ii) withholding tax on retained earnings to be distributed; (iii) impairment losses for receivables; and (iv) change in fair value of investment properties.

RESULTS OF OPERATIONS

The following discussion of results of operations of the Predecessor Group should be read in conjunction with the Predecessor Group's audited consolidated Accountants' Report and the accompanying notes thereto set out in Appendix I to this Offering Circular.

Six Months Ended 30 June 2019 Compared against Six Months Ended 30 June 2018

Revenues

The total revenue of the Predecessor Group increased by 4.6% from RMB182.3 million for the six months ended 30 June 2018 to RMB190.7 million for the six months ended 30 June 2019. The increase was primarily due to the increase in rental income from office buildings and shopping centre.

Rental income from office buildings and shopping centre increased by 5.9% from RMB151.4 million for the six months ended 30 June 2018 to RMB160.3 million for the six months ended 30 June 2019, primarily due to the upward adjustment of rental rates.

Management fee income decreased by 6.9% from RMB20.8 million for the six months ended 30 June 2018 to RMB19.3 million for the six months ended 30 June 2019, primarily due to interim management fee concession offered to a tenant affected by the partial renovation work of Garden City Shopping Centre in 2019.

Car park income amounted to RMB4.1 million and RMB4.4 million for the six months ended 30 June 2018 and 2019, respectively.

Income from others amounted to RMB6.1 million and RMB6.7 million for the six months ended 30 June 2018 and 2019, respectively.

Other Income

Other income significantly increased by 59.2% from RMB1.9 million for the six months ended 30 June 2018 to RMB3.1 million for the six months ended 30 June 2019. The increase was primarily due to an increase in compensation for early termination of certain tenancies as compared to the six months ended 30 June 2018, partially offset by a decrease in interest income due to transfer of cash to CMSK for the purpose of complying with CMSK's centralised fund management policy, under which CMSK manages and allocates the funds of its subsidiaries at group level. Such policy is not applicable to China Merchants Commercial REIT after Listing.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operating Expenses

Operating expenses increased by 9.0% from RMB39.6 million for the six months ended 30 June 2018 to RMB43.1 million for the six months ended 30 June 2019, primarily due to (i) a significant increase in advertising and promotion expense for Garden City Shopping Centre as such expense in 2018 was mostly not incurred in the first half of that year; and (ii) an increase in property management expenses related to Technology Building 2 and New Times Plaza.

Fair Value Changes on Investment Properties

The fair value gains of the Properties were RMB381.5 million for the six months ended 30 June 2019 compared to the gains of RMB922.7 million for the six months ended 30 June 2018. The increase in the fair value of investment properties for the six months ended 30 June 2019 was the result of higher property values in Shekou, Shenzhen, but the increase was significantly less than the fair value gains for the six months ended 30 June 2018, reflecting stabilised property market conditions.

Net reversal of (Provision for) Impairment Losses for Receivables

Net provision of impairment losses for receivables amounted to RMB2,000 and RMB55,000 for the six months ended 30 June 2018 and 2019, respectively.

Depreciation

Depreciation amounted to RMB89,000 and RMB66,000 for the six months ended 30 June 2018 and 2019, respectively.

Exchange Gain

Exchange gain amounted to RMB3,000 for the six months ended 30 June 2018 and RMB2,000 for the six months ended 30 June 2019.

Finance Costs

Finance costs decreased from RMB9.9 million for the six months ended 30 June 2018 to nil for the six months ended 30 June 2019, primarily due to the fact that all bank borrowings were repaid in November 2018 and no new borrowings were drawn down.

Profit before Tax

In light of the above, profit before tax of the Predecessor Group decreased by 49.7% from RMB1,057.5 million for the six months ended 30 June 2018 to RMB532.0 million for the six months ended 30 June 2019.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Income Tax Expense

Income tax expense decreased by 48.1% from RMB270.1 million for the six months ended 30 June 2018 to RMB140.2 million for the six months ended 30 June 2019, primarily due to the decrease in deferred tax being recognised as a result of the decrease in fair value gains for the six months ended 30 June 2019.

Profit and Total Comprehensive Income for the Period

As a result of the above, profit and total comprehensive income decreased by 50.2% from RMB787.4 million for the six months ended 30 June 2018 to RMB391.9 million for the six months ended 30 June 2019.

Year Ended 31 December 2018 Compared against Year Ended 31 December 2017

Revenues

The total revenue of the Predecessor Group increased by 8.3% from RMB359.5 million for the year ended 31 December 2017 to RMB389.5 million for the year ended 31 December 2018. The increase was primarily due to the increase in rental income from office buildings and shopping centre.

Rental income from office buildings and shopping centre increased by 7.1% from RMB303.4 million for the year ended 31 December 2017 to RMB324.8 million for the year ended 31 December 2018, primarily due to an increase in occupancy rate and the upward adjustment of rental rates.

Management fee income increased by 7.6% from RMB39.6 million for the year ended 31 December 2017 to RMB42.6 million for the year ended 31 December 2018, primarily due to an increase in the management fee income derived from New Times Plaza as a result of the transition of the management fee income model from lump sum basis to commission basis. The commission basis was initially adopted in June 2017. New Times Plaza recorded management fee income for the subsequent period of 2017.

Car park income amounted to RMB7.2 million for the year ended 31 December 2017 and RMB8.3 million for the year ended 31 December 2018.

Income from others significantly increased by 47.5% from RMB9.4 million for the year ended 31 December 2017 to RMB13.8 million for the year ended 31 December 2018, primarily due to the transition of the management fee income model of New Times Plaza in June 2017.

Other Income

Other income decreased by 32.0% from RMB7.4 million for the year ended 31 December 2017 to RMB5.0 million for the year ended 31 December 2018. The decrease was primarily due to the decrease in interest income as a result of the transfer of cash to CMSK for the purpose of complying with CMSK's centralised fund management policy.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operating Expenses

Operating expenses increased by 3.8% from RMB86.8 million for the year ended 31 December 2017 to RMB90.1 million for the year ended 31 December 2018, primarily due to an increase in the property management expenses as a result of the transition of the management fee income model of New Times Plaza in June 2017, partially offset by a decrease in repairs and maintenance costs.

Fair Value Changes on Investment Properties

The fair value gains of the Properties were RMB1,200.8 million for the year ended 31 December 2018 as compared to the gains of RMB707.3 million for the year ended 31 December 2017. The overall increase in the fair value of investment properties for the year ended 31 December 2018 was the result of higher property values in Shekou, Shenzhen, which reflected (i) an improvement in the property market conditions of office buildings primarily attributable to the introduction of the Greater Bay Area development strategy and other factors such as the economic development of Shenzhen; and (ii) an increase in the valuation of Garden City Shopping Centre primarily as a result of (a) less violent competition with the adjacent new shopping malls; (b) the completion of construction of metro lines in early 2018; and (c) the postponement of the renovation plan for Garden City Shopping Centre as previously declared.

Net Reversal of (Provision for) Impairment Losses for Receivables

Net provision of impairment losses for receivables amounted to RMB34,000 for the year ended 31 December 2017 and RMB240,000 for the year ended 31 December 2018.

Depreciation

Depreciation amounted to RMB230,000 and RMB179,000 for the years ended 31 December 2017 and 2018, respectively.

Exchange (Loss) Gain

Exchange loss was RMB131,000 for the year ended 31 December 2017, while exchange gain was RMB31,000 for the year ended 31 December 2018.

Finance Costs

Finance costs increased from nil for the year ended 31 December 2017 to RMB22.4 million for the year ended 31 December 2018, primarily due to interests incurred from bank borrowings for a property renovation programme, which were fully repaid in November 2018 due to change of plan.

Profit before Tax

In light of the above, profit before tax of the Predecessor Group increased by 50.2% from RMB987.0 million for the year ended 31 December 2017 to RMB1,482.5 million for the year ended 31 December 2018.

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Income Tax Expense

Income tax expenses increased by 46.5% from RMB261.7 million for the year ended 31 December 2017 to RMB383.3 million for the year ended 31 December 2018, primarily due to the increase in deferred tax being recognised as a result of the increase in fair value gains.

Profit and Total Comprehensive Income for the Year

As a result of the above, profit and total comprehensive income increased by approximately 51.5% from RMB725.3 million for the year ended 31 December 2017 to RMB1,099.2 million for the year ended 31 December 2018.

Year Ended 31 December 2017 Compared against Year Ended 31 December 2016

Revenues

Total revenue slightly decreased by 2.0% from RMB366.9 million for the year ended 31 December 2016 to RMB359.5 million for the year ended 31 December 2017, primarily due to the decrease in rental income from office buildings and shopping centre.

Rental income from office buildings and shopping centre decreased by 4.8% from RMB318.6 million for the year ended 31 December 2016 to RMB303.4 million for the year ended 31 December 2017, primarily due to the decrease in occupancy rate of New Times Plaza caused by the relocation of a key tenant.

Management fee income increased by 6.3% from RMB37.2 million for the year ended 31 December 2016 to RMB39.6 million for the year ended 31 December 2017, primarily due to the transition of the management fee income model of New Times Plaza in June 2017.

Car park income increased from RMB6.3 million for the year ended 31 December 2016 to RMB7.2 million for the year ended 31 December 2017.

Income from others significantly increased by 95.2% from RMB4.8 million for the year ended 31 December 2016 to RMB9.4 million for the year ended 31 December 2017, primarily due to the transition of the management fee income model of New Times Plaza in June 2017.

Other Income

Other income significantly increased by approximately 86.5% from RMB4.0 million for the year ended 31 December 2016 to RMB7.4 million for the year ended 31 December 2017. The increase was primarily due to (i) a higher interest income as a result of an increase in deposits; and (ii) an increase in compensation income derived from early termination of tenancies as a result of the relocation of a key tenant in New Times Plaza.

Operating Expenses

Operating expenses decreased by 28.7% from RMB121.7 million for the year ended 31 December 2016 to RMB86.8 million for the year ended 31 December 2017. The decrease was primarily due to (i) the decrease in property management expenses as the PRC Property Companies no longer involved CMCP in operating and managing the Properties after their

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

shares were acquired by the Vendor in February 2017 and hence were no longer required to pay CMCP service fees; and (ii) the decrease in other taxes as a result of the changes of applicable PRC tax law.

Fair Value Changes on Investment Properties

The fair value gains of the Properties were RMB707.3 million for the year ended 31 December 2017 compared to the gains of RMB216.0 million for the year ended 31 December 2016. The overall increase in the fair value of investment properties for the year ended 31 December 2017 was primarily attributable to the result of higher property values of office buildings in Shekou, Shenzhen due to the enhancement of the property market conditions, the effect of which was partially offset by a decrease in the fair value of Garden City Shopping Centre due to (i) increased supply of retail units from adjacent newly commenced shopping malls; (ii) disturbance by the construction of metro lines; and (iii) declaration of a renovation plan for Garden City Shopping Centre which involved cessation of part of its business.

Net Reversal of (Provision for) Impairment Losses for Receivables

For the year ended 31 December 2016, the Predecessor Group had a net reversal of impairment losses for receivables of RMB6,000, while for the year ended 31 December 2017, the Predecessor Group had net provision for impairment losses for receivables of RMB34,000.

Depreciation

Depreciation amounted to RMB512,000 for the year ended 31 December 2016 and RMB230,000 for the year ended 31 December 2017.

Exchange Loss

No exchange gain or loss was recorded for the year ended 31 December 2016, while exchange loss was RMB131,000 for the year ended 31 December 2017, primarily attributable to bank deposits denominated in foreign currencies during the period when HKD depreciated against RMB.

Profit before Tax

In light of the above, profit before tax increased by 112.4% from RMB464.7 million for the year ended 31 December 2016 to RMB987.0 million for the year ended 31 December 2017.

Income Tax Expense

Income tax expenses increased by 125.1% from RMB116.2 million for the year ended 31 December 2016 to RMB261.7 million for the year ended 31 December 2017. The increase was primarily due to the increase in deferred tax being recognised as a result of the increased fair value gains.

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FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Profit and Total Comprehensive Income for the Year

As a result of the above, profit and total comprehensive income increased by 108.2% from RMB348.4 million for the year ended 31 December 2016 to RMB725.3 million for the year ended 31 December 2017.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The principal sources of funding for the management of the Properties have historically been cash generated from operating activities. The proceeds from the Global Offering and other debt and equity financing will be used to fund China Merchants Commercial REIT's acquisition of the Properties and payment of transaction fees. For details of how the proceeds from the Global Offering will be applied, please refer to the section headed "Use of Proceeds" in this Offering Circular.

Cash Flows

The table below shows the selected line items of the Predecessor Group's consolidated statements of cash flows during the Track Record Period.

	<u>Year ended December 31</u>			<u>Six months ended 30 June</u>	
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2018</u>	<u>2019</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Net cash from operating activities	214,703	228,063	246,199	128,168	130,907
Net cash used in investing activities	(215,387)	(240,226)	(423,493)	(846,671)	(124,962)
Net cash (used in) from financing activities	(8,592)	(4,507)	(22,131)	581,626	(346)
Net increase (decrease) in cash and cash equivalents . . .	(9,276)	(16,670)	(199,425)	(136,877)	5,599
Cash and cash equivalents at the beginning of the year/period	245,584	236,308	219,638	219,638	20,213
Cash and cash equivalents at end of the year/period, represented by:					
Bank balance and cash	236,308	219,638	20,213	82,761	25,812

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Cash flows from operating activities

During the Track Record Period, the Predecessor Group's cash inflows from operating activities were principally derived from receipt of payments for property rental and management services. The Predecessor Group's primary cash outflows from operating activities were mainly the operating expenses in relation to the provision of rental and management services and taxes.

For the six months ended 30 June 2019, the Predecessor Group had cash generated from operations of RMB154.0 million, principally due to the cash inflow before movement in working capital of RMB150.6 million, as adjusted for (i) cash inflow by an increase in trade and other payables of RMB12.0 million; and (ii) cash outflow by an increase in amount due from related companies of RMB7.9 million. The net cash from operating activities of the Predecessor Group was RMB130.9 million for the six months ended 30 June 2019, primarily as a result of further adjustment of cash generated from operations by the cash outflow of RMB23.1 million for the payment of EIT.

For the year ended 31 December 2018, the Predecessor Group had cash generated from operations of approximately RMB284.7 million, primarily as a result of the cash inflow before movement in working capital of RMB302.3 million, as adjusted for: (i) cash outflow by a decrease in trade and other payables of approximately RMB9.0 million as a result of settlement of trade and other payables; and (ii) cash outflow by an increase in amounts due from related companies of RMB7.7 million, principally as a result of transfer of cash to CMSK for the purpose of complying with CMSK's centralised fund management. The net cash from operating activities of the Predecessor Group was RMB246.2 million for the year ended 31 December 2018, primarily as a result of further adjustment of cash generated from operations by the cash outflow of RMB38.5 million for the payment of EIT.

For the year ended 31 December 2017, the Predecessor Group had cash generated from operations of approximately RMB267.5 million, primarily due to the cash inflow before movements in working capital of RMB274.3 million, as adjusted for (i) cash outflow by an increase in amounts due from related companies of approximately RMB2.7 million as a result of increase in rental receivables from related parties; and (ii) cash outflow by a decrease in trade and other receivables of RMB1.6 million for the year ended 31 December 2017. The net cash from operating activities of the Predecessor Group was RMB228.1 million for the year ended 31 December 2017, primarily due to further adjustment of cash generated from operations by the cash outflow of RMB39.4 million for the payment of EIT.

For the year ended 31 December 2016, the Predecessor Group recorded cash generated from operations of approximately RMB244.7 million, primarily due to the cash inflow before movements in working capital of RMB246.2 million, as adjusted for (i) cash outflow by a decrease in trade and other payables of approximately RMB2.0 million as a result of settlement of trade and other payables; and (ii) cash outflow by an increase in amounts due from related companies of RMB3.5 million. The net cash from operating activities of the Predecessor Group was RMB214.7 million for the year ended 31 December 2016, primarily due to further adjustment of cash generated from operations by the cash outflow for the payment of EIT of RMB30.0 million.

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Cash flows from investing activities

For the six months ended 30 June 2019, net cash used in investing activities was approximately RMB125.0 million, primarily attributable to advances to related companies of approximately RMB128.2 million as a result of transfer of cash to CMSK for the purpose of complying with CMSK's centralised fund management policy.

For the year ended 31 December 2018, net cash used in investing activities was approximately RMB423.5 million, primarily attributable to advances to related companies of approximately RMB1,117.9 million as a result of transfer of cash to CMSK for the purpose of complying with CMSK's centralised fund management policy, partially offset by repayments from related parties of approximately RMB630.3 million as a result of CMSK's allocation of fund based on the development need of the Predecessor Group.

For the year ended 31 December 2017, net cash used in investing activities was approximately RMB240.2 million, primarily attributable to advances to related companies of approximately RMB538.0 million as a result of transfer of cash to CMSK for the purpose of complying with CMSK's centralised fund management policy, partially offset by withdrawal of deposit in bank of RMB312.7 million for the same purpose.

For the year ended 31 December 2016, net cash used in investing activities was approximately RMB215.4 million, primarily attributable to placement of deposit in bank of approximately RMB246.0 million, which was principally generated from rental income.

Cash flows from financing activities

For the six months ended 30 June 2019, net cash used in financing activities was RMB346,000.

For the year ended 31 December 2018, net cash used in financing activities was approximately RMB22.1 million, attributable to (i) repayments of bank loans of RMB591.3 million; and (ii) cash outflow from interests paid for the bank loans of RMB22.4 million, partially offset by new bank loan of RMB591.3 million.

For the year ended 31 December 2017, net cash used in financing activities was approximately RMB4.5 million.

For the year ended 31 December 2016, net cash used in financing activities was approximately RMB8.6 million.

CAPITAL EXPENDITURES

During the Track Record Period, the capital expenditures comprised payments of RMB2.0 million for the purchase of property, plant and equipment and addition to investment properties.

During the Track Record Period, the total payments for the purchase of property, plant and equipment and addition to investment properties amounted to approximately RMB0.5 million, RMB0.1 million, RMB0.9 million and RMB0.5 million for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively.

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It is estimated that the future capital expenditures for the three years ended 2021 will be approximately RMB400.0 million which will be funded by bank borrowings and working capital. Such capital expenditure would be mainly for the purpose of refurbishment and enhancement of the Properties. For more details, please refer to the section headed "The Properties and Business — Proposed Asset Enhancement Initiatives" in this Offering Circular.

INDEBTEDNESS

Historically, the indebtedness of the Predecessor Group consisted of bank borrowings and non-trade amounts due to related companies. As at 31 December 2016, 2017 and 2018 and 30 June 2019, bank loans of the Predecessor Group amounted to nil, nil, nil and nil, respectively. During the year ended 31 December 2018, bank loans of RMB441.3 million and RMB150.0 million, bearing interest at loan prime rate plus 1.090% per annum and loan prime rate plus 1.472% per annum, would be payable in 2027 and 2028, respectively. All bank loans were early repaid in November 2018. As at 31 December 2016, 2017 and 2018 and 30 June 2019, non-trade amounts due to related companies were RMB148.1 million, RMB3,809.4 million, RMB3,809.7 million and RMB3,708.7 million, respectively.

As at 30 September 2019, the total amount of bank loans was nil. As at 30 September 2019, non-trade amounts due to related companies were RMB3,708.7 million. These amounts were unsecured and unguaranteed. Apart from intra-group liabilities and normal account and other payables in the ordinary course of business, the Predecessor Group did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, finance leases or hire purchase commitments, guarantees or other material contingent liabilities as at 30 September 2019.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT FINANCIAL RISKS

The Predecessor Group's activities expose the Predecessor Group to a variety of financial risks, including, among others, interest rate risk, foreign currency risk, credit risk and liquidity risk.

Interest rate risk

The Predecessor Group is exposed to cash flow interest rate risk in relation to variable-rate bank deposits due to the fluctuation of the prevailing market interest rate. The Predecessor Group currently does not have a policy on hedging interest rate risk.

No sensitivity analysis is presented since the Directors consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is limited due to their short maturities.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Foreign currency risk

Foreign currency transactions expose the Predecessor Group to foreign currency risk, which principally relates to HKD. For instance, during the period when HKD depreciated against RMB, the Predecessor Group recorded exchange losses. The Predecessor Group currently does not have a formal foreign currency hedging policy for managing foreign currency risk. However, the Predecessor Group monitors interest rate exposure and will consider hedging significant currency risk should the need arise.

The carrying amounts of the Predecessor Group's monetary assets and monetary liabilities denominated in currencies other than RMB as at the end of the periods indicated are as follows:

Assets:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
HKD ⁽¹⁾	—	1,012	1,058	818

Liabilities:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
HKD ⁽²⁾	—	192	349	27

Notes:

- (1) The assets denominated in HKD as at the end of the periods indicated are bank deposits.
- (2) The liabilities denominated in HKD as at the end of the periods indicated are amounts due to a related company and accrued audit fee.

Credit risk

Credit risk arises from the potential failure of the Predecessor Group's counterparties to meet their obligations under financial contracts. The Predecessor Group is primarily exposed to credit risk on trade receivables and amounts due from related companies.

For trade receivables, in order to minimise the credit risk, the Predecessor Group has delegated a team responsible for determination of credit limits and credit approvals. An internal credit scoring system is adopted to assess credit quality and define credit limits of potential and existing customers, which are subject to review twice a year. In addition, the Predecessor Group performs impairment assessment under ECL model on trade balances or based on provision matrix. The Predecessor Group also reviews the recoverable amount of each individual trade debtor regularly to ensure that adequate impairment losses are recognised for irrevocable debts.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In respect of amounts due from related companies, credit risk exposure is minimised by periodic assessments as well as individual assessment on recoverability based on historical settlement records, which are adjusted for forward looking information.

Liquidity risk

The Predecessor Group monitors and maintains a level of cash and cash equivalents deemed adequate by its management to finance its operations. As at 31 December 2017 and 2018 and 30 June 2019, the Predecessor Group had net current liabilities of RMB3,085.3 million, RMB2,846.4 million and RMB2,651.1 million, respectively. As at 30 June 2019, a substantial portion of such net current liabilities represented non-trade amounts due to related parties of RMB3,708.6 million in connection with the Frontier Payables. The REIT Manager expects that the Unassigned Frontier Payables in the amount of RMB956.3 million will be fully settled with cash retrieved from the settlement of amounts due from CMSK and the proceeds from the capital reduction of the five PRC Property Companies after the Asset Injection Completion Date, with the timing pending completion of the PRC Property Companies' capital reduction and dividend processes. The REIT Manager will complete both processes and will settle the Unassigned Frontier payables by the end of February 2020. The rest of the Frontier Payables will be settled through transfer of the Assigned Frontier Payables (with the rights attached thereto) to China Merchants Commercial REIT pursuant to the Sale and Purchase Deed. In light of above arrangement, the Predecessor Group deems not necessary to obtain and hence has not obtained any financing and/or letters of credit to settle its current liabilities. Taking into account the internal resources and fair value of investment properties that are available to pledge to obtain additional financing from financial institutions, the Predecessor Group will be able to meet its financial obligation when they fall due.

In the management of the liquidity risk, the Predecessor Group monitors and maintains a level of cash and cash equivalents to the extent adequate to finance the Predecessor Group's operations and mitigate the effects of fluctuations in cash flows. The REIT Manager believes that working capital will be sufficient for China Merchants Commercial REIT's future operational requirement. In respect of the proposed asset enhancement initiatives, the REIT Manager currently does not have further financing arrangement save for the Onshore Facility disclosed in this Offering Circular. For details, please refer to the section headed "Material Agreements and Other Documents".

The Predecessor Group's financial liability was non-interest bearing as at 31 December 2016, 2017 and 2018 and 30 June 2019. Based on the undiscounted cash flow of financial liabilities on the earliest date on which the Predecessor Group can be required to pay, the Predecessor Group's financial liabilities as at 31 December 2016, 2017 and 2018 and 30 June 2019 were repayable on demand or expected to be settled within three months after the end of the reporting period and the undiscounted cash flow equal to the carrying amount of the financial liabilities.

DIVIDEND AND DISTRIBUTABLE RESERVES

During the year ended 31 December 2016, dividends of RMB156.2 million were declared but not paid. No dividend was paid or declared by the Predecessor Group for the years ended 31 December 2017 and 2018. For the six months ended 30 June 2019, dividends of RMB319.3 million were declared but not paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

China Merchants Commercial REIT's distributions to Unitholders will, subject to compliance with applicable legal and regulatory requirements, be declared and paid in Hong Kong dollars. The REIT Manager has the discretion to direct the Trustee from time to time to make distributions above the minimum of 90.0% of China Merchants Commercial REIT's Annual Distributable Income if and to the extent China Merchants Commercial REIT, in the opinion of the REIT Manager, has funds surplus to its business requirements. The REIT Manager currently intends to distribute 100.0% of the Annual Distributable Income for the DPU Commitment Period. For details of China Merchants Commercial REIT's distribution policy, please refer to the section headed "Distribution Policy" in this Offering Circular.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, the Predecessor Group did not have any off-balance sheet arrangements.

LISTING EXPENSES

All incremental costs that are directly attributable to the issue of units are directly deducted from equity. The total expenses for the Listing are estimated to be approximately RMB105.0 million, of which approximately RMB93.2 million is directly attributable to the issue of units in the Global Offering and to be accounted for as a deduction from equity and approximately RMB11.8 million is to be charged as administrative expenses to China Merchants Commercial REIT's profit and loss accounts in the period in which the expenses are incurred. Approximately RMB93.2 million of the total expenses for the Listing will be capitalised.

RECENT DEVELOPMENTS

On 16 August 2019, the boards of directors of the five PRC Property Companies decided to transfer the other reserves in the amount of RMB637.0 million to registered capital, which will be followed by a capital reduction of the five PRC Property Companies in the amount of RMB637.0 million to the five HK Property Holding Companies. Once the approvals of capital transfer and capital reduction are obtained which are expected to occur before or after the Asset Injection Completion Date, the proceeds from the capital reduction will be used for partial repayment of the Unassigned Frontier Payables.

RMB637.0 million of the Unassigned Frontier Payables will be settled through funds from the abovementioned capital reduction, which is pending completion of the PRC Property Companies' capital reduction process. The remainder of the Unassigned Frontier Payables in an amount of RMB319.3 million will be settled through funds from the dividend declared by Frontier Shekou for the six months ended 30 June 2019, which is pending completion of the PRC Property Companies' remittance of dividends process.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The processes pertaining to the capital reduction and remittance of dividends out of the PRC require tax clearance, as well as regulatory submissions and approvals, in accordance with the PRC foreign investment and foreign exchange laws and regulations, which may take time. However, as advised by the PRC Legal Advisors, such processes are mainly formality procedures and will not pose any material risks or legal impediment to the settlement of the Unassigned Frontier Payables. The REIT Manager will complete both processes as soon as practicable and will settle the Unassigned Frontier Payables by the end of February 2020. The REIT Manager confirms that, as at the Latest Practicable Date, the PRC Property Companies have earmarked cash for settlement of the Unassigned Frontier Payables. The REIT Manager further confirms that the Unassigned Frontier Payables and the settlement thereof will not affect the financial or trading position of China Merchants Commercial REIT.

NO MATERIAL ADVERSE CHANGE

Directors have confirmed that, since 30 June 2019 and up to the date of this Offering Circular, there had been no material adverse change in China Merchants Commercial REIT's financial or trading position or prospects and no event had occurred that would materially and adversely affect the financial information in the Accountants' Report included as Appendix I to this Offering Circular.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FUTURE OPERATIONS

After the Listing Date, there will be certain changes to China Merchants Commercial REIT's cost structure, level of indebtedness and operations. As a result, the following discussion has been prepared to assist investors' evaluation of the factors which may affect China Merchants Commercial REIT's future results of operations.

Such statements are subject to uncertainties and assumptions, and under no circumstances should the inclusion of such information herein be regarded as a representation, warranty or prediction by China Merchants Commercial REIT, CMG, CMSK, Eureka, CML, the REIT Manager, the Trustee, the Sole Listing Agent, the Underwriters or any other person that the underlying assumptions will materialise. Investors are cautioned not to place undue reliance on these forward-looking statements.

OVERVIEW

China Merchants Commercial REIT is a real estate investment trust formed to primarily own, invest and proactively manage high quality income-generating commercial properties in the PRC (including Hong Kong and Macao but excluding the CML Cities). China Merchants Commercial REIT shall initially focus on properties located in: (i) the Greater Bay Area (other than Foshan and Guangzhou, being two of the CML Cities), which is where the initial five Properties are situated; and (ii) Beijing and Shanghai. The audited financial information of Frontier Shekou set forth in Appendix I to this Offering Circular and the other historical financial information have been prepared based on the historical operations of Frontier Shekou. While the sources of revenues of China Merchants Commercial REIT will be similar to those of Frontier Shekou, its cost structure after the Listing Date will differ in certain significant respects from the historical cost structure of Frontier Shekou. Certain historical costs of Frontier Shekou, such as the asset management fee, will no longer be costs of China Merchants Commercial REIT and certain new costs that were not costs of Frontier Shekou historically, such as fees payable to the REIT Manager, the Operations Manager, the Property Manager and the Trustee and other trust-related expenses, will be costs of China Merchants Commercial REIT going forward.

In addition, in accordance with the Trust Deed, distributions to Unitholders will be determined on the basis of Annual Distributable Income, which is the consolidated audited net profit after tax of China Merchants Commercial REIT and its Special Purpose Vehicles for the relevant financial year adjusted to eliminate the effects of certain significant adjustments, as more specifically described in the section headed "Distribution Policy" in this Offering Circular.

Thus, for these and other reasons described below, historical net profit after tax of Frontier Shekou should not be treated as comparable to Annual Distributable Income.

Further, the presentation format of China Merchants Commercial REIT's financial information may differ from that of the audited financial information set forth in Appendix I to this Offering Circular. Set forth below are details of the primary cost items and other financial statement items of Frontier Shekou that may be affected by the Global Offering and other material agreements to be entered into. Please refer to the sections headed "Material Agreements and Other Documents" and "The Trust Deed" in this Offering Circular for further details of these agreements.

SIGNIFICANT ACCOUNTING POLICIES TO BE ADOPTED BY CHINA MERCHANTS COMMERCIAL REIT

Significant policies are those that are expected to have a significant impact on the reporting of financial condition and results of operations and require management to make estimates and judgements that affect the reported results. These estimates are evaluated on an ongoing basis, based on historical experience, information that is currently available and various assumptions that management believes are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Due to the different legal, financial and operating structure of China Merchants Commercial REIT compared to Frontier Shekou's operations, China Merchants Commercial REIT will adopt certain accounting treatments that will differ in certain respects from those used in preparing the audited financial statements of Frontier Shekou. Based on the provisions of the Trust Deed, the REIT Manager expects to adopt significant accounting policies materially similar to those adopted by Frontier Shekou as set out in Note 4 of the Accountant's Report set out in Appendix I to this Offering Circular. Significant accounting policies will require the most significant judgements and estimates in the preparation of China Merchants Commercial REIT's consolidated financial statements and have the most significant effect on the presentation of China Merchants Commercial REIT's results. In the event of any future changes to China Merchants Commercial REIT's business, China Merchants Commercial REIT may be required to adopt different or additional critical accounting policies which may be similar to those used in the preparation of the financial statements of Frontier Shekou.

ADDITIONAL COST ITEMS

China Merchants Commercial REIT will incur fees and expenses associated with the REIT structure that were not previously incurred by Frontier Shekou in respect of the Properties. Set out below are certain such additional cost items.

REIT Manager's Fees

Under the Trust Deed, the REIT Manager will receive:

- (a) from the Listing Date and on a semi-annual basis, a Base Fee of 10.0% per annum of the Base Fee Distributable Income; and
- (b) from the Listing Date and on an annual basis, a Variable Fee of 25.0% per annum of the difference in DPU in a financial year compared to the preceding financial year, multiplied by the weighted average number of Units in issue for such financial year (for the purpose of calculating the Variable Fee only, the DPU shall be calculated before accounting for the Variable Fee but after accounting for the Base Fee for the relevant financial year).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FUTURE OPERATIONS

The REIT Manager currently intends to elect to receive not less than 25.0% of the Base Fee for 2019 and 2020 in the form of Units. No Variable Fee will be payable for the period from the Listing Date to 31 December 2022 (being the DPU Commitment Period). The issuance of Units to the REIT Manager as all or part of its compensation will result in dilution to the Unitholders, including the amount of distributions per Unit. The Base Fee and Variable Fee, whether paid in cash or in Units, will be treated as an expense item in the income statement. When the Base Fee and the Variable Fee are paid in the form of Units, it will be an adjustment item that will be added back to the net profit after taxation for purposes of calculating the Annual Distributable Income. For further arrangements and a detailed description of the Base Fee and the Variable Fee, see the section headed "The REIT Manager — Further Details Regarding the REIT Manager — Fees, Costs and Expenses of the REIT Manager" in this Offering Circular.

Acquisition Fee and Divestment Fee

In addition to the Base Fee and the Variable Fee, under the Trust Deed, the REIT Manager is also entitled, with effect from the Listing Date, to receive an Acquisition Fee not exceeding 1.0% (and being 1.0% as at the date of the Trust Deed) of the acquisition price of each real estate asset acquired, directly or indirectly, by China Merchants Commercial REIT. The Acquisition Fee will be pro-rated if applicable to the proportion of China Merchants Commercial REIT's interest in the real estate acquired. The Acquisition Fee will be paid to the REIT Manager in the form of cash or, at the election of the REIT Manager, entirely or partly in the form of Units.

Further, the REIT Manager is entitled to receive, with effect from the Listing Date, a Divestment Fee not exceeding 0.5% (and being 0.5% as at the date of the Trust Deed) of the sale price of each real estate asset sold or divested, directly or indirectly, by China Merchants Commercial REIT. The Divestment Fee will be pro-rated if applicable to the proportion of China Merchants Commercial REIT's interest in the real estate sold. The Divestment Fee will be paid to the REIT Manager in the form of cash or, at the election of the REIT Manager, entirely or partly in the form of Units.

For further information on these arrangements and detailed descriptions of the Acquisition Fee and the Divestment Fee, see the section headed "The REIT Manager — Further Details Regarding the REIT Manager — Fees, Costs and Expenses of the REIT Manager" in this Offering Circular.

Operations Manager's Fees

Under the Operations Management Agreement, the Operations Manager is entitled to receive from the PRC Property Companies: (i) an amount equivalent to 5.0% of the monthly rental income of the PRC Property Companies, payable on a monthly basis; and (ii) an amount equivalent to 2.5% of the PRC Property Companies' semi-annual capital expenditure for refurbishment and renovation of the Properties, payable on a semi-annual basis. The Operations Manager will bear its operating costs and expenses.

For further information on these arrangements and a detailed description of the Operations Manager's Fee, please refer to the section headed "The Operations Manager and the Property Manager — the Operations Manager — The Operations Management Agreement" in this Offering Circular.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FUTURE OPERATIONS

Property Manager's Fees

Under the Property Management Agreements, the Property Manager is entitled to be paid from the designated account jointly maintained by the relevant PRC Property Company and the Property Manager: (a) with respect to Garden City Shopping Centre, a fixed monthly fee of RMB54,167 (totaling RMB650,000 per annum); and (b) with respect to the other Properties, a monthly fee equivalent to 12.0% of the sum of the fees and charges (except air-conditioning charges and promotional fees) and car parking fees it has collected. For further information on these arrangements and a detailed description of the Property Management Agreements, please refer to the section headed "The Operations and Property Manager — The Property Manager — The Property Management Agreements" in this Offering Circular.

Trustee's Fees

China Merchants Commercial REIT's costs will also include the Trustee's fee which will be calculated and paid semi-annually as an ongoing fee of not more than 0.025% per annum of the value of the Deposited Property (which may be increased up to a maximum of 0.06% per annum of the value of the Deposited Property) subject to a minimum of RMB56,000 per month. In addition, China Merchants Commercial REIT will also pay the Trustee a one-off acceptance fee of HK\$180,000 upon Listing. For further information regarding these arrangements, see the section headed "The Trust Deed — Trustee's Fee" in this Offering Circular.

The Trustee may also charge China Merchants Commercial REIT additional fees on a time-cost basis at a rate to be agreed with the REIT Manager from time to time, if the Trustee were to undertake duties that are of an exceptional nature or otherwise outside the scope of its normal duties in the ordinary course of normal day-to-day business operation of China Merchants Commercial REIT, such as acquisitions or divestments of investments by China Merchants Commercial REIT after Listing.

LISTING AND CAPITAL RESOURCES

After Listing, net cash received from the operations of the Properties and payments under the DPU Commitment until 31 December 2022 (if any) will be China Merchants Commercial REIT's primary source of liquidity to fund cash distributions to Unitholders, debt servicing, repairs and maintenance and other operating and capital costs. Where appropriate, China Merchants Commercial REIT may also seek to issue further Units and debt securities and incur external borrowings (under the REIT Code, China Merchants Commercial REIT is only allowed to borrow up to 45% of its total gross asset value), particularly in relation to any proposal to acquire further properties. The issue of additional equity or equity-linked securities may result in additional dilution to Unitholders.

The REIT Manager may incur capital expenditures or other expenses intended to enhance the Properties to improve the yield or long-term value of the Properties, by improving rental rates or occupancy rates or otherwise increasing the total rentable area of the Properties. Such enhancements should both increase the cash flows from the Properties and the value of the Properties, which may allow the REIT Manager further flexibility to borrow in accordance with the REIT Code. The REIT Manager may also incur capital expenditure for maintaining the Properties or for remedial works.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FUTURE OPERATIONS

The Building Survey Report prepared by the Building Surveyor set out in Appendix V to this Offering Circular includes a summary of cost estimates for remedial works as detailed and the ten-year forecasts of maintenance and capital expenditure.

As at 30 June 2019, Frontier Shekou did not have any contractual commitments or obligations to make any capital expenditures.

WORKING CAPITAL STATEMENT

Taking into consideration the financial resources available to China Merchants Commercial REIT, including cash earmarked before Listing for the settlement of the Unassigned Frontier Payables, its internally generated funds, the Facilities and the estimated net proceeds of the Global Offering, the REIT Manager believes that China Merchants Commercial REIT has sufficient liquid assets to meet its working capital and operating requirements for the 12 calendar months following the date of this Offering Circular.

NO MATERIAL ADVERSE CHANGE

The REIT Manager confirms that, having performed reasonable due diligence on China Merchants Commercial REIT and Frontier Shekou, there has been no material adverse change in China Merchants Commercial REIT's and Frontier Shekou's financial or trading position or prospects since 30 June 2019, which is the end of the period covered by the Accountants' Report set out in Appendix I to this Offering Circular.

PROFIT FORECAST FOR THE PROFIT FORECAST PERIOD

Statements contained in this profit forecast section that are not historical facts may be forward-looking statements. Such statements are based on the assumptions set forth in this section and are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. Under no circumstances should the inclusion of such information herein be regarded as a representation, warranty or prediction by China Merchants Commercial REIT, the REIT Manager, the Trustee, the Underwriters, the Sole Listing Agent or any other person involved in the Global Offering with respect to the accuracy of the underlying assumptions used in preparing the profit forecast or that the profit forecast results will be achieved or are likely to be achieved. Other than with respect to the DPU Commitment, none of China Merchants Commercial REIT, the REIT Manager, the Trustee, the Underwriters, the Sole Listing Agent or any other person involved in the Global Offering guarantees the performance of China Merchants Commercial REIT or the payment of any (or any particular) return on the Units. Investors are cautioned not to place undue reliance on these forward-looking statements which are made only as of the date of this Offering Circular.

The profit forecast (including the underlying assumptions,) for which the REIT Manager is responsible, has been approved by the Board. The profit forecast has been prepared on the bases and assumptions set out below and in accordance with accounting principles generally accepted in Hong Kong and is consistent in all material respects with those accounting policies to be adopted by China Merchants Commercial REIT, which are materially similar to those adopted by China Merchants Commercial REIT in the Accountant's Report set out in Appendix I to this Offering Circular. The forecast income statement data of China Merchants Commercial REIT on the following pages of this Offering Circular has been prepared on a combined basis, reflecting the forecast combined income statement of China Merchants Commercial REIT, for the period from the Listing Date to 31 December 2019 (the "Profit Forecast Period"). The profit forecast assumes that the Listing Date will be 10 December 2019 and will vary if the Listing Date is different.

The audited financial results of China Merchants Commercial REIT in this Offering Circular only cover the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019. The financial information relating to China Merchants Commercial REIT for the period from 1 July 2019 to the Listing Date has not been prepared by the REIT Manager and the financial results of China Merchants Commercial REIT for such period have neither been audited nor reviewed. In preparing the profit forecast, the REIT Manager has made certain assumptions with respect to the operations of China Merchants Commercial REIT as set out below. To the extent that the REIT Manager has not identified events that have occurred or may occur in respect of China Merchants Commercial REIT during the period from 1 July 2019 to the Listing Date, the impact of such events on the future results of China Merchants Commercial REIT has not been taken into account in the profit forecast.

PROFIT FORECAST FOR THE PROFIT FORECAST PERIOD

Investors should note that for reasons stated herein, in arriving at the combined forecast results of China Merchants Commercial REIT, it has been assumed that there will be no change in the price of the Units during the Profit Forecast Period. Should the market value of the Properties as of 31 December 2019 drop below or increase above the Appraised Value of the Properties as of 30 June 2019, the deficit or surplus, together with any associated deferred taxation, would be charged to the income statement. However, such deficit or surplus (after taking into account any associated deferred taxation), which is non-cash in nature, would not reduce or increase the Annual Distributable Income for the Profit Forecast Period. Investors should also note that the format and individual line items in China Merchants Commercial REIT's future financial reports and statements may differ from those used for the purposes of the profit forecast and such line items should not be viewed as individual forecasts but form part of the bases and assumptions used in arriving at the distributable income for the Profit Forecast Period. The profit forecast should be read together with the letters set out in Appendix III headed "Letters in Relation to the Profit Forecast" and Appendix IV headed "Independent Property Valuer's Valuation Report" to this Offering Circular and the principal bases and assumptions set out below.

The profit forecast and calculations made in preparing the profit forecast have been reviewed by Deloitte and the Sole Listing Agent. Please refer to Appendix III for the letters from Deloitte and the Sole Listing Agent on the accounting policies adopted and the calculations made in arriving at the profit forecast. The REIT Manager and the Sole Listing Agent consider the assumptions made in arriving at the profit forecast to be reasonable.

China Merchants Commercial REIT will incur expenses at the trust level (such as the REIT Manager's fees, the Trustee's fees and annual listing fees), which expenses were not incurred before the Listing Date (please refer to the section headed "Management's Discussion and Analysis of Future Financial Condition and Results of Operations" in this Offering Circular).

Having regard to the various factors noted above, investors should exercise caution when relying on the profit forecast generally and, in particular, (a) investors should exercise the highest caution in making any comparison, whether as to individual line items or overall financial performance, as between China Merchants Commercial REIT's forecast income statement set forth below and any historical financial results of China Merchants Commercial REIT and (b) investors should not treat any individual line item in China Merchants Commercial REIT's forecast income statement as a forecast in its own right.

PROFIT FORECAST FOR THE PROFIT FORECAST PERIOD

The following table sets forth summarised Profit Forecast of China Merchants Commercial REIT for the Profit Forecast Period.

	For the Profit Forecast Period RMB'000
Revenue	23,848
Other income	114
Operating expenses	(7,620)
Fair value changes on investment properties	—
Net reversal of (provision for) impairment loss.	—
Depreciation.	(2)
Exchange (loss) gain	—
Finance costs.	(3,881)
REIT Manager's fees	(1,000)
Trustee's fees	(269)
Profit before tax	11,190
Income tax expense	(4,950)
Profit and total comprehensive income for the period	<u>6,240</u>
Distribution Data:	
Profit for the period.	6,240
Adjustments ⁽¹⁾	<u>3,009</u>
Distributable income for the Profit Forecast Period	<u>9,249</u>

	For the Profit Forecast Period	
	Minimum Offer Price	Maximum Offer Price
Offer price (HK\$)	3.42	4.00
Assumed number of Units outstanding as of 31 December 2019 for the Profit Forecast Period (in thousand)	1,127,820	1,127,820
Forecast DPU (HK\$) ⁽¹⁾	0.0093	0.0093
Annualised DPU (HK\$)	0.1538	0.1538
Forecast annualised DPU yield ⁽²⁾	4.5%	3.8%
Annualised Committed DPU (HK\$) ⁽³⁾	0.2360	0.2360
Annualised Committed DPU yield ⁽⁴⁾	6.9%	5.9%

Notes:

- (1) Forecast DPU is calculated from profit for the Profit Forecast Period of RMB6,240,000 as adjusted by (i) RMB2,477,000 in respect of the deferred tax charged, (ii) RMB2,000 in respect of the depreciation charged, (iii) RMB280,000 in respect of non-cash loan arrangement fees amortised under finance costs, and (iv) RMB250,000 in respect of the portion of the REIT Manager's fee to be paid in the form of Units. Assuming that the number of Units outstanding as at 31 December 2019 for the Profit Forecast Period is 1,127,820,000, the forecast DPU is RMB0.0082. The translation of RMB to HK\$ was made at the rate of RMB0.8844 to HK\$1.

PROFIT FORECAST FOR THE PROFIT FORECAST PERIOD

- (2) The annualised forecast distribution yields are provided for illustrative purpose only. The annualised actual distribution yield may differ from the annualised forecast distribution yield based on the forecast DPU for the Profit Forecast Period. The annualised forecast distribution yields have been calculated with the reference to the Minimum Offer Price and Maximum Offer Price only. Such yield will vary for investors who purchase Units in the secondary market at a market price that differs from the Minimum Offer Price and the Maximum Offer Price or for investors who do not hold Units for the entire Profit Forecast Period.
- (3) Pursuant to the DPU Commitment Deed dated 22 November 2019.
- (4) The Annualised Committed DPU yields are provided for illustrative purpose only. The annual actual distribution yield may differ from the Annualised Committed DPU yield for the Profit Forecast Period. The Annualised Committed DPU have been calculated with the reference to the Minimum Offer Price and Maximum Offer Price. Such yield will vary for investors who purchase Units in the secondary market at a market price that differs from the Minimum Offer Price and the Maximum Offer Price or for investors who do not hold Units for the entire Profit Forecast Period.

No forecast of profits or DPU whatsoever is made in respect of any period ending after the Profit Forecast Period. Other than with respect to the DPU Commitment, none of China Merchants Commercial REIT, the REIT Manager, the Trustee, the Underwriters, the Sole Listing Agent or any other person involved in the Global Offering guarantees the performance of China Merchants Commercial REIT, the repayment of capital or the payment of any distributions, or any particular return on the Units.

The profit forecast and forecast annualised distribution yields stated in the table above are calculated based on the Maximum Offer Price and the Minimum Offer Price. Such distribution yields will vary for investors who purchase Units in the secondary market at a market price that differs from the Maximum Offer Price and the Minimum Offer Price or for investors who do not hold Units for the entire Profit Forecast Period.

BASES AND ASSUMPTIONS

The REIT Manager has prepared the profit forecast and forecast DPU for the Profit Forecast Period based on the assumptions listed below. The REIT Manager considers these assumptions to be appropriate and reasonable as of the date of this Offering Circular. However, recipients of this Offering Circular and all prospective investors in the Units should consider the profit forecast and forecast DPU in the light of such assumptions and make their own assessment of the future performance of China Merchants Commercial REIT.

PROFIT FORECAST FOR THE PROFIT FORECAST PERIOD

REVENUE

Revenue is derived from (a) rental income (from offices and shopping centre), (b) management fee income, (c) carpark income and (d) others.

	For the Profit Forecast Period RMB'000
	Forecast
Rental income from office buildings and shopping centre	20,333
Management fee income	2,354
Carpark income	398
Others	763
Total	<u>23,848</u>

Rental income from office buildings and shopping centre

Rental income represents the amounts recognised from tenants under their tenancies for office or retail space. In accordance with IFRS 16, the effect of any rent-free period granted is to be amortised over the term of the lease on a straight line basis. Hence, rental income forecasted represents effective rent expected to be generated under all tenancies for the Profit Forecast Period.

Rental income for the Profit Forecast Period is forecast to be RMB20 million.

In projecting rental income for the Profit Forecast Period, the REIT Manager have taken into account: (a) the current and expected general economic conditions in Shenzhen, (b) the current and expected level of demand by existing and new tenants of the Properties and (c) renovation plan for the Properties, and the REIT Manager have made the following assumptions.

Leasing schedule assumption

The following table sets forth a breakdown of projected rental income attributable to the different categories of tenants for the Profit Forecast Period:

Categories of tenants	Percentage of Rental Income from the Profit Forecast Period				
	New Times Plaza	Technology Building	Technology Building 2	Cyberport Building	Garden City Shopping Centre
Existing lease commitments as of 30 June 2019 which will remain for the Profit Forecast Period	76%	89%	92%	87%	84%
Expected renewals or new leases during the Profit Forecast Period	<u>24%</u>	<u>11%</u>	<u>8%</u>	<u>13%</u>	<u>16%</u>

PROFIT FORECAST FOR THE PROFIT FORECAST PERIOD

Occupancy rates assumption

The following table sets forth the historical and forecast occupancy rates for the Properties for the periods indicated. The REIT Manager have taken various factors into consideration when making forecast of occupancy rate, including the expiry profile during the Profit Forecast Period, the new lease to be signed by connected parties, the retention rate and the new lease rate. Significant increase in occupancy rate of New Times Plaza is expected due to new tenancy agreements to be signed with connected parties and occupancy rate of Cyberport Building is expected to restore to normal range at 31 December 2019.

	Occupancy rates		
	Actual	Actual	Forecast
	As at	As at	As at
	31 December 2018	30 June 2019	31 December 2019
New Times Plaza	74.2%	74.5%	92.6%
Technology Building	92.1%	85.5%	84.8%
Technology Building 2.	99.3%	89.8%	88.9%
Cyberport Building	92.9%	79.9%	87.4%
Garden City Shopping Centre	99.8%	79.6%	79.3%

Rental rates assumption

The market rental rates are assumed to be the rental rates for expected new and renewed tenancies entered into during the Profit Forecast Period and are estimated with reference to: (a) effective rent payable of comparable tenancies of the Properties that have been recently entered into, and (b) the general market conditions for Shekou office and retail commercial property market. In forecasting the market rent for the Properties, the Directors also take into account a variety of properties-specific factors, including but not limited to the (a) location of the Properties; (b) age of the Properties; and (c) occupancy level and tenant expiry profile of the Properties.

According to the Independent Property Valuer, the market rental rate of the office and shopping centre as at 31 December 2019 is expected to achieve a year-on-year growth of 2–5%, compared to the market rental rate as at 31 December 2018.

The forecast Average Monthly Rental per Leased Square Metre for the Profit Forecast Period, as compared to the historical Average Monthly Rental per Leased Square Metre for the six months ended 30 June 2019, is expected to achieve a higher growth than aforementioned year-on-year growth in market rental rate. The historical Average Monthly Rental per Leased Square Metre was different from market level due to the construction of Metro Lines which affected the accessibility of and the leasing demand for the Properties.

PROFIT FORECAST FOR THE PROFIT FORECAST PERIOD

The historical and forecast Average Monthly Rental per Leased Square Metre for the Properties are as follows:

	Year ended 31 December 2017 RMB	Year ended 31 December 2018 RMB	Six months ended 30 June 2019 RMB	Profit Forecast Period RMB
New Times Plaza	147	147	156	164
Technology Building	83	85	87	97
Technology Building 2	85	95	99	103
Cyberport Building	93	101	105	112
Garden City Shopping Centre . .	151	161	155	168

Management fee income

Management fee income represents property management fees recognised for property management services provided to the tenants. The REIT Manager has forecasted management fee income to be RMB2.4 million for the Profit Forecast Period.

Carpark income

Carpark income represents the amount recognised from short-term rental and long-term rental of car parking spaces. Carpark income is generated on an hourly and monthly basis.

The projected carpark income is calculated based on the historical trends and the expected utilisation rate of the carpark. The REIT Manager has forecasted carpark income of RMB0.4 million for the Profit Forecast Period.

Others

Others mainly comprises promotion fees, air-conditioning fees, fees for occupying public areas, utility service fees and other special service fees. The income is generated on monthly basis.

OTHER INCOME

Other income primarily comprises interest income and compensation received from the tenants for the default of the tenants or early termination of the tenancies. The early termination of the tenancies occurred in the previous years were partially attributable to the Properties' strategy to proactively upgrade the tenant mix and to seek new tenants with a focus on the emerging industries. The REIT Manager expects no early termination of the tenancies in the Profit Forecast Period.

For interest income, the REIT Manager expects the excess cash to be deposited in saving account and the effective interest rate is expected to be approximately 1% per annum, according to The People's Bank of China.

PROFIT FORECAST FOR THE PROFIT FORECAST PERIOD

OPERATING EXPENSES

In preparation of the Profit Forecast, the REIT Manager has made an assessment on the operating expenses of China Merchants Commercial REIT, comprising (a) advertising and promotion; (b) agency fee; (c) properties management expenses; (d) operations management expenses; (e) other taxes; (f) repairs and maintenance and (g) other expenses. Listing expenses are excluded due to non-recurring nature. Part of the listing expenses would be charged in profit or loss accounts during the period ended 31 December 2019. The actual profit and total comprehensive income for the period ended 31 December 2019 would be less than the profit and total comprehensive income for the period in profit forecast. The details of listing expenses are set out in the section headed “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Listing Expenses” in this Offering Circular.

Breakdown of operating expenses is as follows:

	For the Profit Forecast Period
	RMB’000
	Forecast
Advertising and promotion	238
Agency fee	85
Property management expenses	2,754
Operations management expenses	1,017
Other taxes	1,863
Repairs and maintenance	143
Others	1,520
Total	<u>7,620</u>

Advertising and promotion

Expenses for advertising and promotion is principally for attracting customers to visit Garden City Shopping Centre. The estimating expenses for the Profit Forecast Period is RMB0.2 million.

Agency fee

Agency fee represents a commission equivalent to 1–2 month of effective rent paid to agents for securing new tenants for the Properties. During the Profit Forecast Period, agency fee is projected to be RMB0.1 million.

Property management expenses

Pursuant to the Property Management Agreement, China Merchants Commercial REIT will pay the Property Manager (a) with respect to Garden City Shopping Centre, an amount equivalent to RMB650,000 per annum, and (b) with respect to other Properties, a fee of 12% of the aggregate fees and charges (except air-conditioning charges and promotional fees) and car parking fees the Property Manager has collected per month for the relevant Properties and lease management services. In addition, the Property Manager will be fully reimbursed by the relevant PRC Property Companies for the relevant costs in relation to the management of the Properties.

PROFIT FORECAST FOR THE PROFIT FORECAST PERIOD

Operations management expenses

Pursuant to the Operations Management Agreement, the Operations Manager is entitled to receive from the PRC Property Companies: (i) an amount equivalent to 5.0% of the monthly rental income of the PRC Property Companies; and (ii) an amount equivalent to 2.5% of the PRC Property Companies' semi-annual capital expenditure for refurbishment and renovation of the Properties. Such expenses will be one of the additional cost items to be incurred post Listing, as the functions to be performed by the Operations Manager post Listing have been centralised at the group level and no cost has been allocated separately in relations to the Properties prior to Listing.

Other taxes

Other taxes include stamp duty, urban construction tax, education surtax, real estate tax and urban land use tax. Real estate tax payable is at a rate of the cost of the properties, and the urban land use tax is at a rate of the land occupation area. Stamp duty are based on the number of renewed and new leases that are expected to be made during the Profit Forecast Period, the estimated taxes and fees are RMB1.9 million.

Repairs and maintenance

Repairs and maintenance costs, which are generally incurred as a result of fitting out works undertaken prior to the commencement of a new tenancy, are projected to be RMB0.1 million, based on the expected level of new letting activities for the Profit Forecast Period.

Other expenses

Miscellaneous expenses primarily comprise auditor's remuneration, bank charges, insurance, office expenses and other expenses and are projected to be RMB1.5 million for the Profit Forecast Period.

INCREASE IN FAIR VALUE OF INVESTMENT PROPERTIES

The REIT Manager considers that market value of the Properties will not materially change as of any future date during the Profit Forecast Period. Accordingly, the REIT Manager assumes that the market value of the Properties as at 31 December 2019 will be the same as the value as at Listing Date. Hence, the Profit Forecast does not consider any change in fair value of investment properties.

NET REVERSAL OF (PROVISION FOR) IMPAIRMENT LOSSES FOR RECEIVABLES

Net reversal of (provision for) impairment losses for receivables include the impairment loss recognised on trade and other receivables. REIT Manager assumed no provision has been or will be made during the Profit Forecast Period.

DEPRECIATION

Depreciation has been included in the Profit Forecast on a straight-line basis over the remaining useful life of the properties, plant and equipment (excluding the Properties). It has been assumed that there will be no material disposal or addition of properties, plant and equipment.

PROFIT FORECAST FOR THE PROFIT FORECAST PERIOD

EXCHANGE (LOSS) GAIN

No assumption has been made as to any change in the foreign exchange rate during the Profit Forecast Period as there is no reliable basis for determining such rate as at any future date.

FINANCE COSTS

On the listing date, China Merchants Commercial REIT will enter into a term loan facility up to a principal amount up to the HKD equivalent of RMB2,400 million and a term loan facility up to a principal amount up to RMB100 million. An upfront fee of RMB14.4 million, payable on the Listing Date, will be paid by China Merchants Commercial REIT. The banking facility will bear interest on a floating basis or a fixed interest rate to be determined on the market rate on the drawdown date (whichever is lower). Please refer to the section headed “Material Agreements and Other Documents” of this Offering Circular.

REIT MANAGER’S FEE

The REIT Manager’s fee includes a Base Fee and a Variable Fee. Such expenses will be one of the additional cost items to be incurred post Listing. The Base Fee is 10.0% per annum of the Base Fee Distributable Income and the Variable Fee is 25.0% per annum of the difference in DPU in a financial year compared to the preceding financial year, multiplied by the weighted average number of Units in issue for such financial year. For the purpose of calculating the Variable Fee only, the DPU shall be calculated before accounting for the Variable Fee but after accounting for the Base Fee for the relevant.

No Variable Fee shall accrue or be payable for the period from the Listing Date to 31 December 2022.

TRUSTEE’S FEES

The Trustee is entitled to receive a remuneration of 0.015% to 0.025% per annum of the value of the Deposited Property. In addition, China Merchants Commercial REIT will also pay the Trustee a one-off acceptance fee of HK\$180,000 upon Listing.

INCOME TAX EXPENSES

Forecast income tax charge is based on the assumption that the prevailing tax regulations in which the China Merchants Commercial REIT operates remain unchanged during the Profit Forecast Period.

Enterprises incorporated in PRC are subject to a profit tax rate of 25%. Withholding tax expense for the Profit Forecast Period is calculated based on the tax rate of 10% as of the six months period ended 31 December 2019.

PROFIT FORECAST FOR THE PROFIT FORECAST PERIOD

ADJUSTMENTS

Under the Trust Deed, Distributable Income for the Forecast Period is arrived at after taking into account the effects of the Adjustments from the consolidated audited net profit after tax of China Merchants Commercial REIT. The Adjustments for the Forecast Period is projected to be RMB3.0 million, which consists of:

- RMB2,477,000 in respect of the deferred tax charged;
- RMB2,000 in respect of the depreciation charged;
- RMB280,000 in respect of non-cash loan arrangement fees amortised under finance costs; and
- RMB250,000 in respect of the portion of the REIT Manager's fee to be paid in the form of Units.

For the purpose of the Profit Forecast, the upfront fee of the facility of RMB14.4 million is excluded in calculation of Annual Distributable Income since it is a non-recurring item.

OTHER ASSUMPTIONS

The REIT Manager has made the following additional assumptions in preparing the profit forecast and forecast DPU for the Profit Forecast Period:

- There will be no material changes in the existing government policies, legislation, rules or regulations, bases or rates of taxation, interest rates, exchange rate and inflation rates in the PRC and Hong Kong in which China Merchants Commercial REIT operates, which may have a material adverse effect on China Merchants Commercial REIT's operations.
- There will be no material deterioration in the operating environment of the Properties during the Profit Forecast Period, and China Merchants Commercial REIT is not materially and adversely affected by any of the risk factors set out in the section headed "Risk Factors" of this Offering Circular.
- China Merchants Commercial REIT's operations and business will not be materially affected or interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the REIT Manager, including but not limited to the occurrence of natural disasters, supply failure, labour dispute, significant lawsuit and arbitration.
- There will be no change in applicable accounting standards or other financial reporting requirements normally adopted by Frontier Shekou Commercial Limited as set out in the Accountants' Report included in Appendix I of this Offering Circular and China Merchants Commercial REIT will adopt the same accounting standard or other financial reporting requirements. It is anticipated that these do not have a material effect on the Profit Forecast during the Profit Forecast Period.
- There will be no change to the REIT Code.

PROFIT FORECAST FOR THE PROFIT FORECAST PERIOD

- There will be no material change in the critical accounting estimates and judgments during the Profit Forecast Period.
- It is assumed that the profit forecast has been prepared taking into account the continuous involvement of Directors, key senior management and other necessary talents in the operations of the REIT Manager. In addition, it is assumed that the REIT Manager will be able to retain its key management and personnel during the Profit Forecast Period.
- The REIT Manager does not expect any extraordinary items to occur during the Profit Forecast Period.
- There will be no material change in the physical condition of the Properties;
- The expired tenancy will be renewed at the forecasted rental rate in accordance with the forecasted probability rate and all tenancies are enforceable and tenants will perform their obligations thereunder in accordance with their respective terms.
- New contracts that China Merchants Commercial REIT are expected to enter into will have similar key contract terms of the contracts including but not limited to the service fee and payment terms entered into during the year ending 31 December 2019.
- There will be no change in the value of the Properties for the Profit Forecast Period. REIT Manager assumed that the fair value of the investment property will not materially change during the Profit Forecast Period. As a result, deferred taxation relating to the change in the fair value of properties throughout the periods will not arise.
- The China Merchants Commercial REIT will distribute 100% of Annual Distributable Income to Unitholders and there is no reinvestment arrangement.
- There will be no derivative financial instruments entered into during the Profit Forecast Period.
- For the preparation of the Profit Forecast, it is assumed that there will be no material change in exchange rates during the Profit Forecast Period. The exchange rates set out below have been used in the preparation of the forecast:

US\$1 = RMB6.924

HK\$1 = RMB0.8844

Although the REIT Manager believe the assumptions and estimates on which the profit forecast is made are reasonable, the profit forecast based on those assumptions could also be inaccurate, due to the inherent uncertainties in these assumptions, any or all of these assumptions and estimates could prove to be inaccurate.

PROFIT FORECAST FOR THE PROFIT FORECAST PERIOD

SENSITIVITY ANALYSIS

The profit forecast and forecast distributions included in this Offering Circular are based on a number of assumptions that have been outlined above and are subject to a number of risks as outlined in the section headed “Risk Factors” in this Offering Circular. Prospective investors should be aware that future events cannot be predicted with any certainty and deviations from the figures forecast in this Offering Circular are to be expected.

To assist prospective investors in assessing the impact of some but not all assumptions on the annualised DPU, the following tables demonstrate the sensitivity of the annualised DPU to certain changes in assumptions as set forth below. It should also be noted that annualised DPU as discussed below assumes that the REIT Manager will distribute to Unitholders 100% of the Annual Distributable Income for the Profit Forecast Period and will distribute no additional amounts out of capital. Accordingly, the sensitivity illustrations are based exclusively on movements of the specified items in Annual Distributable Income resulting from the circumstances considered, holding all other assumptions and metrics unchanged. The illustrations are not profit forecasts for the purposes of the relevant rules or any other purpose and accordingly have not been reported on by the reporting accountant.

Prospective investors should be aware that the sensitivity analysis is not intended to be exhaustive and is limited in scope in that not all principal assumptions or other assumptions which are relevant to the figures forecast or projected in this Offering Circular have been examined or reviewed in this sensitivity analysis.

Care should be taken in interpreting the sensitivities analysis. The sensitivities analysis treat each movement in the variables in isolation and hold all other assumptions and metrics unchanged whereas, in practice, the movements could be interdependent and such movements may lead to changes in other metrics. The effects of movements may offset or compound each other. Accordingly, the effect on the profit forecast presented for each sensitivity analysis is not intended to indicate the likely range of outcomes with respect to each sensitivity analysis. No attempt is made to identify the cause of any potential variation, or to identify or quantify any consequential or related changes or variations in other lines.

PROFIT FORECAST FOR THE PROFIT FORECAST PERIOD

Results of a sensitivity analysis of the impact of changes in revenue, operating expenses, cost of borrowing on the forecast profit for the Profit Forecast Period are as follows:

	Profit before tax RMB'000	Profit after tax RMB'000	Annualised profit per unit HKD	Annualised DPU HKD
Original amount	11,190	6,240	0.1038	0.1538
Increase 5% in revenue* . . .	11,197	6,245	0.1039	0.1539
Decrease 5% in revenue* . .	11,182	6,235	0.1037	0.1537
Increase 5% in operating expenses	10,837	6,011	0.1000	0.1494
Decrease 5% in operating expenses	11,542	6,468	0.1076	0.1582
Increase 0.5% in interest rate	10,691	5,741	0.0955	0.1453
Decrease 0.5% in interest rate	11,688	6,738	0.1121	0.1624
Increase 5% in fair value of investment of properties . .	340,140	252,952	0.3226	0.1538
Decrease 5% in fair value of investment of properties . .	<u>-317,760</u>	<u>-240,473</u>	<u>-0.1149</u>	<u>0.1538</u>
	Change in profit before tax	Change in profit after tax	Change in annualised profit per unit	Change in annualised DPU
Increase 5% in revenue* . . .	0.06%	0.08%	0.10%	0.07%
Decrease 5% in revenue* . .	-0.07%	-0.08%	-0.10%	-0.07%
Increase 5% in operating expenses	-3.15%	-3.67%	-3.66%	-2.86%
Decrease 5% in operating expenses	3.15%	3.65%	3.66%	2.86%
Increase 0.5% in interest rate	-4.46%	-8.00%	-8.00%	-5.53%
Decrease 0.5% in interest rate	4.45%	7.98%	8.00%	5.59%
Increase 5% in fair value of investment of properties . .	2,939.68%	3,953.72%	210.79%	0.00%
Decrease 5% in fair value of investment of properties . .	<u>-2,939.68%</u>	<u>-3,953.73%</u>	<u>-210.69%</u>	<u>0.00%</u>

* Increase/decrease in revenue represents the increase/decrease in revenue from expected renewals or new leases during the Profit Forecast Period.

STATEMENT OF DISTRIBUTIONS

None of China Merchants Commercial REIT, CMG, CMSK, Eureka, CML, the REIT Manager, the Trustee, the Underwriters, the Sole Listing Agent or any of their respective directors, agents, employees or advisors or any other persons involved in the Global Offering guarantees the performance of China Merchants Commercial REIT, the repayment of capital or the payment of any (or any particular) return on the Units.

Period from the Listing Date to 31 December 2019

Unitholders will be paid, in the absence of unforeseen circumstances, a forecast DPU of HK\$0.0093 in respect of the period from the Listing Date to 31 December 2019, representing an annualised distribution yield of 3.8% based on the Maximum Offer Price and 4.5% based on the Minimum Offer Price (in each case excluding other transaction costs) assuming no new Units will be issued during such period. The annualised forecast distribution yields are provided for illustrative purposes only. The annualised actual distribution yield for the first distribution period (being from the Listing Date to 30 June 2020) may differ from the annualised forecast distribution yields based on the forecast DPU for the period from the Listing Date to 31 December 2019.

Bases and Assumptions

The above forecast distribution yields are calculated based on the Maximum Offer Price and Minimum Offer Price (excluding other transaction costs). The distribution yield obtained by investors who purchase Units in the secondary market at a market price that differs from the Maximum Offer Price or Minimum Offer Price (excluding other transaction costs), calculated using such secondary market purchase price, will accordingly differ from the forecast distribution yields stated above.

DPU Commitment

On 22 November 2019, Eureka (being the holding company of the Vendor) entered into the DPU Commitment with the Trustee (in its capacity as trustee of China Merchants Commercial REIT) and the REIT Manager (in its capacity as manager of China Merchants Commercial REIT). Pursuant to the DPU Commitment, Eureka has provided a commitment on the terms set out below that the DPU of China Merchants Commercial REIT for each Relevant Period during the period from the Listing Date to 31 December 2022 will not be less than the corresponding Committed DPU. No forecast of profits or DPU whatsoever is made in respect of the financial years ending 31 December 2020, 2021 and 2022. There will be no commitment with regards to DPU in respect of periods after 31 December 2022. The abovementioned commitment is subject to the terms of the DPU Commitment, and assumes that the REIT Manager distributes 100% of Annual Distributable Income for the Relevant Periods. In the event of any new issue of Units during the DPU Commitment Period (other than payment of the REIT Manager's Base Fee in Units), the Annualised Committed DPU shall be revised downwards. For further details about the DPU Commitment, see the section headed "Material Agreements and Other Documents — DPU Commitment" in this Offering Circular.

UNAUDITED PRO FORMA STATEMENTS OF FINANCIAL POSITION

The unaudited pro forma statements of financial position have been prepared based on the Accountants' Report as set out in Appendix I to this Offering Circular. The unaudited pro forma balance sheet illustrates the effect of (i) the Asset Injection; (ii) settlement of the Assigned Frontier Payables; (iii) the issuance of Units pursuant to the Global Offering; and (iv) the drawn down of loan facilities of RMB1,900 million, as if such events had occurred on 30 June 2019.

For further details, including unaudited pro forma statements of financial position of the Predecessor Group as at 30 June 2019 based on the Maximum Offer Price and the Minimum Offer Price (for illustrative purposes only), please refer to Appendix II to this Offering Circular.

INDUSTRY OVERVIEW

The Market Consultant was commissioned by the REIT Manager to prepare a report on the real estate market of the PRC, in particular the Greater Bay Area, and the following is primarily based on the Market Consultant Report.

The REIT Manager believes that the sources of certain information below are appropriate sources for such information and has taken reasonable care in extracting and reproducing such information. The REIT Manager has no reason to believe that such information is false or misleading or there is omission of any other information which will render the information below to be false or misleading. The information has not been independently verified by any of China Merchants Commercial REIT, CMG, CMSK, Eureka, CML, the REIT Manager, the Trustee, the Sole Listing Agent or any other party involved in the Global Offering (except for the Market Consultant as appropriate in respect of the relevant parts of its report) and no representation is given as to its accuracy.

OVERVIEW OF THE MACRO ECONOMY OF THE PRC, GREATER BAY AREA AND SHENZHEN

The PRC's Macro Economy

The GDP of the PRC has been growing moderately over the past five years, as the PRC Government focused on the quality of economic development and the adjustment of the economic structure rather than pure numeric growth. Accordingly, the PRC's GDP is expected to continue to grow at a moderate rate in the next five years. In 2023, the overall GDP of the PRC is expected to reach approximately RMB122.4 trillion, representing a CAGR of approximately 6% from 2019 to 2023. Steady economic growth in the last five years had led to a stable increase in disposable income per capita from approximately RMB20,167 in 2014 to approximately RMB28,228 in 2018 and total retail sales of consumer goods from approximately RMB27.2 trillion in 2014 to approximately RMB38.1 trillion in 2018.

The urbanisation rate is also expected to increase from approximately 59.6% in 2018 to approximately 65.1% in 2023 as a result of the increase in construction of housing and commercial units and urban redevelopment, which will likely have a positive effect on the real estate market.

Greater Bay Area's Macro Economy

Overview

The Greater Bay Area consists of "9+2" cities, including 9 cities in the Pearl River Delta (namely Zhaoqing, Foshan, Jiangmen, Guangzhou, Dongguan, Zhongshan, Zhuhai, Huizhou and Shenzhen), Hong Kong and Macao, and was the 4th largest bay area in terms of GDP per capita and per capita income in the world in 2018. The total land area of the Greater Bay Area is 56,000 square kilometres, with a total population of approximately 70.0 million in 2018. In 2018, the aggregated GDP of the Greater Bay Area reached approximately RMB10.9 trillion, accounting for approximately 12% of the GDP of the PRC. In particular, Shenzhen, as the core city in the Greater Bay Area in 2018, is also known as the Greater Bay Area's new growth engine and global technology innovation centre.

INDUSTRY OVERVIEW

The real estate industry is one of the few representative industries common to all the major bay areas, such as the Greater Bay Area, Tokyo Bay Area, San Francisco Bay Area and New York Bay Area. In recent years, the GDP growth of the Greater Bay Area has remained at approximately 7%, which is more than twice the growth rate of the other three major bay areas. As the economic development of the Greater Bay Area evolves, the development prospects of the real estate industry as a major industry are promising.

Greater Bay Area's Real Estate Market

The total real estate investment of the nine major cities in Greater Bay Area has grown significantly from approximately RMB537.1 billion in 2013 to approximately RMB1,149.0 billion in 2018, representing approximately 9.6% of the total real estate investment in the PRC in 2018. Driven by the economic growth of the Greater Bay Area, the overall real estate investment in the Greater Bay Area is expected to continue to grow fast in the future.

In February 2019, the PRC Government issued the Outline Development Plan, pursuant to which the economic scale of the Greater Bay Area is expected to further enlarge and stimulate the demand for commercial properties. The PRC Government has launched eight initiatives for the development of Greater Bay Area to attract talents and professionals from Hong Kong and Macao to work in the Greater Bay Area which will in turn increase the demand for office space and residential housing in the region.

Infrastructure Development of the Greater Bay Area

Building upon its existing infrastructure, which includes urban rail transit, high speed and inter-city railways and airports, the Greater Bay Area plans to further develop its infrastructure with new urban internal rail transit, inter-city connections and aviation facilities, striving to integrate the cities in the Greater Bay Area into a “one-hour living circle” (“一小時生活圈” as commonly known to refer to a community that has all basic amenities accessible within one hour) by 2020.

Shenzhen's Macro Economy

As one of the core cities in the Greater Bay Area, Shenzhen had a GDP of RMB2.4 trillion in 2018, representing a year-on-year increase of 7.6% from 2017. The total GDP of Shenzhen is expected to reach RMB3.4 trillion in 2023, growing at a CAGR of 6.7% from 2019. The GDP growth rate in Shenzhen in the past five years exceeded the overall national growth rate.

The steady growth of GDP in Shenzhen reflects the extensive development of Shenzhen's urban economy, which in turn drives the rapid growth of the disposable income and consumption power of its residents. The disposable income per capita in Shenzhen reached RMB57,543 in 2018, with a year-on-year increase of 8.7% from 2017. The disposable income per capita is expected to grow moderately and continue to benefit from the steady economic development.

In the future, Shenzhen is expected to continue to focus on technology innovation and development of financial products. It will continue to play an important role as the core engine for the development of the Greater Bay Area.

Shenzhen's Infrastructure Development

Shenzhen currently enjoys a comprehensive transportation network and is one of the 19 comprehensive railway hubs in the country with high-speed railway lines connecting to the eastern and northern parts of the PRC. Shenzhen also has five inter-city expressways, which connect to Guangzhou, Dongguan, Shantou and Huizhou, and seven intra-city expressways. Flights from the Shenzhen International Airport connect the city to five continents including Europe, America, Oceania, Asia and Africa and reach 50 cities.

Going forward, Shenzhen's internal and external traffic connectivity will be further enhanced. Seven new metro lines are expected to commence operations in the next five years and the existing lines will be renovated and extended. The inter-city railway will be further developed to connect to more cities, and a new terminal will be constructed to expand the Shenzhen International Airport.

Shenzhen Real Estate Market

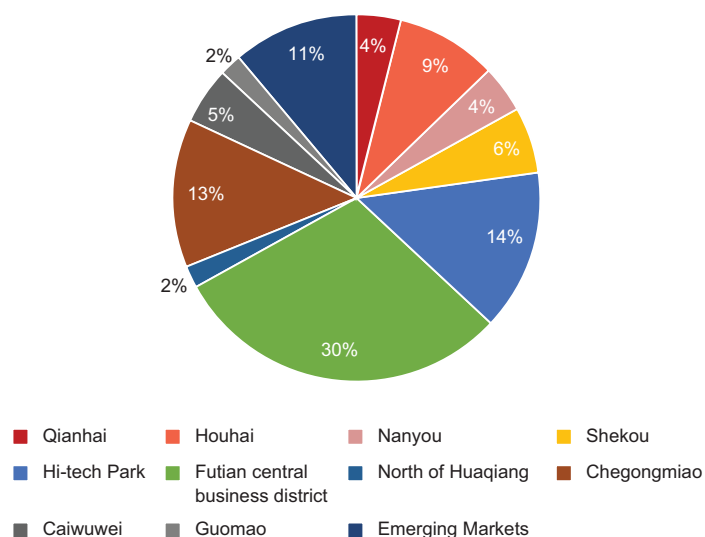
The total real estate investment in Shenzhen had grown rapidly over the last six years from approximately RMB87.7 billion in 2013 to over RMB260 billion in 2018 with a CAGR of more than 24.3%. Such growth is driven by factors such as economic growth, industrial development, population growth and income growth, as well as the continuous improvement of transportation facilities. In August 2019, the PRC Government has issued the Opinions on Supporting Shenzhen's Establishment of the Pioneering Demonstration Zone under Socialism with Chinese Characteristics (關於支持深圳建設中國特色社會主義先行示範區的意見) that advocates Shenzhen to be developed as a comprehensive national science and technology innovation centre that will play a key role in the Greater Bay Area. It is expected that the positioning of Shenzhen within the Greater Bay Area will bring forth positive effects to Shenzhen's real estate market. The promotion of science and technology innovation will lead to the growth and expansion of existing businesses in the science and technology sectors in Shenzhen and attract foreign and domestic technology related enterprises to set up office buildings in Shenzhen, both of which will lead to the increasing demand for office buildings, business parks and technology parks in Shenzhen. In turn, this will also stimulate the general economic condition of Shenzhen.

INDUSTRY OVERVIEW

A. SHENZHEN OFFICE MARKET

The main drivers for the development of office market in Shenzhen include: (i) the rapid economic development of Shenzhen; (ii) the development of high-tech and financial industries; (iii) the improvement of transportation and infrastructure; and (iv) the governmental support for the Greater Bay Area. The following chart sets out the distribution of office supply in Shenzhen as at the end of the first quarter of 2019:

Distribution of office supply in Shenzhen (in terms of area)



Source: Knight Frank market data

As at the end of the first quarter of 2019, the aggregate supply of office buildings in Shenzhen amounted to approximately 10,353,300 sq.m., mainly distributed in Futian District (which comprises the Futian central business district, Chegongmiao and a small portion of the emerging business districts), Nanshan District, Luohu District and other emerging business districts (such as Longhua District, Longgang District and Bao'an District). Futian District accounted for the greatest total office supply (approximately 45%) in Shenzhen, followed by Nanshan District (approximately 37%), Luohu District (approximately 7%) and other emerging business districts (approximately 11%) as at the end of the first quarter of 2019.

Shenzhen Grade A and Grade B Office Markets

Grade A and Grade B office buildings differ in several ways. Grade A office buildings are usually located in central area with approximately five- to ten-minute walking distance from metro stations. The age of a Grade A building is usually less than 10 years and each floor area is at least 1,300 sq.m. Grade B buildings are usually located in a sub-central area and are approximately more than ten-minute walking distance to metro stations. They are generally more than ten years old with a smaller floor area. The building façade of a Grade A office building is of higher quality and better design than that of a Grade B office building.

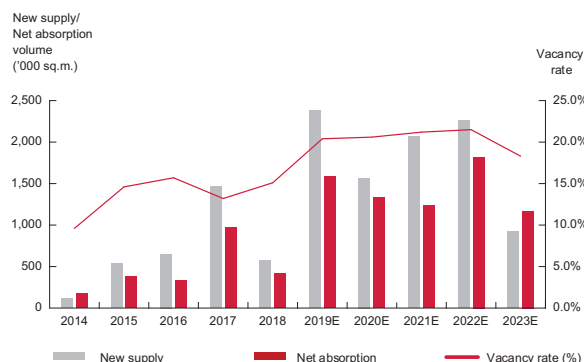
INDUSTRY OVERVIEW

The table below sets out a list of factors that are usually considered by the office market when assessing Grade A and Grade B office buildings in Shenzhen:

	<u>Grade A</u>	<u>Grade B</u>
Location	Central location	Sub-central area
Accessibility	5–10 minutes to metro station	> 10 minutes to metro station
Visibility	Good visibility	Have visibility
Built Area	> 30,000 sq.m.	> 10,000 sq.m.
Floor Area	> 1,300 sq.m.	> 800 sq.m.
Net Headroom	> 2.7 metres	> 2.5 metres
Raised Flooring	Installed	Not installed
Building Façade	High quality material and well-designed	Good quality material
Building Interior	At least two floor headroom for lobby (Net headroom > 5 metres/high-end decoration for public area)	Tile paved surface for lobby, middle-level decoration for public area
HVAC system	Central air-conditioning system/Variable air volume (VAV)/Multiple Fan Coil system	Central air-conditioning system
Building Management	By well-known facility management companies	By local facility management companies
Building Age	< 10 years	> 10 years
Elevator	Waiting time < 40 seconds < 5000 sq.m. serving area per lift	Waiting time > 40 seconds < 6000 sq.m. serving area per lift
Parking	One car parking space per 150–200 sq.m.	One car parking space per 300 sq.m.

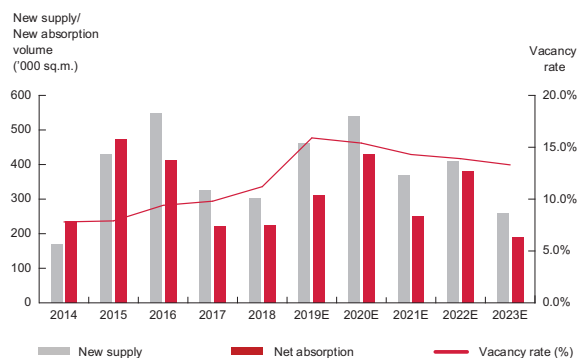
The charts below set out the historical and forecast new supply, the net absorption and the vacancy rate of Grade A and Grade B office buildings from 2014 to 2023(E):

New supply and net absorption of Grade A office buildings in Shenzhen



Source: Knight Frank market data

New supply and net absorption of Grade B office buildings in Shenzhen



Source: Knight Frank market data

INDUSTRY OVERVIEW

The supply of new Grade A office buildings from 2014 grew at a CAGR of 139% from 110,000 sq.m in 2014 to around 1,500,000 sq.m in 2017 due to the continuously completed new office building projects from 2014 to 2017, before falling to 573,000 sq.m in 2018 as a result of fewer completed new office building projects. The supply is anticipated to peak at around 2,380,000 sq.m in 2019 due to concentrated completion of a huge amount of new office building projects before returning to a lower level after 2022. Approximately 80% of the new supply of Grade A office buildings by 2023 are attributable to Nanshan District. For the supply of new Grade B office buildings, the annual supply increased from 170,000 sq.m in 2014 to 547,000 sq.m in 2016, followed by a drop to 301,000 sq.m in 2018 because fewer Grade B office building projects were completed to enter the market during 2017 and 2018. The supply is expected to rebound from 2019 to 2020 due to an increase in supply in Longhua, Longgang, Guangming and Bao'an Districts. It is expected that fewer Grade B office projects will be completed from 2021 to 2023.

The average net absorption of Grade A office buildings from 2014 to 2018 was approximately 460,000 sq.m. per year. The annual absorption went along with the new supply of Grade A office supply from 2014 to 2018. It is anticipated that economic uncertainty primarily caused by the trade war with the U.S will lead to a slower absorption rate in the short term. After 2022, net absorption is expected to be stimulated by the development of Shenzhen and the Greater Bay Area. The average annual net absorption of Grade B office buildings from 2014 to 2018 remained at a high level of approximately 310,000 sq.m. From 2019 to 2023, the annual net absorption is expected to fluctuate along with the volume of new supply in Shenzhen.

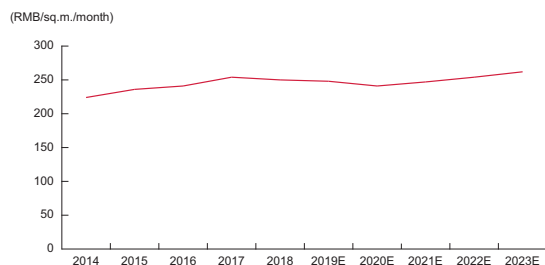
The vacancy rate of Grade A office buildings ranged from 9.6% to 15.1% from 2014 to 2018, and is expected to rise to 20.4% in 2019 due to an increase in supply from new projects. In the next five years, in light of the availability of a large number of new office buildings in the market, the vacancy rate of Grade A office buildings is expected to remain high for a period of time. The vacancy rate is expected to drop after 2022 due to economic development of Shenzhen and the Greater Bay Area. The vacancy rate of Grade B office buildings increased gradually from 7.8% in 2014 to 11.2% in 2018, with an average rate of approximately 9.2% per year. Due to the increase in supply of Grade B office buildings, the competition from Grade A office buildings, and the economic uncertainty primarily caused by the trade war with the U.S, the vacancy rate is expected to rise to approximately 15% in 2019. However, Grade B office buildings are expected to continue to appeal to small and medium-sized enterprises and the vacancy rate is thus expected to steadily decrease from 2019 to 2023.

The above is an illustration of the office market in Shenzhen only and may not represent the expected supply, absorption and vacancy rate of the Shekou market. For information relating to the Shekou office market, please refer to the subsection "B. Shekou Office Submarket — Shekou Grade A and Grade B Office Markets" of this section in this Offering Circular.

INDUSTRY OVERVIEW

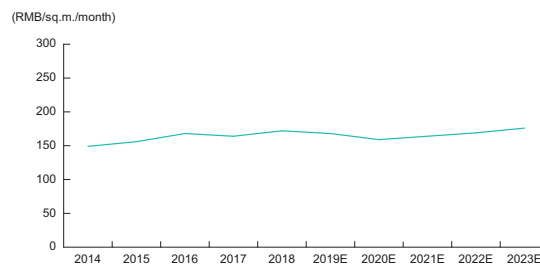
The charts below set out the historical and forecast average monthly rents (inclusive of tax) of Grade A and Grade B office buildings in Shenzhen:

Average monthly rent of Grade A office buildings in Shenzhen



Source: Knight Frank market data

Average monthly rent of Grade B office buildings in Shenzhen



Source: Knight Frank market data

The average monthly rent of Grade A office buildings mildly increased from RMB224/sq.m./month in 2014 to RMB254/sq.m./month in 2017, before levelling off at RMB250/sq.m./month in 2018.

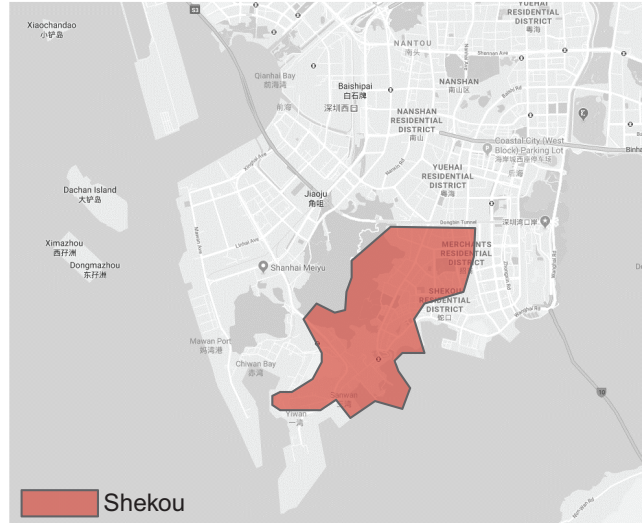
The average monthly rent of Grade B office buildings rose steadily between 2014 and 2016, followed by an increase in the average monthly rent from RMB164/sq.m. in 2017 to RMB172/sq.m. in 2018.

From 2019 to 2023, driven by the new supply of office buildings, especially in Nanshan District and Qianhai sub-district, there will be downward pressure on the rents of Grade A and B office buildings in Shenzhen. On the other hand, strong demand for high-quality office buildings in both Nanshan District and Futian District will help boost rental growth and partially relieve the downward pressure on rents brought by the large supply in the next five years.

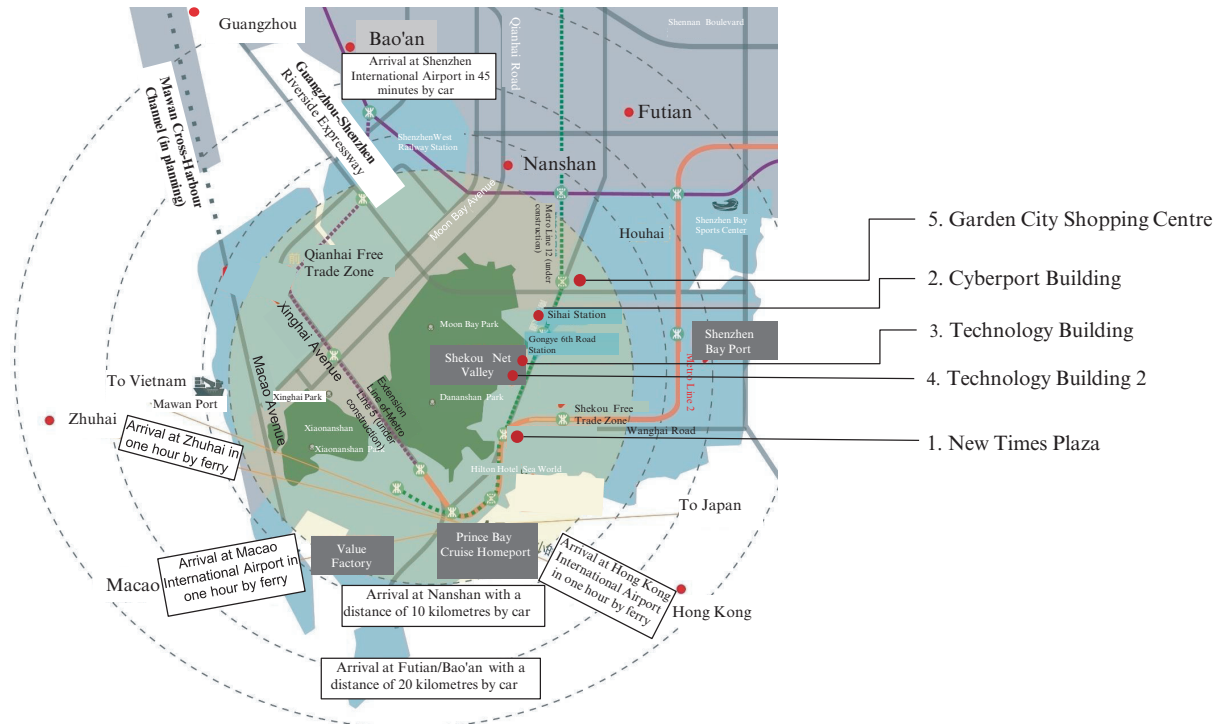
INDUSTRY OVERVIEW

B. SHEKOU OFFICE SUBMARKET

Shekou has previously been designated as an industrial zone and has gradually transformed into a high-tech and service-oriented business district. It has a convenient location and a good transportation network as it is adjacent to the airport, cruise port, railway stations and Shenzhen Bay port. The following maps show the delineation of Shekou and the transportation network of Shekou:



Source: Area based on statutory plan of Nanshan District



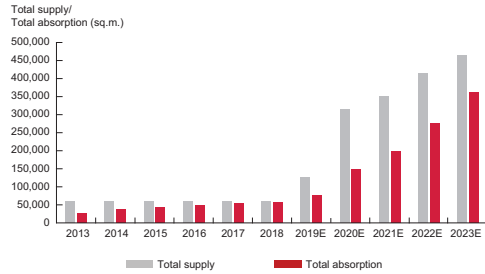
Source: Knight Frank market data

INDUSTRY OVERVIEW

Shekou Grade A and Grade B Office Markets

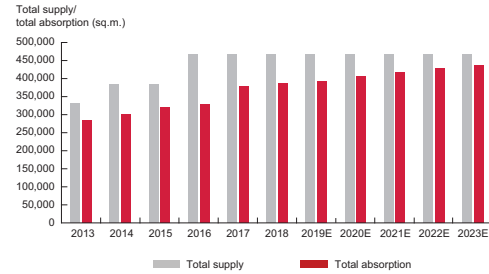
The charts below set out the historical and forecast total supply and total absorption of Grade A and Grade B office buildings in Shekou from 2013 to 2023:

Supply and absorption of Grade A office buildings in Shekou



Source: Knight Frank market data

Supply and absorption of Grade B office buildings in Shekou

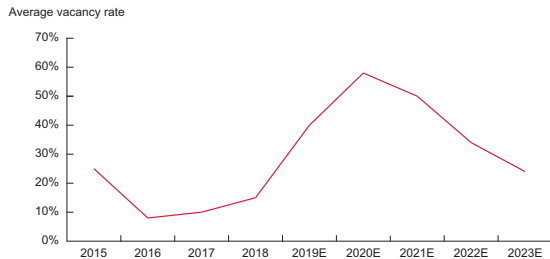


Source: Knight Frank market data

There has been no new supply of Grade B office buildings in Shekou since 2016, and the overall absorption has increased steadily. Hence, the demand for office buildings will be met by the new supply of Grade A office buildings, and as a result the future absorption of Grade A office buildings is expected to grow steadily.

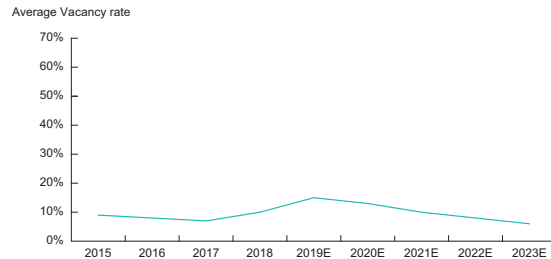
The charts below set out the historical and forecast vacancy rates of Shekou Grade A and Grade B office buildings:

Historical and forecast vacancy rate of Shekou Grade A office buildings



Source: Knight Frank market data

Historical and forecast vacancy rate of Shekou Grade B office buildings



Source: Knight Frank market data

The vacancy rate for Grade A office buildings is expected to rise to 40% in 2019 and peak at approximately 58% in 2020 due to the completion of several representative projects, such as Taizi Plaza in 2019, New Times Plaza Phase II and the office buildings on the land parcel in Prince Bay sub-district in 2020. These new buildings will provide a total of approximately 96,167 sq.m. and 158,354 sq.m. of supply of Grade A office buildings in 2019 and 2020, respectively. Subsequently, the vacancy rate is expected to decrease to approximately 24% in 2023. The vacancy rate of the existing Grade A office buildings is not expected to be significantly affected.

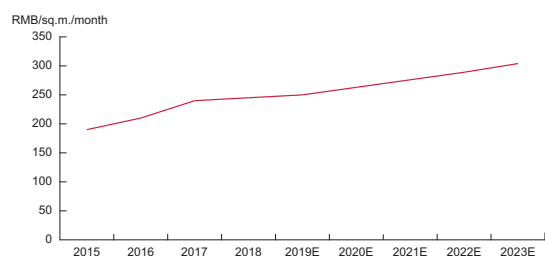
INDUSTRY OVERVIEW

The vacancy rate for Grade B office buildings remained stable and ranged from approximately 7% to 10% during 2015 to 2018. The vacancy rate for 2019 increased slightly to approximately 15% as Shenzhen's general economic performance was affected by the trade war with the U.S. prior to the second quarter of 2019. The vacancy rate is expected to drop during 2020 to 2023 due to the general positive economic growth in the Greater Bay Area.

After Metro Line 12 commences operation (which is expected to be in 2022), the connectivity of Shekou to Bao'an, Houhai and Shenzhen International Airport is expected to improve, which will in turn likely promote the absorption of Grade A and Grade B office buildings.

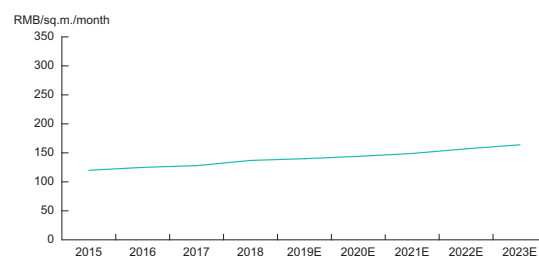
The charts below set out the historical and forecast average monthly rents (inclusive of tax) of Grade A and Grade B office buildings in Shekou:

Historical and forecast average monthly rent of Shekou Grade A office buildings



Source: Knight Frank market data

Historical and forecast average monthly rent of Shekou Grade B office buildings



Source: Knight Frank market data

The average monthly rents of Grade A and Grade B office buildings in Shekou rose steadily from 2015 to 2018 and is expected to continue to increase slightly to RMB250/sq.m./month for Grade A office buildings and RMB140/sq.m./month for Grade B office buildings in 2019. Benefiting from Shenzhen's overall economic growth, the CAGR of the average monthly rent is expected to be approximately 7% and 3.9% for Grade A office buildings and Grade B office buildings, respectively.

A total of eight Grade A office projects are expected to be completed in Shekou from 2019 to 2023, amongst which, two of them are located nearby New Times Plaza, and the other six projects are located in Prince Bay sub-district which is approximately 2 kilometres away from New Times Plaza. Although there will be new supply of office buildings in the coming years, the supply is mainly concentrated in Prince Bay sub-district which is still underdeveloped with less supporting facilities for office buildings as compared to New Times Plaza, thus the demand for Shekou Grade A office buildings is not expected to be significantly affected. It is also envisaged that with the commencement of operation of Metro Line 12 in 2022, as well as upgrades of the port and industrial park in Shekou, Shekou can further attract enterprises with rental needs. In addition, Shekou has been part of the Qianhai-Shekou Pilot FTZ since 2015 and it is expected that enterprises registered in Qianhai sub-district will also contribute to the demand for office buildings in Shekou.

INDUSTRY OVERVIEW

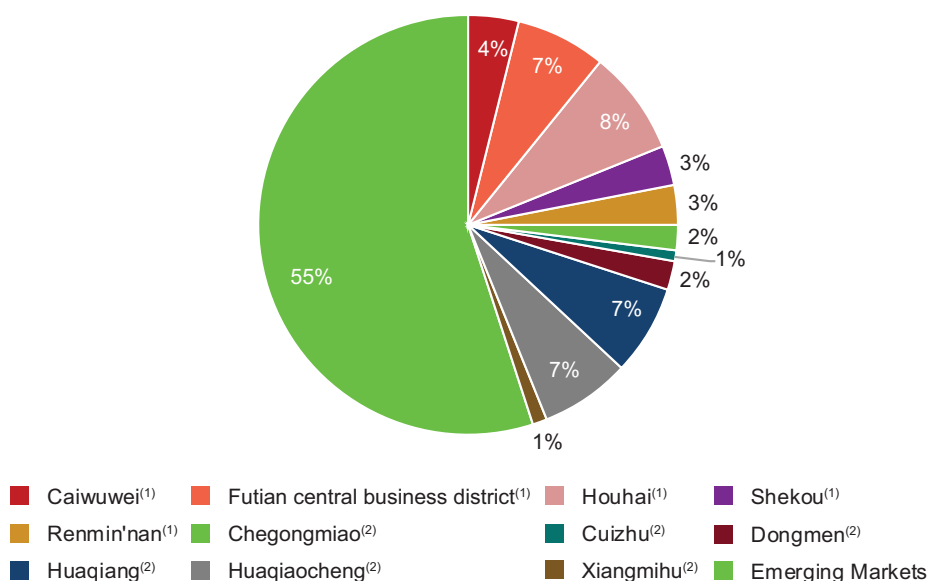
C. SHENZHEN RETAIL COMMERCIAL PROPERTY MARKET

The development of Shenzhen's retail commercial property market is mainly driven by (i) the growth of population; (ii) the improvement of disposable income per capita and level of consumption; (iii) the improvement of transportation facilities; (iv) the government's support for the Greater Bay Area; and (v) the performance of retail business. From 2010 to 2018, the disposable income per capita and the level of consumption in Shenzhen grew continuously. In the last five years, the proportion of consumption per capita against disposable income per capita remained above 70% each year. In the future, the further increase of income and the high level of consumption is expected to promote the development of the retail commercial property market.

Shenzhen's retail commercial properties are mainly located in the core retail commercial business districts and secondary retail commercial business districts in Luohu, Futian and Nanshan Districts, as well as other emerging markets such as Bao'an, Longgang and Guangming Districts. As at the first quarter of 2019, the total supply of retail commercial properties in Shenzhen was approximately 6.0 million sq.m., the average rent at the ground level was approximately RMB692/sq.m./month at the end of the first quarter of 2019, and the vacancy rate is as low as approximately 3.1%. Tenants of retail commercial properties comprise restaurants, retail shops, experience shops (which provide immersive, hands-on and multi-sensory experience), supermarkets and cinemas.

The distribution of the Shenzhen retail commercial property market in terms of the different business districts in Shenzhen as at the end of the first quarter of 2019 is as follows:

**Distribution of the supply of retail commercial properties in Shenzhen
(in terms of business districts)**



Source: Knight Frank market data

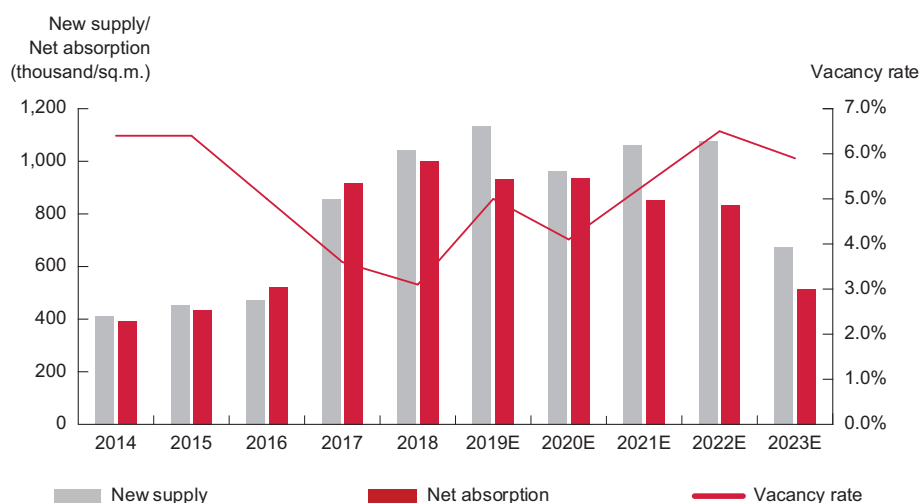
INDUSTRY OVERVIEW

Notes:

1. The core retail commercial business districts comprise Caiwuwei, Futian central business district, Houhai, Shekou and Renmin'nan.
2. The secondary retail commercial business districts comprise Chegongmiao, Cuizhu, Dongmen, Huaqiang, Huaqiaocheng and Xiangmihu.

The chart below sets out the historical and forecast new supply and net absorption of retail commercial properties in Shenzhen:

New supply and net absorption of retail commercial properties in Shenzhen



Source: Knight Frank market data

From 2014 to 2016, the new supply of retail commercial properties remained steady, with an average annual increase of approximately 450,000 sq.m. The new supply of retail commercial properties increased significantly in 2017 and continued to grow in 2018. It is estimated that the new supply of retail commercial properties in Shenzhen will peak at approximately 1,130,000 sq.m. in 2019 and maintain its growth from approximately 960,000 sq.m. to 1,080,000 sq.m. from 2020 to 2022, before lowering to approximately 670,000 sq.m. in 2023. Approximately 70% of the new supply will be concentrated in emerging commercial districts such as Longhua District, Longgang District and Bao'an District, 25% of the new supply will be located in the core retail commercial business districts, and the remaining 5% of the new supply will be located in the secondary retail commercial business districts.

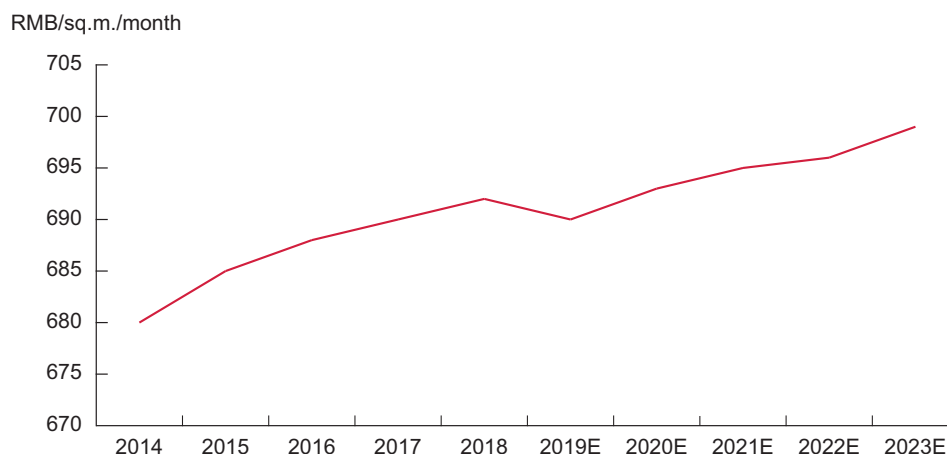
From 2014 to 2018, a strong demand in the market had mostly absorbed all newly supplied retail commercial properties. Net absorption is expected to maintain at a reasonable level, averaging approximately 900,000 sq.m. each year from 2019 to 2022, before declining to approximately 510,000 sq.m. in 2023.

The vacancy rate of retail commercial properties in Shenzhen remained stable from 2014 to 2015 and declined significantly to approximately 3.1% in 2018 as a result of strong demand. Based on the pre-leased rate available to retail commercial projects that are launched recently, it is expected that the overall market vacancy rate will increase slightly but remain low.

INDUSTRY OVERVIEW

The chart below sets out the historical and forecast average monthly rent of retail commercial properties in Shenzhen:

Average monthly rent (ground floor)⁽¹⁾ of retail commercial properties in Shenzhen



Source: Knight Frank market data

Note:

⁽¹⁾ Ground floor rental price is the indicator of rental price level of retail commercial properties.

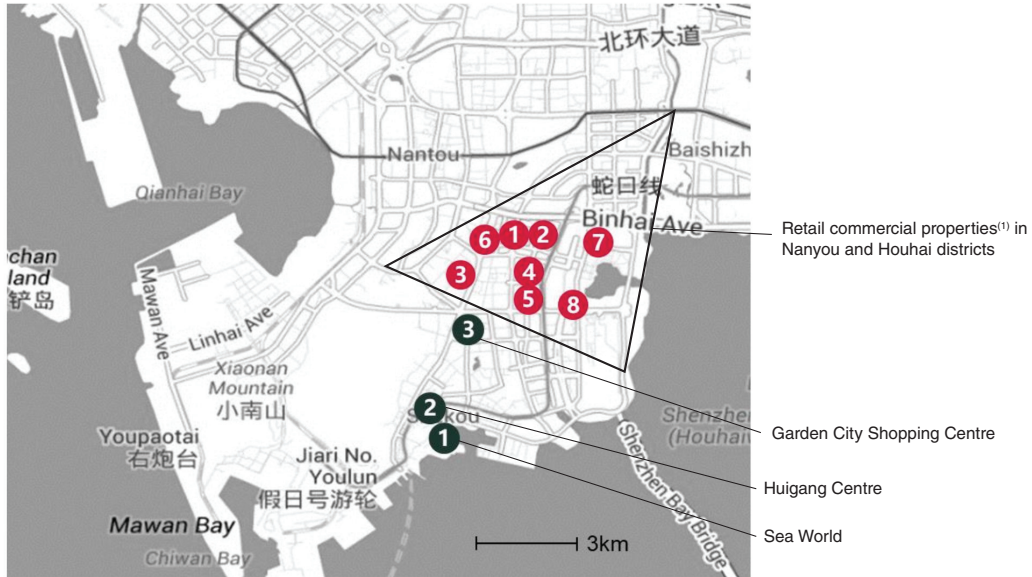
From 2014 to 2017, the average monthly rent in retail commercial properties (ground floor rent) in Shenzhen showed a stable upward trend. Such growth slowed down and the average monthly rent reached approximately RMB692 per sq.m. in 2018. With an increased supply in 2019, the rise in vacancy rates is expected to lead to a slight decrease in average monthly rent in rental commercial properties across the city. Though there will be abundant new supply in the emerging commercial districts such as Bao'an District, Longhua District and Longgang District in the coming years, such new supply is not expected to affect Nanshan District, which is a relatively developed commercial district. The average monthly rent is expected to increase slightly, and the average monthly rent for retail commercial properties (ground floor) is expected to reach approximately RMB699 per sq.m. by the end of 2023.

D. SHEKOU RETAIL COMMERCIAL PROPERTY SUBMARKET

At present, there are only three retail commercial properties in Shekou, namely Garden City Shopping Centre, Huigang Centre and Sea World. The three properties focus on community-oriented consumption, regional leisure and retail consumption, and mid-to-high-end leisure consumption, respectively. The accumulated total supply of retail commercial properties in Shekou is 168,000 sq.m. By 2023, Shekou is expected to have a total high-quality retail commercial properties of approximately 420,000 sq.m., accounting for approximately 17% of retail commercial properties of Nanshan District in terms of approximately 2,470,000 sq.m.

INDUSTRY OVERVIEW

The map below shows the locations of retail commercial properties in Shekou and neighbouring districts:



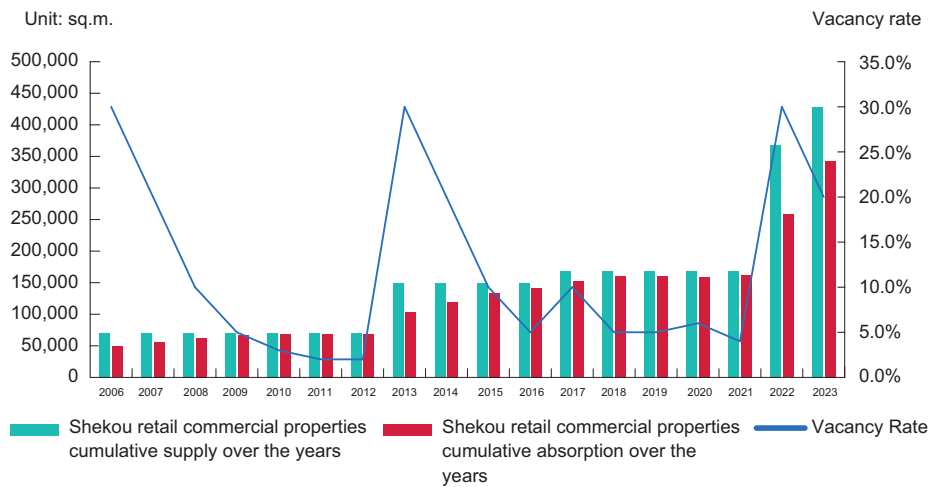
Source: Knight Frank market data

Note:

- (1) The neighbouring retail commercial properties mainly comprise shopping centres and department stores, which mainly focus on high-end urban retail, mid-to-high-end urban and regional retail and middle-end community retail.

The chart below sets out the historical and forecast cumulative supply and absorption of retail commercial properties in Shekou from 2006 to 2023:

The cumulative supply and absorption of retail commercial properties in Shekou from 2006 to 2023



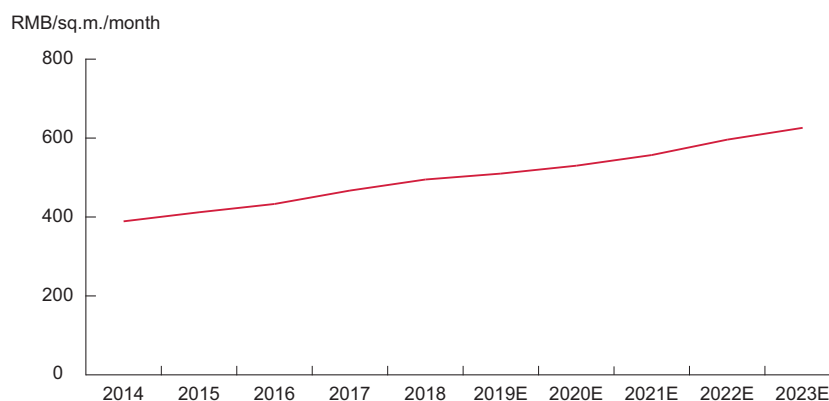
Source: Knight Frank market data

INDUSTRY OVERVIEW

Prior to 2013, there had been only one retail commercial property in Shekou. The absorption remained stable, which led to the decrease of vacancy rate. In 2013, the vacancy rate increased to approximately 30% due to the completion of Sea World, which increased the market supply. However, in the absence of new supply from 2013 to 2016 as well as increasing absorption rate, the vacancy rate decreased sharply to approximately 5%. In 2017, there was a limited increase in supply of retail commercial properties which led to the slight increase in vacancy rate. However, in 2018, as the absorption rate has been constantly increasing, the vacancy rate dropped to approximately 5%. It is expected that the vacancy rate from 2018 to 2021 will remain stable. However, it is expected that the vacancy rate will increase due to the launch of the Prince Bay Coastal Commercial Street project in 2022 and 2023. The vacancy rate of the existing retail commercial properties is not expected to be significantly affected.

The chart below sets out the historical and forecast average monthly rent (inclusive of tax) of retail commercial properties in Shekou:

Average monthly rent (ground floor)⁽¹⁾ of retail commercial properties in Shekou



Source: Knight Frank market data

Note:

⁽¹⁾ Ground floor rental price is the indicator of rental price level of retail commercial properties.

Due to limited supply of retail commercial properties from 2014 to 2018, the annual average monthly rent of retail commercial properties in Shekou increased annually from 2014 to 2018. The average monthly rent of ground floor reached RMB495 per sq.m. in 2018. It is estimated that the average monthly rent will continue to grow at a CAGR of approximately 5.3% from 2019 to 2023. The launch of the Prince Bay Coastal Commercial Street project in 2022 and 2023 is not expected to significantly affect the rental growth, and the average monthly rent is expected to grow at approximately 5% annually from 2019 to 2023.

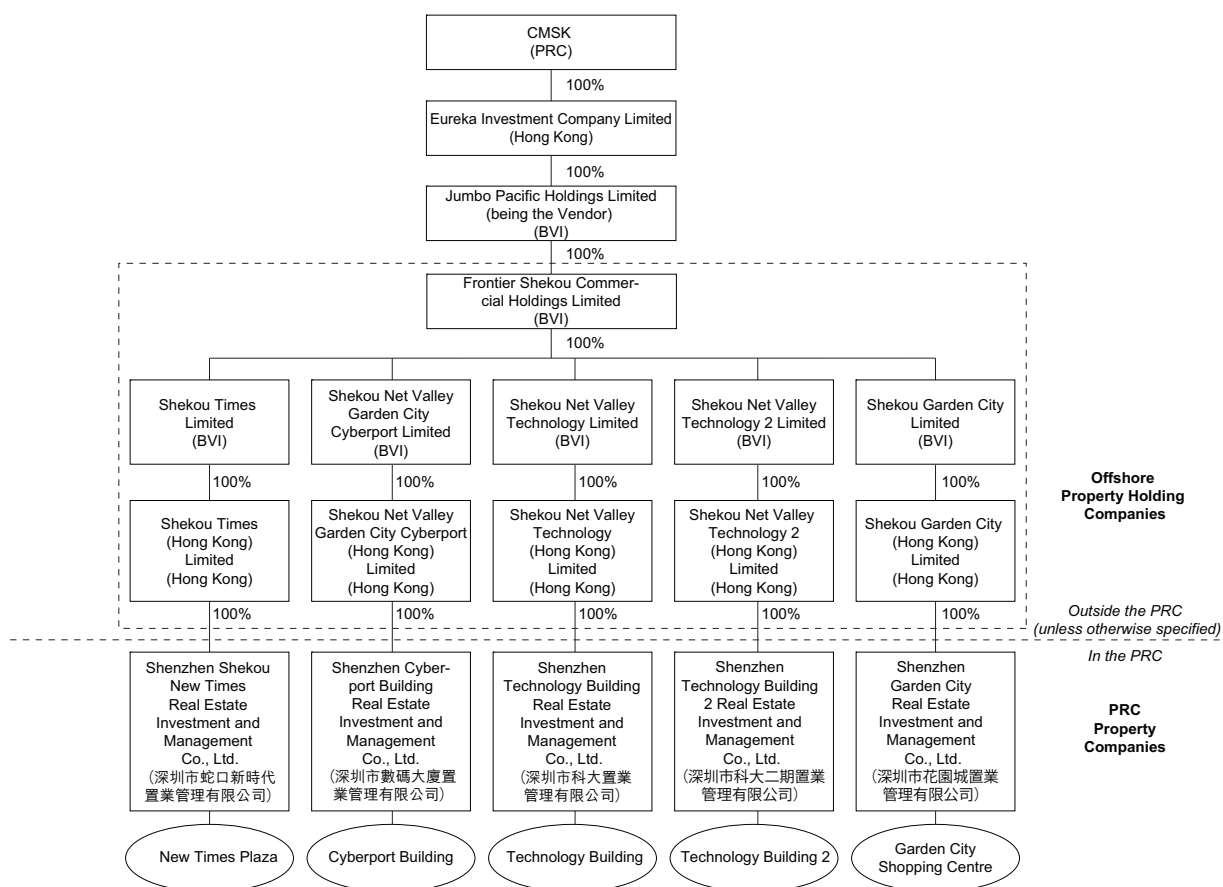
Going forward, several new retail commercial properties are planned to be built in Houhai and Qianhai sub-districts and Shekou. The two projects in Shekou, namely Prince Bay Coastal Commercial Street Project and I Park Phase II, are both shopping centres. It is anticipated that they will commence operations in 2022 to 2023. However, none of them positions itself in the same way as Garden City Shopping Centre does, and thus no direct competition is expected after they come into operation.

REORGANISATION, STRUCTURE AND ORGANISATION OF CHINA MERCHANTS COMMERCIAL REIT

REORGANISATION

In preparation for the Global Offering, a series of transactions have taken place involving: (a) the establishment of the REIT Manager; (b) the establishment of China Merchants Commercial REIT and the Holding Company; (c) the settlement of related party balances; and (d) the conditional transfer of the Predecessor Group from the Vendor to China Merchants Commercial REIT (together, the “**Reorganisation**”).

The chart below illustrates the holding structure of the Properties as at the Latest Practicable Date.



REORGANISATION, STRUCTURE AND ORGANISATION OF CHINA MERCHANTS COMMERCIAL REIT

The main steps for Reorganisation are summarised below:

(a) Establishment of the REIT Manager

- The REIT Manager was incorporated in Hong Kong under the Companies Ordinance on 22 June 2019 for the sole purpose of managing the assets of China Merchants Commercial REIT. The REIT Manager is licensed by the SFC to conduct the regulated activity of asset management. The REIT Manager is an indirect wholly-owned subsidiary of CML.

(b) Establishment of China Merchants Commercial REIT and the Holding Company

- China Merchants Commercial REIT was constituted by a Trust Deed entered into on 15 November 2019 between the REIT Manager and the Trustee in their respective personal capacities. China Merchants Commercial REIT is organised and managed in a manner which is consistent with the provisions and requirements of the REIT Code, except as described in the section headed “Modifications, Waivers and Licensing Conditions” in this Offering Circular. The Trustee of China Merchants Commercial 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. The Trustee is qualified to act as a trustee for collective investment schemes authorised under the SFO pursuant to the REIT Code.
- The Holding Company, a wholly-owned subsidiary of China Merchants Commercial REIT, was incorporated in the BVI as a BVI business company on 2 July 2019. The Holding Company is also the Purchaser which will hold the Frontier Share following the Asset Injection Completion.

(c) Settlement of related party balances

Certain related party balances as at 30 June 2019 are expected to be settled in the following manner:

- RMB1,146,075,000 will be repaid by CMSK to the PRC Property Companies before the Asset Injection Completion Date;
- RMB65,000 will be repaid by the PRC Property Companies to CMSK and CMCP before the Asset Injection Completion Date; and
- Of the RMB1,044,014,000 owing from Frontier Shekou to the Vendor, RMB87,677,000 has since been settled by cash. The remaining RMB956,337,000, which represents the Unassigned Frontier Payables, is expected to be settled after the Asset Injection Completion Date, with the timing pending completion of the PRC Property Companies' capital reduction and dividend processes. The REIT Manager will complete both processes and will settle Unassigned Frontier Payables by the end of February 2020.

REORGANISATION, STRUCTURE AND ORGANISATION OF CHINA MERCHANTS COMMERCIAL REIT

(d) Transfer of the Predecessor Group to China Merchants Commercial REIT

On 25 November 2019, the REIT Manager (in its capacity as manager of China Merchants Commercial REIT) and the Purchaser entered into the Sale and Purchase Deed with the Vendor (as vendor) and Eureka (as warrantor) pursuant to which the Purchaser agreed to acquire the Frontier Share and accept the assignment of the Assigned Frontier Payables from the Vendor, with the rights attached to it at the Asset Injection Completion Date.

The Initial Consideration payable by China Merchants Commercial REIT to the Vendor under the Sale and Purchase Deed, being HK\$5,835.1 million plus the amount of the Initial Adjustment Sum, will be satisfied:

- (a) as to HK\$1,292.2 million by the issue of the Consideration Units (i.e., 377,819,549 Units, which will represent 33.5% of all of the issued and outstanding Units (assuming the Over-allotment Option is not exercised) on the Listing Date) to Eureka, being the party nominated by the Vendor to receive the Consideration Units, at a fixed issue price of HK\$3.42, which is equal to the Minimum Offer Price; and
- (b) as to the remainder by the delivery to the Vendor of a non-interest bearing promissory note (the “**Promissory Note**”).

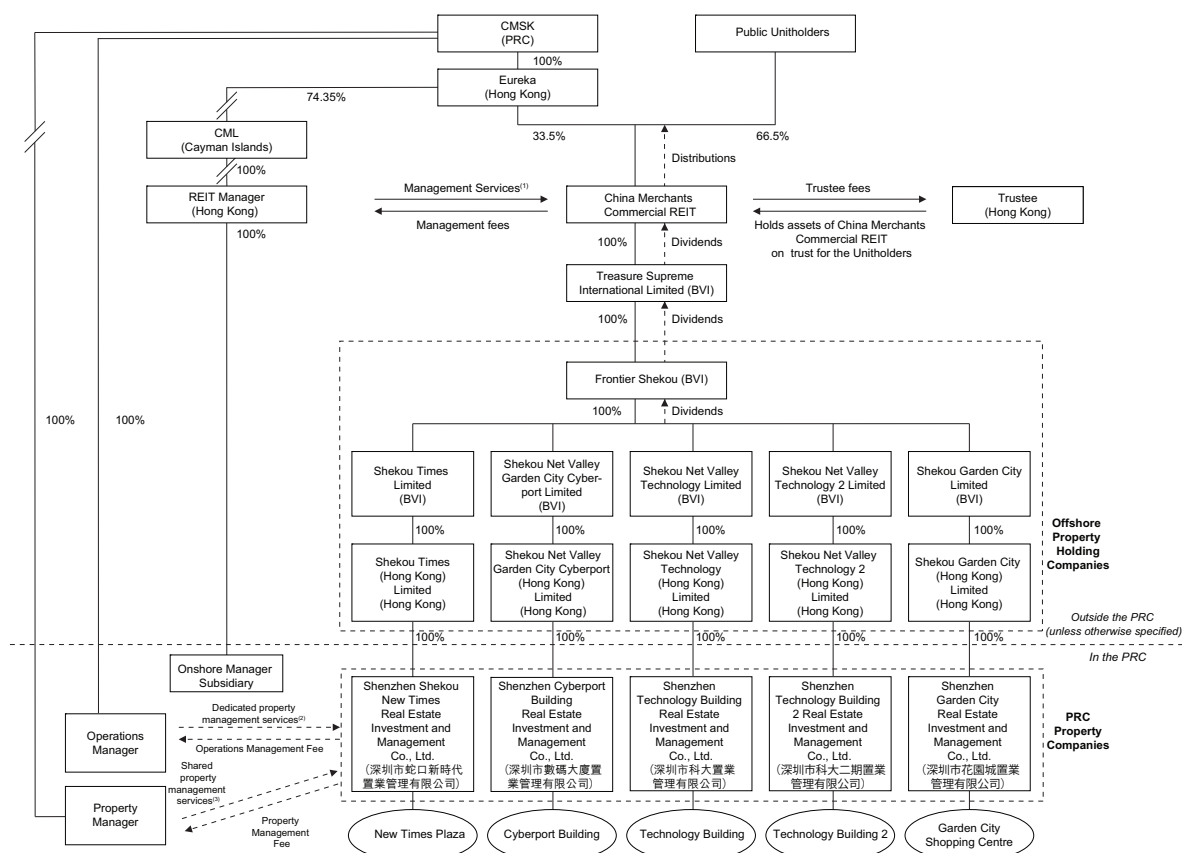
Completion of the transfer of the Frontier Share (and as a result the Predecessor Group), as well as the assignment of the Frontier Payables, will take place on the Asset Injection Completion Date, which is expected to be two Business Days before the Listing Date. A further adjustment payment (being the Final Payment) shall be made after the Asset Injection Completion Date based on the Adjusted NAV of Frontier Shekou based on audited accounts as at the Determination Date. For further details on the Sale and Purchase Deed, see the section headed “Material Agreements and Other Documents — Sale and Purchase Deed” in this Offering Circular.

OWNERSHIP STRUCTURE AND PRIMARY CONTRACTUAL RELATIONSHIPS

Immediately following completion of the Global Offering, CMSK will (through Eureka) indirectly hold 33.5% of all the issued Units of China Merchants Commercial REIT (if the Over-allotment Option is not exercised) or 30.2% of all the issued Units of China Merchants Commercial REIT (if the Over-allotment Option is exercised in full). The REIT Manager is indirectly wholly-owned by CML which in turn is held by CMSK as to 74.35%.

REORGANISATION, STRUCTURE AND ORGANISATION OF CHINA MERCHANTS COMMERCIAL REIT

The following diagram depicts the ownership structure of China Merchants Commercial REIT and the Properties (if the Over-allotment Option is not exercised), and the primary structural and contractual relationships between China Merchants Commercial REIT, the Unitholders, the REIT Manager, the Trustee, the Onshore Manager Subsidiary, the Operations Manager and the Property Manager immediately after completion of the Reorganisation and upon completion of the Global Offering.



“//” indicates indirect ownership

Notes:

- (1) Pursuant to the Trust Deed, the REIT Manager will provide management services to China Merchants Commercial REIT and will receive management fees from China Merchants Commercial REIT. Please refer to the section headed “The REIT Manager — Further Details Regarding the REIT Manager — Fees, Costs and Expenses of the REIT Manager” in this Offering Circular for further details.
- (2) Pursuant to the Operations Management Agreement, the Operations Manager will provide certain dedicated property management services in respect of the Properties including, among other things, leasing, marketing and tenancy management services, and will receive Operations Management Fee from the PRC Property Companies. Please refer to the section headed “The Operations Manager and the Property Manager — The Operations Management Agreement” in this Offering Circular for further details.
- (3) Pursuant to the Property Management Agreements, the Property Manager will provide shared property management services such as, among other things, daily maintenance, cleaning and security services in respect of the Properties, and will receive Property Management Fee from the PRC Property Companies. Please refer to the section headed “The Operations Manager and the Property Manager — The Property Manager — The Property Management Agreements” in this Offering Circular for further details.

THE REIT MANAGER

OVERVIEW

China Merchants Commercial REIT is organised and managed in a manner which is consistent with the provisions and requirements of the REIT Code, except as described in the section headed “Modifications, Waivers and Licensing Conditions” in this Offering Circular. The REIT Manager is independent of the Trustee and possesses the skills and resources to discharge its functions in relation to China Merchants Commercial REIT effectively and responsibly. In discharging such functions, the REIT Manager is required to observe high standards of corporate governance. For details of the corporate governance policies and procedures of the REIT Manager, please refer to the section headed “Corporate Governance” in this Offering Circular.

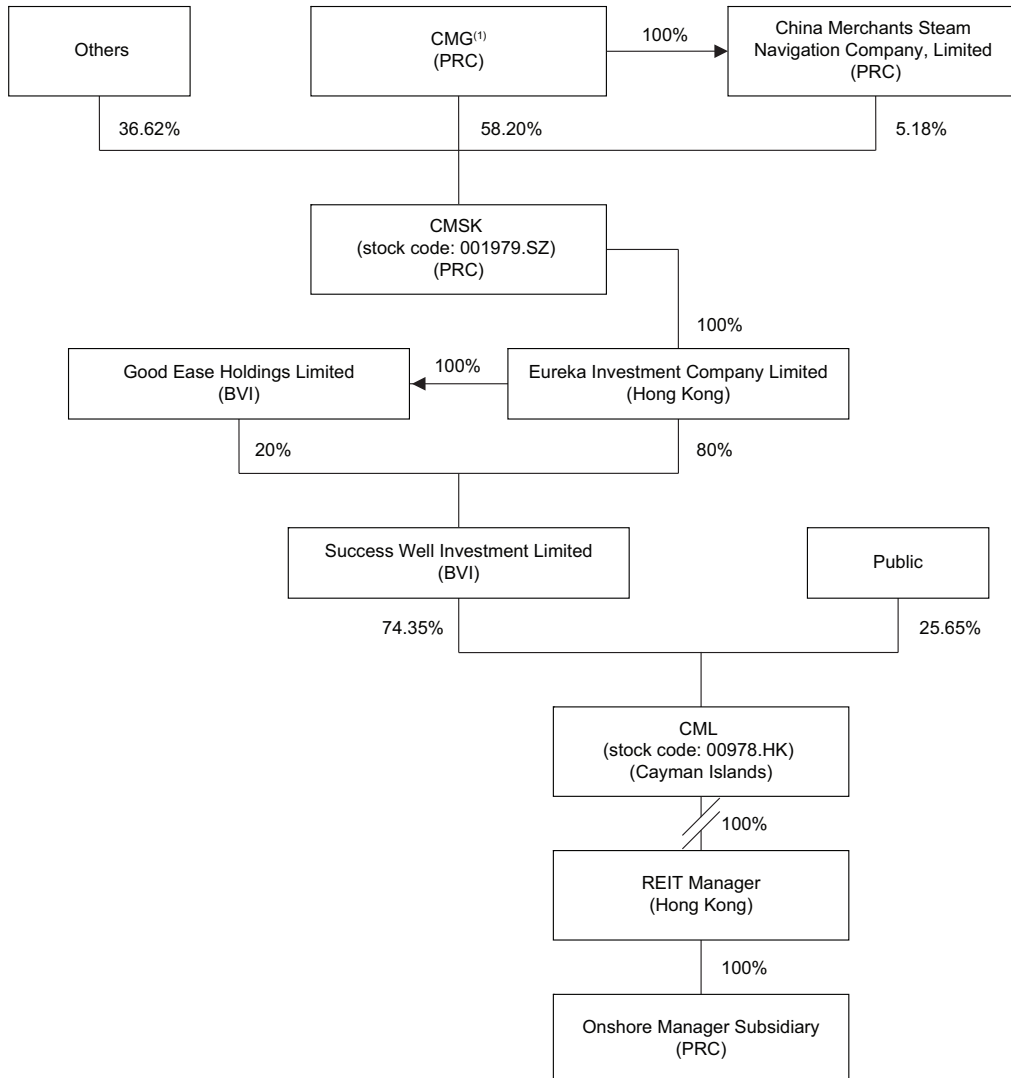
THE REIT MANAGER

The REIT Manager was incorporated in Hong Kong on 22 June 2019 for the sole purpose of managing the assets of China Merchants Commercial REIT. The REIT Manager is an indirect wholly-owned subsidiary of CML, being a company incorporated in the Cayman Islands and listed on the Hong Kong Stock Exchange (stock code: 00978). CML is indirectly owned as to 74.35% by CMSK, and CMG is interested in 64.33% of the share capital of CMSK. CML is the sole offshore listed flagship platform for CMG’s property business and is principally engaged in development, sale and management of properties.

Further information about CMSK and CMG is contained in the section headed “Information about Eureka, CMSK and CMG” in this Offering Circular.

THE REIT MANAGER

The following diagram sets forth the shareholding structure of the REIT Manager and the Onshore Manager Subsidiary as at the Latest Practicable Date:



“//” indicates indirect ownership

Note:

(1) CMG is deemed to be interested in 64.33% of the share capital of CMSK under the A-share rules.

THE REIT MANAGER

The REIT Manager has the general power of management over the assets of China Merchants Commercial REIT and the REIT Manager's main responsibility is to manage the assets of China Merchants Commercial REIT for the benefit of the Unitholders. The REIT Manager does not manage any other REITs. The REIT Manager will set the strategic direction and risk management policies of China Merchants Commercial REIT and give instructions to the Trustee with respect to the acquisition and divestment of assets of China Merchants Commercial REIT in accordance with its stated investment strategy and with respect to borrowings and guarantees for the account of China Merchants Commercial REIT. The REIT Manager will manage the assets of China Merchants Commercial REIT in accordance with the REIT Manager's investment strategy as stated in the section headed "Strategy" in this Offering Circular and in accordance with the provisions of the Trust Deed and the compliance procedures set forth herein. The REIT Manager is licensed by the SFC to conduct the regulated activity of asset management, as required by the REIT Code.

The REIT Manager will be responsible for appointing and reviewing the performance and eligibility of the auditors of China Merchants Commercial REIT and the auditors for Special Purpose Vehicles, whom shall be the same auditors as auditors of China Merchants Commercial REIT.

The REIT Manager will also be responsible for ensuring compliance with the applicable provisions of the REIT Code, the SFO, the Listing Rules, the Trust Deed, all relevant contracts and all other relevant laws, rules and regulations. The REIT Manager will be responsible for all regular communications with Unitholders.

The REIT Manager may at its sole and absolute discretion whenever it considers necessary or beneficial to China Merchants Commercial REIT require the Trustee to borrow and raise monies on behalf of China Merchants Commercial REIT either directly or through Special Purpose Vehicles (upon such terms and conditions as the REIT Manager thinks fit and in particular by charging or mortgaging all or any part of China Merchants Commercial REIT's investments). However, the REIT Manager must not direct the Trustee to incur a borrowing if to do so would mean that China Merchants Commercial REIT's total borrowings exceed 45% (or such other higher or lower percentage as maybe permitted by the REIT Code or as may be specifically permitted by the relevant authorities) of its total gross asset value set out in China Merchants Commercial REIT's latest published audited accounts immediately prior to such borrowing being effected (as adjusted by (i) the amount of any distribution proposed by the REIT Manager in such audited accounts and any distribution declared by the REIT Manager since the publication of such accounts; and (ii) where appropriate the latest published valuation of the assets of China Merchants Commercial REIT if such valuation is published after the publication of such accounts).

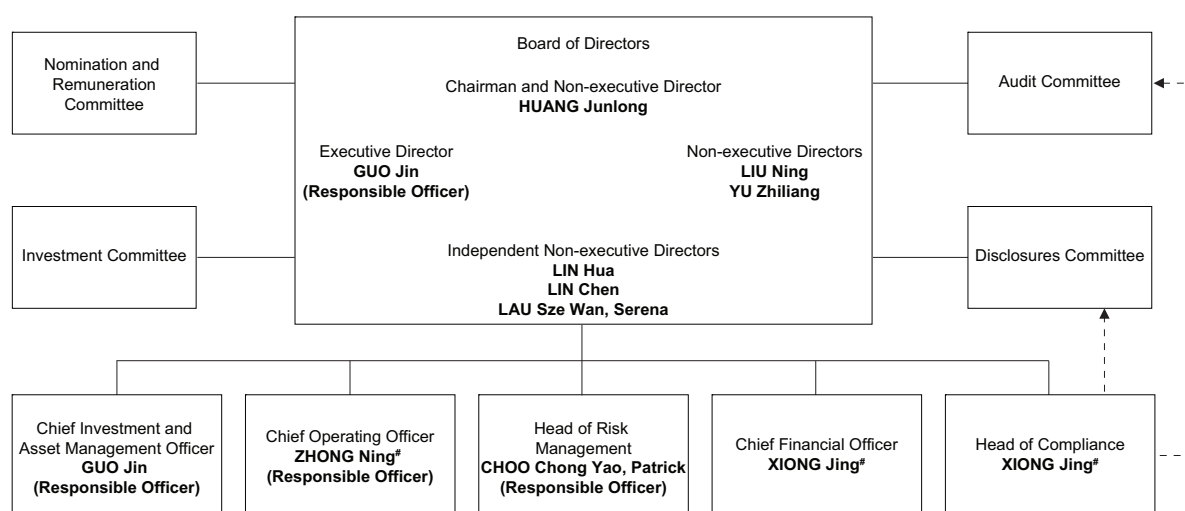
The REIT Manager has delegated: (i) at its own cost, the execution of certain asset management functions to the Onshore Manager Subsidiary pursuant to its general powers of delegation under the REIT Code; and (ii) the property management functions to the Operations Manager and the Property Manager pursuant to the Operations Management Agreement and the Property Management Agreements. In selecting the Onshore Manager Subsidiary, the Operations Manager and the Property Manager as its delegates, the REIT Manager is satisfied that they have sufficient financial resources, insurance coverage, internal control systems and competent staff with the requisite expertise and experience to engage in asset or property management (as the case may be) in the PRC. The REIT Manager will maintain overall supervision and monitoring of their performance, which includes inspecting the books and records kept by these delegates in relation to the functions

THE REIT MANAGER

delegated to them, and will remain ultimately responsible for the delegated functions they perform including their acts and omissions. The REIT Manager shall continue to observe and comply with General Principle 4 and paragraph 5.7 of the REIT Code and paragraph 13 of the Practice Note on Overseas Investments by SFC-authorized REITs contained in the REIT Code, which require the REIT Manager to, among other things, remain fully responsible for proper performance of its delegates and ensure that they have the expertise, resources and systems to carry out its duties in relation to the functions being delegated and remain competent to undertake such functions.

ORGANISATIONAL STRUCTURE OF THE REIT MANAGER

The following diagram sets forth the organisational and reporting structure of the REIT Manager:



Note:

Employed by the Onshore Manager Subsidiary.

THE BOARD OF DIRECTORS OF THE REIT MANAGER

The Board is responsible for the overall governance of the REIT Manager, including establishing goals for managing and monitoring the achievement of these goals. The Board has established a framework for the management of China Merchants Commercial REIT, including a system of internal control and business risk management processes.

The Board consists of seven Directors comprising one executive Director, three non-executive Directors and three independent non-executive Directors. GUO Jin, CHOO Chong Yao, Patrick and ZHONG Ning are licensed by the SFC as Responsible Officers of the REIT Manager for the purposes of section 125 of the SFO and paragraph 5.4 of the REIT Code.

For further information on the Board and its committees, please refer to the section headed “Corporate Governance” in this Offering Circular.

THE REIT MANAGER

Directors

The Board is entrusted with the responsibility for the overall management of the REIT Manager. The following table sets forth information regarding the Directors:

<u>Name</u>	<u>Age</u>	<u>Position</u>
HUANG Junlong	54	Chairman and Non-executive Director
GUO Jin	51	Executive Director
LIU Ning	51	Non-executive Director
YU Zhiliang	41	Non-executive Director
LIN Hua	44	Independent Non-executive Director
LIN Chen	41	Independent Non-executive Director
LAU Sze Wan, Serena	51	Independent Non-executive Director

Information on the business and working experience of the Directors is set out below:

Chairman and Non-executive Director

HUANG Junlong

Mr. Huang, aged 54, was appointed as a Director and the Chairman of the REIT Manager on 11 July 2019.

Mr. Huang is a non-executive director of CML and the chief financial officer of CMSK. Prior to that, he served successively as a deputy supervisor of the finance department of China Merchants Shekou Industrial Zone Company Limited* (招商局蛇口工業區有限公司) (currently known as CMSK), the chief financial officer of Shenzhen China Merchants Petrochemical Co., Ltd.* (深圳招商石化有限公司), the chief financial officer of China Merchants Port Service Co., Ltd.* (招商港務股份有限公司), the chief financial officer of China Merchants Logistics Group Co., Ltd.* (招商局物流集團有限公司) from August 2002 to December 2005, the deputy in charge of the finance department of CMG and the chief financial officer of China Merchants Shekou Industrial Zone Company Limited* (招商局蛇口工業區有限公司) (currently known as CMSK).

Mr. Huang obtained a Bachelor of Engineering from Changsha Institute of Communications in July 1988, majoring in financial accounting of engineering. He obtained a Master of Business Administration from China Europe International Business School in September 2008. Mr. Huang was appraised and approved as a senior accountant of the PRC in October 1998. He obtained a Qualification Certificate for Secretary of the Board of Directors* (董事會秘書資格證書) issued by the Shenzhen Stock Exchange in May 2015.

Executive Director

GUO Jin

Mr. Guo, aged 51, was appointed as a Director on 11 July 2019. He is also one of the Responsible Officers and the Chief Investment and Asset Management Officer of the REIT Manager.

THE REIT MANAGER

Mr. Guo has extensive experience in the real estate and financial industry. He used to serve at Savills Investment Management (Hong Kong) Limited from June 2014 to January 2019 where he took the position of the Head of Greater China and was also a responsible officer for Type 1, Type 4 and Type 9 regulated activities from August 2017 to January 2019. Prior to that, he worked at ICBC International Holdings Limited (工銀國際控股有限公司) from November 2009 to November 2012, where he took the position of the executive director of the investment management department. He was a licensed representative for Type 1 and Type 4 regulated activities at Standard Chartered Securities (Hong Kong) Limited from August 2007 to September 2009.

Mr. Guo obtained a Bachelor of Commerce and a Bachelor of Property from the University of Auckland in September 2003. He is a Chartered Financial Analyst and was a member of the Royal Institution of Chartered Surveyors (Valuation).

Non-executive Directors

LIU Ning

Ms. Liu, aged 51, was appointed as a Director on 11 July 2019.

Ms. Liu is a non-executive director of CML. She is also the deputy general manager, the secretary of the board of directors and the general manager of the China Merchants Apartment department of CMSK. She has over 15 years of experience in the securities industry. She was appointed as a representative for securities affairs of China Merchants Property Development Co., Ltd.* (招商局地產控股股份有限公司) (“CMPD”) (a company merged with CMSK in December 2016) in October 2001, a director of the secretariat to the board of directors of CMPD in July 2004 and the secretary to the board of directors of CMPD from 2008 to 2015. Ms. Liu was a member of the listing committee of the Shenzhen Stock Exchange from September 2016 to September 2018. She acted as an expert on pre-listing review of corporate bonds of the Shenzhen Stock Exchange from May 2017 to May 2019. Previously, Ms. Liu also acted as an independent director of Han’s Laser Technology Industry Group Co., Ltd.* (深圳市大族激光科技股份有限公司) (stock code: 002008) from June 2017 to December 2018, Shenzhen Fenda Technology Co., Ltd.* (深圳市奮達科技股份有限公司) (stock code: 002681) from March 2015 to February 2019, Shenzhen Sunwin Intelligent Co., Ltd.* (深圳市賽為智能股份有限公司) (stock code: 300044) from September 2017 to February 2019 and Shenzhen Kingsino Technology Co., Ltd.* (深圳市金新農科技股份有限公司) (stock code: 002548) from May 2017 to February 2019, all of which are listed on the Shenzhen Stock Exchange.

Ms. Liu completed courses of Master of Business Administration at Nankai University in 2000 and obtained a Master of Business Administration from Macau University of Science and Technology in 2003. Ms. Liu holds a Qualification Certificate for Secretary of the Board of Directors* (董事會秘書資格證書) issued by the Shenzhen Stock Exchange in October 2004.

YU Zhiliang

Mr. Yu, aged 41, was appointed as a Director on 11 July 2019.

Mr. Yu has been an executive director of CML since June 2012. He has also served as the general manager of CML since August 2016. Mr. Yu is responsible for the strategic development and the facilitating and implementation of strategies and business plans of CML and its subsidiaries. Mr. Yu was CML's chief financial officer from June 2012 to August 2016. Mr. Yu has been a director of Champion Apex Limited (華先有限公司) since January 2013 and a director of Harvest Allied Investments Limited (匯泰投資有限公司) since April 2013.

Mr. Yu used to serve as the chief financial officer of China Merchants Property (Xiamen) Co. Ltd.* (招商局地產(廈門)有限公司) and Fujian Zhong Lian Sheng Estate Development Ltd.* (福建中聯盛房地產開發有限公司). Mr. Yu is a director of China Merchants Properties Development Ltd. (招商局置業有限公司), Wahsheung Finance Ltd. (華商財務有限公司) and certain major subsidiaries of CML.

Mr. Yu obtained a Bachelor of Administration (majoring in accounting) from Xiamen University in 2001 and a Master of Business Administration in Finance from The Chinese University of Hong Kong in December 2009. Mr. Yu obtained the Qualification Certification of Specialty and Technology for Accountancy issued by the Ministry of Personnel of the PRC in May 2005.

Independent non-executive Directors

LIN Hua

Mr. Lin, aged 44, was appointed as an independent non-executive Director on 15 November 2019.

Mr. Lin established Shanghai HeYi Information Technology Limited (上海和逸信息科技服務有限公司) as its controlling shareholder. He was appointed as an independent director and a member of the audit and related transactions control committee of Industrial Bank Co., Ltd.* (興業銀行) (a company listed on the Shanghai Stock Exchange (stock code: 601166)) in July 2015, and has accumulated extensive experience in reviewing financial statements of a public company since then as part of his responsibilities pursuant to The Rules Governing the Work of the Audit and Related Transactions Control Committee of Industrial Bank Co., Ltd.* (興業銀行股份有限公司董事會審計與關聯交易控制委員工作規則). Mr. Lin has been an independent non-executive director of Zhenro Properties Group Limited (正榮地產集團有限公司*) (a company listed on the Hong Kong Stock Exchange (stock code: 6158)) since June 2019, and he is also an independent director of Generali China Asset Management Co., Ltd.* (中意資產管理有限責任公司) and an adviser of King & Wood Mallesons. He used to work at Jin Yuan Capital Management (Xiamen) Co., Ltd.* (金圓資本管理(廈門)有限公司) as general manager and Xiamen Venture Capital Co., Ltd.* (廈門市創業投資有限公司) (a fund of funds of the Xiamen Municipal People's Government) as director.

Mr. Lin obtained a Master of Business Administration from the University of California, Irvine in June 2007. Mr. Lin is a Chartered Financial Analyst.

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LIN Chen

Mr. Lin, aged 41, was appointed as an independent non-executive Director on 15 November 2019.

Mr. Lin has been the Stelux Professor in Finance of The University of Hong Kong since February 2014 and the Chair of Finance, the Director of the Centre for Financial Innovation and Development and the Associate Dean of the Faculty of Business and Economics of The University of Hong Kong. He is a member of the Currency Board Sub-Committee of the Exchange Fund Advisory Committee.

Mr. Lin obtained a Bachelor of Engineering from the South China University of Technology in 2000 and an MBA (2004), M.A. (2005) and Ph.D. (2006) from University of Florida.

LAU Sze Wan, Serena

Ms. Lau, aged 51, was appointed as an independent non-executive Director on 15 November 2019.

Ms. Lau has been a managing director of RHL Appraisal Limited since December 2000 and was a managing director of Francis Lau & Co., (Surveyors) Limited from June 1992 to November 2000. She was a valuer at Commonwealth Bank of Australia from January 1990 to March 1992.

Ms. Lau obtained a Bachelor of Applied Science from the University of Technology, Sydney in April 1992, a Professional Diploma in Corporate Governance & Directorship from the Hong Kong Institute of Directors in May 2005 and a Master of Business Administration from The University of Hong Kong in November 2008. Ms. Lau is a fellow of the Hong Kong Institute of Surveyors, a member and an Honorary President of the Macau Property Evaluation Association, a member of the China Institute of Real Estate Appraisers and Agents, an associate of the Australian Property Institute, a professional member of the Royal Institution of Chartered Surveyors, a Registered Professional Surveyor (General Practice) in Hong Kong and a Registered Real Estate Appraiser approved by the Ministry of Housing and Urban-Rural Development of the PRC* (中華人民共和國住房和城鄉建設部).

Board Committees

The Board has the power to delegate to committees consisting of such members of its body as it thinks fit. 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 described in the section headed "Corporate Governance" in this Offering Circular.

THE REIT MANAGER

ROLES OF THE EXECUTIVE OFFICERS OF THE REIT MANAGER AND THE ONSHORE MANAGER SUBSIDIARY

The **Chief Investment and Asset Management Officer** shall be responsible for: (i) identifying and evaluating potential acquisitions or investments consistent with China Merchants Commercial REIT's investment strategy with a view to maximising China Merchants Commercial REIT's DPU or divestments where a property fails to be yield accretive or fails to enhance the value of China Merchants Commercial REIT's portfolio; (ii) analysing the impact on the portfolio of acquisition and development opportunities and their financing; (iii) exploring potential new project opportunities and overseeing the evaluation and due diligence process in potential acquisitions or disposals of real estate assets; (iv) formulating the business plans of China Merchants Commercial REIT's properties with short, medium and long-term objectives and with a view to maximising the rental income of China Merchants Commercial REIT via active asset management; (v) formulating asset enhancement strategies and plans; (vi) monitoring and supervising the performance of the Operations Manager and the Property Manager; and (vii) ensuring that assets of China Merchants Commercial REIT are regularly valued according to market practice and in accordance with regulatory requirements.

The **Chief Financial Officer** shall be responsible for: (i) the financial management of China Merchants Commercial REIT; (ii) leading the Finance and Accounts Team to ensure effective and efficient financial management, including statutory reporting, financial and management accounting, taxation, and cash flow management; (iii) projecting rental returns, accounting for rental collections and operating expenses incurred in the course of managing and operating the properties of China Merchants Commercial REIT; (iv) ensuring that accounting records are prepared, maintained and reported in accordance with international financial reporting standards; (v) overseeing the preparation of budgets; (vi) recommending to the Chief Investment and Asset Management Officer proposals relating to financial investments of China Merchants Commercial REIT; and (vii) maintaining capital expenditure controls including overseeing the development of annual plans and monitoring approved expenditures against the plans.

The **Chief Operating Officer** is primarily responsible for: (i) overseeing the investor relations and communications with unitholders of China Merchants Commercial REIT; (ii) establishing and maintaining effective management and organisational structure, policies, procedures and monitoring measures to ensure that the business is carried out in an efficient and effective manner; (iii) maintaining operational controls of China Merchants Commercial REIT; and (iv) matters in relation to corporate secretariat and general administrative issues as well as the implementation of the REIT Manager's human resources' policies and procedures.

The **Head of Risk Management** shall be responsible for: (i) ensuring the proper management of risk including any credit, market, liquidity and operational risks to which China Merchants Commercial REIT is exposed; (ii) identifying and quantifying the risks to which China Merchants Commercial REIT is exposed; and (iii) providing timely and adequate information to the senior management of the REIT Manager to contain and manage such risks.

THE REIT MANAGER

The **Head of Compliance** shall be responsible for: (i) ensuring that in managing the affairs of China Merchants Commercial REIT, the REIT Manager shall, where applicable, comply with the Trust Deed, the REIT Code, the Listing Rules, the SFO, and other applicable laws, regulations and rules; (ii) reviewing the accuracy and completeness of records of all operations and transactions in relation to China Merchants Commercial REIT; (iii) ensuring that the REIT Manager is kept up-to-date with any changes in the applicable rules and regulations that relate to compliance matters; and (iv) identifying non-compliance events and escalating them to the appropriate level within the REIT Manager. The Head of Compliance will establish an effective compliance framework and conduct regular compliance reviews to monitor its implementation.

The **Internal Auditor** is responsible for: (i) reviewing the operations and transactions in relation to China Merchants Commercial REIT and ensuring that the REIT Manager's internal control systems function properly; (ii) identifying contingency events and escalating them to the appropriate level within the REIT Manager; and (iii) reviewing and making recommendations to the Board or the Audit Committee (as the case may be) to ensure effective segregation of duties and operation functions of the REIT Manager and effectiveness and accuracy of the reporting of irregularities and infringements of the REIT Manager's operational and compliance procedures.

EXECUTIVE OFFICERS OF THE REIT MANAGER AND THE ONSHORE MANAGER SUBSIDIARY

Information on the working experience of the executive officers of the REIT Manager and the Onshore Manager Subsidiary is set out below:

Senior Executives

Information on the business and working experience of the senior executives of the REIT Manager is set out below:

GUO Jin

Mr. Guo is the Chief Investment and Asset Management Officer and one of the Responsible Officers of the REIT Manager. He is also the executive Director of the REIT Manager and information on his business and working experience has been set out in "The Board of Directors of the REIT Manager — Executive Director" in this section.

ZHONG Ning

Mr. Zhong is the Chief Operating Officer, Deputy Investment and Asset Management Officer and one of the Responsible Officers of the REIT Manager. He is employed by the Onshore Manager Subsidiary.

Mr. Zhong was an investment director of CML from February 2017 until October 2019, a portfolio director of China Merchants and SPF Investment Fund Management Co., Ltd. (招商局穩石投資基金管理有限公司) from September 2017 until October 2019, an investment director of Grand Synergy Asset Management Co., Ltd. (偉邦資產管理顧問有限公司) from October 2017 until October 2019 and has been a director of Shanghai Bang Xin Enterprise Management Consulting Co., Ltd.* (上海邦欣企業管理諮詢有限公司) since January 2018. Prior to that, he worked as an investment manager at Qianhai

THE REIT MANAGER

Jia'nian Investment Fund Management Co., Ltd.* (前海嘉年投資基金管理有限公司) from April 2014 to September 2016, at Deloitte Enterprise Consultant (Shenzhen) Co., Ltd.* (德勤企業顧問(深圳)有限公司) from October 2016 to February 2017 where he held the position of assistant manager of the financial consulting department. He also worked at Deloitte Touche Tohmatsu Certified Public Accountants LLP, Shenzhen Branch* (德勤華永會計師事務所(特殊普通合伙)深圳分所) from July 2008 to April 2014 where he took the position of the senior auditor of the audit department.

Mr. Zhong obtained a Bachelor of Management from Shenzhen University in June 2006 and a Master of Business Administration from the Hong Kong University of Science and Technology in November 2017.

CHOO Chong Yao, Patrick

Mr. Choo is the Head of Risk Management and the Head of Information Technology of the REIT Manager, and one of the Responsible Officers.

Mr. Choo was a director and Chief Investment Officer at Swenson Asset Management Limited and Swenson Capital Limited from April 2018 to September 2019, during which he was responsible for the overall investment strategies and performance of the companies' clients funds and portfolios. Mr. Choo served as Deputy Chief Executive Officer and acted as the Chief Investment Officer at Kingdom Investment Managers Limited from October 2015 to December 2017. Mr. Choo served as the Chief Investment Officer and one of the Responsible Officers of Eagle Asset Management (CP) Limited, the manager of Champion REIT, from March 2006 until July 2015, during which he was responsible for the strategic planning and management of Champion and for communicating and liaising with unitholders of Champion REIT. Prior to joining Eagle Asset Management (CP) Limited, Mr. Choo served at Kingsway Fund Management Limited from May 2001 until November 2005, where he took the position of Director.

Mr. Choo graduated *magna cum laude* from the University of Pennsylvania with a Bachelor of Science in Engineering (Electrical Engineering) in 1989.

XIONG Jing

Mr. Xiong is the Chief Financial Officer and the Head of Compliance of the REIT Manager. He is employed by the Onshore Manager Subsidiary.

Mr. Xiong has nearly 10 years of experience in the finance industry. He has been the financial manager of CML since May 2017 and currently holds the position of general manager of China Merchants Land (Shenzhen) Limited (招商局置地(深圳)有限公司). He was responsible for financial matters at CMSK from June 2013 to May 2017. Prior to that, he was a project manager at Shinewing Certified Public Accountants, Shenzhen Branch* (信永中和會計師事務所深圳分所) from December 2010 to June 2013 and worked at BDO China Shu Lun Pan Certified Public Accountants, Shenzhen Branch* (立信會計師事務所深圳分所) from December 2009 to November 2010.

Mr. Xiong obtained a Bachelor of Science (majoring in Optical Information Science and Technology) from Hebei University in June 2008.

THE REIT MANAGER

CHEN Yan

Ms. Chen is the Internal Auditor of the REIT Manager.

Ms. Chen is a certified internal auditor designated by the Institute of Internal Auditors. Ms. Chen has served as the financial controller of CML since January 2018. She previously served as the vice-financial controller of CML from May 2017 to January 2018. Prior to joining CML, she was a senior manager of the financial department of CMSK from October 2009 to July 2016, and was appointed as a senior directing finance manager from July 2016 to May 2017.

Ms. Chen obtained a Master's Degree in Accounting and Business Studies from Sun Yat-Sen University in 2002. She was qualified as a Certified Public Accountant in the PRC in 2002.

FURTHER DETAILS REGARDING THE REIT MANAGER

Fees, Costs and Expenses of the REIT Manager

The REIT Manager is entitled to receive the following fees under the Trust Deed:

- (a) on a semi-annual basis, a Base Fee of 10.0% per annum of the Base Fee Distributable Income (calculated before accounting for the Base Fee and the Variable Fee);
- (b) on an annual basis, a Variable Fee of 25.0% per annum of the difference in DPU in a financial year compared to the preceding financial year, multiplied by the weighted average number of Units in issue for such financial year (for the purpose of calculating the Variable Fee only, the DPU shall be calculated before accounting for the Variable Fee but after accounting for the Base Fee for the relevant financial year);
- (c) an Acquisition Fee not exceeding 1.0% (and being 1.0% as at the date of the Trust Deed) of the acquisition price of each real estate asset acquired, directly or indirectly, by China Merchants Commercial REIT (pro-rated if applicable to the proportion of China Merchants Commercial REIT's interest in the real estate acquired); and
- (d) a Divestment Fee not exceeding 0.5% (and being 0.5% at of the date of the Trust Deed) of the sale price of each real estate asset sold or divested, directly or indirectly, by China Merchants Commercial REIT (pro-rated if applicable to the proportion of China Merchants Commercial REIT's interest in the real estate sold).

No Variable Fee shall accrue or be payable for the period from the Listing Date to 31 December 2022 (being the DPU Commitment Period).

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Base Fee

With effect from and including the Listing Date, the REIT Manager will be entitled to receive the Base Fee for its own account out of the Deposited Property on a semi-annual basis. The first Base Fee shall be payable for the period from the Listing Date to 30 June 2020.

The Base Fee shall be calculated as follows:

- (a) (in respect of the Base Fee payable for the period from and including the Listing Date to 31 December 2019) 10.0% of the Base Fee Distributable Income based on the audited financial statements of the China Merchants Commercial REIT for such period;
- (b) (in respect of the Base Fee payable for the first semi-annual period for each financial year) 10.0% of the Base Fee Distributable Income based on the interim unaudited financial statements of China Merchants Commercial REIT for such period; or
- (c) (in respect of the Base Fee payable for the second semi-annual period for each financial year, other than the period from and including the Listing Date to 31 December 2019) 10.0% of the Base Fee Distributable Income based on the audited financial statements of China Merchants Commercial REIT for the financial year, minus the Base Fee for the immediately interim preceding period (if any).

The “**Base Fee Distributable Income**” in relation to any period is the amount of the Interim Distributable Income or the Annual Distributable Income (as applicable) calculated before accounting for the Base Fee and the Variable Fee payable for that period.

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For illustrative purposes only, the following table sets out an example of the treatment of certain line items for calculation of the Base Fee and the Annual Distributable Income based on the profit forecast for the Profit Forecast Period:

	Calculation of the Base Fee for the Profit Forecast Period (RMB'000)	Calculation of the Annual Distributable Income for the Profit Forecast Period (RMB'000)
Revenue	23,848	23,848
Other income	114	114
Operating expenses	(7,620)	(7,620)
Property management expenses ⁽¹⁾	(2,754)	(2,754)
Operations management expenses ⁽¹⁾	(1,617)	(1,617)
Other operating expenses ⁽¹⁾	(3,849)	(3,849)
Fair value changes on investment properties. . .	—	—
Net reversal of (provision for) impairment loss. .	—	—
Depreciation.	(2)	(2)
Exchange (loss) gain	—	—
Finance costs.	(3,881)	(3,881)
REIT Manager's fees	— ⁽²⁾	(1,000)
Base Fee.	— ⁽²⁾	(1,000) ⁽³⁾
Variable Fee.	— ⁽²⁾	— ⁽⁴⁾
Trustee's fees	<u>269</u>	<u>269</u>
Profit before tax	12,190	11,190
Income tax expense	<u>(4,950)</u>	<u>(4,950)</u>
Profit and total comprehensive income for the period	<u>7,240</u>	<u>6,240</u>
Distribution Data:		
Profit for the period.	7,240	6,240
Adjustments.	<u>2,759⁽⁵⁾</u>	<u>3,009⁽⁶⁾</u>
Base Fee Distributable Income for the Profit Forecast Period.	9,999	
Base Fee for the Profit Forecast Period	1,000	
Annual Distributable income for the Profit Forecast Period.		9,249

Notes:

- (1) Property management expenses and operations management expenses are operating expenses which are payable to the Property Manager and the Operations Manager, respectively. Other operating expenses represent the aggregate of the operating expenses set out in the section headed "Profit Forecast for the Profit Forecast Period — Operating Expenses in the Offering Circular" in this Offering Circular excluding property management expenses and operations management expenses.
- (2) The Base Fee and the Variable Fee line items are shown as zero because the Base Fee and the Variable Fee are not accounted for in calculating the Base Fee Distributable Income.
- (3) 10% of the Base Fee Distributable Income.

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- (4) No Variable Fee shall accrue or be payable during the Profit Forecast Period and until after 31 December 2022. After such date, the Variable Fee will be an expense reducing the profit and Annual Distributable Income as per this line item. The Variable Fee shall be 25% of the DPU in a financial year compared to the preceding financial year, multiplied by the weighted average number of Units in issue for such financial year. For further details regarding the calculation of the Variable Fee and DPU upon which it is based, please see the section below headed "Variable Fee" in this Offering Circular.
- (5) Adjustments are made to add back (i) RMB2,477,000 in respect of the deferred tax charged, (ii) RMB2,000 in respect of the depreciation charged, and (iii) RMB280,000 in respect of non-cash loan arrangement fees amortised under finance costs.
- (6) Adjustments are made to add back (i) RMB2,477,000 in respect of the deferred tax charged, (ii) RMB2,000 in respect of the depreciation charged, (iii) RMB280,000 in respect of non-cash loan arrangement fees amortised under finance costs, and (iv) RMB250,000 in respect of the portion of the REIT Manager's fee to be paid in the form of Units.

The Base Fee will be paid to the REIT Manager in cash or, at the election of the REIT Manager, entirely or partly in the form of Units. The REIT Manager shall make elections for the payment of the Base Fee in cash and/or Units, annually, on or before 15 January, in each calendar year by way of notice in writing to the Trustee and an announcement to Unitholders, such election to be irrevocable during the calendar year in which it was made. In the event that the REIT Manager does not make such an election in any calendar year, the most recent valid election made by the REIT Manager in a prior calendar year (if any) shall apply and, if there is no such prior calendar year election by the REIT Manager, the Base Fee shall be paid in cash. When paid in the form of Units, the REIT Manager shall receive such number of Units as may be purchased for the relevant amount of the Base Fee at a price equivalent to the price determined by the REIT Manager as being the average closing price of the Units during the 10 trading days immediately preceding the date on which the relevant Units are issued to the REIT Manager.

If the relevant thresholds for issue of Units without Unitholders' approval are exceeded and Unitholders' approval is not obtained, then payment of that excess part of the Base Fee will be paid to the REIT Manager in the form of cash.

The REIT Manager shall submit an invoice with such computation of the Base Fee to the Trustee within 15 calendar days (or such later date as agreed by the REIT Manager and the Trustee) of the publication of the relevant financial statements of China Merchants Commercial REIT for the relevant period. Any invoice submitted shall be subject to the review and clearance by the Trustee and, subject to the Base Fee payable from the Listing Date to 31 December 2019 pursuant to (a) shall be paid together with the Base Fee payable for the semi-annual period ending 30 June 2020 pursuant to (b) the Trustee shall pay the Base Fee to the REIT Manager within five calendar days of the Trustee's receipt of the REIT Manager's invoice.

The REIT Manager shall be entitled to alter the rate of the Base Fee to some smaller percentage than that provided by notice to the Trustee in writing, provided that the REIT Manager shall give written notice of any alteration of such rate to a higher percentage within the permitted limit to all Unitholders and the Trustee, not less than three months prior to the date of effect thereof.

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Any increase in the rate of the Base Fee above the permitted limit or any change in the structure of the Base Fee shall not be implemented without the approval of a Special Resolution at a meeting of Unitholders, duly convened and held in accordance with the provisions of the Trust Deed. The REIT Manager may lower the rate of the Base Fee to some smaller percentage than the relevant permitted limit specified in the Trust Deed or, where relevant such other maximum percentage as approved by a Special Resolution in the manner mentioned in the Trust Deed. The REIT Manager may increase the rate of the Base Fee to a higher percentage that the REIT Manager proposes to charge from time to time provided that it is within the relevant permitted limit specified in the Trust Deed or, where relevant, such other maximum percentage as approved by a Special Resolution by giving at least one months' prior written notice to all Unitholders and the Trustee.

Variable Fee

With effect from and including the Listing Date, the REIT Manager will be entitled to receive for its own account out of the Deposited Property the amount of the Variable Fee accrued to it on an annual basis. No Variable Fee shall accrue or be payable for the period from the Listing Date to 31 December 2022.

For the purposes of calculating the Variable Fee only, DPU shall be calculated:

- (a) before accounting for the Variable Fee but after accounting for the Base Fee for the relevant financial year;
- (b) based on all income of China Merchants Commercial REIT arising from its operations, such as but not limited to, rentals, interest, dividends and other similar payments or income arising from its investments, as reflected in the audited financial statements of China Merchants Commercial REIT for the relevant financial year; and
- (c) excluding any one-off income such as income arising from any sale or disposal of:
 - (i) any real estate (whether directly or indirectly through one or more Special Purpose Vehicles) or any part thereof; and
 - (ii) any investments forming part of the Deposited Property or any part thereof.

The Variable Fee will be paid to the REIT Manager in the form of cash or, at the election of the REIT Manager, be paid entirely or partly in the form of Units. The REIT Manager may make elections for the payment of the Variable Fee in cash and/or Units, annually, on or before 15 January, in each calendar year by way of notice in writing to the Trustee and an announcement to Unitholders, such election to be irrevocable during the calendar year in which it was made. In the event that the REIT Manager does not make such an election in any calendar year, the most recent valid election made by the REIT Manager in a prior calendar year (if any) shall apply and, if there is no such prior calendar year election by the REIT Manager, the Variable Fee shall be paid in cash. When paid in the form of Units, the REIT Manager shall receive such number of Units as may be purchased for the relevant amount of the Variable Fee at a price equivalent to the price as determined by the REIT Manager as being the average closing price of the Units during the 10 trading days immediately preceding the date on which the relevant Units are issued to the REIT Manager.

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If the relevant thresholds for issue of Units without Unitholders' approval are exceeded and Unitholders' approval is not obtained, then payment of that excess part of the Variable Fee will be paid to the REIT Manager in the form of cash.

The Variable Fee is payable if the DPU in any financial year exceeds the DPU in the preceding financial year, notwithstanding that the DPU in the financial year where the Variable Fee is payable may be less than the DPU in any financial year prior to the preceding financial year. For the avoidance of doubt, where the DPU in a financial year is less than the DPU in any preceding financial year, the REIT Manager shall not be required to return any Variable Fee paid to it in such preceding financial year.

The REIT Manager shall submit an invoice with such computation of the Variable Fee to the Trustee within 15 calendar days (or such later date as agreed by the REIT Manager and the Trustee) of the publication of the audited financial statements of China Merchants Commercial REIT for the relevant financial year. Any invoice submitted shall be subject to the review and clearance by the Trustee and the Trustee shall pay the Variable Fee to the REIT Manager within five calendar days of the Trustee's receipt of the REIT Manager's invoice.

Any increase in the Variable Fee or any change in the structure of the Variable Fee must be approved by Unitholders by way of a Special Resolution.

Acquisition Fee

The REIT Manager is entitled to an Acquisition Fee not exceeding the rate of 1.0% (and being 1.0% as at the date of the Trust Deed) of the acquisition price of any real estate acquired directly or indirectly by China Merchants Commercial REIT (pro-rated if applicable to the proportion of China Merchants Commercial REIT's interest in the real estate acquired). The Acquisition Fee is payable to the REIT Manager as soon as practicable after completion of the acquisition.

Any increase in the Acquisition Fee above the rate mentioned in the preceding paragraph or any change in the structure of the Acquisition Fee must be approved by Unitholders by way of a Special Resolution. The REIT Manager shall give Unitholders at least one month's prior written notice of any increase in the rate of the Acquisition Fee that the REIT Manager proposes to charge from time to time up to (but not exceeding) the rate mentioned in the preceding paragraph. The Acquisition Fee will be paid to the REIT Manager in the form of cash or, at the election of the REIT Manager, be paid entirely in the form of Units or partly in cash and partly in the form of Units. When paid in the form of Units, the REIT Manager shall be entitled to receive such number of Units as may be purchased for the relevant amount of the Acquisition Fee at the issue price of the Units issued to finance or part finance the acquisition of such real estate assets in respect of which the Acquisition Fee is payable or, where Units are not issued to finance or part finance such acquisition, at the issue price which is equal to the higher of:

- (a) the volume weighted average price for all trades for a Unit on the Hong Kong Stock Exchange for the 10 trading days immediately prior to the date of entry into of the agreement for such acquisition;
- (b) the volume weighted average price for all trades for a Unit on the Hong Kong Stock Exchange for the 10 trading days immediately prior to the date of the announcement in respect of such acquisition; and

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- (c) the volume weighted average price for all trades for a Unit on the Hong Kong Stock Exchange for the 10 trading days immediately prior to the date of completion of such acquisition,

in each case rounded down to the nearest whole number of the Units and with any remaining amount to be paid in cash. If the relevant thresholds for issue of Units without Unitholders' approval are exceeded and the Unitholders' approval is not obtained, then payment of that part of the Acquisition Fee will be paid in the form of cash.

Divestment Fee

The REIT Manager is entitled to a Divestment Fee not exceeding the rate of 0.5% (and being 0.5% as at the date of the Trust Deed) of the sale price of any real estate asset sold or divested directly or indirectly by China Merchants Commercial REIT (pro-rated if applicable to the proportion of China Merchants Commercial REIT's interest in the real estate sold). The Divestment Fee is payable as soon as practicable after completion of the divestment.

Any increase in the Divestment Fee above the rate mentioned in the preceding paragraph or any change in the structure of the Divestment Fee must be approved by Unitholders by way of a Special Resolution. The REIT Manager shall give Unitholders at least one month's prior written notice of any increase in the rate of the Divestment Fee that the REIT Manager proposes to charge from time to time up to (but not exceeding) the rate mentioned in the preceding paragraph. The Divestment Fee will be paid to the REIT Manager in the form of cash or, at the election of the REIT Manager, be paid entirely in the form of the Units or partly in cash and partly in Units. When paid in the form of Units, the REIT Manager shall be entitled to receive such number of Units as may be purchased for the relevant amount of the Divestment Fee at the issue price which is equal to the higher of:

- (a) the volume weighted average price for all trades for a Unit on the Hong Kong Stock Exchange for the 10 trading days immediately prior to the date of entry into of the agreement for such divestment;
- (b) the volume weighted average price for all trades for a Unit on the Hong Kong Stock Exchange for the 10 trading days immediately prior to the date of the announcement in respect of such divestment; and
- (c) the volume weighted average price for all trades for a Unit on the Hong Kong Stock Exchange for the 10 trading days immediately prior to the date of completion of such divestment;

in each case rounded down to the nearest whole number of the Unit and with any remaining amount to be paid in cash. If the relevant thresholds for issue of Units without Unitholders' approval are exceeded and the Unitholders' approval is not obtained, then payment of that part of the Divestment Fee will be paid in the form of cash.

REIT Manager's Right to Reimbursement

The REIT Manager is entitled to apply, or to be reimbursed from, the Deposited Property (at such times and over such periods as the Trustee and the REIT Manager may determine in any particular case) for all liabilities that may be properly suffered or incurred by the REIT Manager in the performance of its obligations or the exercise of its powers under the Trust Deed, or otherwise arising out of or in connection with the Trust Deed or other constitutive documents save where such action, cost, claim, damage, expense or demand is caused by the fraud, negligence, willful default, breach of trust, breach of the REIT Code, applicable laws or regulations, or breach of the Trust Deed or other constitutive documents, by the REIT Manager or any employee, officer, director, servant, agent or delegate of the REIT Manager of the REIT Code or other applicable laws or regulations, or breach of any constitutive documents of China Merchants Commercial REIT (including the Trust Deed), including, to the extent permitted by the REIT Code or any applicable law, costs and expenses for promotion, roadshow, marketing press conferences luncheons, presentations, and public relations related fees, costs or expenses incurred in relation to any fund raising exercise by China Merchants Commercial REIT or otherwise in connection with China Merchants Commercial REIT, as permitted in the Trust Deed.

Retirement or Removal of the REIT Manager

The REIT Manager may retire as manager of China Merchants Commercial REIT at any time after giving 60 days' written notice, or any other period of notice as agreed to by the Trustee, to the Trustee provided that, and subject to:

- (a) the REIT Manager selecting a new manager of China Merchants Commercial REIT which is duly qualified under the REIT Code, licensed under the SFO, and acceptable to the Trustee, the SFC and the Hong Kong Stock Exchange; and
- (b) the requirement in the REIT Code that such retirement will not adversely affect the interests of the Unitholders in any material respect.

The retirement of the REIT Manager will not be effective until the appointment of a new manager is effective pursuant to a deed of retirement and appointment amongst the Trustee, the REIT Manager and the new manager.

Also, the REIT Manager may be removed by prior notice given in writing by the Trustee if:

- (a) the REIT Manager goes into liquidation (except a voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the Trustee) or if a receiver is appointed over any of its assets or a judicial manager is appointed in respect of the REIT Manager (or any analogous process occurs or any analogous person is appointed in respect of the REIT Manager);
- (b) the REIT Manager ceases to carry on business;
- (c) the REIT Manager fails or neglects after reasonable notice from the Trustee to carry out or satisfy any material obligation imposed on the REIT Manager by the Trust Deed;

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- (d) the SFC withdraws its approval of the REIT Manager to act as the manager of China Merchants Commercial REIT;
- (e) an Ordinary Resolution is passed by the Unitholders to remove the REIT Manager (All Unitholder, including the REIT Manager and its associates, are entitled to vote their units on the Ordinary Resolution to remove the REIT Manager and be counted in the quorum for the purposes of passing such Ordinary Resolution); or
- (f) for good and sufficient reason(s), the Trustee states in writing that a change in the REIT Manager is desirable in the interest of the Unitholders.

If the REIT Manager is removed by the Trustee in the circumstances mentioned above, the Trustee shall (with, for so long as China Merchants Commercial REIT is authorised by the SFC, the prior written consent of the SFC) appoint another corporation to be the new manager of China Merchants Commercial REIT.

In the event that the REIT Manager has given its written notice to retire, or an Ordinary Resolution to remove the REIT Manager is passed by the Unitholders, the REIT Manager undertakes to ensure the smooth and proper functioning of China Merchants Commercial REIT during the time period (the “**Transition Period**”) between the date of its notice of resignation, or the passing of the relevant resolution for the removal of the REIT Manager (as the case may be), and until a successor manager of China Merchants Commercial REIT (the “**Successor REIT Manager**”) has been duly appointed in accordance with the terms of the Trust Deed and the REIT Code and the effective date of the retirement, or removal (as the case may be) of the REIT Manager as specified in a notice to be issued by the Trustee.

During the Transition Period, the REIT Manager undertakes to:

- (i) continue to manage and operate China Merchants Commercial REIT and perform all customary day-to-day duties and obligations as the manager of China Merchants Commercial REIT acting at all times in accordance with this Trust Deed and the REIT Code. The REIT Manager shall at all times during the Transition Period be subject to the applicable provisions of the Trust Deed and the REIT Code. For the avoidance of doubt, during the Transition Period, the REIT Manager will not be required to: (i) undertake any strategic review of China Merchants Commercial REIT; (ii) make any material decision in relation to the strategies of China Merchants Commercial REIT; (iii) initiate, propose, commit to or proceed with any investment or divestment, including but not limited to any disposals or acquisitions; or (iv) assist the Successor REIT Manager with its licensing obligations; and
- (ii) during the Transition Period, fully cooperate and take all actions that the Trustee deems reasonably necessary in transferring any and all duties, obligations and contracts to a Successor REIT Manager.

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For the avoidance of doubt, upon the effective date of the retirement or removal of the REIT Manager as specified in a notice to be issued by the Trustee, the REIT Manager shall be absolved and released from all duties, obligations, contracts and undertakings and shall not be required or compel to do, or cause to be done, any act or thing, or be responsible for any act or omission of the Successor REIT Manager or the Trustee (in its capacity as trustee of China Merchants Commercial REIT) (but without prejudice to the rights of the Trustee or of any Unitholder, former Unitholder or other person in respect of any act or omission prior to such retirement or removal).

Notwithstanding the foregoing, China Merchants Commercial REIT shall terminate if, for any reason, there is no manager of China Merchants Commercial REIT for a period of more than 60 calendar days or such longer period as the Trustee considers appropriate. Please refer to the section headed “The Trust Deed — Termination of China Merchants Commercial REIT” in this Offering Circular for details in respect of the termination of China Merchants Commercial REIT.

Exclusion of Liability of the REIT Manager

In the absence of fraud, negligence, wilful default, breach of trust, breach of the REIT Code, applicable laws or regulations, or breach of the Trust Deed or other constitutive documents (to which it is a party) by the REIT Manager (or its subsidiaries) (including their respective directors, employees, servants, agents and delegates as well as any agents and delegates appointed by the Trustee at the direction of the REIT Manager), the REIT Manager and its subsidiaries shall not incur any liability to China Merchants Commercial REIT, the Trustee, the Unitholders or any person by reason of any error of judgement or any matter or thing done or suffered or omitted to be done by it in good faith under the Trust Deed. In addition, the REIT Manager, its subsidiaries and their directors, employees, servants, agents and delegates shall be entitled, for the purpose of indemnity against any actions, costs, claims, damages, expenses or demands to which the REIT Manager, its subsidiaries or any of their respective directors, employees, servants, agents or delegates may be put, to have recourse to the assets of China Merchants Commercial REIT or any part thereof, save where such action, cost, claim, damage, expense or demand is caused by the fraud, negligence, wilful default, breach by the Manager, its subsidiaries or any of their directors, employees, servants, agents or delegates of the REIT Code, applicable laws or regulations, the Trust Deed or other constitutive documents.

Functions Delegated to the Onshore Manager Subsidiary

As the Properties are all located in Shekou, Shenzhen, the REIT Manager has delegated certain functions in relation to the management of China Merchants Commercial REIT to the Onshore Manager Subsidiary, which is a direct wholly-owned subsidiary of the REIT Manager set up and incorporated in the PRC to function as the REIT Manager’s local headquarters in Shekou to support the discharge of the REIT Manager’s obligations locally. The fees payable to the Onshore Manager Subsidiary will be borne solely and entirely by the REIT Manager in its personal capacity pursuant to the agreement between them for an unlimited duration, and such fees will not be reimbursable under the Trust Deed or otherwise be borne by China Merchants Commercial REIT. Two of the senior executives of the REIT Manager, ZHONG Ning and XIONG Jing, are employed by the Onshore Manager Subsidiary and based in the PRC.

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The Onshore Manager Subsidiary will generally assist the REIT Manager in executing the asset and investment management strategies of China Merchants Commercial REIT as determined by the REIT Manager from time to time, including conducting market research and deal evaluation, making recommendations to the REIT Manager on potential investment and divestment opportunities, and overseeing and supervising the Operations Manager and Property Manager to ensure quality of the services provided by these entities. Further, the Onshore Manager Subsidiary will assist the REIT Manager to discharge investor relations, project development, risk management, finance and compliance functions in the PRC, but will at all times be subject to the ongoing supervision and regular monitoring by the REIT Manager, who shall make final decisions on such matters for China Merchants Commercial REIT.

THE OPERATIONS MANAGER

The Operations Manager, a direct wholly-owned subsidiary of CMSK, was incorporated in the PRC on 5 November 2019 and is therefore a connected person of China Merchants Commercial REIT. The Operations Manager has entered into the Operations Management Agreement with the PRC Property Companies, pursuant to which the Operations Manager will provide dedicated property management services to the PRC Property Companies in respect of the Properties, subject to the oversight and supervision of the REIT Manager (acting on behalf of the PRC Property Companies) and in accordance with the principles set out therein. The Operations Manager will provide services to the PRC Properties Companies on an exclusive basis.

The Operations Management Agreement

Under the Operations Management Agreement entered into between the PRC Property Companies and the Operations Manager on 22 November 2019, the Operations Manager has agreed to provide, among other things, the following services with respect to the Properties (being the “**Operations Management Services**”) for an initial term from the Listing Date to 31 December 2021 (which may be extended by parties’ agreement upon expiry of the initial term):

- (a) leasing services, including managing the signing of new and renewed tenancy agreements and acting as the leasing agent in participating in negotiation of terms with tenants;
- (b) marketing services, including executing the marketing strategies approved by the REIT Manager and executing advertising, marketing and publicity programmes in respect of the Properties;
- (c) tenancy development and management services, including finding potential tenants, tenant evaluation, monitoring the financial status of tenants, rent collection, tenant relationship management, handling renewals of tenancy agreements and providing value-added services to tenants;
- (d) leasing advisory services, including advising on the rent level and other commercial terms of the tenancy agreements;
- (e) implementing the engineering and remodelling plans in respect of the Properties as approved by the REIT Manager, including being responsible for matters relating to such plans, such as design, request for tender, construction and quality inspection, and supervising the day-to-day maintenance and upkeep of the Properties;
- (f) performance evaluation of the Properties and reporting to the Onshore Manager Subsidiary;
- (g) working with the other professional service providers to maintain the income generating capability of the Properties;

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- (h) account management and document support services, including bank account maintenance and archiving of tenancy related documents and other contracts; and
- (i) information technology support.

Under the Operations Management Agreement, the Operations Manager is entitled to receive from the PRC Property Companies; (i) an amount equivalent to 5.0% of the monthly rental income of the PRC Property Companies, payable on a monthly basis; and (ii) an amount equivalent to 2.5% of the PRC Property Companies' semi-annual capital expenditure for refurbishment and renovation of the Properties, payable on a semi-annual basis (collectively, the "**Operations Management Fee**"). The Operations Manager will bear its operating costs and expenses and be subject to the ongoing supervision of the REIT Manager and the Onshore Manager Subsidiary.

Any PRC Property Company may terminate the appointment of the Operations Manager in the event that the Operations Manager ceases to carry on business or there is a change in the ownership or control of the Operations Manager (except within the group of companies of which the Operations Manager is a member). A PRC Property Company may also terminate the appointment of the Operations Manager in relation to the relevant Property under the management of the Operations Manager in the event of the sale of that PRC Property Company or Property.

Although the Operations Manager is a newly established company, its key personnel of the Operations Manager have at least five years of experience in managing real estate. As advised by the PRC Legal Advisors, the Operations Manager does not currently need any licences to perform the Operations Management Services according to the relevant PRC laws and regulations. The REIT Manager is of the view that the Operations Manager has sufficient experience and is fit and proper to provide the Operations Management Services.

THE PROPERTY MANAGER

The Property Manager is an indirect wholly-owned subsidiary of CMSK which was established in the PRC on 22 October 1992 and is therefore a connected person of China Merchants Commercial REIT. The Property Manager has entered into a new Property Management Agreement with each of the PRC Property Companies, pursuant to which the Property Manager will continue to provide the Property Management Services to relevant the PRC Property Company in respect of the relevant Property.

The Property Management Agreements

Under the Property Management Agreements entered into between each of the PRC Property Companies and the Property Manager on 22 November 2019, the Property Manager will provide certain property management services in respect of the Properties for an initial term from the Listing Date to 31 December 2020, which may be extended on the same terms for another year upon expiry of the initial term by parties' agreement.

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The “**Property Management Services**” provided by the Property Manager include, among other things, maintenance, repair and upkeep of common areas and facilities, supervising the renovation works carried out at the Properties, garbage collection and hygiene services, fire safety services, car park management and building security services. Under the Property Management Agreements, the Property Manager will collect from the tenants of each Property building management service fees, charges for air-conditioning and maintenance fund and car parking fees (if any), and deposit such fees and charges into a designated account jointly maintained by the relevant PRC Property Company and the Property Manager for the benefit of that PRC Property Company. The Property Manager’s expenses in connection with its management of the Properties will be paid out from such account as reimbursements.

For the Property Management Services rendered with respect to Garden City Shopping Centre, the Property Manager is entitled to be paid on a fixed monthly fee of RMB54,167 (totaling RMB650,000 per annum). For the Property Management Services rendered with respect to the other Properties, the Property Manager is entitled to be paid from such account a monthly fee equivalent to 12.0% of the sum of the fees and charges (except air-conditioning charges and promotional fees) and car parking fees collected (collectively, the “**Property Management Fee**”).

Pursuant to the Property Management Agreements, the Property Manager is subject to ongoing supervision by the REIT Manager. The Property Manager is required to provide a property management budget report on an annual basis within the required time for approval by the relevant PRC Property Company. The property management budget report should include, among others, property management proposals and related costs. The Property Manager is also required to provide the relevant PRC Property Company a monthly management income and expense report.

The PRC Property Companies, acting through the REIT Manager, has the right to, among others things, inspect and supervise the daily management and quality of service, approve the property management budget and appoint a professional agency to conduct audits. In addition, each PRC Property Company, acting through the REIT Manager, have the right to veto candidates proposed to be the person in-charge of the building management office in the relevant Property. Garden City (PRC) may also participate in the recruitment of customer service centre personnel and managers of other department, and has the right to recommend and veto any candidate for these positions.

Any PRC Property Company may terminate the appointment of the Property Manager in the event that the Property Manager ceases to carry on business or there is a change in the ownership or control of the Property Manager (except within the group of companies of which the Property Manager is a member). A PRC Property Company may also terminate the appointment of the Property Manager in relation to the relevant Property under the management of the Property Manager in the event of the sale of that PRC Property Company or Property.

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The Property Manager has an aggregate track record period of three years in managing the Properties, and its key personnel have at least five years of experience in property management. As advised by the PRC Legal Advisors, the Property Manager does not currently need any licences to perform the Property Management Services according to the relevant PRC laws and regulations. The REIT Manager is of the view that the Property Manager has sufficient experience and is fit and proper to provide the Property Management Services.

ARRANGEMENTS TO MITIGATE CONFLICTS OF INTEREST

The REIT Manager has the general power of management over the assets of China Merchants Commercial REIT and has delegated the day-to-day property management functions to the Operations Manager and the Property Manager. Given the Operations Manager and the Property Manager are both wholly-owned by CMSK and the Property Manager also manages and services other properties held by CMSK and CMG, the REIT Manager has put in place the following arrangements to mitigate potential conflicts of interest in relation to the management of the Properties:

Segregation of sensitive operational functions

The REIT Manager has segregated certain sensitive operational functions, including marketing and leasing functions, to be performed by the Operations Manager, which is newly set up to provide services exclusively to the Properties for the benefit of China Merchants Commercial REIT and the Unitholders. The Operations Manager's performance are measured by reference to certain metrics of China Merchants Commercial REIT or the Properties, which aligns the interests of the Operations Manager with those of China Merchants Commercial REIT and the Unitholders.

The Property Manager, being the existing property manager of the Properties, will continue to provide routine property management services in respect of the Properties, including maintenance, cleaning and security. The Property Manager will also continue to provide similar services to other properties held by CMSK and CMG. Given the non-sensitive nature of such services, the REIT Manager considers that the above arrangement is unlikely to give rise to material business conflicts concerns.

“Chinese Walls” and Reporting Lines

The Operations Manager will have in place “Chinese Walls” in respect of information technology systems and physical office space to ensure that there is segregation between the operations of the Operations Manager and the Property Manager. “Chinese Walls” in respect of information technology system and physical office space and clear reporting lines to protect sensitive information relating to the Properties, such as the details of tenancy agreements, are also implemented to prevent such information from being used by CMSK and other CMG entities to the detriment of China Merchants Commercial REIT.

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Contractual Protection

Contractual provisions have been included in the Operations Management Agreement to provide that:

- (i) the Operations Manager will at all times act in the best interests of the PRC Property Companies and exercise a reasonable standard of care, skill, prudence and diligence under the circumstances then prevailing that a reputable property manager providing similar management services would use in providing such management services for comparable commercial properties in the relevant location of the PRC;
- (ii) the Operations Manager will strictly adhere to the reporting lines approved by the REIT Manager in accordance with the provisions of the Operations Management Agreement, such that the Operations Manager will act in accordance with the sole directions of the REIT Manager;
- (iii) the Operations Manager will implement the annual business plan and budget approved by the REIT Manager every year and use their respective best endeavours to achieve the revenue targets in such approved annual business plan and budget; and
- (iv) if leasing or marketing opportunities in relation to any of the Properties become available, which the Operations Manager acting reasonably and in good faith consider are or are likely to be in competition with CMSK, the Operations Manager will refer all such opportunities to the REIT Manager for vetting and confirmation before the Operations Manager proceeds with such opportunities.

Notwithstanding that the Operations Manager and the Property Manager are subsidiaries of CMSK, which also has business presence and owns commercial and office properties in Shenzhen, the Operations Manager and the Property Manager have confirmed to the REIT Manager that they are capable of performing, and shall perform, their duties to China Merchants Commercial REIT independently of CMSK's related businesses and in the best interest of China Merchants Commercial REIT and the Unitholders.

INFORMATION ABOUT EUREKA, CMSK AND CMG

Eureka

Eureka is a company incorporated in Hong Kong with limited liability which is wholly-owned by CMSK. As at the Latest Practicable Date, Eureka is the indirect controlling shareholder of CML and held 74.35% of the total issued share capital of CML as at the Latest Practicable Date. Eureka is principally engaged in investment holding and is one of the major offshore subsidiaries of CMSK. As at 31 December 2018, Eureka has net assets of RMB24.8 billion.

CMSK

CMSK is a company established in the PRC with limited liability, whose shares are listed on the Shenzhen Stock Exchange (stock code: 001979.SZ). As at 31 December 2018, CMSK has total assets of approximately RMB423.2 billion. CMSK is the controlling shareholder of CML and held 74.35% of the total issued share capital of CML as at the Latest Practicable Date. CMSK is principally engaged in the development and operation of industrial parks, communities and cruise business. It is currently the real estate flagship of CMG, which is the controlling shareholder of CMSK interested in 64.33% of the share capital of CMSK as at the Latest Practicable Date. CMG is a state-owned conglomerate regulated by SASAC.

CMG

Founded in 1872, CMG is a leading PRC state-owned enterprise headquartered in Hong Kong, under direct supervision of State-owned Assets Supervision and Administration Commission of the State Council in the PRC. CMG is a conglomerate with three business platforms of non-financial industries, financial services, investment and capital operation. CMG's non-financial industries cover ports, toll roads, shipping, logistics, real estate, zone development, offshore engineering and trade.

As at 31 December 2018, CMG has total assets of approximately RMB8 trillion and has recorded total revenue of approximately RMB648.4 billion in 2018. It is ranked in Fortune Global 500 list of the world's largest corporations.

As described in the section headed "Reorganisation, Structure and Organisation of China Merchants Commercial REIT" in this Offering Circular, the sole issued share of the Frontier Shekou (which holds the Properties and is held as to 100% by CMSK and 64.33% by CMG), will be transferred to the Purchaser.

CORPORATE GOVERNANCE

With the objectives of establishing and maintaining high standards of corporate governance, certain policies and procedures have been put in place to promote the operation of China Merchants Commercial REIT in a transparent manner and with built-in checks and balances. The corporate governance policies of China Merchants Commercial REIT have been adopted having due regard to the requirements under Appendix 14 to the Listing Rules, with necessary changes as if those rules were applicable to REITs. Set out below is a summary of the key components of the corporate governance policies that have been adopted and will be followed by the REIT Manager and China Merchants Commercial REIT. Such policies may be amended by a simple majority vote of all of the Directors.

AUTHORISATION STRUCTURE

China Merchants Commercial REIT is a collective investment scheme authorised by the SFC under section 104 of the SFO and regulated by certain laws, regulations and documents including the provisions of the REIT Code. The SFC does not take any responsibility for the financial soundness of China Merchants Commercial REIT, or the correctness of any statements made or opinions expressed in this Offering Circular and/or other documents relating to China Merchants Commercial REIT. SFC authorisation is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors. The REIT Manager has been authorised by the SFC under section 116 of the SFO to conduct the regulated activity of asset management. The REIT Manager has three persons who are approved as Responsible Officers pursuant to the requirements of section 125 of the SFO and paragraph 5.4 of the REIT Code, at least one of whom is an executive Director of the REIT Manager pursuant to the requirements of section 125 of the SFO. At least one of the Responsible Officers shall be available at all times to supervise the REIT Manager's business of regulated activity, including asset and property management. GUO Jin, the Executive Director, 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. The Trustee is qualified to act as a trustee for collective investment schemes authorised under the SFO pursuant to the REIT Code.

ROLES OF THE TRUSTEE AND THE REIT MANAGER

The Trustee and the REIT Manager are independent of each other. The Trustee, in its capacity as trustee of China Merchants Commercial REIT, is responsible under the Trust Deed for the safe custody of the assets of China Merchants Commercial REIT on behalf of Unitholders and for overseeing the activities of the REIT Manager for compliance with the relevant constitutive documents of, and regulatory requirements applicable to, China Merchants Commercial REIT. The REIT Manager's role under the Trust Deed is to manage China Merchants Commercial REIT and its assets in accordance with the Trust Deed in the sole interest of the Unitholders and to fulfil the duties imposed on it under general law as the manager of China Merchants Commercial REIT, and in particular, to ensure that the financial and economic aspects of China Merchants Commercial REIT's assets are professionally managed in the sole interests of the Unitholders.

FUNCTIONS OF THE BOARD OF DIRECTORS OF THE REIT MANAGER

The Board comprises seven members, three of whom are independent non-executive Directors. The Board oversees the 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 its constitutional documents, with a view to ensuring that the management discharges its duties and is compensated appropriately, 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

Pursuant to the REIT Manager's corporate governance policy, independent non-executive Directors must be individuals who fulfil the independence criteria set out in the compliance manual adopted by the REIT Manager. Please refer to the section headed "The REIT Manager — The Board of Directors of the REIT Manager" of this Offering Circular.

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 have a balance of skill, experience and diversity of perspectives appropriate for the requirements of China Merchants Commercial REIT's business and should ensure that changes to its composition can be managed without undue disruption;
- the Board should have a balanced composition of executive, non-executive and independent non-executive Directors so that there is a strong independent element on the Board which can effectively exercise independent judgement;
- the Board should have a policy concerning diversity of the board members which is appropriate for the requirements of China Merchants Commercial REIT's business, and shall disclose the policy on diversity or a summary of the policy in the corporate governance report;
- at least one-third of the Board and a minimum of three members of the Board should be independent non-executive Directors and at least one independent non-executive Director must have appropriate professional qualifications or accounting or related financial management expertise; and
- the re-election and further appointment of any independent non-executive Director serving on the Board for nine years shall be subject to a separate Unitholders' resolution.

CORPORATE GOVERNANCE

The positions of Chairman and the executive Director are held by 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 executive Director is responsible for the day-to-day management of the REIT Manager and China Merchants Commercial REIT. The executive Director executes the strategic plans set out by the Board and ensures that the Directors are kept updated and informed of China Merchants Commercial REIT's business through management reports.

The Board composition will be reviewed regularly to ensure that the Board has the appropriate mix of expertise and experience and that the Directors being appointed have the relevant expertise and experience in discharging their duties.

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:

Investment Committee

The Investment Committee comprises, the Chief Investment and Asset Management Officer and two Directors one of whom shall be an independent non-executive Director. Upon Listing, the members of the Investment Committee will be Mr. YU Zhiliang, Mr. GUO Jin and Mr. LIN Hua. Mr. YU Zhiliang will be the initial chairman of the Investment Committee. The Investment Committee is responsible for, among other matters, evaluating and making recommendations on proposed acquisitions and disposals of assets, approve budgets and review actual expenses on all key expenditures and reviewing the quarterly financial performance, forecasts and annual financial plan of the REIT Manager and China Merchants Commercial REIT. The 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.

Audit Committee

The Audit Committee comprises at least three members appointed by the Board from among the non-executive Directors (including the independent non-executive Directors). A majority of the members of the Audit Committee shall be independent non-executive Directors and at least one of them shall have appropriate professional qualifications or accounting or related financial management expertise. The Audit Committee must be chaired by an independent non-executive Director. Upon Listing, the members of the Audit Committee will be Mr. LIN Hua, Mr. LIN Chen and Ms. LIU Ning. Mr. LIN Hua, who has the appropriate professional qualifications or accounting or related financial management expertise, will be the initial chairman of the Audit Committee.

CORPORATE GOVERNANCE

The Audit Committee is responsible for establishing and maintaining an adequate internal control structure, effective financial reporting and risk management systems and ensuring the quality and integrity of financial statements. The Audit Committee is also responsible for the nomination of independent external auditors and reviewing the adequacy of external audits in respect of cost, scope and performance. The Audit Committee also ensures the existence and working of an effective system of internal control and risk management, in respect of both the REIT Manager and China Merchants Commercial REIT.

The Audit Committee's responsibilities also include:

- (a) reviewing dealings of the REIT Manager and the Directors on a half-yearly basis;
- (b) reviewing all financial statements and all external audit reports and developing and implementing a policy on the engagement of external auditors to supply non-audit services;
- (c) ensuring the internal audit function is adequately resourced and guiding the management to take appropriate actions to remedy any faults or deficiencies in internal controls which may be identified;
- (d) assisting the Board in its monitoring of the entity's overall risk management profile and setting guidelines and policies to govern risk assessment and risk management;
- (e) periodically reviewing and monitoring all connected party transactions and related party transactions; and
- (f) reviewing the REIT Manager and China Merchants Commercial REIT's compliance with legal and regulatory requirements on a regular basis.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is appointed by the Board from among the Directors. A majority of the members of the Nomination and Remuneration Committee shall be independent non-executive Directors. The chairman of the Nomination and Remuneration Committee shall be the Chairman or an independent non-executive Director. Upon Listing, the members of the Nomination and Remuneration Committee will be Mr. HUANG Junlong, Mr. LIN Chen and Ms. LAU Sze Wan, Serena. Mr. HUANG Junlong will be the initial chairman of the Nomination and Remuneration Committee.

The Nomination and Remuneration Committee's responsibilities include, among other things:

- (a) reviewing the structure, size and composition (including skills, knowledge and experience) of the Board and its committees at least annually and making recommendations on any proposed changes to the Board to complement the REIT Manager's corporate strategy;
- (b) developing the criteria for identifying and assessing the qualifications of and evaluating candidates for directorship;

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- (c) 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;
- (d) reviewing the terms and conditions of employment of all staff and Directors and recommend the manpower deployment plan (including the succession plan for the management and the Board), remuneration and retirement policies and packages;
- (e) assessing the independence of independent non-executive Directors to determine their eligibility;
- (f) reviewing, monitoring and reporting on the REIT Manager's board diversity policy;
- (g) making recommendations to the Board on the appointment, re-appointment or removal of Directors and succession planning for Directors; and
- (h) making recommendations to the Board on the remuneration and retirement policies and packages for Directors and ensuring that no Director is involved in deciding his own remuneration.

Disclosures Committee

The Disclosures Committee is appointed by the Board from among the Directors. The Disclosures Committee consists of three Directors, one of whom shall be an independent non-executive Director. Upon Listing, the members of the Disclosures Committee will be Ms. LIU Ning, Mr. GUO Jin and Ms. LAU Sze Wan, Serena. Ms. LIU Ning will be the initial chairman of the Disclosures Committee. The role of the Disclosures Committee includes reviewing 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 that the disclosure of information is accurate, complete and not misleading.

The Disclosures Committee's responsibilities include:

- (a) regularly reviewing and making recommendations to the Board on matters of corporate disclosure issues and announcements regarding (without limitation) financial reporting, connected party transactions, and potential areas of conflicts of interest;
- (b) overseeing compliance with applicable legal requirements and the continuity, accuracy, clarity, completeness and currency of information disseminated by or on behalf of China Merchants Commercial 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 China Merchants Commercial 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;

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- (e) reviewing press releases containing financial information, information about material acquisitions or dispositions or other information material to the Unitholders; and
- (f) reviewing correspondence containing financial information disseminated to the Unitholders.

CONFLICTS

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

- the REIT Manager will be a dedicated manager to China Merchants Commercial REIT and, unless with the approval of the SFC, the REIT Manager will not manage any REIT other than China Merchants Commercial REIT nor manage other real estate assets other than those in which China Merchants Commercial REIT has an ownership interest or investment;
- the REIT Manager will ensure that it will be able to function independently from its shareholders and all senior executives and officers will be employed by the REIT Manager or the Onshore Manager Subsidiary on a full time basis and solely be dedicated to the operations of China Merchants Commercial REIT;
- the REIT Manager has established procedures to deal with conflicts of interest under its compliance manual;
- the REIT Manager has established internal control systems to ensure that connected party transactions between China Merchants Commercial 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 that may arise are monitored;
- all conflicts of interest involving a Significant Unitholder or a Director, or a China Merchants Commercial REIT connected person through such entities, will be required to be managed by a physical Board meeting rather than a written resolution and all independent non-executive Directors who, and whose associates, have no material interest in the matter should be present at such Board meeting; 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 shall abstain from voting on the resolution concerned and shall not be counted in the quorum at the Board meeting at which such resolution is proposed.

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The REIT Manager has established an internal control system intended to ensure that connected party transactions between China Merchants Commercial REIT and its connected persons are monitored and are undertaken on terms in compliance with the REIT Code. All connected party transactions must be:

- (a) carried out at arm's length, on normal commercial terms and in an open and transparent manner;
- (b) valued, in relation to a property transaction, by an independent property valuer;
- (c) consistent with China Merchants Commercial REIT's investment objectives and strategy;
- (d) in the best interests of Unitholders;
- (e) properly disclosed to Unitholders; and
- (f) approved by the independent non-executive Directors of the REIT Manager (or a committee thereof) and, where the prior approval of Unitholders is required, the independent non-executive Directors of the REIT Manager (or a committee thereof) shall confirm, in a letter set out in the circular to Unitholders, whether the terms and conditions of the transaction are fair and reasonable and in the best interests of Unitholders and whether Unitholders should vote in favour of the resolution.

The REIT Manager must demonstrate to the independent non-executive Directors and the Audit Committee that all connected party transactions satisfy the foregoing criteria, which may entail (where practicable) obtaining quotations from independent third parties, or obtaining one or more valuation letters from independent professional valuers. Prior approval of Unitholders is required for connected party transactions where the value of the transaction is 5.0% or more of the latest NAV of China Merchants Commercial REIT, subject to any waivers granted by the SFC. Save for the appointment or removal of the manager of China Merchants Commercial REIT, a Unitholder is prohibited from voting its Units at, or being part of a quorum for, any meeting of Unitholders convened to approve any matter in which the Unitholder has a material interest in the business to be conducted and that interest is different from the interest of other Unitholders.

Under the Trust Deed, any Unitholder shall be prohibited from voting its own Units at, or being counted in the quorum for, a meeting at which it has a material interest in the business to be conducted and that interest is different from the interests of other Unitholders (as determined by: (a) the REIT Manager, where the Unitholder concerned is not a connected person related to the REIT Manager; or (b) the Trustee, where the Unitholder concerned is a connected person related to the REIT Manager, if appropriate, in its absolute opinion) including an issue of new Units where a Unitholder may increase its holdings of Units by more than its pro rata share. After the Listing Date, where required under the REIT Code, the Takeovers Code or the applicable provisions of the Listing Rules, the REIT Manager and its connected persons shall abstain from voting in relation to the relevant issuance of new Units. The REIT Manager and its connected persons shall also abstain from voting in relation to any proposal on the termination or merger of China Merchants Commercial REIT if such proposal is recommended by the REIT Manager, and the REIT Manager and connected persons

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related to it hold interests in the Units and their interest (at the sole determination of the Trustee) in the termination or merger of China Merchants Commercial REIT is different from that of all other Unitholders.

It is also provided in the Trust Deed that, as and to the extent required by the REIT Code or any conditions of waivers and exemptions from the operation of the REIT Code granted by the SFC from time to time or upon request in writing by the REIT Manager, the Trustee shall take actions or commence proceedings on behalf of China Merchants Commercial REIT as necessary, including against any connected persons of the Trustee in relation to any transactions or agreements entered into by the Trustee for and on behalf of China Merchants Commercial REIT with such persons provided that in the event of any action against the connected persons of the Trustee, the Trustee shall act upon the REIT Manager's request and instructions. Notwithstanding the foregoing, the REIT Manager shall inform the Trustee as soon as it becomes aware of any breach by a connected person of the Trustee of any agreement or transaction entered into by China Merchants Commercial REIT (or by the Trustee or the REIT Manager for and on behalf of China Merchants Commercial REIT) with such connected person and the REIT Manager may take such action as it deems necessary to protect the rights of Unitholders and/or which is in the interests of the Unitholders.

MANAGEMENT OF BUSINESS RISK

To mitigate the business risk, the Board will meet semi-annually to review the risks to the assets and business of China Merchants Commercial REIT and will consider and, if appropriate, act upon any comments from the auditors of China Merchants Commercial REIT. The management of the REIT Manager will also meet semi-annually to review the operations of China Merchants Commercial REIT and discuss continuous disclosure issues.

GENERAL MEETINGS

China Merchants Commercial REIT will in each calendar year hold an 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 of Unitholders if requested in writing by not less than two Unitholders registered as holding together not less than 10% of the Units for the time being in issue and outstanding. Notice of 14 days or 10 clear business days (whichever is longer) at the least of the meeting will be given to Unitholders, except that notice of 21 days at the least, will be given to Unitholders for an annual general meeting or where a Special Resolution is proposed for consideration at such meeting, and the notice will specify the time and place of the meeting and the terms of any resolutions to be proposed.

Two or more Unitholders present in person or by proxy registered as holding together 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 together not less than 25.0% of the Units for the time being in issue and outstanding. The quorum for an adjourned meeting shall be such number of Unitholders who are present in person or by proxy, regardless of the number of Units held by them.

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REPORTING AND TRANSPARENCY

China Merchants Commercial REIT will prepare its accounts in accordance with IFRS with a financial year end of 31 December and a financial half-year end of 30 June. In accordance with the REIT Code, the annual report and accounts for China Merchants Commercial REIT will be published and sent to the Unitholders and filed with the SFC no later than four months following each financial year-end of China Merchants Commercial REIT and the semi-annual reports no later than two months following the end of the period it covers.

The REIT Manager shall ensure that a full valuation of each of China Merchants Commercial REIT's real estate (whether held directly by the Trustee or indirectly through a Special Purpose Vehicle) shall be conducted by a principal valuer appointed in accordance with the Trust Deed at least once a year, and may require the principal valuer to carry out additional valuations or inspections at such other dates as the REIT Manager may determine in its sole discretion, except that the next valuation of China Merchants Commercial REIT's real estate following the establishment of China Merchants Commercial REIT will be effected no later than or as at the end of the relevant financial year (the first valuation to be effected at the end of the financial year in which the Global Offering is completed). The REIT Manager shall also ensure that the principal valuer shall produce a valuation report: (i) on real estate to be acquired or sold by China Merchants Commercial REIT; (ii) on non-cash consideration in the nature of real estate which is to be received for the issue of Units in accordance with the Trust Deed; or (iii) in any other circumstance prescribed by the REIT Code, subject to any waivers granted by the SFC.

The REIT Manager shall keep the Unitholders informed of any material information pertaining to China Merchants Commercial REIT in a timely and transparent manner as required by the REIT Code and the provisions of Part XIVA of the SFO shall have effect, *mutatis mutandis*, as if China Merchants Commercial REIT is a "listed corporation" and if the board of directors of the REIT Manager are the board of directors of a "listed corporation".

As required by the REIT Code, the REIT Manager will inform Unitholders as soon as reasonably practicable any information or transaction concerning China Merchants Commercial REIT which: (a) is necessary to enable Unitholders to appraise the position of China Merchants Commercial REIT; or (b) is necessary to avoid a false market in the Units; or (c) might be reasonably expected to materially affect market activity in China Merchants Commercial REIT or affect the price of the Units; or (d) requires Unitholders' approval.

The REIT Manager will also issue circulars to 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 China Merchants Commercial REIT, in accordance with the Trust Deed.

ISSUES OF FURTHER UNITS POST-LISTING

To minimise 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, the Trust Deed and any other applicable laws and regulations. The REIT Code 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 (a) free of such pre-emption rights up to an aggregate maximum in any financial year of 20% (or such other percentage of outstanding Units as may, from time to time, be prescribed by the SFC) of the number of Units outstanding

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at the end of the previous financial year; and (b) 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.

Unitholders' approval is required for all issues of new Units to connected persons of China Merchants Commercial REIT, other than in the limited circumstances contemplated under the waiver described in the section headed "Connected Party Transactions — Waiver For Issuance of New Units and Convertible Instruments to Connected Persons" in this Offering Circular. Where Unitholders' approval is required for an issue of new Units to a connected person of China Merchants Commercial REIT, both the connected person subscriber and any other person who has a material interest in the resolution to approve such issue, and that interest is different from that of other Unitholders, shall abstain from voting on such resolution.

China Merchants Commercial REIT is also subject to certain other restrictions on the issuance of Units and certain related securities, the details of which are set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Undertakings" in this Offering Circular.

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

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. Pursuant to this code, all Directors and employees of the REIT Manager, subsidiaries of the REIT Manager or the Special Purpose Vehicles who, because of his/her office or employment in the REIT Manager, the relevant subsidiaries of the REIT Manager or the relevant Special Purpose Vehicles, is likely to be in possession of unpublished price sensitive information in relation to the securities of China Merchants Commercial 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 China Merchants Commercial REIT. In addition, a Management Person must not make any unauthorised disclosure of confidential information, whether to co-trustees or to any other person (even those to whom he/she owes a fiduciary duty) or make any use of such information for the advantage of himself/herself or others.

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 China Merchants Commercial 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 rules and regulations. Management Persons who are privy to relevant negotiations or agreements or any inside information should caution those Management Persons who are not so privy that there may be inside information and that they must not deal in China Merchants Commercial REIT's securities for a similar period.

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A Management Person must not deal in any of the securities of China Merchants Commercial REIT on any day on which China Merchants Commercial 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 code containing rules on dealings by the Management Person adopted by the REIT Manager.

The REIT Manager is subject to the same dealing requirements as the Directors under the code, *mutatis mutandis*. The REIT Manager has also adopted procedures for monitoring of disclosure of interests by Directors and the chief executive 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 the chief executive of the REIT Manager and each Unitholder and all persons claiming through or under him.

Under the Trust Deed, Unitholders with a holding of 5% or more of the Units in issue, and the Directors and the chief executive 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 China Merchants Commercial REIT. The REIT Manager shall keep a register for these purposes and it shall record 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 shall be available for inspection by the Trustee and any Unitholder at any time during business hours upon reasonable notice to the REIT Manager. For further details of the Trust Deed, see the section headed "The Trust Deed" in this Offering Circular.

Subject to the provisions of the Trust Deed and without in any way affecting the generality of the provisions of the Trust Deed, where the Trustee or the REIT Manager believes that a Unitholder may be a Significant Unitholder, the Trustee (on the instructions of the REIT Manager in writing) has the power to require the Unitholder to promptly disclose to the Trustee and the REIT Manager all of the legal, beneficial and equitable interests in Units held by the Unitholder and such other persons whose holdings of Units would be taken into account in determining whether the Unitholder is a Significant Unitholder. Without prejudice to the above, the Trustee shall have the power to require any Unitholder to promptly disclose to the Trustee all of the Unitholder's beneficial interests in Units.

MATTERS TO BE DECIDED BY UNITHOLDERS BY SPECIAL RESOLUTION

Pursuant to the Trust Deed, decisions with respect to certain matters require specific prior approval of Unitholders by way of Special Resolution. For further information, please refer to the section headed "The Trust Deed — Meetings of Unitholders" in this Offering Circular.

THE TRUST DEED

The Trust Deed is a complex document and the following is a summary only of the provisions of the Trust Deed, in addition to related information. A copy of the Trust Deed is available for inspection at the registered office of the REIT Manager at Room 2603 to 2606, 26/F, China Merchants Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Hong Kong.

The Trustee of China Merchants Commercial 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. The Trustee is qualified to act as a trustee for collective investment scheme authorised under the SFO pursuant to the REIT Code.

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China Merchants Commercial REIT is a REIT constituted and governed by the Trust Deed entered into between the REIT Manager and the Trustee, dated 15 November 2019 and as amended and restated from time to time. Following the Listing, China Merchants Commercial REIT will be regulated by the Applicable Rules.

The provisions of the Trust Deed shall be binding on the Trustee, the REIT Manager and each Unitholder (and persons claiming through such Unitholder) as if such Unitholder had been a party to the Trust Deed and as if the Trust Deed contained covenants on the part of each Unitholder to observe and be bound by the provisions of the Trust Deed and an authorisation by each Unitholder to do all such acts and things as the Trust Deed may require the REIT Manager and/or the Trustee to do.

The provisions of the Applicable Rules prescribe certain terms that have been included in the Trust Deed and certain rights, duties and obligations of the REIT Manager, the Trustee and the Unitholders that have been included in the Trust Deed.

REIT STRUCTURE

China Merchants Commercial REIT is established in the form of a unit trust under Hong Kong law to invest primarily in real estate (either directly or indirectly through special purpose vehicles). The REIT Manager must manage China Merchants Commercial REIT so that at least 75% of the gross asset value of China Merchants Commercial REIT is invested in real estate that generates recurrent rental income at all times. For further details of the investment objectives and policies of the REIT Manager, please refer to the section headed "Strategy" in this Offering Circular. The assets of China Merchants Commercial REIT and income arising from those assets will be held by the Trustee on trust for the benefit of the REIT Manager initially and, upon issuance of Units, for the benefit of the Unitholders *pari passu* according to the number of Units held by each Unitholder, subject to the terms and conditions of the Trust Deed.

THE TRUST DEED

THE UNITS AND UNITHOLDERS

The rights and interests of Unitholders are contained in the Trust Deed. Under the Trust Deed, the Trustee must exercise all due diligence and vigilance in carrying out its functions and duties and in protecting the rights and interests of Unitholders.

Each Unit represents an undivided share in China Merchants Commercial REIT. A Unitholder has no equitable or proprietary interest in the underlying assets of China Merchants Commercial REIT and is not entitled to the transfer to him of any asset (or any part thereof) or any estate or interest in any asset (or any part thereof) of China Merchants Commercial REIT.

Unless otherwise expressly provided in the Trust Deed, a Unitholder may not interfere or seek to interfere with the rights, powers, obligations, authority or discretion of the REIT Manager or the Trustee, claim or exercise any right in respect of the Deposited Property or any part thereof or lodge any caveat or other notice affecting the Deposited Property or any part thereof, or require that all or any part of the Deposited Property be transferred to such Unitholder.

ISSUE OF UNITS AND/OR CONVERTIBLE INSTRUMENTS AND ISSUE PRICE

The Units will be listed and quoted in Hong Kong Dollars. The following is a summary of the provisions of the Trust Deed relating to the issue of Units.

The REIT Manager has the exclusive right to effect, for the account of China Merchants Commercial REIT, the creation and issue of Units and/or Convertible Instruments in accordance with the Trust Deed and subject to the provisions of the REIT Code and any other applicable laws and regulations. The issue of Units on the Listing Date for the purpose of the Global Offering shall be at an issue price determined on the basis disclosed in this Offering Circular.

After the Listing Date, new Units and/or Convertible Instruments may be offered on a pro rata basis as a rights issue without the prior approval of Unitholders other than where any such issue together with such Convertible Instruments (assuming full conversion) would increase the market capitalisation of the China Merchants Commercial REIT by more than 50.0% (on its own or when aggregated with any other pro rata issue of Units under the Trust Deed or open offer announced by China Merchants Commercial REIT, (a) within the 12-month period immediately preceding the announcement of the proposed rights issue; or (b) prior to such 12-month period where dealing in respect of Units issued pursuant thereto commenced within such 12-month period, together with any Convertible Instruments (assuming full conversion) granted or to be granted to Unitholders as part of such pro rata issues or open offers), in which case such issue shall require the prior approval of Unitholders by Ordinary Resolution.

THE TRUST DEED

Subject to certain restrictions in the Trust Deed regarding the issue of new Units to a connected person and the REIT Code, after the Listing Date, Units may be issued, or agreed (conditionally or unconditionally) to be issued, in any financial year (whether directly or pursuant to any Convertible Instruments), otherwise than on a pro rata basis to all existing Unitholders, without the approval of Unitholders, if:

- (a) the total number of new Units issued, or agreed (conditionally or unconditionally) to be issued, in that financial year pursuant to this paragraph, without taking into account:
 - (i) any new Units issued or issuable in that financial year pursuant to any Convertible Instruments issued (whether in that or any prior financial year) pursuant to and in compliance with this paragraph, to the extent that such new Units are covered by the aggregate number of new Units contemplated under paragraph (b) below at the Relevant Date applicable to the relevant convertible instruments;
 - (ii) such number of new Units issued or issuable pursuant to any such Convertible Instruments or any agreement referred to in sub-paragraph (a)(iii) below, in each case as a result of adjustments arising from the consolidation or sub-division or re-designation of Units;
 - (iii) any new Units issued in that financial year pursuant to any agreement for the issuance of Units, to the extent that such new Units were previously taken into account in the calculation made under this sub-paragraph (a) (whether in that or any prior financial year) at the Relevant Date applicable to that agreement;
 - (iv) any new Units issued, or agreed (conditionally or unconditionally) to be issued, otherwise than on a pro rata basis to all existing Unitholders and in respect of which the specific prior approval of Unitholders, in accordance with the relevant requirements hereunder and under applicable laws and regulations (including the REIT Code), has been obtained; and/or
 - (v) any new Units issued or agreed to be issued in that financial year pursuant to any reinvestment of distribution made in accordance with the Trust Deed;

plus:

- (b) (i) the maximum number of new Units issuable at the initial issue price pursuant to any Convertible Instruments issued, or agreed (conditionally or unconditionally) to be issued, otherwise than on a pro rata basis to all existing Unitholders and whose Relevant Date falls within that financial year; and

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- (ii) the maximum number of any other new Units which may be issuable pursuant to any such Convertible Instruments as at the Relevant Date thereof as estimated or determinable by the REIT Manager in good faith and using its best endeavours and based on such assumptions as may be considered appropriate by the REIT Manager and confirmed in writing to the Trustee and the SFC, having regard to the relevant terms and conditions of such Convertible Instruments (including any additional new Units issuable under any adjustment mechanism thereunder other than adjustments arising from the consolidation or sub-division or re-designation of Units);

does not increase the number of Units that were outstanding at the end of the previous financial year (or, in the case of an issue of, or an agreement (whether conditional or unconditional) to issue, Units or Convertible Instruments during the first financial year, the number of Units that were outstanding as at the Listing Date) by more than 20.0% (or such other percentage of outstanding Units as may, from time to time, be prescribed by the SFC) (the “**Percentage Threshold**”) provided that such Percentage Threshold in terms of number of Units shall, in the event of any consolidation or sub-division or re-designation of Units during that financial year, be proportionally adjusted to give effect to such consolidation, sub-division or re-designation of Units.

Any issue of, or any agreement (whether conditional or unconditional) to issue, new Units exceeding the Percentage Threshold will require specific prior approval of Unitholders by Ordinary Resolution at a meeting to be convened by the REIT Manager in accordance with the provisions of the Trust Deed.

Any issue, grant or offer of Units or Convertible Instruments to a connected person shall require specific prior approval of Unitholders by Ordinary Resolution at a meeting to be convened by the REIT Manager in accordance with the provisions of the Trust Deed, unless such issue, grant or offer is made under the following circumstances (where, for the avoidance of doubt, no Unitholders’ approval will be required):

- (i) the connected person receives a pro rata entitlement to Units and/or Convertible Instruments in its capacity as a Unitholder (provided that such issue will not increase the market capitalisation of China Merchants Commercial REIT by more than 50.0%);
- (ii) Units are issued to a connected person under the Trust Deed in or towards the satisfaction of the Base Fee and Variable Fee pursuant to a waiver granted by the SFC, one of the conditions of which being that in respect of each financial year, the maximum number of Units that may be issued to the REIT Manager as payment of all, or part of, the Base Fee and Variable Fee for that financial year shall, in aggregate, be limited to such number of Units as represents 3.0% of the sum of (a) the total number of Units outstanding as at the last day of the immediately preceding financial year; and (b) the number of Units (if any) issued in the relevant financial year for the purposes of financing any acquisition of real estate by China Merchants Commercial REIT. For details, please refer to the section headed “Modifications, Waivers and Licensing Conditions” in this Offering Circular;

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- (iii) New Units and/or that class of Convertible Instruments are issued to a connected person within 14 days after such connected person has executed an agreement to reduce its holding of Units and/or that class of Convertible Instruments by placing such Units and/or that class of Convertible Instruments to a third person or third persons who is/are not its associate(s) other than any excluded associate, provided always that:
 - (i) such new Units and/or that class of Convertible Instruments must be issued at a price not less than the placing price (which issue price may however be adjusted for the expenses of the placing); and
 - (ii) the number of Units and/or that class of Convertible Instruments issued to the connected person must not exceed the number of Units and/or that class of Convertible Instruments placed by it;
- (iv) the connected person is acting as underwriter or sub-underwriter of an issue of new Units and/or Convertible Instruments by the Trust and the following requirements are complied with: (i) a full disclosure of the terms and conditions of the underwriting or sub-underwriting shall be made in the listing document pursuant to which such new Units and/or Convertible Instruments may be issued by China Merchants Commercial REIT; (ii) if no arrangements or arrangements other than those described in the Trust Deed are made for the disposal of Units and/or Convertible Instruments (in case of a rights issue) not subscribed by the allottees under provisional letters of allotment or their renounees or (in the case of an open offer) not validly applied for, then the absence of such arrangements or the making of such other arrangements must be specifically approved by Unitholders by Ordinary Resolution and those persons who have a material interest in such other arrangements must abstain from voting on the matter at the meeting to approve such Ordinary Resolution and the circular to Unitholders must contain full details of the terms and conditions of that underwriting and/or sub-underwriting; and (iii) any applicable provisions of the Listing Rules where a connected person is acting as an underwriter or sub-underwriter of any offer of shares or other securities by a listed company (with necessary changes being made), as if those provisions were applicable to REITs authorised by the REIT Code;
- (v) the excess application and the taking up of pro rata entitlements by the connected person in respect of a pro rata issue of Units and/or convertible instruments or an open offer by the Trust; or
- (vi) Units are issued to a connected person pursuant to a reinvestment of distribution.

Notwithstanding the above, the REIT Manager shall not: (a) issue Units and/or; (b) issue Units at an issue price, that would result in non-compliance with the other provisions of the Trust Deed in respect of issue of Units, including, but not limited to the provisions regarding compliance with the REIT Code and the Listing Rules as may be applicable in determining the issue price.

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The REIT Manager may, in its discretion, elect not to extend an offer of Units under a rights issue to those Unitholders whose addresses are outside Hong Kong if the REIT Manager considers such exclusion to be necessary or expedient having regard to the relevant legal restrictions or requirements. In such event, the rights or entitlement to the Units of such overseas Unitholders will be offered for sale by the REIT Manager as the nominee and authorised agent of each such relevant Unitholder in such manner and at such price, as the REIT Manager may determine. Where necessary, the Trustee shall have the discretion to impose such other terms and conditions in connection with such sale. The proceeds of any such sale, if any, will be paid to the successful Unitholders.

BUY-BACK AND REDEMPTION OF UNITS

Unitholders have no right to demand for the buy-back or redemption of their Units. The REIT Manager must not buy-back or redeem any Units unless it is permitted to do so by the relevant codes and guidelines issued by the SFC from time to time (including but not limited to the Takeovers Code and the circular to management companies of SFC-authorised REITs titled “On-market Unit Repurchases by SFC-authorised REITs” dated 31 January 2008). Any buy-back or redemption of Units by the REIT Manager during such time must be effected in accordance with such codes and guidelines.

PUBLIC FLOAT REQUIREMENT

The REIT Manager shall use best efforts to ensure that a minimum of 25.0% (or such other percentage as specified by the SFC from time to time) (the “**Public Float Percentage**”) of the outstanding Units are held in public hands. In the event that the REIT Manager becomes aware that the percentage of the outstanding Units in the public hands has fallen below the Public Float Percentage, the REIT Manager shall use its best efforts to restore the percentage of Units held in public hands to at least the Public Float Percentage. The REIT Manager shall adopt proper internal procedures for monitoring the public float and shall notify the Trustee, the SFC and the SEHK (if so required) promptly if the percentage falls below the Public Float Percentage and issue an announcement regarding the same.

RIGHTS AND LIABILITIES OF UNITHOLDERS

The key rights of Unitholders include rights to:

- (a) receive income and other distributions attributable to the Units held;
- (b) receive audited accounts and the annual reports and semi-annual reports of China Merchants Commercial REIT; and
- (c) participate in the termination of China Merchants Commercial REIT by receiving a share of all net cash proceeds derived from the realisation of the assets of China Merchants Commercial REIT, in accordance with their proportionate interests in China Merchants Commercial REIT.

No Unitholder has a right to require that any authorised investment forming part of the Deposited Property of China Merchants Commercial REIT be transferred to him.

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Further, Unitholders shall not give any directions to the REIT Manager or the Trustee (whether at a meeting of Unitholders convened pursuant to the Trust Deed or otherwise) if it would require the Trustee or the REIT Manager to do or omit doing anything which may result in:

- (a) China Merchants Commercial REIT ceasing to comply with the REIT Code or the Listing Rules or the Trust Deed or any applicable rules to China Merchants Commercial REIT; or
- (b) the exercise of any discretion expressly conferred on the Trustee or the REIT Manager by the Trust Deed or the determination of any matter which, under the Trust Deed, requires the agreement of either or both of the Trustee and the REIT Manager; provided that nothing in this paragraph shall limit the right of a Unitholder to require the proper operation of China Merchants Commercial REIT in accordance with the Trust Deed or the compliance by the Trustee or the REIT Manager with their respective obligations under the Trust Deed.

A Unitholder shall not be liable to the REIT Manager or the Trustee to make any further payments to China Merchants Commercial REIT after he has fully paid the consideration to subscribe for or acquire his Units or to accept any liability in respect of his Units. These provisions seek to ensure that if the issue price of the Units held by a Unitholder has been fully paid, no such Unitholder, by the sole reason of being a Unitholder, would be personally liable to indemnify the Trustee or any creditor of China Merchants Commercial REIT in the event that the liabilities of China Merchants Commercial REIT exceed its assets.

INVESTMENT RESTRICTIONS

Subject to the requirements and exceptions under the REIT Code, the REIT Manager shall ensure that the following investment restrictions are complied with:

- (a) subject as provided in the Trust Deed, no investment shall be made by China Merchants Commercial REIT which would result in non-compliance with the REIT Code, any applicable laws and regulations, the Trust Deed or applicable investment restrictions in the Listing Rules (if any), applicable laws and regulations and the Trust Deed;
- (b) China Merchants Commercial REIT may only invest in authorised investments and other investments permitted by the REIT Code;
- (c) China Merchants Commercial REIT shall not invest in vacant land unless the REIT Manager has demonstrated that such investment is part-and-parcel of the property development which may be undertaken pursuant to paragraph 7.2A of the REIT Code and within the investment objective or policy of China Merchants Commercial REIT;
- (d) China Merchants Commercial REIT shall not lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person nor shall any part of the Deposited Property be used to secure the indebtedness of any person or any obligations, liabilities or indebtedness, without the prior written consent of the Trustee;

THE TRUST DEED

- (e) China Merchants Commercial REIT shall not acquire any investment which involves the assumption of any liability that is unlimited; and
- (f) China Merchants Commercial REIT shall hold each investment (which is in the nature of a particular piece of real estate or shares in any Special Purpose Vehicle holding interest in a particular piece of real estate) for a period of at least two years, unless the REIT Manager has clearly communicated to the Unitholders the rationale for disposal prior to the expiry of such period and the Unitholders approve the disposal of such investment by Special Resolution at a meeting to be duly convened and held in accordance with the Trust Deed.

The REIT Manager shall ensure that each Special Purpose Vehicle shall comply with the requirements set out in the Trust Deed.

VALUATION OF INVESTMENTS

The REIT Manager shall ensure that all valuations made by approved valuers pursuant to the Trust Deed shall be carried out in good faith in accordance with market practice on such basis as the approved valuers respectively may determine to be appropriate, subject always to the terms of the Trust Deed and the provisions of the REIT Code. The valuation methodology shall follow the “Valuation Standards on Properties” published from time to time by the Hong Kong Institute of Surveyors or the International Valuation Standards issued from time to time by the International Valuation Standards Council. Once adopted, the same valuation standards shall be applied consistently to all valuations of the real estate of China Merchants Commercial REIT having regard to the nature of the real estate (as defined in the Trust Deed) in question.

The REIT Manager shall determine the NAV of the Deposited Property based upon the approved valuer’s valuation of real estate and the value of other Deposited Property (in accordance with the methodology stated in the Trust Deed), less liabilities.

The Trustee shall take all reasonable care to ensure that the NAV of the Deposited Property and NAV of the Deposited Property per Unit (being the NAV of the Deposited Property divided by the number of Units then in issue) is calculated by the REIT Manager in accordance with the Trust Deed as and when an annual valuation report of China Merchants Commercial REIT’s real estate is issued by the approved valuer for the relevant period, and that such NAV of the Deposited Property and NAV of the Deposited Property per Unit shall be published in the annual report for China Merchants Commercial REIT.

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AMENDMENT OF THE TRUST DEED

The Trustee and the REIT Manager shall be entitled by supplemental deed and with the prior approval of the SFC to modify, alter or add to the provisions of the Trust Deed in such manner and to such extent as they may consider expedient for any purpose provided that:

- (a) unless the Trustee certifies in writing that in its opinion such modification, amendment, variation, alteration or addition:
 - (i) does not materially prejudice the interests of Unitholders, if so required, and does not operate to release to any material extent the Trustee or the REIT Manager from any responsibility to the Unitholders and does not increase the costs and charges payable from the Deposited Property (other than the costs, charges, fees and expenses incurred in connection with the supplemental deed); or
 - (ii) is necessary in order to comply with applicable fiscal, statutory or official requirements (whether or not having the force of law) including, without limitation, requirements under any Applicable Rules; or
 - (iii) is necessary to correct a manifest error,

no such modification, amendment, variation, alteration or addition shall be made without the sanction of a Special Resolution; and

- (b) no such modification, amendment, variation, alteration or addition to the Trust Deed shall impose upon any Unitholder any obligation to make any further payments in respect of his Units after he has fully paid the consideration to subscribe for or acquire his Units or to accept any liability in respect of his Units.

MEETINGS OF UNITHOLDERS

The REIT Manager shall at least once in every calendar year convene a general meeting of the Unitholders as the annual general meeting thereof in addition to any other meetings in that year and shall specify the meeting as such in the notice calling it. The annual general meeting shall be held at such time and place as the REIT Manager shall appoint and not less than 20 clear Business Days' notice in writing thereof shall be given to the Unitholders.

The Trustee or the REIT Manager may respectively (and the REIT Manager shall at the request in writing of not less than two Unitholders registered as together holding not less than 10.0% of the Units for the time being in issue and outstanding) at any time convene a meeting of Unitholders at such time or place in Hong Kong (subject as hereinafter provided) as the party convening the meeting may think fit and propose resolutions for consideration at such meeting. The REIT Manager shall determine the classification of the business of such meeting as special or ordinary in accordance with the REIT Code and the following provisions of the Trust Deed shall apply thereto.

At any meeting of Unitholders, the REIT Manager or a person nominated by the REIT Manager shall be the chairman of the meeting.

THE TRUST DEED

Except as otherwise provided for in the Trust Deed, 14 days' or 10 clear Business Days' notice (whichever is the longer) at the least (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 to be held shall be given to the Unitholders in the manner provided in this Deed, except that 21 days' notice at the least (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 such meeting shall be given to the Unitholders where a Special Resolution is proposed for consideration at such meeting. The notice shall specify the place, day and hour of meeting and the terms of the resolutions to be proposed thereat. A copy of the notice shall be sent by post to the Trustee unless the meeting shall be convened by the Trustee in which case a copy of the notice shall be sent by post to the REIT Manager. The accidental omission to give notice to or the non-receipt of notice by any of the Unitholders shall not invalidate the proceedings at any meeting.

At any meeting of Unitholders, two or more Unitholders present in person or by proxy registered as holding together not less than 10.0% of the Units for the time being in issue and outstanding shall form a quorum for the transaction of business, except for the purpose of passing a Special Resolution. The quorum for passing a Special Resolution shall be two or more Unitholders present in person or by proxy registered as holding together not less than 25.0% of the Units in issue and outstanding. No business shall be transacted at any meeting unless the requisite quorum is present at the commencement of business. Split proxies shall, for the avoidance of doubt, be permitted.

Any Unitholder shall be prohibited from voting his own Units at, or being counted in the quorum for, a meeting at which he has a material interest in the business to be conducted and that interest is different from the interests of other Unitholders (as determined by the REIT Manager, (where the Unitholder(s) concerned is (are) not connected persons of the REIT Manager under the REIT Code) or the Trustee (where the Unitholder(s) concerned is (are) connected persons of the REIT Manager, if appropriate, in its absolute opinion), including an issue of new Units where a Unitholder may increase his holdings of Units by more than his pro rata share, but excluding the appointment or removal of the manager of China Merchants Commercial REIT.

At any meeting, a resolution put to the meeting shall be decided on a poll and the result of the poll shall be deemed to be the resolution of the meeting. On a poll, every Unitholder who is present in person or by proxy shall have one vote for every Unit of which it is the Unitholder, provided such Units are fully paid up. Votes passed by a Unitholder in contravention of the REIT Code or Listing Rules shall not be counted. Where any Unitholder is, under the REIT Code, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of Unitholders in contravention of such requirement or restriction shall not be counted. An instrument of proxy may be in the usual common form or in any other form which the Trustee shall approve. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or authority shall be deposited at such place as the REIT Manager or the Trustee may in the notice convening the meeting direct, or if no such place is appointed then at the registered office of the Hong Kong Unit Registrar, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date stated in it as the date of its execution. Delivery of an instrument appointing a proxy

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shall not preclude a Unitholder from attending and voting at the meeting or poll concerned and, in such event, the instrument appointing the proxy shall be deemed to be revoked. A person appointed to act as a proxy need not be a Unitholder.

Any Unitholder being a corporation may by resolution of its directors (or other governing body) authorise any person to act as its representative at any meeting of Unitholders and a person so authorised shall at such meeting be entitled to exercise the same powers on behalf of the corporation so represented as the corporation could exercise if it were an individual Unitholder.

HKSCC Nominees (or any successor thereto) may appoint more than one proxy or corporate representative to attend and vote at Unitholders' meetings as if they were individual Unitholders and such representatives shall not be required to produce any documents of title or notarised authorisation in respect of such appointment. Where a Unitholder is a recognised clearing house (within the meaning of the SFO) or its nominee(s), it may authorise such person or persons as it thinks fit to act as its representative(s) or proxy(ies) at any Unitholders' meeting or any class of Unitholders provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number and class of Units in respect of which each such person is so authorised. Each person so authorised will be entitled to exercise the same power on behalf of the recognised clearing house as that clearing house or its nominee(s) could exercise if it were an individual Unitholder.

Under the Trust Deed, decisions with respect to certain matters require specific prior approval of Unitholders by way of Special Resolution. Such matters include: (a) changes in the REIT Manager's investment policies or strategies for China Merchants Commercial REIT; (b) disposal of any of China Merchants Commercial REIT's investment (which is in the nature of real estate or shares in any Special Purpose Vehicle holding interest in real estate) prior to the expiry of two years from the time of China Merchants Commercial REIT's holding of such investment; (c) any increase in the rate above the permitted limit or change in structure of the REIT Manager's fees; (d) any increase in the rate above the permitted limit or change in structure of the Trustee's fees; (e) certain modifications of the Trust Deed; (f) termination of China Merchants Commercial REIT; and (g) merger of China Merchants Commercial REIT. Unitholders may also, by way of a Special Resolution, (i) remove China Merchants Commercial REIT's auditors and appoint other auditors; or (ii) remove the Trustee.

Any decisions to be made by resolution of the Unitholders other than Special Resolutions or as specified otherwise in the Trust Deed or Applicable Rules, shall be made by Ordinary Resolution. Such matters to be made by Ordinary Resolution include, without limitation: (a) any issue of Units after the Listing Date which will require the approval of Unitholders pursuant to the Trust Deed and/or the Applicable Rules (please refer to the section headed "The Trust Deed — Issue of Units and/or Convertible Instruments and Issue Price" in this Offering Circular for details); (b) the appointment or removal of the manager of China Merchants Commercial REIT; or (c) any connected party transaction entered into between any connected person and with China Merchants Commercial REIT or any special purpose vehicle.

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POWERS, DUTIES AND OBLIGATIONS OF THE TRUSTEE

The Trustee's powers, duties and obligations are set out in the Trust Deed. These powers and duties include, but are not limited to:

- (1) carrying out the instructions of the REIT Manager in respect of investments unless they are in conflict with this Offering Circular, the Trust Deed or other constitutive documents of China Merchants Commercial REIT, the REIT Code or under other applicable law;
- (2) ensuring that the Deposited Property is properly segregated and held for the benefit of the Unitholders in accordance with the provisions of the Trust Deed and any other relevant constitutive documents of China Merchants Commercial REIT;
- (3) overseeing the activities of the REIT Manager in accordance with and for compliance with the Trust Deed, other relevant constitutive documents of China Merchants Commercial REIT and the regulatory requirements applicable to China Merchants Commercial REIT; and
- (4) ensuring that all the investment activities carried out by the REIT Manager are in line with the investment objective and policy of China Merchants Commercial REIT and the constitutive documents of China Merchants Commercial REIT and are in the interests of the Unitholders.

The Trustee shall exercise all due diligence and vigilance in carrying out its functions and duties and in protecting the rights and interests of Unitholders. In the exercise of its powers, the Trustee may (on the instruction of the REIT Manager in writing) and subject to the provisions of the Trust Deed, acquire or dispose of any real or personal property, borrow moneys and issue guarantees for the account of China Merchants Commercial REIT and encumber any asset. However, the Trustee shall take all reasonable care to ensure that China Merchants Commercial REIT (including, where relevant, a Special Purpose Vehicle) has good marketable legal and beneficial title to any real estate owned by China Merchants Commercial REIT (including where relevant, a Special Purpose Vehicle) and that each of the contracts (such as property contracts, rental agreements, joint venture or joint arrangement agreements and any other agreements) entered into by the Trustee on behalf of China Merchants Commercial REIT or as otherwise notified to the Trustee by the REIT Manager (including, where relevant, agreements entered into by a Special Purpose Vehicle) with respect to the investments is legal, valid and binding and enforceable by or on behalf of China Merchants Commercial REIT (including, where relevant, a Special Purpose Vehicle) in accordance with its terms. It shall not acquire any investment which conflicts with the Trust Deed, the REIT Code or any applicable law or otherwise involves the assumption of any liability that is unlimited.

The Trustee shall be responsible for the appointment of the board of directors of all Special Purpose Vehicles but shall not be responsible for finding any suitable individuals or providing any person as such candidate or nominee director or directors. In appointing suitable nominees of the REIT Manager as directors of the Special Purpose Vehicle, the Trustee may exercise discretion in refusing to appoint any nominee which the Trustee considers to be insufficiently qualified or in respect of whose integrity the Trustee is not satisfied.

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The Trustee has the power, but except for the purpose of complying with the REIT Code, shall not be under any obligation, to institute, acknowledge service of, appear in, prosecute or defend any action, suit, proceedings or claim in respect of the provisions of the Trust Deed or in respect of the Deposited Property or any part thereof, or in respect of any entitlement or interest of China Merchants Commercial REIT or any corporate or Unitholders' action (which in its opinion would or might involve it in expense or liability), unless the REIT Manager shall so request in writing. At the reasonable request of the REIT Manager, the Trustee shall take actions or commence proceedings in its capacity as trustee of China Merchants Commercial REIT as necessary including but not limited to action against any connected persons through the Trustee in relation to any transactions or agreements entered into by the Trustee in its capacity as trustee of China Merchants Commercial REIT with such persons, provided that the Trustee shall have discretion to refrain from taking actions or commencing proceedings after consultation with the REIT Manager if it considers in its absolute discretion that such action is not in the best interests of the Unitholders.

China Merchants Commercial REIT may legally and beneficially acquire and own the issued share capital of any special purpose vehicles in accordance with the REIT Code if the REIT Manager considers it necessary or desirable for China Merchants Commercial REIT to do so, in which event the REIT Manager shall instruct the Trustee to, and the Trustee shall accordingly directly or through a Special Purpose Vehicle subscribe or acquire by transfer on behalf of the Trust a Special Purpose Vehicle of CMSK provided that: (i) the Special Purpose Vehicle is wholly-owned by China Merchants Commercial REIT; or China Merchants Commercial REIT has majority ownership and control of such Special Purpose Vehicle and there are sufficient and proper safeguards to address the risks arising from the non-wholly owned structure; and (ii) such investment is not in conflict with the Trust Deed, the REIT Code and other applicable laws, and to the extent required by the REIT Code, and unless otherwise generally or specifically permitted by the SFC, such Special Purpose Vehicle shall be incorporated or redomiciled in a jurisdiction which, in the opinion of the REIT Manager, has established laws and corporate governance standards which are commensurate with those observed by companies incorporated in Hong Kong.

China Merchants Commercial REIT shall hold each investment (which is in the nature of real estate or shares in any Special Purpose Vehicle holding interest in a particular piece of real estate) for a period of at least two years, unless the REIT Manager has clearly communicated to the Unitholders the rationale for disposal prior to the expiry of such period and the Unitholders approve the disposal of such investment by Special Resolution at a meeting to be duly convened and held in accordance with the Trust Deed.

The Trustee may, subject to the provisions of the Trust Deed and for the purpose of carrying out and performing the duties and obligations on its part as trustee of the Trust, employ or engage any bankers, accountants, brokers, financial advisers, lawyers, tax advisers, approved valuers, computer experts and such other persons as may be necessary, usual or desirable for the purpose of exercising its powers and performing its obligations and all fees, charges and moneys payable to any such persons and all disbursements, expenses, duties and outgoings properly chargeable in respect thereof shall be paid out of the Deposited Property.

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Although the Trustee may borrow money for the purpose of China Merchants Commercial REIT, the Trustee shall take all reasonable care to ensure that the investment and borrowing provisions set out in the Trust Deed and the conditions under which China Merchants Commercial REIT was authorised by the SFC pursuant to the SFO and the conditions under which the REIT Manager was licensed by the SFC to manage the Trust and notified to the Trustee are complied with. No new borrowing or money raising shall be requisitioned or made by the REIT Manager under the Trust Deed if such borrowing or raising, together with the aggregate of all other borrowings or raisings made by the Trustee at the instruction of or made by the REIT Manager under the Trust Deed (in each case, whether directly or through Special Purpose Vehicles, and still remaining to be repaid), would in the aggregate, exceed: (A) 45.0% (or such other percentages as may be permitted by the REIT Code or as may be specifically permitted by the relevant authorities) of the total gross asset value as set out in China Merchants Commercial REIT's latest published audited accounts immediately prior to such borrowing being effected as adjusted by (i) deducting the amount of any distribution proposed by the REIT Manager in such audited accounts and any distribution declared by the REIT Manager since the publication of such accounts; and (ii) where appropriate, the latest published valuation of the assets of China Merchants Commercial REIT if such valuation is published after the publication of such accounts; or (B) such lower threshold as may be contractually agreed under any facility agreement.

China Merchants Commercial REIT shall not lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person nor shall any part of the Deposited Property be used to secure the indebtedness of any person or any obligations, liabilities or indebtedness, without the prior consent of the Trustee, except in accordance with the Trust Deed.

Neither the REIT Manager nor the Trustee shall be liable to account to any Unitholder for any such payment made or suffered by the REIT Manager or the Trustee (as the case may be) in good faith and in the absence of fraud, negligence, wilful default, a breach of the Trust Deed or a breach of trust (in the case of the Trustee) to any duly empowered fiscal authority of Hong Kong or elsewhere for taxes or other charges in any way arising out of or relating to any transaction or whatsoever nature under the Trust Deed notwithstanding that any such payments ought not to be, or need not have been, made or suffered. Any liability incurred and any indemnity to be given by the Trustee shall be limited to the assets of China Merchants Commercial REIT over which the Trustee has recourse provided that the Trustee has acted without fraud, negligence, or wilful default, breach of trust, breach of the Trust Deed, or breach of any of the other constitutive documents to which the Trustee is a party, the REIT Code or applicable laws and regulations. The Trust Deed contains certain indemnities in favour of the Trustee under which it will be indemnified out of the assets of China Merchants Commercial REIT for liability incurred, provided that the Trustee has acted without fraud, negligence, or wilful default, or breaches of the Trust Deed, breach of trust or breach of the constitutive documents (to which is a party) or breach of the Applicable Rules.

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RETIREMENT AND REMOVAL OF THE TRUSTEE

The Trustee may retire or be removed under the following circumstances:

- (a) The Trustee shall not be entitled to retire voluntarily except upon the appointment of a new trustee whose appointment is subject to the prior approval of the SFC. The retirement of the Trustee shall take effect at the same time as the new trustee takes up office as the trustee of China Merchants Commercial REIT.
- (b) The Trustee may be removed by prior notice in writing to the Trustee by the REIT Manager in any of the following events:
 - (i) if the Trustee goes into liquidation (except a voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the REIT Manager) or if a receiver is appointed over any of its assets or if a judicial manager is appointed in respect of the Trustee (or any such analogous process occurs or any analogous person is appointed in respect of the Trustee);
 - (ii) if the Trustee ceases to carry on business; or
 - (iii) if the Unitholders by Special Resolution duly passed at a meeting of Unitholders held in accordance with the provisions contained in the Trust Deed, and of which at least 21 calendar days' notice has been given to the Trustee and the REIT Manager, shall so decide.

TRUSTEE'S FEE

The remuneration of the Trustee shall comprise:

- (i) a one-off acceptance fee as agreed between the Trustee and the REIT Manager of HK\$180,000; and

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- (ii) in each financial year, an ongoing fee, the rate of which will be determined in accordance with the thresholds set out below, subject to a minimum amount of RMB56,000 per month:

	<u>Value of Deposited Property</u>	<u>Fee Rate per Annum</u>
(aa)	where the value of the Deposited Property is less than RMB4 billion	0.0250% per annum of the value of the Deposited Property (which may be increased from time to time to a maximum percentage of 0.06% per annum of the value of the Deposited Property)
(bb)	where the value of the Deposited Property is, or is greater than, RMB4 billion but less than RMB7.5 billion	0.0200% per annum of the value of the Deposited Property (which may be increased from time to time to a maximum percentage of 0.06% per annum of the value of the Deposited Property)
(cc)	where the value of the Deposited Property is, or is greater than, RMB7.5 billion but less than RMB11.5 billion	0.0175% per annum of the value of the Deposited Property (which may be increased from time to time to a maximum percentage of 0.06% per annum of the value of the Deposited Property)
(dd)	where the value of the Deposited Property is, or is greater than RMB11.5 billion but less than RMB15.5 billion	0.0160% per annum of the value of the Deposited Property (which may be increased from time to time to a maximum percentage of 0.06% per annum of the value of the Deposited Property)
(ee)	where the value of the Deposited Property is, or is greater than RMB15.5 billion	0.0150% per annum of the value of the Deposited Property (which may be increased from time to time to a percentage of 0.06% per annum of the Deposited Property)

Where there is an increase in the percentage rate applicable to any of (aa), (bb), (cc), (dd) or (ee), the other percentage rates may also be increased. Where a threshold for the value of the Deposited Property set out in the first column above is exceeded, the fee rate at the next level shall be applied to the entire value of the Deposited Property (and shall not be applied only to the amount by which such threshold is exceeded).

The Trustee shall give at least one month's prior written notice to the REIT Manager and the Unitholders of any increase in the rate of the remuneration of the Trustee up to and including the maximum rate of the ongoing fee that the Trustee proposes to charge from time to time pursuant to the Trust Deed. Any such increase must be approved by the REIT Manager. Any increase in the maximum rate, or any change to the structure of the Trustee's remuneration, shall be subject to the passing of a Special Resolution.

The remuneration of the Trustee shall be payable out of the Deposited Property semi-annually in arrears (within 30 days of the end of every six calendar months) and will be calculated by reference to the unaudited management accounts of China Merchants Commercial REIT prepared by the REIT Manager for the relevant six months. The remuneration of the Trustee shall be payable out of the Deposited Property in cash. The remuneration payable to the Trustee for a broken period shall be pro-rated on a time basis.

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The ongoing fees calculated in accordance with the above are subject to adjustment after the publication of the audited financial statements of China Merchants Commercial REIT for that financial year, as follows:

$$\text{Adjustment} = (\text{RPF}\% \times \text{DP}) - \text{SF}$$

Where: RPF = the relevant percentage figure determined in accordance with the table above;

DP = the value of the Deposited Property as published in the audited financial statements of China Merchants Commercial REIT for the relevant financial year; and

SF = the sum of the semi-annually ongoing fees received by the Trustee in respect of the relevant financial year.

Where the above adjustment is positive, China Merchants Commercial REIT shall pay the difference to the Trustee within 30 days after the publication of the audited financial statements of China Merchants Commercial REIT. Where the adjustment is negative, the Trustee shall pay the difference to China Merchants Commercial REIT within 30 days after publication of the audited financial statements of China Merchants Commercial REIT for the relevant financial year. For the avoidance of doubt, the above adjustment shall not affect the minimum fee of RMB56,000 per month.

If the Trustee finds it expedient, necessary or is requested by the REIT Manager to undertake duties which are of an exceptional nature or otherwise outside the scope of the Trustee's normal duties in the ordinary course of normal day-to-day business operations of China Merchants Commercial REIT including the acquisition of or divestment or disposal of any authorised investment by China Merchants Commercial REIT after the Listing, the Trustee is entitled to charge and be paid, out of the Deposited Property, such fees and expenses on a time cost basis at a rate to be agreed with the REIT Manager from time to time.

TERMINATION OF CHINA MERCHANTS COMMERCIAL REIT

Under the Trust Deed, China Merchants Commercial REIT shall be terminated as follows:

Termination if China Merchants Commercial REIT is wound up by a court order or the operation of law

China Merchants Commercial REIT will be terminated if it is wound up by a court order or is otherwise terminated by the operation of law. China Merchants Commercial REIT will also be terminated if for any reason, there is no manager under China Merchants Commercial REIT for a period of more than 60 calendar days or such longer period as the Trustee considers appropriate. Otherwise China Merchants Commercial REIT shall continue until the expiration of 80 years less one day from the date of commencement of China Merchants Commercial REIT as provided in the Trust Deed, or until China Merchants Commercial REIT is terminated or merged in the manner described below or as set out in the sub-section headed "Merger of China Merchants Commercial REIT" below.

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Termination with the specific prior approval by Special Resolution

Save as described above, the termination of China Merchants Commercial REIT shall require specific prior approval by Special Resolution at a meeting to be convened in accordance with the provisions contained in the Trust Deed by the REIT Manager. Where the proposal to terminate China Merchants Commercial REIT is recommended by the REIT Manager, the REIT Manager and any connected persons of the REIT Manager shall abstain from voting if: (i) they hold interests in the Units; and (ii) their interest (at the sole determination of the Trustee) in terminating China Merchants Commercial REIT is different from that of all other Unitholders. The Trustee shall have no liability for any consequence arising out of such termination recommended by the REIT Manager and approved by Special Resolution in the absence of fraud, bad faith, negligence or wilful default, breach of any constitutive documents to which the Trustee is a party, breach of the REIT Code or other applicable laws and regulations or a breach of trust.

An announcement on the termination of China Merchants Commercial REIT shall be made by the REIT Manager to the Unitholders as soon as reasonably practicable in accordance with the provisions of the Trust Deed. The REIT Manager shall also serve on Unitholders, within 21 days of the announcement, a circular convening an extraordinary general meeting containing the following information: (a) the rationale for the termination of China Merchants Commercial REIT; (b) the effective date of the termination; (c) the manner in which the Deposited Property are to be dealt with; (d) the procedures and timing for the distribution of the proceeds of the termination; (e) a valuation report of China Merchants Commercial REIT prepared by an approved valuer which is dated not more than three months before the date of the circular; (f) the alternatives available to the Unitholders (including, if possible, a right to switch without charge into another authorised scheme); (g) the estimated costs of the termination and who is expected to bear such costs; and (h) such other material information that the REIT Manager determines that the Unitholders should be informed of.

Upon the Unitholders' approval of the termination of China Merchants Commercial REIT, no further Units shall be created, issued, cancelled or sold. No transfer of Units may be registered and no other change to the register of Unitholders may be made without the sanction of the Trustee following the announcement referred to above. No further investments may be made by China Merchants Commercial REIT upon its termination and the obligations of the Trustee, the REIT Manager and the approved valuer shall continue until the completion of the liquidation of the assets and termination of China Merchants Commercial REIT.

Generally, upon approval of the termination of China Merchants Commercial REIT, the Trustee shall oversee the realisation of the investments by the REIT Manager (which the REIT Manager shall effect as soon as practicable) and shall use its reasonable endeavours to ensure that the REIT Manager shall repay out of the Deposited Property any outstanding borrowings effected by or for the account of the China Merchants Commercial REIT (together with any interest thereon but remaining unpaid) and shall ensure the proper discharge of all other obligations and liabilities of the China Merchants Commercial REIT. The manner of disposal of the Deposited Property is specified in the Trust Deed, with such manner being subject to the relevant provisions of the REIT Code.

All investments shall be disposed of through public auction or any form of open tender or in such other manner as the SFC may permit. The disposal shall be conducted at arm's length and conducted in the best interests of the Unitholders. The disposal price shall be the best available price obtained through public auction or open tender. Subject as aforesaid, such

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sale and repayment shall be carried out and completed in such manner and within such period after the termination of China Merchants Commercial REIT as the REIT Manager in its absolute discretion deems advisable provided that, unless otherwise permitted by the SFC, such period may not exceed 24 months and where it exceeds 12 months, it must be in the interests of Unitholders and Unitholders shall be informed by way of announcement.

Subject to the provisions of the Trust Deed, any net cash proceeds derived from the sale or realisation of such investments shall (at such time or times as the Trustee shall deem appropriate) be distributed to the Unitholders pro rata to the number of Units held or deemed to be held by them respectively at the date of the termination of China Merchants Commercial REIT provided that if the liquidation of China Merchants Commercial REIT exceeds six months from the date of termination of China Merchants Commercial REIT, an interim distribution shall be made in respect of any net proceeds derived from the sale or realisation of investments by the end of each six month period (except where no sales were made during such period). Upon completion of the liquidation of the assets of China Merchants Commercial REIT, the following shall be prepared:

- (a) a REIT Manager's review and comment on the performance of China Merchants Commercial REIT and an explanation as to how the investments have been disposed of and the transaction prices and major terms of disposal;
- (b) a Trustee's report that the REIT Manager has managed and liquidated the assets of China Merchants Commercial REIT in accordance with the REIT Code and the provisions of the Trust Deed;
- (c) financial statements of China Merchants Commercial REIT which shall be distributed to the Unitholders by the REIT Manager within three months of completion of the liquidation of the assets of China Merchants Commercial REIT and a copy filed with the SFC; and
- (d) an auditors' report.

Following the disposal of the Deposited Property and the distribution of the net proceeds derived from the sale or realisation of the Deposited Property (if any), China Merchants Commercial REIT will terminate.

MERGER OF CHINA MERCHANTS COMMERCIAL REIT

The merger of China Merchants Commercial REIT shall require specific prior approval by Special Resolution. Where the proposal to merge China Merchants Commercial REIT is recommended by the REIT Manager, the REIT Manager and any connected persons of the REIT Manager shall abstain from voting if they hold interests in the Units and if their interest (at the sole determination of the Trustee) in merging China Merchants Commercial REIT is different from that of all other Unitholders (save for the mere fact that the REIT Manager is the manager of the Trust). Where upon any such merger the Trustee retires, any deed effecting the merger by which the Deposited Property and liabilities of China Merchants Commercial REIT are so merged shall include indemnification of the Trustee to its satisfaction. The Trustee shall cease to be liable for obligations and liabilities of China Merchants Commercial REIT subsisting at the time of merger to the extent such obligations and liabilities are subsequently discharged from and out of any merger of the Trust recommended by the REIT Manager and approved by Special Resolution other than any liability arising from the fraud,

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bad faith, negligence or wilful default, breach of any constitutive documents to which the Trustee is a party, breach of the REIT Code or other applicable laws and regulations or a breach of trust by the Trustee.

Any merger of China Merchants Commercial REIT may only take effect upon the successor entity assuming responsibility for the performance and discharge of all obligations and liabilities of China Merchants Commercial REIT subsisting at the time of the merger. Where China Merchants Commercial REIT is involved in any form of merger, takeover, amalgamation or restructuring, the Takeovers Code must be complied with and the Trustee and the REIT Manager shall as soon as practicable consult with the SFC on the manner in which such activities could be carried out so that it is fair and equitable to all Unitholders.

An announcement on the intention to merge of China Merchants Commercial REIT shall be made by the REIT Manager to the Unitholders as soon as reasonably practicable in accordance with the provisions of the Trust Deed. The REIT Manager shall also serve on Unitholders, within 21 days (or such other period as permitted or required by the SFC) of the announcement, a circular convening an extraordinary general meeting containing the following information: (a) the rationale for the merger of China Merchants Commercial REIT; (b) the effective date of the merger; (c) the manner in which the Deposited Property is to be dealt with; (d) the procedures and timing for the issuance or exchange of new Units arising from the merger; (e) a valuation report of China Merchants Commercial REIT prepared by an approved valuer which is dated not more than three months before the date of the circular; (f) the alternatives available to the Unitholders; (g) the estimated costs of the merger and who is expected to bear costs; and (h) such other material information that the REIT Manager determines that the Unitholders should be informed of.

Any merger pursuant to the provisions of the Trust Deed may only take effect upon the successor entity assuming responsibility for the performance and discharge of all obligations and liabilities of China Merchants Commercial REIT subsisting at the time of merger. Upon the completion of the merger of China Merchants Commercial REIT, the following shall be prepared:

- (i) the REIT Manager's review and comment on the performance of China Merchants Commercial REIT and an explanation as to how the investments have been accounted for in the merged scheme;
- (ii) the Trustee's report that the REIT Manager has managed and merged China Merchants Commercial REIT in accordance with the REIT Code and the provisions of the Trust Deed;
- (iii) financial statements of China Merchants Commercial REIT which shall be distributed to Unitholders by the REIT Manager within three months of the completion of the merger and a copy filed with the SFC; and
- (iv) an auditors' report.

Upon the Unitholders' approval of the merger of China Merchants Commercial REIT: (a) no further Units shall be created, issued, cancelled or sold; and (b) no transfer of Units may be registered and no other change to the unit registers may be made without the sanction of the Trustee.

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DEEMED APPLICATION OF PART XV OF THE SFO

The provisions of Part XV of the SFO (other than sections 328 and 351) shall have effect, *mutatis mutandis*, as if:

- (a) China Merchants Commercial REIT is a “listed corporation” for the purposes of Part XV of the SFO;
- (b) the “relevant share capital” of such listed corporation are references to: (i) the Units which are issued and outstanding from time to time; and (ii) the Units which the REIT Manager has agreed to issue, either conditionally or unconditionally, from time to time;
- (c) a Unit is a share comprised in the relevant share capital of such listed corporation and the Unitholder is a holder of a share in the relevant share capital of such listed corporation;
- (d) a person who is interested in a Unit is interested in a share in the relevant share capital of such listed corporation;
- (e) the REIT Manager itself is a director of such listed corporation;
- (f) the directors and the chief executive of the REIT Manager are the directors and the chief executive respectively of such listed corporation;
- (g) “**percentage level**”, in relation to a notifiable interest, means the percentage figure found by expressing the aggregate number of Units in which the person is interested immediately before or (as the case may be) immediately after the relevant time as a percentage of all the Units in issue at the relevant time as published by the REIT Manager and rounding that figure down (if it is not a whole number) to the next whole number;
- (h) “**percentage level**”, in relation to a short position, means the percentage figure found by expressing the aggregate number of Units in which the person has a short position immediately before or (as the case may be) immediately after the relevant time as a percentage of all the Units in issue at the relevant time as published by the REIT Manager and rounding that figure down (if it is not a whole number) to the next whole number; and
- (i) in addition and without prejudice to any notification required to be given to the Hong Kong Stock Exchange by virtue of the deemed application of Part XV of the SFO, any notification with respect to interests in Units required to be given to the listed corporation by the operation of the relevant provisions in the Trust Deed shall be given by the relevant parties to the REIT Manager and the REIT Manager shall send copies of the notifications received by it to the Trustee promptly.

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Specifically, the Trust Deed provides that, subject to certain modifications set out in the Trust Deed:

- (a) the duty of disclosure under Divisions 2 to 4 of Part XV of the SFO (other than section 328 of the SFO) shall arise in respect of a person who: (i) is interested in Units, or who acquires an interest in or who ceases to be interested in Units; or (ii) has a short position in Units, or who comes to have or ceases to have a short position in Units. Accordingly, a duty of disclosure shall arise under the Trust Deed in relation to that person on the occurrence of the relevant events described in section 310 of the SFO in the circumstances specified in section 313 of the SFO; and
- (b) the duty of disclosure under Divisions 7 to 9 of Part XV of the SFO (other than section 351 of the SFO) shall arise in respect of the REIT Manager and each director or the chief executive of the REIT Manager who: (i) is interested in Units, or who acquires an interest in or who ceases to be interested in Units, or (ii) has a short position in Units, or who comes to have or ceases to have a short position in Units. Accordingly, a duty of disclosure shall also arise under the Trust Deed in relation to the REIT Manager and a director or the chief executive of the REIT Manager (as the case may be) on the occurrence of the relevant events described in section 341 of the SFO in the circumstances specified in that section.

Where a duty of disclosure arises by virtue of the deemed application of Part XV of the SFO, the relevant person shall give notice to the REIT Manager and the Hong Kong Stock Exchange, and the REIT Manager shall promptly send a copy of the notification received by it to the Trustee.

The powers and duties of a “listed corporation” under Division 5 of Part XV of the SFO to investigate ownership of interests in Units shall be exercised by or performed solely by the REIT Manager except where the interest or short position (or deemed interested or deemed short position) relates to Units held by or in which the REIT Manager is interested or has a short position, in which case the power shall be exercised by or the duty shall be performed solely by the Trustee.

If a person who has a duty of disclosure under the Trust Deed fails to make notification in accordance with the provisions of the Trust Deed, irrespective of whether that person is a Unitholder or not, the Units in which that person is (or is deemed to be) interested in (the “**Affected Units**”) shall be subject to the relevant provisions of the Trust Deed. When the person interested in the Affected Units is a person other than the REIT Manager, the REIT Manager may, in its absolute discretion, take any or all of the following actions in respect of any or all of the Affected Units:

- (a) declare that the voting rights attached to any or all of the Affected Units to be suspended (and, upon such declaration, such voting rights shall be suspended for all purposes in connection with China Merchants Commercial REIT);
- (b) suspend the payment of any distributions in respect of any or all of the Affected Units (and, upon such suspension, any such distributions shall be retained in a trust account in the name of the REIT Manager pending the application of such distributions);

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- (c) impose an administrative fee of up to HK\$0.10 per Affected Unit for each day of non-compliance from the date on which disclosure is due to be made by the person; and/or
- (d) suspend registration and/or decline to register any transfer of part or all of the Affected Units,

until the relevant notification requirements are fully complied with to the satisfaction of the REIT Manager.

Irrespective of whether any Unitholder is in default of the code for disclosure of interests in the Units adopted by the REIT Manager and the relevant provisions in the Trust Deed, each Unitholder shall be bound by the decision of the REIT Manager and each Unitholder's Units shall be bound by such decision if the REIT Manager declares (in its absolute discretion) that any or all of such Units are (or are deemed to be) Affected Units.

Where the person interested in the Affected Units is the REIT Manager:

- (a) the Trustee may exercise the powers of the REIT Manager in respect of any or all of the Affected Units (and for the avoidance of doubt, any suspension of payment of distribution shall be retained in a trust account in the name of the Trustee);
- (b) the Trustee may exercise the powers of the REIT Manager to retain the administrative fee for the benefit of China Merchants Commercial REIT and to take action if the fee is not paid; and
- (c) irrespective of whether the REIT Manager is in default of the provisions of the Trust Deed, the REIT Manager shall be bound by the decision of the Trustee and its Units shall be bound by such decision if the Trustee declares (in its absolute discretion) that any or all of such Units are (or are deemed to be) Affected Units.

GOVERNING LAW AND JURISDICTION

The Trust Deed shall in all respects be governed by, and construed in accordance with, the laws of Hong Kong. The REIT Manager, the Trustee and each Unitholder submit to the non-exclusive jurisdiction of the courts of Hong Kong.

MATERIAL AGREEMENTS AND OTHER DOCUMENTS

The agreements described in this section are complex documents and only a summary of the agreements is set out herein. Investors should refer to the agreements themselves to confirm specific information or for a detailed understanding of China Merchants Commercial REIT. The agreements were executed prior to the date of this Offering Circular and are available for inspection at the registered office of the REIT Manager at Room 2603 to 2606, 26/F, China Merchants Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Hong Kong during normal business hours and up to the Listing Date.

SALE AND PURCHASE DEED

On 25 November 2019, the REIT Manager (in its capacity as manager of China Merchants Commercial REIT) and the Purchaser entered into the Sale and Purchase Deed with the Vendor (as vendor) and Eureka (as warrantor) pursuant to which the Purchaser agreed to acquire the Frontier Share and accept the assignment of the Assigned Frontier Payables from the Vendor, with the rights attached to it at the Asset Injection Completion Date.

Consideration

The purchase consideration for Frontier Shekou (the “**Purchase Consideration**”) is equal to the Initial Consideration as adjusted by the Final Payment. The Purchase Consideration shall be applied: (i) firstly, as payment on a dollar-for-dollar basis for the assignment of the Assigned Frontier Payables as at the Asset Injection Completion Date to the Purchaser; and (ii) thereafter, as payment for the transfer of the Frontier Share to the Purchaser. The Initial Consideration shall be satisfied by the issue of the Consideration Units and in cash, with the cash component to be financed by the proceeds of the Global Offering and the Bank Loan Drawdown Amount. For further details, please refer to the section headed “Use of Proceeds” in this Offering Circular.

The “**Initial Consideration**” is equal to the Acquisition Value (being HK\$5,835.1 million) plus the amount of the Initial Adjustment Sum.

The “**Acquisition Value**” comprises: (i) the agreed value of the Properties between the parties provisionally based on the Minimum Offer Price (being HK\$5,822.3 million, compared to the Appraised Value of the Properties as at 30 September 2019, being RMB6,579.0 million (which is equivalent to HK\$7,438.9 million); and (ii) the Adjusted NAV of Frontier Shekou as at 30 June 2019 determined based on the Accountants’ Report (being RMB11.3 million, which is equivalent to HK\$12.8 million).

As the Acquisition Value is provisionally based on the Minimum Offer Price, the purpose of the Initial Adjustment Sum is to ensure that the Initial Consideration reflects the value of the Properties implied by the Offer Price. The “**Initial Adjustment Sum**” is equal to:

- (a) the difference between the Offer Price and the Minimum Offer Price, multiplied by the number of Offer Units (excluding any additional Units sold pursuant to the exercise of the Over-allotment Option); minus
- (b) the additional commission payable under the Underwriting Agreements as a result of the Offer Price being in excess of the Minimum Offer Price.

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As the Acquisition Value is also provisionally based on the Adjusted NAV of Frontier Shekou as at 30 June 2019, the parties to the Sale and Purchase Deed have agreed to make either of the following payments after the Asset Injection Completion Date (“**Final Payment**”):

- (a) if the Adjusted NAV of Frontier Shekou (as set out in the Completion Statement) is higher than RMB11.3 million (being the Adjusted NAV of Frontier Shekou as at 30 June 2019 determined based on the Accountants’ Report), the Purchaser shall pay the difference to the Vendor; and
- (b) if the Adjusted NAV of Frontier Shekou (as set out in the Completion Statement) is lower than RMB11.3 million, the Vendor shall pay the difference to the Purchaser.

Pursuant to the Sale and Purchase Deed, the Purchase Consideration shall be paid in the following manner:

- (a) on the Asset Injection Completion Date, which shall take place prior to the Listing Date, the Purchaser shall (i) issue the Consideration Units (i.e., 377,819,549 Units, which will represent 33.5% of all of the issued and outstanding Units (assuming the Over-allotment Option is not exercised) on the Listing Date) to Eureka, being the party nominated by the Vendor to receive the Consideration Units, at a fixed issue price of HK\$3.42, which is equal to the Minimum Offer Price; and (ii) issue the Promissory Note to the Vendor;
- (b) within five Business Days after the Listing Date, following completion of the Global Offering, the Purchaser shall pay to the Vendor in cash an amount equal to: (i) the principal amount of the Promissory Note; minus (ii) the Bulletin 7 Withholding Amount, which shall be financed from the proceeds of the Global Offering and the Bank Loan Drawdown Amount (please refer to the section headed “Use of Proceeds” in this Offering Circular); and
- (c) within ten Business Days after agreement or determination of the Completion Statement, make the Final Payment.

In determining the Adjusted NAV of Frontier Shekou in the Completion Statement, the Vendor and the Purchaser have agreed that the auditors shall, among other things, exclude:

- (a) the value of the Properties;
- (b) the property, plant and equipment of the Predecessor Group;
- (c) the deferred tax liability in relation to accelerated tax depreciation and change in fair value of investment properties; and
- (d) the Assigned Frontier Payables.

The Unassigned Frontier Payables represent the portion of the Frontier Payables that is expected to be repaid after the Asset Injection Completion Date, with the timing pending completion of the PRC Property Companies’ capital reduction and dividend processes. To the extent the Unassigned Frontier Payables have not been repaid on or prior to the Asset Injection Completion Date, such amount shall be regarded as a liability for the purposes of determining the Adjusted NAV, which will *prima facie* result in a downward adjustment to the

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Purchase Consideration. However, in such circumstance, the cash earmarked for distribution following the capital reduction shall be retained by the PRC Property Companies at the Asset Injection Completion Date, which shall be regarded as an asset for the purposes of determining the Adjusted NAV and result in a corresponding upward adjustment to the Purchase Consideration, netting off the aforementioned downward adjustment. Accordingly, the total Purchase Consideration shall not be impacted by whether the Unassigned Frontier Payables are repaid before or after the Asset Injection Completion Date.

If not repaid prior to the Asset Injection Completion Date, the Unassigned Frontier Payables shall, as with other liabilities of Frontier Shekou, be China Merchants Commercial REIT's responsibility after the Asset Injection Completion Date through its ownership of Frontier Shekou from such date. Such liability shall be funded from the abovementioned earmarked cash held by the PRC Property Companies, which China Merchants Commercial REIT shall also acquire after the Asset Injection Completion Date. The Unassigned Frontier Payables do not bear any interest.

The Final Payment and the Purchase Consideration shall be announced by the REIT Manager upon determination thereof.

Bulletin 7 Withholding Amount

The sale of the Frontier Share by the Vendor to the Purchaser constitutes an indirect transfer of PRC taxable properties undertaken by non-resident enterprises under Bulletin 7. Under the Sale and Purchase Deed, the Purchaser shall withhold the estimated amount of the enterprise income tax payable under Bulletin 7 in connection with the transfer of the Frontier Share (the "**Bulletin 7 Withholding Amount**") from the consideration payable to the Vendor. Also please refer to the section headed "Taxation — China Indirect Transfer Tax" in this Offering Circular.

Conditions

Asset Injection Completion will be subject to the satisfaction of the following conditions:

- (a) the entering into of the International Underwriting Agreement;
- (b) there being no outstanding amounts of non-trade nature which are due from or to related companies (as interpreted under IFRS) of the Predecessor Group, save for the Frontier Payables;
- (c) there being no material damage to any Property, no compulsory acquisition or resumption of any Property and no notice of such intention received from any governmental authority; and
- (d) no material breach of the warranties of the Vendor and Eureka which, in the opinion of the Purchaser and/or the REIT Manager (in its capacity as manager of China Merchants Commercial REIT), will have a material adverse effect on the financial condition, prospects, earnings, business, undertaking or assets of China Merchants Commercial REIT or on the Properties, in each case taken as a whole.

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Representations, warranties and indemnities

The Sale and Purchase Deed contains customary representations and warranties given by the Vendor and Eureka (as co-warrantors) in respect of the Predecessor Group. It also sets out certain limitations on the liability of the Vendor and Eureka (as co-warrantors) in respect of any breach of the warranties, including, a limitation period of three years from the Asset Injection Completion Date for all claims made under the deed (other than claims relating to fundamental warranties and tax, in which case the limitation period is seven years from the Asset Injection Completion Date), and a limitation amount of the Purchase Consideration for all such claims.

Furthermore, the Sale and Purchase Deed contains customary indemnities and, in particular, the Vendor and Eureka have irrevocably undertaken to indemnify China Merchants Commercial REIT, the Holding Company, the REIT Manager and the Predecessor Group, to the fullest extent permissible by law, for any liability, losses, damages, fines, fees and costs (on a full indemnity basis) which any one of them may suffer in respect of the non-conforming use of the Subject Properties, including but not limited to:

- (a) losses incurred in connection with any rectification orders concerning the non-conforming use including:
 - (i) the early termination of non-conforming tenancies in accordance with their terms and pursuant to PRC law;
 - (ii) the necessary renovation works to convert the affected Subject Properties from office space to industrial space; and
 - (iii) any consequential reduction in the value of the Subject Properties as a direct consequence of complying with the rectification order;
- (b) losses incurred in connection with any fine or repossession order resulting from the non-conforming use; and
- (c) any land premium payable for changing the Subject Property's real estate ownership certificate use from industrial use to a use that is in line with the actual use of the relevant Subject Property, should this be mandatorily required by the PRC Government in future. For the avoidance of doubt, the Subject Properties Indemnity will not cover any land premium payable for changing a Subject Property's real estate ownership certificate use from industrial use to a use that is in line with the actual use of the relevant Subject Property, if such application is made by the Subject Property Companies on a voluntary basis.

("Subject Properties Indemnity")

The Subject Properties Indemnity will, for each Subject Property, be limited to the portion of the Purchase Consideration payable in respect of that Subject Property, and will terminate upon expiry of the land use rights of that Subject Property.

Eureka is a company incorporated in Hong Kong and a wholly-owned subsidiary of CMSK. Eureka is one of CMSK's flagship offshore subsidiaries and had net assets of approximately RMB24.8 billion as at 31 December 2018. CMSK has undertaken to the

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Purchaser that it shall ensure that Eureka will maintain net assets in excess of the aggregate Subject Properties Indemnity limitation cap (being the aggregate Purchase Consideration payable in respect of the Subject Properties) for so long as the Subject Properties Indemnity is in force.

OPERATIONS MANAGEMENT AGREEMENT

Please refer to “The Operations Manager and the Property Manager — The Operations Manager — The Operations Management Agreement” in this Offering Circular for details of the Operations Management Agreement.

PROPERTY MANAGEMENT AGREEMENTS

Please refer to “The Operations Manager and the Property Manager — The Property Manager — The Property Management Agreements” in this Offering Circular for details of the Property Management Agreements.

DEED OF RIGHT OF FIRST REFUSAL

CMSK executed a deed dated 22 November 2019 in favour of the Trustee (in its capacity as trustee of China Merchants Commercial REIT) and the REIT Manager (in its capacity as manager of China Merchants Commercial REIT) under which China Merchants Commercial REIT has been granted, conditional on the Listing, a right of first refusal (“**ROFR**”) on the following terms and conditions:

Scope of Coverage

In the event that CMSK or CMSK Relevant Subsidiaries propose to dispose of any property (other than such property that will be disposed of: (i) pursuant to an internal reorganisation exercise; or (ii) by public auction as required under the applicable laws and regulations) that:

- (a) fulfils (or would reasonably be regarded as fulfilling) the investment criteria and property characteristics, and is consistent (or would reasonably be regarded as being consistent) with the investment strategy of the REIT Manager for property investments by China Merchants Commercial REIT, as stated in this Offering Circular;
- (b) is a completed office and/or shopping mall property;
- (c) is located in the Greater Bay Area (other than Foshan and Guangzhou), Beijing or Shanghai; and
- (d) is owned or developed by CMSK (or CMSK Relevant Subsidiaries, as the case may be) and in which CMSK (or CMSK Relevant Subsidiaries, as the case may be) has an ownership interest of 95.0% or more,

China Merchants Commercial REIT shall have the ROFR to acquire such qualifying property (the “**Relevant Property**”).

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For the purposes of the ROFR, “**CMSK Relevant Subsidiaries**” includes any entity which is: (i) accounted for and consolidated in the audited consolidated accounts of CMSK pursuant to PRC GAAP; or (ii) held directly or indirectly by CMSK as to more than 50%.

Term

The ROFR will commence on the Listing Date until the earliest of the following occurring:

- (a) five years after the Listing Date;
- (b) the Units ceasing to be listed on the Hong Kong Stock Exchange; or
- (c) the REIT Manager ceasing to be a subsidiary of CMSK.

Sale Notice

CMSK will give written notice to the REIT Manager (in its capacity as manager of China Merchants Commercial REIT) and the Trustee (in its capacity as trustee of China Merchants Commercial REIT) of any proposed disposal of a Relevant Property by CMSK (or CMSK Relevant Subsidiaries, as the case may be) pursuant to the ROFR (the “**Sale Notice**”).

Exercise of Right of First Refusal

If the REIT Manager (in its capacity as manager of China Merchants Commercial REIT) elects to exercise the ROFR to acquire the Relevant Property, completion of the sale and purchase of the same shall be conditional upon:

- (i) the attainment by CMSK and/or the relevant CMSK Relevant Subsidiaries of all requisite approvals and consents required under the applicable laws and regulations to which they are subject;
- (ii) the attainment by China Merchants Commercial REIT of all requisite approvals and consents required under the REIT Code, the Trust Deed and all other relevant laws and regulations to which China Merchants Commercial REIT is subject;
- (iii) satisfactory results on the completion of the due diligence review of the Relevant Property by China Merchants Commercial REIT; and
- (iv) such other conditions as may be set out in the relevant sale and purchase agreement of the Relevant Property.

Failure to Exercise the Right of First Refusal

In the event that, for any reason other than due to CMSK’s default, the sale and purchase of the Relevant Property pursuant to an exercise of the ROFR is not completed within the pre-agreed period of time or the REIT Manager (in its capacity as manager of China Merchants Commercial REIT) does not elect to exercise the ROFR within 10 calendar days after the date of the Sale Notice (the “**Lapse Event**”), CMSK or the CMSK Relevant Subsidiary shall, at its election, have the right to sell the Relevant Property within 12 calendar

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months after the Lapse Event, without CMSK needing to deliver another Sale Notice provided such sale is at a price and on such terms that are no more favourable than those set out in the Sale Notice (from the perspective of China Merchants Commercial REIT).

Potential properties subject to the ROFR

As at the Latest Practicable Date, the REIT Manager expects that a number of properties owned or developed by CMSK or CMSK Relevant Subsidiaries could potentially be subject to the ROFR once completed. Some of these properties are located in Shenzhen and are currently under construction, such as: (i) Huigang 2, a shopping centre with a Gross Rentable Area of approximately 40,000 sq.m.; (ii) Taizi Plaza, a Grade A office building with a Gross Rentable Area of approximately 66,100 sq.m.; and (iii) New Times Plaza 2, a Grade A office building with a Gross Rentable Area of approximately 78,700 sq.m..

The REIT Manager shall procure that the first property injected into China Merchants Commercial REIT after Listing pursuant to the ROFR will be a property which actual use(s) conform to the designated use(s) stated on its real estate ownership certificate. Any acquisition pursuant to the ROFR will be subject to and in compliance with the REIT Code.

FACILITY AGREEMENTS

On 22 November 2019: (a) DBS Hong Kong (as lender) and Holding Company (as borrower) (“**Offshore Borrower**”) entered into a term loan facility for a principal amount up to the HKD equivalent of RMB2,400 million (“**Offshore Facility**”); and (b) DBS China (as lender) and the PRC Property Companies (other than Net Valley Technology (PRC) which holds Technology Building) (as borrowers) (“**Onshore Borrowers**”) entered into a term loan facility for a principal amount up to RMB100 million (“**Onshore Facility**”, and together with the Offshore Facility, the “**Facilities**”). The term of each Facility is three years from the first drawdown date. The proceeds from the drawdown of the Offshore Facility will primarily be used to partly finance the Purchase Consideration for the Asset Injection and transaction costs for the Global Offering, and to a lesser extent, for working capital purposes. The proceeds from the drawdown of the Onshore Facility will primarily be used to fund the renovation or improvement works in respect of the Properties.

The effective all-in interest rates of the Offshore Facility and Onshore Facility are: (i) 1.1% plus Hong Kong Interbank Offered Rate or a fixed interest rate to be determined on the market rate on the drawdown date (whichever is lower); and (ii) 0.35% below the loan prime rate, respectively.

The Offshore Facility is secured by: (a) a customary comfort letter issued by CMSK in favour of the Offshore Borrower; (b) a pledge of interest reserve account in respect of the Offshore Facility; (c) a loan subordination agreement entered into by the Vendor and Frontier Shekou in the amount of RMB3.7 billion; (d) a subordination agreement entered into between China Merchants Commercial REIT and the Offshore Borrower; (e) an assignment of rights and interests under any material agreements in relation to the Asset Injection; (f) a charge over the account maintained by the Offshore Borrower with DBS Hong Kong for the purpose of receiving dividends paid by the PRC Property Companies; (g) an unconditional and irrevocable guarantee provided by the Trustee (in its capacity as trustee of, and with recourse limited to the assets of, China Merchants Commercial REIT); (h) an unconditional and irrevocable guarantee provided by the Frontier Shekou and Offshore Property Holding Companies; (i) a debenture over all the assets of Frontier Shekou and the Offshore Property

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Holding Companies; (j) a shares pledge over all the shares of Frontier Shekou and the Offshore Property Holding Companies; and (k) an equity pledge with respect to the Onshore Borrowers.

The Onshore Facility is secured by: (a) a property mortgage over four out of five Properties owned by the Onshore Borrowers (with an aggregate appraised value of not less than RMB5.672 billion) with the exclusion being Technology Building; (b) charges over the accounts maintained by the relevant PRC Property Companies with DBS China for receiving rentals in respect of the relevant Properties; and (c) an assignment of the rentals and rental deposits received or receivable in respect of the relevant Properties and an assignment of the rights and interest to and in the insurances taken out or will be taken out in respect of the relevant Properties.

The facility agreements contain customary covenants for transactions of this nature. In particular, the Borrowers undertake, among other things, that: (a) CMSK shall remain as the sole largest unitholder of China Merchants Commercial REIT; (b) China Merchants Commercial REIT shall maintain its listing status on the Hong Kong Stock Exchange after the Listing Date and shall not suspend the trading of its Units for more than 14 consecutive trading days for any reasons other than technical issues; (c) the Borrowers shall not take out any securities against their assets unless otherwise required under the Facilities; (d) the Onshore Borrowers will not increase its bank borrowings other than that under the Onshore Facility; (e) the relevant PRC Property Companies shall each maintain accounts with DBS China for the purpose of receiving rentals and such amounts may be used to pay for operating expenses and renovation expenses in respect of the relevant Properties; (f) the Offshore Borrower shall maintain an account with DBS Hong Kong to receive dividends paid to it by the relevant PRC Property Companies and such amounts may be used to finance the Purchase Consideration, the operating expenses of China Merchants Commercial REIT, interest payments and distributions to Unitholders; (g) the Borrowers and Frontier Shekou shall continue to hold, directly or indirectly, the entire interest in the relevant Properties; (h) CML or its wholly-owned subsidiary (or other subsidiaries of CMG) shall continue to be the REIT Manager, and any change in the manager of China Merchants Commercial REIT shall be subject to the written consent from DBS Hong Kong and DBS China; (i) CML shall continue to be a subsidiary of CMSK; and (j) China Merchants Commercial REIT shall comply with the REIT Code at all times.

The facility agreements contain customary events of default, the occurrence of which would allow DBS Hong Kong or DBS China (as the case may be) to cancel its commitment and/or to demand immediate repayment of all amounts outstanding. The events of default include, among others: (a) non-payment of any sums under the facility agreements; (b) breach of any financial covenants under the facility agreements; (c) misrepresentation; (d) cross-default in any other indebtedness of the Borrowers resulting in an aggregate liability of more than USD5 million or equivalent; (e) a cross-default under any financial indebtedness of CMSK of more than USD20 million or equivalent; (f) failure to comply with any covenants and obligations under the facility agreements in a timely manner; (g) insolvency; (h) material litigation; (i) Listing does not happen within 14 days after drawdown of the Offshore Facility; (j) CMG ceases to be CMSK's largest shareholder or no longer directly or indirectly owns or controls at least 50% of voting rights in CMSK; (k) CMG ceases to be controlled by SASAC; (l) CMSK ceases to be the single largest shareholder of the Borrowers; (m) CMSK ceases to be

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listed on the Shenzhen Stock Exchange or has suspended from trading for more than 14 consecutive trading days; (n) the securities under the facility agreements have ceased to be in full force and effect; and (o) any material adverse change.

The availability of the Facilities is conditional on certain conditions precedent being satisfied, including among other things, Asset Injection Completion and Listing.

DPU COMMITMENT

The REIT Manager considers the Properties to have strong growth potential, having regard to, among other things, its proposed asset enhancement initiatives for the Properties and scheduled completion of nearby metro lines.

The proposed asset enhancement initiatives, which are intended to optimise the operational performance of the Properties, are expected to complete in one to two years after the Listing Date. The REIT Manager also expects accessibility to the Properties to be further enhanced, and leasing demand for the Properties to increase, upon the operational commencement of Metro Line 9 Extension Line in 2020 and Metro Line 12 in 2022. Further details regarding such initiatives and metro lines are set out in the section headed “The Properties and Business” in this Offering Circular.

Notwithstanding the above, the REIT Manager (in its capacity as manager of China Merchants Commercial REIT) and the Trustee (in its capacity as trustee of China Merchants Commercial REIT) entered into the DPU Commitment with Eureka (being the holding company of the Vendor) on 22 November 2019, to mitigate China Merchants Commercial REIT’s exposure while the impact of the potential growth factors (including the abovementioned asset enhancement initiatives and new metro lines) take time to be realised, and to ensure that Unitholders receive stable and recurrent income during such period.

Pursuant to the DPU Commitment, Eureka has undertaken to make a payment if the Annualised Provisional DPU for any of the following four periods during the DPU Commitment Period (each a “**Relevant Period**”) is less than the Annualised Committed DPU for the corresponding Relevant Period, so that in such circumstances the annualised DPU of China Merchants Commercial REIT for the Relevant Period shall be equal to the Annualised Committed DPU:

<u>Relevant Period</u>	<u>Annualised Committed DPU</u>
Listing Date to 31 December 2019 ⁽¹⁾	HK\$0.2360 per Unit
Twelve months ending 31 December 2020 ⁽¹⁾	HK\$0.2360 per Unit
Twelve months ending 31 December 2021	HK\$0.2541 per Unit
Twelve months ending 31 December 2022	HK\$0.2614 per Unit

Note:

(1) Where the Listing Date falls within the twelve months ending 31 December 2020. The first Relevant Period shall be from the Listing Date to 31 December 2020, and the Annualised Committed DPU for such period will remain HK\$0.2360 per Unit.

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Where the Annualised Provisional DPU for a Relevant Period is less than the corresponding Annualised Committed DPU, Eureka shall make a cash payment to the Trustee (in its capacity as trustee of China Merchants Commercial REIT) for the benefit of China Merchants Commercial REIT of an amount equal to the shortfall multiplied by the number of Units outstanding as at the final distribution record date for the corresponding Relevant Period. For the avoidance of doubt, no payments shall be made for periods ending before the Listing Date.

“**Annualised Provisional DPU**” for a period means: (i) the total Annual Distributable Income for the corresponding Relevant Period (which in respect of any Relevant Period that is less than a full year, shall be divided by the number of days in such period and then multiplied by the number of days in the corresponding year); divided by (ii) the total number of Units in issue on the final distribution record date for the corresponding Relevant Period.

In the event of any new issue of Units during the DPU Commitment Period (other than payment of the REIT Manager’s Base Fee in Units), the Annualised Committed DPU shall be revised on the date of the new issue such that the revised Annualised Committed DPU shall equal the then-current Annualised Committed DPU multiplied by: (i) the total number of Units in issue prior to the issue of such new Units; divided by (ii) the total number of Units in issue immediately following the issue of such new Units.

The REIT Manager shall include the amount of any payment received from Eureka pursuant to the DPU Commitment in the determination of the distribution amount by China Merchants Commercial REIT to Unitholders for the corresponding Relevant Period (or in respect of the Relevant Period ending 31 December 2019, the first distribution period of China Merchants Commercial REIT from the Listing Date to 30 June 2020) and shall direct the Trustee and the Hong Kong Unit Registrar to distribute such payments as part of the distribution entitlements to Unitholders in accordance with the terms of the Trust Deed.

TRADEMARK AND BRAND LICENCE AGREEMENT

By a licence agreement dated 22 November 2019 (“**Trademark and Brand Licence Agreement**”) entered into between CML, the REIT Manager and the Onshore Manager Subsidiary, CML has granted the REIT Manager and the Onshore Manager Subsidiary (the “**Licensees**”) the right and licence to use certain “China Merchants” trademarks (the “**Licensed Trademarks**”) and brands (the “**Licensed Brands**”, together with the Licensed Trademarks as “**Licensed Subjects**”) in their respective Company names and in connection with the business and for the benefit of China Merchants Commercial REIT. The term of the Trademark and Brand Licence Agreement shall be effective for three years from the Listing Date. The Licensees may request for an extension of the term three months prior to its expiry date.

CML shall maintain its ownership over the Licensed Subjects during the term of the Trademark and Brand Licence Agreement. Without CML’s prior consent, the Licensees may not sub-license or grant the right to use the Licensed Brands to third parties. CML has the right to inspect and supervise the Licensees’ performance under the Trademark and Brand Licence Agreement and require the Licensees to rectify and comply with the terms thereof.

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CML may by written notice terminate the Trademark and Brand Licence Agreement in the event that: (a) any Licensee commits any event of default; (b) there is a change of control in any Licensee; (c) in carrying out business activities, any Licensee breaches the terms of the Trademark and Brand Licence Agreement or applicable laws or regulations which damages the China Merchants' brand; (d) the scope of business of the Licensees conflicts with the core development strategy of CMG; or (e) China Merchants Commercial REIT is terminated or wound up for any reason. The Licensees shall cease using the Licensed Subjects upon termination of the Trademark and Brand Licence Agreement.

The Licensees have also undertaken to cease, and procure that China Merchants Commercial REIT cease, using the Licensed Subjects and to change the name of China Merchants Commercial REIT to remove the words "China Merchants" therefrom in the event that: (a) due to a sell-down by CMG, the Licensees are no longer companies deemed to be controlled by CML; or (b) due to a change of shareholding in the REIT Manager, the REIT Manager is no longer a company deemed to be controlled by CML.

UNDERWRITING

The Hong Kong Underwriting Agreement was entered into on 27 November 2019. For a summary of the key terms and provisions of the Hong Kong Underwriting Agreement, please refer to the section headed "Underwriting" in this Offering Circular.

CONNECTED PARTY TRANSACTIONS

Following completion of the Global Offering, there will be continuing transactions between China Merchants Commercial REIT and the following persons noted below, which will constitute connected party transactions of China Merchants Commercial REIT within the meaning of the REIT Code. Details of these transactions as well as the modifications or waivers sought by China Merchants Commercial REIT in relation to the relevant provisions in Chapter 8 of the REIT Code on connected party transactions are set out below.

INTRODUCTION

Following completion of the Global Offering, there will be, and it is likely that there will continue to occur from time to time, a number of transactions between China Merchants Commercial REIT or other companies or entities held or controlled by China Merchants Commercial REIT (collectively, the “**China Merchants Commercial REIT Group**”) on the one hand and parties which have a relationship or connection with China Merchants Commercial REIT on the other hand.

The REIT Code contains rules (the “**connected party rules**”) governing transactions between the China Merchants Commercial REIT Group and certain defined categories of “connected persons” within the meaning given in the REIT Code. Such transactions will constitute “connected party transactions” for the purposes of the REIT Code.

In addition to “Significant Unitholders” (that is, holders of 10% or more of the outstanding Units within the meaning of the REIT Code), China Merchants Commercial REIT’s “connected persons” will include, among others:

- (1) the controlling entities, holding companies, subsidiaries and associated companies of the “Significant Unitholders”, and associates of the “Significant Unitholders” within the meaning of the REIT Code;
- (2) the REIT Manager as well as controlling entities, holding companies, subsidiaries and associated companies of the REIT Manager within the meaning of the REIT Code;
- (3) the Trustee as well as controlling entities, holding companies, subsidiaries and associated companies of the Trustee within the meaning of the REIT Code. As a result, the list of “connected persons” of China Merchants Commercial REIT shall include Deutsche Bank AG (which indirectly wholly owns the Trustee) and other members of the DB Group; and
- (4) the directors, senior executives and officers of the REIT Manager and Trustee, and their respective associates within the meaning of the REIT Code.

The REIT Manager has applied for certain waivers from strict compliance with the REIT Code with respect to transactions (a) between the China Merchants Commercial REIT Group and the CM Connected Persons Group; and (b) between the China Merchants Commercial REIT Group and the Trustee Connected Persons or the DB Group. These waivers are subject to the conditions mentioned under the section headed “Connected Party Transactions — Waivers for Certain Connected Party Transactions and Connected Persons” below.

CONNECTED PARTY TRANSACTIONS

INTERNAL CONTROLS

The REIT Manager has established an internal control system intended to ensure that connected party transactions between the China Merchants Commercial REIT Group and its “connected persons” are monitored and that these are undertaken on terms in compliance with the REIT Code. As required by the REIT Code, among other things, all connected party transactions must be carried out at arm’s length, on normal commercial terms and in the best interests of Unitholders.

As a general rule, the REIT Manager is required to demonstrate to the independent non-executive Directors and the Audit Committee that all connected party transactions satisfy the requirements below, which may entail (where practicable) obtaining quotations from parties unrelated to the REIT Manager, or obtaining one or more valuations from independent professional valuers. These requirements include:

- (a) all connected party transactions must be carried out at arm’s length on normal commercial terms and in an open and transparent manner;
- (b) all connected party transactions must be valued, in relation to a property transaction, by an independent property valuer;
- (c) all connected party transactions must be consistent with China Merchants Commercial REIT’s investment objectives and strategy;
- (d) all connected party transactions must be in the best interests of Unitholders;
- (e) all connected party transactions must be properly disclosed to Unitholders;
- (f) all connected party transactions must be approved by the independent non-executive Directors of the REIT Manager (or a committee thereof); and
- (g) where the prior approval of Unitholders is required, the independent non-executive Directors of the REIT Manager (or a committee thereof) shall confirm, in a letter set out in the circular to Unitholders whether the terms and conditions of the transaction are fair and reasonable and in the best interests of Unitholders and whether Unitholders should vote in favour of the resolution. An independent financial advisor shall also be appointed to advise the independent non-executive Directors of the REIT Manager (or a committee thereof) in this regard.

The REIT Manager is also required to investigate and monitor all transactions by the China Merchants Commercial REIT Group in order to determine whether such transactions are connected party transactions. Furthermore, the REIT Manager is required to maintain a register to record all connected party transactions which are entered into by members of the China Merchants Commercial REIT Group and the bases, including any quotations from independent third parties and independent valuations obtained to support such bases, on which they are entered into. The REIT Manager is also required to incorporate into its internal audit plan a review of all connected party transactions entered into by members of the China Merchants Commercial REIT Group.

CONNECTED PARTY TRANSACTIONS

With respect to tenancies of real estate by members of the China Merchants Commercial REIT Group in the ordinary course of business, such transactions shall be evaluated by reference to the value of rental for the term of the tenancy.

WAIVERS FOR CERTAIN CONNECTED PARTY TRANSACTIONS AND CONNECTED PERSONS

Waivers for Certain Connected Party Transactions between China Merchants Commercial REIT Group and CM Connected Persons Group

Categories of Transactions

The REIT Manager has applied for, and the SFC has granted a waiver from strict compliance with, the disclosure and Unitholders' approvals requirements under Chapter 8 of the REIT Code in respect of the following categories of connected party transactions between the China Merchants Commercial REIT Group on the one hand and the persons who are connected persons of China Merchants Commercial REIT by virtue of their relationships (including but not limited to directors, controlling entities, holding companies, subsidiaries or associated companies) with CMSK (being the holding company of a Significant Unitholder) or the REIT Manager (the "**CM Connected Persons Group**") on the other hand ("**CM Continuing CPTs**"):

(a) Leasing transactions

As part of the China Merchants Commercial REIT Group's ordinary and usual course of business, each PRC Property Company, as owner of the relevant Property, is either already a party to, or may from time to time enter into or renew, tenancies with members of the CM Connected Persons Group in respect of its Properties (the "**CM Tenancies**").

(b) Operations Management Agreement

The Operations Manager (being a direct wholly-owned subsidiary of CMSK) has entered into the Operations Management Agreement with the PRC Property Companies, pursuant to which the Operations Manager will provide Operations Management Services to the PRC Property Companies in accordance with the terms and conditions contained therein. Pursuant to the Operations Management Agreement, the Operations Manager is entitled to fees. For further details of the Operations Management Agreement and its fees, please refer to the section headed "The Operations Manager and the Property Manager — The Operations Manager" in this Offering Circular.

(c) Property Management Agreements

The Property Manager (being an indirect wholly-owned subsidiary of CMSK) has entered into a Property Management Agreement with each of the PRC Property Companies, pursuant to which the Property Manager will provide Property Management Services to each of the PRC Property Companies in accordance with the terms and conditions contained therein. Pursuant to the Property Management Agreements, the

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Property Manager is entitled to fees. For further details of the Property Management Agreements and its fees, please refer to the section headed “The Operations Manager and the Property Manager — The Property Manager” in this Offering Circular.

Waiver Conditions

The waiver in respect of the CM Continuing CPTs has been granted by the SFC on the following conditions:

(a) Extensions or modifications

The waiver shall be for a period to expire on 31 December 2021. The waiver may be extended beyond such period, and/or the terms and conditions of the waiver may be modified from time to time, provided that:

- (i) the approval of the Independent Unitholders is obtained by way of an ordinary resolution passed in a general meeting of Unitholders;
- (ii) disclosure of details of the proposed extension and/or modification (as the case may be) shall be made by way of an announcement by the REIT Manager of such proposal, and a circular and notice shall be issued to Unitholders in accordance with Chapter 10 of the REIT Code; and
- (iii) any extension of the waiver period shall, on each occasion of such extension, be for a period which shall expire not later than the third full financial year-end date of China Merchants Commercial REIT after the date on which the approval referred to in (i) above is obtained.

(b) No material change

There shall be no material change to the transactions covered by the waiver in respect of the CM Continuing CPTs (including but not limited to the scope or nature of transactions) as set out in this Offering Circular without the approval of the Independent Unitholders by way of an Ordinary Resolution passed at a general meeting of Unitholders.

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(c) *Annual cap amounts*

The aggregate transaction value of the CM Continuing CPTs shall not exceed the following annual caps set for the relevant period:

Categories of CM Continuing CPTs	For the year ending 31 December 2019 (RMB)	For the year ending 31 December 2020 (RMB)	For the year ending 31 December 2021 (RMB)
Transactions under the CM Tenancies	78,070,281	112,040,080	125,476,039
Transaction under the Operations Management Agreement.	4,137,001	27,440,639	31,377,611
Transaction under the Property Management Agreements.	57,345,161	64,228,223	71,250,393

The annual caps set out in the table above should not be taken as the anticipated growth projections or indicators of the future performance of China Merchants Commercial REIT.

(i) *Transactions under the CM Tenancies*

The value of the transactions under the CM Tenancies is calculated by aggregating the rental and building management service fees payable by tenants who are members of the CM Connected Persons Group pursuant to the terms of such tenancies. The annual caps of the transactions under the CM Tenancies have been determined with general reference to the historical data for the last three years and based on: (i) the assumption that all existing CM Tenancies will run their full term with a yearly rental increment of 5% in respect of the CM Tenancies of New Times Plaza, Cyberport Building, Technology Building and Technology Building 2, and 8% in respect of the CM Tenancies of Garden City Shopping Centre and will then be renewed at the then prevailing market rate; (ii) the per sq.m. rate of the building management services fee stays fixed for the two financial years ending 31 December 2020, after which such rate will increase by 5% (in the cases of Cyberport Building, Technology Building 2 and Garden City Shopping Centre) or match the then prevailing market rate (in the cases of New Times Plaza and Technology Building); and (iii) the anticipated aggregate value of such transactions during the relevant financial periods, with a buffer of 5% for contingencies such as changes in rental or other market conditions.

The historical transaction amounts under the CM Tenancies were RMB45.0 million, RMB52.6 million and RMB58.7 million for the financial years ending 31 December 2016, 2017, 2018 and RMB30.8 million for the six months ended 30 June 2019, respectively. Compared to the annual caps of the transactions under the CM Tenancies for the three years ending 31 December 2019, 2020 and 2021, the historical transaction amounts under the CM Tenancies are notably lower due to the combined effect of: (i) the construction of metro lines nearby which affected the accessibility to the Properties; and (ii) the higher rental rates demanded by the neighbouring properties newly completed in the last three years which drove the prevailing market rates upward for the historical

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periods. It is expected that the rental income derived from the CM Tenancies will increase considerably for the three years ending 31 December 2019, 2020 and 2021 as a result of:

- (a) the expected significant increase in the rental levels of the subsisting CM Tenancies from below market rates as at the time of their entries to the prevailing market rates when they are respectively renewed upon expiry (approximately 95.6% of the subsisting CM Tenancies by monthly Base Rent will expire sometime during the six months ended 31 December 2019 or the two years ending 31 December 2021); and
- (b) the expected significant increase in the occupancy rate of New Times Plaza (from 76.3% as at 30 September 2019 to 92.6% as at 31 December 2019) by virtue of the increase in demand from members of the CM Connected Persons Group for office space in that Property.

In respect of the transactions under the CM Tenancies first entered into or renewed on or after the Listing Date, an independent valuation shall be conducted for each of such transactions except where they are conducted on standard or published rates.

(ii) Transactions under the Operations Management Agreement

Under the Operations Management Agreement, the Operations Manager is entitled to be paid the Operations Management Fee. The Operations Management Fee is agreed to be an amount equivalent to the aggregate of 5% of the monthly rental income of the PRC Property Companies and 2.5% of the PRC Property Companies' semi-annual capital expenditure for refurbishment and renovation of the Properties. The value of the transactions under the Operations Management Agreement is calculated by reference to the Operations Management Fee. The annual caps of the transactions under the Operations Management Agreement have been determined in good faith by the REIT Manager taking into account: (i) the amount of rentals under existing tenancies, the expected rental expiry in any particular year and the expected rental increment upon expiry of such tenancies; (ii) the amount of expected rentals under tenancies which the REIT Manager anticipates will be entered into after the Listing Date but before 31 December 2019; (iii) the expected capital expenditure for refurbishment and renovation of the Properties for any particular year; and (iv) a buffer of 5% to the amount resulting from (i) to (iii) above, to cope with contingencies such as changes in rental or other market conditions.

(iii) Transactions under the Property Management Agreements

Under the Property Management Agreements, the Property Manager is entitled to be paid on a monthly basis: (i) the Property Management Fee; and (ii) an amount equivalent to the Property Manager's expenses in connection with its management of the Properties as reimbursements. The Property Management Fee is agreed to be: (a) with respect to Garden City Shopping Centre, an amount equivalent to RMB650,000 per

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annum; and (b) with respect to the other Properties, an amount equivalent to 12% of the aggregate amount of the fees and charges (except air-conditioning charges and promotional fees) and car parking fees collected by the Property Manager each month. The value of the transactions under the Property Management Agreements is calculated by aggregating the Property Management Fee and the amounts of reimbursements paid to the Property Manager pursuant to the terms of the Property Management Agreements. The annual caps of the transactions under the Property Management Agreements have been determined in good faith by the REIT Manager taking into account: (i) the assumption that the Property Management Agreements will be renewed for another year upon their expiry on 31 December 2020; (ii) with respect to the office Properties, the rate of 12% by which the Property Management Fee payable is determined stays fixed for the three financial years ending 31 December 2021; (iii) with respect to the Garden City Shopping Centre, the Property Management Fee payable for the renewal term ending 31 December 2021 will increase by 5%; (iv) the historical amounts paid to the Property Manager as reimbursements for the last three financial years ending 31 December 2018; and (v) a buffer of 5% to cope with contingencies such as changes in total leased area and other market conditions.

(d) Disclosure in reports and results announcements

Details of the CM Continuing CPTs will be disclosed in China Merchants Commercial REIT's semi-annual and annual reports, as required under paragraph 8.14 of the REIT Code.

(e) Auditors' review procedures

In respect of each relevant financial year, the REIT Manager shall engage and agree with the auditors of China Merchants Commercial REIT to perform certain review procedures on all of the connected party transactions. The auditors shall then report to the REIT Manager in the auditors' report of China Merchants Commercial REIT on the factual findings based on the work performed by them (and a copy of such report shall be provided to the SFC), confirming whether all such connected party transactions:

- (i) have received the approval of the board of directors of the REIT Manager (including the approval of all of the independent non-executive Directors);
- (ii) are in accordance with the pricing policies of China Merchants Commercial REIT;
- (iii) have been entered into in accordance with the terms of the agreements and the REIT Manager's internal procedures governing the transactions; and
- (iv) the total value in respect of which has not exceeded the respective annual cap amount (where applicable).

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(f) Review by the independent non-executive Directors

The independent non-executive Directors shall review the relevant connected party transactions annually, and confirm in China Merchants Commercial REIT's annual report for the relevant financial year whether such transactions have been entered into:

- (i) in the ordinary and usual course of business of China Merchants Commercial REIT;
- (ii) 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 China Merchants Commercial REIT than terms available to or from (as appropriate) independent third parties; and
- (iii) in accordance with the relevant agreements and the REIT Manager's internal procedures governing them, if any, on terms that are fair and reasonable and in the interests of Unitholders as a whole.

(g) Access to books and records

The REIT Manager shall allow, and shall procure the counterparty to the relevant connected party transaction to allow, the auditors and the independent non-executive Directors sufficient access to their respective records for the purpose of reporting on the transactions.

(h) Notification to the SFC

The REIT Manager shall promptly notify the SFC and publish an announcement if it knows or has reason to believe that the auditors and/or the independent non-executive Directors will not be able to confirm the matters set out in (f) and/or (g) above.

(i) Subsequent increases in annual caps with Independent Unitholders' approval

If necessary, for example, where there are further asset acquisitions by China Merchants Commercial REIT thereby increasing the scale of its operations generally, or where there are changes in market or operating conditions, the REIT Manager may, from time to time in the future, seek to increase one or more of the annual caps set out in the above, provided that:

- (I) the approval of Independent Unitholders is obtained by way of an Ordinary Resolution passed in a general meeting of Unitholders;
- (II) disclosure of details of the proposal to increase the cap amounts shall be made by way of an announcement by the REIT Manager of such proposal, and a circular and notice shall be issued to Unitholders in accordance with Chapter 10 of the REIT Code; and
- (III) the requirements referred to in paragraphs (b) to (i) above shall continue to apply to the relevant transactions, save that the increased annual caps shall apply.

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(j) Paragraph 8.14 of the REIT Code

The REIT Manager shall comply in full with the requirements of paragraph 8.14 of the REIT Code where there is any material change to the terms of the relevant connected party transactions or where there is any subsequent change to the REIT Code which may impose stricter requirements in respect of disclosure and/or Unitholders' approvals.

Opinion of the Board

The Board (with the approval of all of the independent non-executive Directors) confirms that in its opinion:

- (i) the waiver is in the interests of the Unitholders as a whole;
- (ii) the annual cap amounts stated in paragraph (c) above, and the basis for such annual cap amounts, are fair and reasonable having regard to the interests of the Unitholders as a whole;
- (iii) for the CM Continuing CPTs which will be subsisting as at the Listing Date, each such transaction was entered into: (i) in the ordinary and usual course of business of the Predecessor Group; and (ii) on terms which are normal commercial terms and are fair and reasonable and in the interests of the Unitholders as a whole; and
- (iv) for the CM Continuing CPTs which will be entered into after the Listing Date, each such transaction shall be entered into: (i) in the ordinary and usual course of business of China Merchants Commercial REIT; and (ii) on terms which are normal commercial terms and are fair and reasonable and in the interests of the Unitholders as a whole.

Opinion of the Sole Listing Agent

Citigroup Global Markets Asia Limited, in its capacity as the sole listing agent of China Merchants Commercial REIT for the purposes of the authorisation of China Merchants Commercial REIT under Part IV of the SFO and the listing of the Units on the Hong Kong Stock Exchange, has confirmed that, in its opinion, the CM Continuing CPTs subsisting as at the Latest Practicable Date are in the ordinary and usual course of business of China Merchants Commercial REIT, on normal commercial terms, and are fair and reasonable and in the interests of the Unitholders as a whole.

Opinion of the Independent Property Valuer

Cushman & Wakefield Limited, the Independent Property Valuer, has confirmed that, in its opinion, the rental in respect of the CM Tenancies were at market levels as at their respective agreement dates, and the other commercial terms in the tenancies such as tenure, rental deposits, break clauses and the like are normal commercial terms. The Independent Property Valuer is also of the opinion that the Operations Management Agreement and the Property Management Agreements are conducted on normal commercial terms at arm's length and consistent with normal business practice for contracts of the relevant types.

CONNECTED PARTY TRANSACTIONS

Waivers for Certain Connected Party Transactions between China Merchants Commercial REIT Group and Trustee Connected Persons or DB Group

The REIT Manager has also applied for, and the SFC has granted, waivers from strict compliance with the disclosure and unitholders' approval requirements under Chapter 8 of the REIT Code in respect of certain continuing connected party transactions between the China Merchants Commercial REIT Group on the one hand and the DB Group or the Trustee Connected Persons on the other hand (the "**Trustee Continuing CPTs**").

For the purposes of this section:

- (a) "**DB Group**" means Deutsche Bank AG and its subsidiaries and, unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the trustee of China Merchants Commercial REIT); and
- (b) "**Trustee Connected Persons**" include (a) any director, senior executive or officer of the Trustee; (b) any associate (within the meaning of the REIT Code) of any director, senior executive or officer of the Trustee; and (c) any controlling entity, holding company, subsidiary or associated company (within the meaning of the REIT Code) of the Trustee.

Excluded Transactions

The following transactions will not be deemed connected party transactions of China Merchants Commercial REIT for the purposes of Chapter 8 of the REIT Code:

- (a) where the DB Group acts for a third party as nominee, custodian, agent or trustee and conducts "agency transactions" with the China Merchants Commercial REIT Group;
- (b) where a collective investment scheme (including another REIT) transacts with the China Merchants Commercial REIT Group, and a member of the DB Group acts as the manager or trustee of such collective investment scheme but the transaction is not a proprietary transaction of the DB Group; and
- (c) where a member of the DB Group (other than the Trustee and its proprietary subsidiaries except where the Trustee or any of its proprietary subsidiaries is the trustee of another collective investment scheme and is acting in that capacity) acquires, purchases, subscribes, sells or disposes of Units on terms which are the same as available to the public or other Unitholders as a whole, and where applicable, are subject to the application and allocation rules set out in the Listing Rules. For the avoidance of doubt, any dealing by the DB Group in Units on the Hong Kong Stock Exchange will not be a connected party transaction.

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General Conditions and Undertakings

In support of the application for waivers in respect of the Trustee Continuing CPTs, the REIT Manager has undertaken with the SFC to meet certain conditions, including the following general conditions (“**Trustee Continuing CPTs General Conditions**”) on an ongoing basis:

- (a) the Trustee Continuing CPTs will be carried out at arm’s length, on normal commercial terms and in the interests of Unitholders as a whole;
- (b) the REIT Manager must implement internal controls and compliance procedures to ensure that the Trustee Continuing CPTs are monitored and undertaken on terms in compliance with the REIT Code;
- (c) the REIT Manager is satisfied with the Trustee’s internal controls and compliance procedures, such as implementing Chinese walls, to ensure that the operation of the Trustee is independent of other banking, financial services and other business functions and operations of the DB Group; and
- (d) the REIT Manager has incorporated provisions in the Trust Deed that require the Trustee to take actions or commence proceedings on behalf of China Merchants Commercial REIT, as the REIT Manager deems necessary to protect the interest of Unitholders, including against the Trustee Connected Persons or the DB Group in relation to any transaction or agreement entered into by the Trustee for and on behalf of China Merchants Commercial REIT with such Trustee Connected Persons or members of the DB Group and require that in the event of any action against such persons, the Trustee shall act upon the REIT Manager’s request and instructions.

As a general rule, the REIT Manager must demonstrate to the Audit Committee and the independent non-executive Directors that the Trustee Continuing CPTs satisfy the Trustee Continuing CPTs General Conditions, which may entail (where practicable) obtaining quotations from parties unrelated to the Trustee. For example, for non-daily “corporate finance transactions”, there should be procedures to ensure (a) competitive “best pricing” (having regard to the nature of the services being sought and market conditions); and (b) the Trustee should not be involved in the selection of the parties to the transactions. Further, all connected party transactions are to be reviewed and approved by the independent non-executive Directors to ensure that they are conducted in the best interests of Unitholders as a whole. Based on the above controls, the REIT Manager intends to adopt and observe certain proper corporate governance policies with respect to transactions between the China Merchants Commercial REIT Group and DB Group or the Trustee Connected Persons.

Separately, and for the purpose of this waiver, each of the Trustee and Deutsche Bank AG (on behalf of itself and its subsidiaries) has given an undertaking to the SFC that it will act independently of one another in its dealings with China Merchants Commercial REIT. The Trustee has undertaken to the SFC that it will not be involved in the making of any decisions on behalf of China Merchants Commercial REIT to enter into any transactions with the Trustee Connected Persons, subject only to the Trustee’s duties of oversight under the REIT Code and the Trust Deed.

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The waivers have been given on the premise that they only apply to connected party transactions involving the Trustee Connected Persons solely as a result of and for so long as the Trustee is in office as the trustee for China Merchants Commercial REIT. If connected party transactions arise as a result of any other circumstances, these will be governed by Chapter 8 of the REIT Code.

Notwithstanding the foregoing, the SFC reserves the right to review or revise any of the terms and conditions of any of the waivers if there is any subsequent change of circumstances that affect any of them. In the event of future amendments to the REIT Code imposing more stringent requirements than those applicable at the date of the waivers granted by the SFC on transactions of the kind to which the transactions belong (including, but not limited to, a requirement that such transaction be made conditional on approval by the independent Unitholders), the REIT Manager shall take immediate steps to ensure compliance with such requirements within a reasonable period of time.

Waiver for Ordinary Banking and Financial Services with the DB Group

The REIT Manager has applied for, and the SFC has granted a waiver so that the “ordinary banking and financial services” will not be subject to any requirements for announcement, or Unitholders’ approval under Chapter 8 of the REIT Code, and the disclosure and reporting requirements under Chapter 8 of the REIT Code with respect to such transactions shall be modified as described below. For this purpose, “ordinary banking and financial services” means:

- (a) deposits and other “banking business” (as defined in the Banking Ordinance) with a DB Group member which is a “licensed corporation” or “registered institution” (as defined in the SFO) or overseas equivalent (together “**DB Group intermediaries**”) and conducted on arm’s length commercial terms;
- (b) loans extended by a DB Group intermediary being a transaction in the ordinary and usual course of business of the China Merchants Commercial REIT Group and provided to, or arranged for, the China Merchants Commercial REIT Group on arm’s length commercial terms; and
- (c) related financial services constituting “regulated activities” (as defined in the SFO) and other banking or financial services required in the ordinary and usual course of business by the China Merchants Commercial REIT Group (including insurance, Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong) retirement benefit schemes, mandatory provident fund schemes, credit cards, asset management and other such services).

For the avoidance of doubt, “ordinary banking and financial services” as described herein does not include “corporate finance transactions” which are defined in the “Corporate Finance Transactions” waiver set out below.

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Notwithstanding the above, a summary disclosure of all such transactions provided by the DB Group to the China Merchants Commercial REIT Group in each financial year shall be disclosed in the relevant annual report of China Merchants Commercial REIT. Such information shall include the nature of the transactions, types of transactions or services and identities of the connected persons of the same transactions, types of transactions or services, and identities of the connected persons of the same transactions. The independent non-executive Directors shall confirm in the annual report that they have reviewed the terms of all such transactions and are satisfied that these transactions have been entered into:

- (a) in the ordinary and usual course of business of China Merchants Commercial 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 China Merchants Commercial REIT than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of Unitholders as a whole.

In addition, the auditors of China Merchants Commercial REIT shall be engaged to perform certain agreed-upon review procedures and report in the auditors' report to the REIT Manager in respect of China Merchants Commercial REIT (and a copy of such report shall be provided to the SFC), confirming that all such transactions (a) have followed the REIT Manager's internal procedures for such transactions and are in accordance with the terms disclosed in the offering document; (b) have received the approval of the Board (including all the independent non-executive Directors); (c) are in accordance with the pricing policies of China Merchants Commercial REIT; and (d) have been entered into and carried out in accordance with the terms of the agreements governing the transactions.

Waiver for Corporate Finance Transactions with the DB Group

The SFC has granted a waiver from strict compliance with the requirements under paragraphs 8.9 and 8.11 of the REIT Code to seek Unitholders' prior approval and to make announcements and circulars (in accordance with Chapter 10 of the REIT Code) in respect of certain "corporate finance transactions" between the China Merchants Commercial REIT Group and the DB Group, and the disclosure and reporting requirements under Chapter 8 of the REIT Code with respect to such transactions shall be modified as described in conditions (a) to (f) below. For the purpose of this waiver, "corporate finance transactions" means:

- (a) underwriting, securitisation, issue of debt instruments or other securities, or other related arrangements where the DB Group is involved in an underwriting or arranging capacity or acts as financial advisor and/or bookrunner and/or listing agent and/or global co-ordinator to China Merchants Commercial REIT, provided that these transactions are carried out at arm's length on normal commercial terms, the primary objective of which is the offering or distribution of securities to parties outside of the DB Group;

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- (b) lending and borrowing of funds or other related arrangements (including interest rate swap arrangements in relation to such borrowings) in connection with any financing agreement by which the China Merchants Commercial REIT Group will finance the acquisition of real estate; and
- (c) “corporate advisory transactions”, namely the provision of corporate finance advice to the China Merchants Commercial REIT Group and excludes transactions set out in categories (a) and (b) above, provided that the aggregate fees that the DB Group derived from all “corporate advisory transactions” conducted for the China Merchants Commercial REIT Group during a financial year shall be capped at 1.0% of the latest published NAV of China Merchants Commercial REIT.

For the avoidance of doubt, “corporate finance advice” means advice concerning:

- compliance with or in respect of the REIT Code, the Listing Rules, the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and/or the Takeovers Code;
- (i) any offer to dispose of securities to the public, (ii) any offer to acquire securities from the public, or (iii) acceptance of any offer referred to in (i) or (ii), but only insofar as the advice is generally given to Unitholders of securities or a class or securities; or
- corporate restructuring in respect of securities (including the issue, cancellation or variation of any rights attaching to any securities).

The above waiver is granted on the following specific conditions:

- (a) the offering document and any circular issued by China Merchants Commercial REIT in respect of such corporate finance transactions shall include upfront disclosure of this waiver and, with respect to those corporate finance transactions under categories (a) and (b) of this waiver, full disclosure of the material terms of the relevant agreements;
- (b) the annual report of China Merchants Commercial REIT shall include disclosure of the aggregate fees paid to the DB Group in respect of all the corporate finance transactions conducted for the China Merchants Commercial REIT Group in the relevant financial year;
- (c) in respect of any corporate finance transaction conducted by the DB Group whose fees, payable by the China Merchants Commercial REIT Group, exceed HK\$1 million, the relevant annual report of China Merchants Commercial REIT shall include disclosure of:
 - (i) the occurrence and nature of the transaction;
 - (ii) the parties to the transaction; and
 - (iii) the date of the transaction;

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- (d) the annual report of China Merchants Commercial REIT shall disclose a statement made by each of the REIT Manager and the Trustee to confirm that the corporate finance transactions under categories (a), (b) and (c) of this waiver have been conducted in compliance with the Trustee Continuing CPTs General Conditions, and that the Trustee has not been involved in the making of any decision to enter into any corporate finance transaction on behalf of China Merchants Commercial REIT (subject to the Trustee's duties of oversight under the REIT Code and the Trust Deed) including the selection of the financial advisor for such transaction;
- (e) the annual report of China Merchants Commercial REIT shall include a confirmation by the independent non-executive Directors that they have reviewed the terms of such transactions and are satisfied that they have been entered into:
 - (i) in the ordinary and usual course of business of China Merchants Commercial REIT;
 - (ii) 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 China Merchants Commercial REIT than terms available to or from (as appropriate) independent third parties; and
 - (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of Unitholders as a whole; and
- (f) the auditors' report shall cover all the relevant corporate finance transactions.

Notwithstanding the above waiver, in the case where the aggregate fees that the DB Group generates from all "corporate advisory transactions" conducted for the China Merchants Commercial REIT Group during the relevant financial year exceed 1.0% of the latest NAV of China Merchants Commercial REIT as disclosed in the latest published audited accounts, the requirements in respect of connected party transactions as set out in Chapter 8 of the REIT Code shall apply. Further, for the avoidance of doubt, where by virtue of the nature of the transaction, other than the involvement of the DB Group in its capacity as described above under "corporate finance transactions", an announcement shall be made as required under the REIT Code (and is not exempted by any waivers from announcements under the REIT Code granted by the SFC), such announcement shall disclose the role of the DB Group and the relevant terms of engagement in accordance with the relevant provisions of the REIT Code.

Based on the above, the Board (including all of the independent non-executive Directors) is of the view that:

- (a) the waivers in relation to the Trustee Continuing CPTs are in the interests of Unitholders as a whole;
- (b) it is satisfied with the internal control procedures of the Trustee with respect to the independence of the Trustee's operation vis-a-vis the other banking functions/operations of the DB Group;

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- (c) the annual cap amount and the basis of the annual cap amount, in relation to the aggregate fees of the DB Group generated from all “corporate advisory transactions” between the DB Group and the China Merchants Commercial REIT Group conducted during the relevant financial year, are fair and reasonable having regard to the interests of Unitholders as a whole; and
- (d) each connected party transaction with the Trustee Connected Persons or the DB Group shall be entered into in the ordinary and usual course of business of China Merchants Commercial REIT, on normal commercial terms at arm’s length and in the interests of Unitholders as a whole.

WAIVER FOR EXCLUSION RELATING TO THE PRC GOVERNMENT

As at the Latest Practicable Date, the Central People’s Government of the PRC, through the State-owned Assets Supervision and Administration Commission of the State Council of the PRC (“**SASAC**”), owns the entire shareholding in CMG. CMG is in turn interested in (i) 64.33% of the share capital in CMSK, which will after Listing hold 33.5% of China Merchants Commercial REIT upon Listing (assuming the Over-allotment Option is not exercised); and (ii) indirectly owns 47.83% of the shares in CML, the indirect holding company of the REIT Manager. SASAC is a ministerial-level organisation directly subordinated to the State Council of the PRC.

The REIT Manager has applied for, and the SFC has granted, in respect of leasing transactions a waiver from strict compliance with:

- (i) paragraph 8.1(g) of the REIT Code such that SASAC and the State Council (including for this purpose any administrations, commissions, ministries and departments subordinated to the State Council and the entities owned or controlled by the State Council, other than CMG and entities owned and controlled by CMG), will not be regarded as the controlling entities, holding companies or associated companies of the REIT Manager for the purposes of Chapter 8 of the REIT Code; and
- (ii) paragraph 8.1(f) of the REIT Code such that SASAC and the State Council (including for this purpose any administrations, commissions, ministries and departments of the State Council and the entities owned or controlled by the State Council, other than CMG and entities owned and controlled by CMG), will not be regarded as the associates of CMSK, being the holding company of a Significant Unitholder upon Listing, for the purposes of Chapter 8 of the REIT Code.

This exclusion does not exempt any categories of transactions other than leasing transactions.

The above waiver is granted on the following conditions:

- (i) the PRC Government has no representative on the Board;
- (ii) the PRC Government has no involvement in the management of the REIT Manager and has no influence over management of the REIT Manager through negative control;

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- (iii) the Directors are independent of the PRC Government; and
- (iv) there shall not be any material change in the circumstances as set out in this Offering Circular based on which the waiver is sought and granted.

The REIT Manager has adopted the following measures to monitor whether the above conditions are satisfied when any Director is newly appointed:

- (i) the terms of reference of the Nomination and Remuneration Committee provides that such committee should take into account any waiver condition imposed by the SFC when evaluating the appointment of the new Director;
- (ii) the REIT Manager shall obtain a declaration from the candidate that he or she is not appointed by and is independent of the SASAC, the State Council (including for this purpose any administrations, commissions, ministries and departments of the State Council and the entities owned or controlled by the State Council, other than CMG and entities owned and controlled by CMG) or otherwise the PRC Government;
- (iii) if any of the waiver conditions is not met, the REIT Manager shall promptly notify the SFC and publish an announcement that the above waiver shall lapse.

The above waiver was applied for based on the following grounds:

- (i) up to the Latest Practicable Date, SASAC, the State Council (including for this purpose any administrations, commissions, ministries and departments of the State Council and the entities owned or controlled by the State Council, other than CMG and entities owned and controlled by CMG) or otherwise the PRC Government has never had a representative on the board of directors of either the REIT Manager or CML and has had no direct involvement in the management of the REIT Manager and CML and has no influence over management of the REIT Manager through negative control on material matters of China Merchants Commercial REIT and is independent of the Directors of the REIT Manager. Further, CML has undertaken to the SFC that as long as: (i) the REIT Manager remains the manager of China Merchants Commercial REIT; and (ii) China Merchants Commercial REIT remains listed on the Hong Kong Stock Exchange, CML shall not appoint any person who is not independent of SASAC, the State Council and the PRC Government to be a Director of the REIT Manager. Therefore, it is expected that the PRC Government will not be involved in the management of China Merchants Commercial REIT going forward;
- (ii) the number of companies owned by, controlled by or associated with SASAC, the State Council or otherwise the PRC Government are far-reaching and information relating to some of these companies may not be publicly available. Therefore, it is not possible for the REIT Manager to compile a complete list of all government authorities, state-owned enterprises and their associates and to comprehensively identify, monitor and disclose every transaction between the China Merchants Commercial REIT Group and each of the entities controlled by, owned by or associated with SASAC, the State Council or otherwise the PRC Government. Strict application of the REIT Code would impose an unduly onerous burden without providing any substantive benefits to the Unitholders;

CONNECTED PARTY TRANSACTIONS

- (iii) any transaction between any of the companies owned by, controlled by or associated with SASAC, the State Council or otherwise the PRC Government on the one hand and the China Merchants Commercial REIT Group on the other hand shall be conducted on normal commercial terms at arm's length which is fair and reasonable and in the interest of the Unitholders as a whole; and
- (iv) the REIT Manager will incorporate adequate internal control and compliance procedures to ensure that the REIT Manager will manage and operate China Merchants Commercial REIT's assets independently of SASAC, the State Council and the PRC Government.

WAIVER FOR ISSUANCE OF NEW UNITS AND CONVERTIBLE INSTRUMENTS TO CONNECTED PERSONS

The REIT Manager has applied for, and the SFC has granted, a waiver from strict compliance with paragraph 6.2, Chapter 8, paragraph 10.7(b)(iv) and/or paragraph 12.2 of the REIT Code so as to allow the REIT Manager to issue new Units to a connected person pursuant to those situations set out in paragraphs (1) to (5) below, without the need for strict compliance with the reporting, announcement, disclosure or Unitholders' approval requirements under Chapter 8, paragraph 10.7(b)(iv) and/or paragraph 12.2 of the REIT Code, or any valuation requirement under paragraph 6.2 of the REIT Code, on the condition that the issuance of Units and/or Convertible Instruments to connected persons of China Merchants Commercial REIT shall be made strictly in accordance with the provisions of the Trust Deed and, in the case of the situation set out in paragraph (5) below, also on the conditions that: (i) an announcement shall be issued by the REIT Manager pursuant to paragraphs 10.3 and 10.4(k) of the REIT Code containing details of the placing and top-up subscription of Units and/or Convertible Instruments by the connected persons under the relevant clause of the Trust Deed; and (ii) issuance of such Units and/or Convertible Instruments is sufficiently covered under the general mandate permitted under paragraph 12.2 of the REIT Code and no independent Unitholders' approval would otherwise have to be sought under such paragraph.

The circumstances mentioned in the preceding paragraph are:

- (1) a rights issue or as part of any offer made to all Unitholders on a pro rata basis;
- (2) a capitalisation issue (in so far as such issue is offered to the Unitholders on a pro rata basis excluding for this purpose any Unitholder whose address is outside Hong Kong);
- (3) an issue of Units in respect of re-investment of a distribution to Unitholders;
- (4) the connected person receives a pro rata entitlement to Units and/or Convertible Instruments in its capacity as a Unitholder (provided that such issue will not increase the market capitalisation of China Merchants Commercial REIT by more than 50%); or

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- (5) an issue of new Units and/or Convertible Instruments to a connected person within 14 days of such connected person having executed an agreement to reduce its holding of Units and/or the class of Convertible Instruments by placing such Units and/or class of Convertible Instruments to a third person or third persons who is/are not its associate(s) other than any Excluded Associate provided that: (i) such new Units and/or class of Convertible Instruments must be issued at a price not less than the placing price (which issue price may however be adjusted for the expenses of the placing); and (ii) the number of new Units issued to the connected person must not exceed the number of Units and/or that class of Convertible Instruments placed by it, where “Excluded Associate” means any person or entity who/which is an associate of the relevant connected person solely by virtue of the operation of paragraphs (b), (c) and/or (k) (in the case of paragraph (k), other than a related corporation covered under paragraph (a) of the definition of “related corporation” in Schedule 1 of the SFO) of the definition of “associate” in Schedule 1 of the SFO.

UNITHOLDERS’ MANDATE

The REIT Manager may at any time in the future seek a general annual mandate from the Unitholders in relation to other waivers from, or confirmations in relation to, the connected party rules for which the REIT Manager may apply to the SFC. In order to apply to the SFC for that purpose, the general mandates must be made subject to any applicable requirements of the SFC or applicable provisions of the REIT Code. Such mandates may include continuation or extension of existing waivers set out above in this section.

In seeking any such general mandate, the independent non-executive Directors will render an opinion as to whether the methods or procedures for determining the transaction prices or other relevant terms of the transaction contemplated under the general mandate are sufficient to ensure that such transactions will be carried out on arm’s length basis and on normal commercial terms, will not be prejudicial to the interests of China Merchants Commercial REIT and the Unitholders and that the terms and conditions of such transactions will be fair and reasonable.

ROLE OF AUDIT COMMITTEE FOR CONNECTED PARTY TRANSACTIONS

The Audit Committee will periodically review (and the executive Directors or the management team of the REIT Manager will periodically produce reports to the Audit Committee for review of) all connected party transactions to ensure compliance with the REIT Manager’s internal control systems and with the relevant provisions of the REIT Code. The review will include the examination of the nature of the transaction and its supporting documents or such other data deemed necessary by the Audit Committee.

If a member of the Audit Committee has an interest in a transaction, he or she is to abstain from participating in the review and approval process in relation to that transaction.

CONNECTED PARTY TRANSACTIONS

CONNECTED PARTY TRANSACTIONS IN CONNECTION WITH THE ESTABLISHMENT OF CHINA MERCHANTS COMMERCIAL REIT AND THE GLOBAL OFFERING

A number of connected party transactions have been entered into by the China Merchants Commercial REIT Group in connection with the establishment of China Merchants Commercial REIT and the Global Offering. These connected party transactions are as follows:

(1) Sale and Purchase Deed

The REIT Manager (in its capacity as manager of China Merchants Commercial REIT), the Purchaser, the Vendor (as vendor) and Eureka (as warrantor) entered into the Sale and Purchase Deed in connection with the acquisition of the Frontier Share and the assignment of the Assigned Frontier Payables. To the extent any portion of the Unassigned Frontier Payables remains outstanding at the Asset Injection Completion Date, such liability shall be assumed by China Merchants Commercial REIT (through its acquisition of Frontier Shekou) and continue to be payable to the Vendor following the Asset Injection Completion Date. In addition, the Vendor and Eureka have irrevocably undertaken to indemnify China Merchants Commercial REIT, the Holding Company, the REIT Manager and the Predecessor Group, against any liability, losses, damages, fines, fees and costs which any one of them may suffer in respect of the nonconforming use of the Subject Properties, subject to the terms and conditions set out in the Sale and Purchase Deed. For further details regarding the terms of the Sale and Purchase Deed, please refer to the section headed “Material Agreements and Other Documents — Sale and Purchase Deed” in this Offering Circular.

(2) Operations Management Agreement

The Operations Manager entered into the Operations Management Agreement with the PRC Property Companies, pursuant to which the Operations Manager will provide Operations Management Services to the PRC Property Companies. For further details, please refer to the section headed “The Operations Manager and the Property Manager — The Operations Manager — the Operations Management Agreement” in this Offering Circular.

(3) Property Management Agreements

The Property Manager entered into a Property Management Agreement with each of the PRC Property Companies, pursuant to which the Property Manager will provide Property Management Services to each of the PRC Property Companies. For further details, please refer to the section headed “The Operations Manager and the Property Manager — The Property Manager — The Property Management Agreements” in this Offering Circular.

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(4) Deed of Right of First Refusal

CMSK executed a deed in favour of the Trustee (in its capacity as trustee of China Merchants Commercial REIT) and the REIT Manager (in its capacity as manager of China Merchants Commercial REIT) under which China Merchants Commercial REIT has been granted a ROFR in respect of completed office and/or shopping mall properties located in the Greater Bay Area (other than Foshan and Guangzhou), Beijing or Shanghai owned or developed by CMSK or CMSK Relevant Subsidiaries subject to the terms and conditions contained therein. For further details, see the section headed “Material Agreements and Other Documents — Deed of Right of First Refusal” in this Offering Circular.

(5) DPU Commitment

Eureka (being the holding company of the Vendor) entered into the DPU Commitment with the Trustee (in its capacity as trustee of China Merchants Commercial REIT) and the REIT Manager (in its capacity as manager of China Merchants Commercial REIT), pursuant to which Eureka has undertaken to make a cash payment to the Trustee for the benefit of China Merchants Commercial REIT if the Annualised Provisional DPU for any Relevant Period is less than the Annualised Committed DPU for that Relevant Period, subject to the terms and conditions contained therein. For further details, see the section headed “Material Agreements and Other Documents — DPU Commitment” in this Offering Circular.

(6) Trademark and Brand Licence Agreements

CML has granted the REIT Manager (in its capacity as manager of China Merchants Commercial REIT) and the Onshore Manager Subsidiary the right and licence to use certain “China Merchants” trademarks and brands in their respective names and in connection with the business and for the benefit of China Merchants Commercial REIT, pursuant and subject to the terms and conditions contained in the Trademark and Brand Licence Agreement.

Save as disclosed there are no other connected party transactions in connection with the setting up of China Merchants Commercial REIT and the Global Offering of which the Directors are aware of.

MODIFICATIONS, WAIVERS AND LICENSING CONDITIONS

In connection with the authorisation of China Merchants Commercial REIT by the SFC, the REIT Manager has applied to, and has received approval from, the SFC in relation to the modifications of, and waivers from, strict compliance with certain requirements of the REIT Code. A summary of such modifications and waivers is set out below.

CONNECTED PARTY TRANSACTIONS — CHAPTER 8 OF THE REIT CODE

China Merchants Commercial REIT has applied to the SFC for, and has been granted, waivers from strict compliance with certain provisions in Chapter 8 of the REIT Code in relation to certain connected party transactions of China Merchants Commercial REIT within the meaning of the REIT Code. Details of the waivers received are set out in the section headed “Connected Party Transactions — Waivers for Certain Connected Party Transactions and Connected Persons” in this Offering Circular.

PAYMENT OF REIT MANAGER’S REMUNERATION BY WAY OF UNITS — CHAPTER 12 OF THE REIT CODE

As noted in the section headed “The REIT Manager — Further Details Regarding the REIT Manager — Fees, Costs and Expenses of the REIT Manager” in this Offering Circular, the REIT Manager’s Base Fee, Variable Fee, Acquisition Fee and Divestment Fee (collectively, “**REIT Manager’s Remuneration**”) payable to the REIT Manager may be in the form of Units. The REIT Manager has applied to the SFC for, and has received, a waiver from strict compliance with certain requirements under Chapter 12 of the REIT Code in respect of the issue of Units to the REIT Manager as payment of the REIT Manager’s Remuneration, subject to the following conditions:

- (a) for the purposes of the REIT Code, the number of Units issued to the REIT Manager by way of payment of the REIT Manager’s Remuneration for each financial year of China Merchants Commercial REIT shall be counted as part of the 20.0% (or such lower percentage as permitted by the REIT Code from time to time) of outstanding Units that the REIT Manager may issue in each financial year without Unitholders’ approval pursuant to paragraph 12.2 of the REIT Code;
- (b) in respect of each financial year, the maximum number of Units that may be issued to the REIT Manager as payment of all or part of the REIT Manager’s Remuneration for that financial year shall, in the aggregate, be limited to such number of Units as represents 3.0% of the total number of Units outstanding as at the last day of the immediately preceding financial year plus the number of Units, if any, issued in that financial year for the purpose of financing any acquisition of real estate by China Merchants Commercial REIT;
- (c) any issue of Units to the REIT Manager as payment of all or part of the REIT Manager’s Remuneration shall be made strictly in accordance with the requirements of the Trust Deed and the Applicable Rules; and
- (d) in the event that any payment of all or part of the REIT Manager’s Remuneration in the form of Units exceeds the relevant thresholds set out in paragraph 12.2 of the REIT Code and paragraph (b) above, and Unitholders’ approval is not obtained for the issue of Units for such purpose, then payment of that excess part of the REIT Manager’s Remuneration shall be made by China Merchants Commercial REIT to the REIT Manager in cash.

MODIFICATIONS, WAIVERS AND LICENSING CONDITIONS

USE OF SPECIAL PURPOSE VEHICLES — PARAGRAPH 7.5(d) OF THE REIT CODE

Under paragraph 7.5(d) of the REIT Code, a REIT may hold real estate through special purpose vehicles only if it has no more than two layers of special purpose vehicles. Under the note to that paragraph, the SFC may allow a REIT to have additional layer(s) of special purpose vehicles in special situations with valid justifications.

The Properties are currently held as to 100% by the Predecessor Group which in turn is held by the Vendor. The Predecessor Group will, immediately prior to the Listing, be held indirectly as to 100% by China Merchants Commercial REIT.

Considering: (i) the holding structure of China Merchants Commercial REIT reflects substantially the same manner in which the Properties have historically been held; (ii) a restructuring to eliminate one of the layers of Special Purpose Vehicles would incur additional cost and time, and potentially have adverse tax implications; and (iii) having Frontier Shekou and the BVI Property Holding Companies may provide more flexibility and stamp duty savings for China Merchants Commercial REIT in future, submission has been made to the SFC for the use of a maximum of five layers of Special Purpose Vehicles by China Merchants Commercial REIT, and this has been allowed by the SFC subject to the condition that there will be no change to the maximum number of layers of Special Purpose Vehicles used by China Merchants Commercial REIT without the further approval of the SFC.

PAYMENT OF PROMOTIONAL EXPENSES FROM THE PROPERTIES OF CHINA MERCHANTS COMMERCIAL REIT — PARAGRAPH 9.13(b) OF THE REIT CODE

Under paragraph 9.13(b) of the REIT Code, expenses arising out of any advertising or promotional activities in connection with a REIT shall not be paid from the property of the REIT. China Merchants Commercial REIT has applied to the SFC for, and has been granted, a waiver from strict compliance with the requirements of paragraph 9.13(b) of the REIT Code to allow payment or reimbursement out of assets of China Merchants Commercial REIT costs and expenses for marketing, promotion, advertising, roadshows, press conferences, luncheons, presentations and other public relations-related fees, costs or expenses incurred in relation to any fund raising exercise by China Merchants Commercial REIT or otherwise in connection with China Merchants Commercial REIT (collectively, “**Promotional Expenses**”), but only if and to the extent that such is permitted by the REIT Code and any applicable law, subject to the following conditions:

- (i) the audit committee of the REIT Manager shall verify periodically the amounts of Promotional Expenses incurred by the REIT Manager and shall confirm in the annual report of China Merchants Commercial REIT that the Promotional Expenses are incurred: (a) in accordance with the internal control procedures of the REIT Manager; and (b) solely for the purposes as set out in the relevant clauses of the Trust Deed, and review such supporting evidence that it may reasonably deem necessary;
- (ii) the aggregate amount of the Promotional Expenses shall be disclosed in the relevant annual report of China Merchants Commercial REIT; and
- (iii) payment or reimbursement to the Trustee and/or the REIT Manager of such expenses shall be made strictly in accordance with the requirements of the Trust Deed.

MODIFICATIONS, WAIVERS AND LICENSING CONDITIONS

For all modifications and waivers from strict compliance with certain requirements of the REIT Code as referred to in this section and the section headed “Connected Party Transactions” in this Offering Circular, notwithstanding any of the foregoing, the SFC reserves the right to review or revise any of the conditions relating to the waivers if there is any subsequent change of circumstances that affects any of them. In the event of future amendments to the REIT Code imposing more stringent requirements than those applicable at the date of the waivers granted by the SFC on transactions on the kind to which the transaction belong (including, but not limited to, a requirement that such transaction be made conditional on approval by the independent Unitholders), the REIT Manager shall take immediate steps to ensure compliance with such requirements within a reasonable period.

LICENSING CONDITIONS ON THE REIT MANAGER

In addition to the statutory conditions set out in the SFO, the SFC has imposed the following licensing conditions upon the REIT Manager:

- (a) the REIT Manager’s licence shall lapse and cease to have effect as and when:
 - (i) China Merchants Commercial REIT is de-authorised; or
 - (ii) the REIT Manager ceases to act as the management company of China Merchants Commercial REIT; and
- (b) for Type 9 regulated activity, the REIT Manager shall only engage in managing China Merchants Commercial REIT.

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The following statements are by way of a general guide to investors only and do not constitute tax advice. Investors are therefore advised to consult their professional advisors concerning possible taxation or other consequences of purchasing, holding, selling or otherwise disposing of the Units under the laws of their country of incorporation, establishment, citizenship, residence or domicile.

Investors should note that the following statements are based on advice received by the REIT Manager regarding taxation law, regulation and practice in force as at the date of this Offering Circular and may be subject to change.

PRC TAXATION OF CHINA MERCHANTS COMMERCIAL REIT

Enterprise Income Tax (“EIT”)

Under the EIT Law that became effective on 1 January 2008, foreign-invested enterprises and PRC domestic companies are generally subject to the standard income tax rate of 25.0% on their taxable profits. In general, subject to certain limitations and specific allowances, all necessary and reasonable expenses incurred in carrying out a business with sufficient supporting documents are deductible for the purpose of computing EIT taxable profits. Tax losses can be carried forward for five consecutive years to offset against the future taxable profits.

In addition, under EIT Law, an enterprise incorporated outside the PRC with its “place of effective management” within the PRC is considered a “resident enterprise” for EIT purposes and will be subject to EIT at the standard income tax rate of 25.0% on its worldwide income. The “place of effective management” is defined as the place where substantive and overall management and control over production and business operations, personnel, finance and accounting, and properties, etc., of the enterprise is conducted.

At present, the only published, interpretative guidance in force on the meaning of the term “place of effective management” can be found in Circular 82. In this context, a Chinese-controlled offshore-incorporated enterprise refers to an enterprise incorporated under the laws of a foreign country or territory and having a Chinese enterprise or enterprise group as its primary controlling shareholder.

Under Circular 82, all of the following conditions must be met in order for a Chinese-controlled offshore-incorporated company to be considered a PRC RE:

- The day-to-day management of the enterprise is carried out from China;
- Finance-related decisions and human resource-related decisions are made within China or such decisions need final approval by the management in China;
- The main assets, accounting books, financial and board meeting records, company chops, shareholder meeting records of the enterprise are located or maintained in China; and
- At least half of the directors or senior decision makers with voting power reside in China.

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Circular 82 technically only applies to Chinese-controlled offshore-incorporated enterprises, but not foreign-controlled offshore-incorporated enterprises. In the absence of specific guidance on the application of the PRC RE concept to foreign-controlled offshore-incorporated enterprises, the PRC tax authorities may analogously apply the conditions set out in Circular 82 to foreign-controlled offshore-incorporated enterprises. Nevertheless, uncertainty remains as to how the PRC tax authorities will interpret and apply the PRC RE concept to a foreign-controlled offshore-incorporated enterprise.

As of the Latest Practicable Date, none of the offshore entities of the China Merchants Commercial REIT has been notified or informed by the PRC tax authorities that it is considered a PRC RE for EIT purposes. If the PRC tax authorities subsequently determine that China Merchants Commercial REIT or its Offshore Property Holding Companies are deemed to be or should be classified as PRC REs, such offshore entities may be subject to EIT at 25.0% on their worldwide income.

According to the EIT Law, dividends paid by PRC foreign-invested enterprises to their non-PRC parent companies will generally be subject to withholding income tax of 10.0%. However, the withholding income tax of 10.0% may be reduced under an applicable tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated containing a provision that specifically reduces such withholding income tax, and the overseas parent company satisfies the qualifying conditions for the reduced dividend withholding income tax rate under the relevant tax treaty. For example, pursuant to the avoidance of double taxation arrangement between Hong Kong and the PRC, if the non-PRC parent company is a Hong Kong tax resident and directly holds a 25.0% or more interest in a PRC enterprise, the withholding income tax rate on the dividends distributed by the PRC enterprise may be lowered to 5.0% if the Hong Kong parent company is the “beneficial owner” of the dividends distributed by the PRC enterprise.

The dividend recipient’s “beneficial owner” status is typically a necessary condition for the recipient to qualify for the reduced dividend withholding tax rate under an applicable tax treaty. The PRC State Taxation Administration promulgated rules concerning the determination of a recipient’s beneficial owner status under tax treaties. In that regard, the currently applicable rules are principally set out in Bulletin 9. Bulletin 9 provides that a “beneficial owner” is a person who has the ownership and control over the relevant income or the rights or properties that generate the relevant income. A beneficial ownership analysis will be made based on a totality of facts of each case and the “substance-over-form” principle to determine whether a recipient is entitled to tax treaty benefits. Generally speaking, a conduit or shell company without substantial business activities will not be recognised as a “beneficial owner”.

In general, dividends paid by the PRC Property Companies to their respective parent HK Property Holding Companies will be subject to withholding income tax of 10.0% and the withholding obligation will arise at the date when dividends are actually paid. However, as stated above, the withholding income tax rate may be lowered to 5.0% if the relevant HK Property Holding Company is the “beneficial owner” of the dividends distributed by the PRC Property Company held by it and holds a 25% or more interest in that PRC Property Company pursuant to the avoidance of double taxation arrangement between Hong Kong and the PRC. Pursuant to the current agreement between the PRC and Hong Kong and Bulletin 9, a Hong Kong dividend recipient that is entirely owned, whether directly or indirectly, by a company that is a resident of, and listed in, Hong Kong, will be recognised as a “beneficial owner”, provided that all the intermediate holding companies between the Hong Kong dividend

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recipient and the company that is resident of, and listed in, Hong Kong are residents of Hong Kong or the PRC. In this regard, China Merchants Commercial REIT may be able to enjoy the reduced withholding income tax rate of 5.0%. However, there is currently no specific guidance in the prevailing PRC regulations on the interpretation of a “listed company” and whether it may include a trust. For the uncertainties regarding the HK Property Holding Companies being regarded as the “beneficial owner”, please refer to the section headed “Risk Factors — Risks relating to the Real Estate Industry and the PRC — There are significant uncertainties under the EIT Law relating to the withholding tax liabilities of the PRC Property Companies” in this Offering Circular.

Value-added Tax (“VAT”)

The Provisional Regulations of the PRC Concerning VAT promulgated by the State Council came into effect on 1 January 2009. Under these regulations and the Implementing Rules of the Provisional Regulations of the PRC Concerning VAT, VAT is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC. At present, a VAT rate of 13.0% is applicable on taxable items encompassing the sale of most tangible goods and the provision of certain labour in respect of processing goods, repair and replacement services undertaken in the PRC.

A turnover tax reform launched on 1 August 2013 gradually brought all services that were previously subject to business tax, a legacy turnover tax that used to run in parallel with VAT, into the VAT regime. The turnover tax reform was completed in 1 May 2016, upon which all services that were subject to business tax prior to the reform became subject to VAT instead. At present, where the service provider is a general VAT taxpayer, income from construction services, the sale and lease of immovable properties is generally subject to VAT at 9.0% (the taxpayer may elect the simplified tax calculation method with a VAT collection rate at 5.0% for the sale and leasing of immovable properties acquired prior to 1 May 2016), while the applicable VAT rate is 6.0% for financial services and most other modern services. As the Properties were built or acquired before 1 May 2016, the PRC Property Companies may choose to apply the simplified tax calculation method with a VAT collection rate at 5.0% for the sale and leasing of the Properties.

Urban Construction and Maintenance Tax together with Education Surcharge and Local Education Surcharge are generally payable at a rate, in aggregate, of 6.0% to 12.0% of the VAT.

Real Estate Tax (“RET”)

Properties owned by an enterprise will be subject to RET at variable rates depending on locality. In certain localities, RET is applicable at a rate of 1.2% of the original value of the building less a standard deduction which ranges from 10.0% to 30.0% of the original value or 12.0% of the rental income. In Shenzhen, pursuant to the Implementation Measures of Shenzhen Special Economic Zone for Real Estate Tax issued in 1987, RET shall be calculated and paid based on 70% of the original value of a property. Therefore, the RET applicable to the Properties is at a rate of 1.2% of 70% of the original value thereof.

China Indirect Transfer Tax

On 3 February 2015, the State Taxation Administration issued the Bulletin on Certain Issues relating to Enterprise Income Tax on Indirect Transfers of Properties by Non-resident Enterprises (“**Bulletin 7**”). Bulletin 7 is the principal set of currently applicable regulations regarding the PRC tax treatment of “indirect” transfers of PRC taxable properties undertaken by non-resident enterprises (“**Offshore Investors**”). PRC taxable properties include equity interests in enterprises resident in the PRC, PRC immovable properties and “establishments or places” of non-resident enterprises in the PRC.

Under Bulletin 7, the PRC tax authorities can apply a 10.0% EIT on capital gains derived by the Offshore Investor on an indirect transfer of PRC taxable property if the arrangement is considered to lack “reasonable commercial purpose” and the transferor has avoided payment of EIT.

There are three specific safe harbour provisions under Bulletin 7, namely the intragroup restructuring safe harbour, the public trading safe harbour and the treaty safe harbour:

- Intragroup restructuring safe harbour — Three conditions have to be met for an indirect transfer to qualify for the intragroup restructuring safe harbour. The conditions are: (i) there is 80.0% (or 100.0%, if more than 50.0% of the offshore target company’s equity value is derived from PRC immovable properties) of common shareholding relationship between the transferor and the transferee; (ii) the actual Chinese income tax burden on any future indirect transfer of the underlying PRC taxable property will not be less than the Chinese income tax burden on the same or a similar indirect transfer that can be conducted before the subject indirect transfer; and (iii) consideration for the indirect transfer must be in non-listed shares in the transferee or its controlled enterprise.
- Public trading safe harbour — This safe harbour applies to a sale of listed shares of an offshore listed company that directly or indirectly owns PRC taxable property, provided that both the buying and selling of the listed shares are conducted in the public securities market.
- Treaty safe harbour — This safe harbour applies to a sale of shares in an offshore company that directly or indirectly owns PRC taxable properties where the Offshore Investor could be exempted from EIT according to an applicable tax treaty had it directly held and transferred the underlying PRC taxable property.

An indirect transfer of PRC taxable property that qualifies for a safe harbour will be deemed to have reasonable commercial purpose, such that a qualifying indirect transfer of PRC taxable property will not be taxable under Bulletin 7. The “blacklist” test applies to an indirect transfer of PRC taxable property that does not qualify for any safe harbour. If an indirect transfer of PRC taxable property meets all four conditions (i.e., (i) 75.0% or more of the equity value of the offshore target company is directly or indirectly derived from PRC taxable properties; (ii) 90.0% or more of the total assets of the offshore target company are attributed to PRC taxable properties at any time during the one year period prior to the subject indirect transfer or 90.0% or more of the revenue of the offshore target company in the one year period prior to the subject indirect transfer is PRC-sourced; (iii) the offshore target company and its underlying affiliates that directly or indirectly hold PRC taxable property have only completed the formality of registration in their countries or regions and fulfilled legal

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organisational requirements, but the actual functions they performed and the risks they assumed are too limited to prove that they have economic substance; and (iv) the foreign income tax payable on the indirect transfer of PRC taxable property is lower than the possible China taxes payable on the direct transfer of China taxable property) under the “blacklist” test, that indirect transfer will be deemed to lack reasonable commercial purpose and will thus be taxable under Bulletin 7.

For an indirect transfer of PRC taxable property that neither qualifies for any safe harbour nor is “blacklisted” under the “blacklist” test, the PRC tax authorities should apply the comprehensive reasonable commercial purpose test to determine that indirect transfer’s taxability under Bulletin 7. While the PRC tax authorities are required to take into account all relevant facts and circumstances when applying the comprehensive reasonable commercial purpose test, the relevant provision in Bulletin 7 specifically lists eight factors that have to be considered:

1. whether the equity value of the offshore target company is mainly directly or indirectly derived from PRC taxable property;
2. whether the assets of the offshore target company mainly comprise direct or indirect investments situated in China, or whether the revenue of the offshore target company is mainly sourced directly or indirectly from China;
3. whether the actual functions performed by or actual risks assumed by the offshore target company and its underlying affiliates that directly or indirectly hold PRC taxable property are able to prove that the enterprise structure has economic substance;
4. the duration of the shareholders of the offshore target company, business model and relevant organisation structures that are in existence;
5. the foreign taxes payable on the indirect transfer;
6. the substitutability of indirect investment, indirect transfer of PRC taxable property and direct investment, direct transfer of PRC taxable property;
7. the applicable tax treaties or arrangements in China with respect to the income derived from the indirect transfer of PRC taxable property; and
8. other relevant factors.

Under Bulletin 7, there is no mandatory reporting obligation of an indirect transfer of PRC taxable property. Where a non-resident enterprise conducts an indirect transfer of PRC taxable property, the transferor, the transferee and/or the PRC resident enterprise being indirectly transferred (if any) may report the indirect transfer to the relevant PRC tax authorities. However, Bulletin 7 does not provide for clear guidance on various issues, for instance, the tax basis, the allocation of transfer price to various PRC enterprises and the timeline for the formal binding decision of the tax authorities on a Bulletin 7 transaction.

TAXATION

The transfer of the Predecessor Group by the Vendor to the Purchaser pursuant to the Reorganisation constitutes an indirect transfer of PRC taxable properties undertaken by non-resident enterprises under Bulletin 7. None of the safe harbour provisions apply to such transfer. The relevant parties may report the Reorganisation to the relevant PRC tax authority for tax filing purposes. The Vendor will be subject to 10% EIT on the capital gains derived from the indirect transfer of the PRC taxable property, and all tax liabilities arising out of Bulletin 7 in relation to the Reorganisation would be borne by the Vendor.

Land Appreciation Tax (“LAT”)

According to the PRC Interim Regulation on LAT implemented in January 1994, its implementation rules of 1995 and subsequent supplemental regulations related thereto, the LAT applies to both domestic and foreign investors in real properties in the PRC. The tax is payable by a taxpayer on the capital gains from the transfer of land use right, buildings or other facilities on such land, after deducting “deductible items” that include the following:

- payments made to acquire land use right;
- costs and charges incurred in connection with land development;
- construction costs and charges in the case of newly constructed buildings and facilities;
- assessed value in the case of old buildings and facilities;
- taxes paid or payable in connection with the transfer of the land use right, buildings or other facilities on such land; and
- other items allowed by the Ministry of Finance of the PRC.

Where the taxpayer is developing a project, the applicable tax is payable on provisional basis. At the end of the project or upon satisfaction of other statutory conditions, taxpayers should file LAT clearance return for the whole project.

The tax rate is progressive and ranges from 30% to 60% of the gain, as follows:

<u>Appreciation Value</u>	<u>Tax Rate</u>
Portion not exceeding 50% of deductible items	30%
Portion over 50% but not more than 100% of deductible items	40%
Portion over 100% but not more than 200% of deductible items	50%
Portion over 200% of deductible items	60%

Urban Land Use Tax

According to the PRC Interim Regulations on Land Use Tax in respect of Urban Land promulgated by the State Council in September 1988 and subsequent supplemental regulations related thereto, the land use tax in respect of urban land is levied according to the area of relevant land. At present, the annual tax rate ranges between RMB0.6 and RMB30 per sq.m. of urban land.

TAXATION

Deed Tax

According to the PRC Interim Regulations on Deed Tax promulgated by the State Council in July 1997, deed tax is levied on the transfer of real property. The transferee/assignee is the taxpayer. Generally, the rates range from 3% to 5% of the transfer price, depending upon the locality where the transferred real property is located.

Stamp Duty

According to the PRC Interim Regulations on Stamp Duty promulgated by the State Council in August 1988, stamp duty is payable on all dutiable documents executed or used in the PRC. Property transfer instruments, including those in respect of property ownership transfers, are subject to stamp duty at a rate of 0.05% of the amount stated therein. Stamp duty at 0.1% of the rental applies to leasing contracts.

Urban Construction and Maintenance Tax

According to the PRC Interim Regulations on Urban Construction and Maintenance Tax promulgated by the State Council in 1985 and subsequent supplemental regulations related thereto, a taxpayer of consumption tax, VAT or business tax (which has been replaced by VAT upon completion of the Turnover Tax Reform as of 1 May 2016) is required to pay urban construction and maintenance tax calculated on the basis of consumption tax, VAT and business tax. Generally, the tax rate is 7.0% for a taxpayer in an urban area, 5.0% in a county or a town, and 1.0% for a taxpayer not in any urban area or county or town.

Education Surcharge and Local Education Surcharge

According to the Interim Provisions on Imposition of Education Surcharge promulgated by the State Council in April 1986 and amended in 1990 and in August 2005, any taxpayer of VAT, business tax (which has been replaced by VAT upon completion of the Turnover Tax Reform as of 1 May 2016) or consumption tax is liable for an education surcharge, unless such taxpayer is required to pay a rural area education surcharge as provided by the Notice of the State Council on Raising Funds for Schools in Rural Areas. The Education Surcharge rate is generally 3% calculated on the basis of VAT business tax and consumption tax.

In addition, on 7 November 2010, the Ministry of Finance published the Notice on Issues Concerning Policies on Unifying Local Education Surcharge that provides a general rate of 2.0% for the local education surcharge on the basis of VAT, business tax or consumption tax.

PRC TAXATION OF THE UNITHOLDERS

A Unitholder should not be subject to PRC tax on distributions from China Merchants Commercial REIT unless China Merchants Commercial REIT is deemed to be a PRC RE or the Unitholder is a PRC tax resident.

If China Merchants Commercial REIT is deemed to be a PRC RE, a Unitholder will be subject to PRC tax on distributions from China Merchants Commercial REIT and from gains derived from the disposal of Units.

TAXATION

Further, regardless of whether China Merchants Commercial REIT is deemed to be a PRC RE, if any Unitholder has indirectly transferred PRC taxable property through the disposal of Units, such disposal may trigger the application of Bulletin 7. However, pursuant to the safe harbour provision in Bulletin 7 for the sale of listed shares of an offshore listed company (see the section headed “Taxation — PRC Taxation of China Merchants Commercial REIT — China Indirect Transfer Tax” in this Offering Circular for details), gains from disposal of Units on the Hong Kong Stock Exchange, subject to meeting certain requirements, may qualify for the public trading safe harbour, and be exempt from EIT.

HONG KONG TAXATION OF CHINA MERCHANTS COMMERCIAL REIT

Profits Tax

China Merchants Commercial REIT, as a collective investment scheme constituted as a unit trust and authorised under Section 104 of the SFO, is exempt from Hong Kong profits tax.

The Special Purpose Vehicles that are incorporated in Hong Kong will be subject to Hong Kong profits tax in respect of profits arising from Hong Kong at the rate of 16.5% if they are regarded as carrying on a trade, profession or business in Hong Kong. A two-tiered profits tax rates regime applies in Hong Kong commencing from the 2018/19 year of assessment. Under such regime, the rate of tax for the first HK\$2 million of company profits will be reduced by half from 16.5% to 8.25%, while the remaining profits will continue to be taxed at the normal rate of 16.5%. However, only one member of each group of “connected entities” (as defined in the relevant tax legislation) can benefit from the reduced tax rate for the first HK\$2 million of company profits for a given year of assessment.

Withholding Tax

Distributions made by China Merchants Commercial REIT to the Unitholders are not subject to any withholding tax in Hong Kong.

Property Tax

As the PRC Property Companies do not hold any real property in Hong Kong, the income derived by them is not subject to Hong Kong property tax.

Stamp Duty

No Hong Kong stamp duty is payable by China Merchants Commercial REIT on the issue of new Units. Subsequent dealings by the Unitholders in Units will be subject to Hong Kong stamp duty. For details, please refer to the sub-section headed “Hong Kong Taxation of the Unitholders” below.

TAXATION

HONG KONG TAXATION OF THE UNITHOLDERS

Profits Tax

Under the Inland Revenue Department's current practice, Hong Kong profits tax will generally not be payable by any Unitholder on the distributions made by China Merchants Commercial REIT. The Unitholders should take advice from their own professional advisors as to their particular tax position.

Hong Kong profits tax will not be payable by any Unitholder (other than a Unitholder carrying a trade, profession or business in Hong Kong and holding the Units for trading purposes) on any capital gains made on the sale or other disposal of the Units.

Stamp Duty

No Hong Kong stamp duty is payable by the Unitholders in relation to the issue of the new Units to them by China Merchants Commercial REIT.

Hong Kong stamp duty will be payable by the purchaser on every purchase and by the seller on every sale of the Units, whether or not the purchase or sale is on or off the Hong Kong Stock Exchange. The duty is currently charged at the rate of 0.2% of the higher of the consideration paid or the value of the Units transferred (the buyer and seller each being liable for one-half of the amount of Hong Kong stamp duty payable upon such transfer). In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of the Units.

BVI TAXATION OF CHINA MERCHANTS COMMERCIAL REIT

The Holding Company, Frontier Shekou and the BVI Property Holding Companies (together, the "**BVI Companies**") and all dividends, interest, rents, royalties, compensation and other amounts paid by the BVI Companies to persons who are not resident in the BVI and any capital gains realised with respect to any shares, debt obligations, or other securities of the BVI Companies by persons who are not resident in the BVI are exempt from all provisions of the Income Tax Ordinance in the BVI.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not resident in the BVI with respect to any shares, debt obligation or other securities of the BVI Companies.

All instruments relating to transfers of property to or by the BVI Companies and all instruments relating to transactions in respect of the shares, debt obligations or other securities of the BVI Companies and all instruments relating to other transactions relating to the business of the BVI Companies are exempt from payment of stamp duty in the BVI. This assumes that the BVI Companies do not hold an interest in real estate in the BVI.

There are currently no withholding taxes or exchange control regulations in the BVI applicable to the BVI Companies or its members.

UNDERWRITING

HONG KONG UNDERWRITERS

Citigroup Global Markets Asia Limited
China Merchants Securities (HK) Co., Limited
DBS Asia Capital Limited

UNDERWRITING

This Offering Circular is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Underwriters) and the REIT Manager, the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 75,000,000 Hong Kong Public Offering Units and the International Offering of initially 675,000,000 International Offering Units, subject, in each case, to reallocation on the basis as described in the section headed “Structure of the Global Offering” in this Offering Circular as well as to the Over-allotment Option (in the case of the International Offering).

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, China Merchants Commercial REIT is offering the Hong Kong Public Offering Units for subscription on the terms and conditions set out in this Offering Circular, the Application Forms and the Hong Kong Underwriting Agreement at the Offer Price.

Subject to (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Units in issue and to be issued pursuant to the Global Offering on the Main Board of the Hong Kong Stock Exchange and such approval not having been withdrawn and (b) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the Hong Kong Public Offering Units being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this Offering Circular, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

UNDERWRITING

Grounds for Termination by the Hong Kong Underwriters

The Sole Listing Agent and/or the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) shall be entitled, in their absolute discretion and by giving written notice to the REIT Manager, to terminate the Hong Kong Underwriting Agreement with immediate effect if prior to 8:00 a.m. on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
 - (i) any event, or series of events, in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, large scale outbreaks of diseases (including, without limitation, SARS, swine or avian flu, H5N1, H1N1, H7N9 and such related/mutated forms), economic sanctions, withdrawal of trading privileges, strikes, labour disputes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism (whether or not responsibility has been claimed)) in or affecting Hong Kong, the PRC, the United States, the United Kingdom or the European Union (as a whole) (collectively, the “**Relevant Jurisdictions**”);
 - (ii) any change or development involving a prospective change, or any event or circumstances or series of events likely to result in any change or development involving a prospective change, in any local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions, equity securities or any monetary or trading settlement system or other financial markets (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets and the interbank markets and credit markets), in or affecting any of the Relevant Jurisdictions;
 - (iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange;
 - (iv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at the U.S. Federal or New York State level or by any other competent authority), London, the PRC, the European Union (as a whole) or any of the other Relevant Jurisdictions (declared by the relevant authorities) or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in or affecting any of the Relevant Jurisdictions;

UNDERWRITING

- (v) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or any competent authority in or affecting any of the Relevant Jurisdictions;
- (vi) the imposition of economic sanctions, or the withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions;
- (vii) any valid demand by any creditor for repayment or payment of any indebtedness of the REIT Manager or any member of China Merchants Commercial REIT and its subsidiaries (the “**Group**”) or in respect of which the REIT Manager or any member of the Group is liable prior to its stated maturity;
- (viii) any change or development involving a prospective change or amendment in or affecting taxation or foreign exchange control, in any of the Relevant Jurisdictions or affecting an investment in the Offer Units;
- (ix) any change or development or any prospective change or development in the assets, liabilities, business, general affairs, management, prospects, Unitholders’ equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of China Merchants Commercial REIT;
- (x) other than with the prior written consent of the Joint Global Coordinators, the issue or requirement to issue by the REIT Manager of a supplement or amendment to this Offering Circular, any Application Forms or other documents in connection with the offer and sale of the Offer Units pursuant to the REIT Code, the Listing Rules, any applicable Laws or upon any requirement or request of Hong Kong Stock Exchange and/or the SFC;
- (xi) any litigation, dispute, legal action or claim being threatened or instigated against the REIT Manager or any member of China Merchants Commercial REIT and its subsidiaries or Eureka;
- (xii) any Independent Non-executive Director or any other member of senior management of the REIT Manager is vacating his or her office;
- (xiii) any Independent Non-executive Director or member of senior management of the REIT Manager is being charged with an indictable offence or is prohibited by operation of law or otherwise disqualified from taking part in the management of a company or there is the commencement by any governmental, political or regulatory body of any investigation or other action against any Director in his or her capacity as such or any member of the Group or an announcement by any governmental, political or regulatory body that it intends to commence any such investigation or take any such action;

UNDERWRITING

- (xiv) any authority or a regulatory body or organisation in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director;
- (xv) any contravention by China Merchants Commercial REIT, the REIT Manager, any other member of the Group, or any Director of any applicable laws and regulations, the REIT Code and/or the Listing Rules;
- (xvi) any non-compliance of this Offering Circular (or any other documents used in connection with the contemplated subscription and sale of the Offer Units) or any aspect of the Global Offering with the REIT Code and/or the Listing Rules or any other applicable Laws; or
- (xvii) the materialisation of, any of the risks set out in the section headed “Risk Factors” in this Offering Circular,

which, individually or in the aggregate, in the sole and absolute opinion of the Sole Listing Agent and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters): (1) has or will or may have a material adverse effect on the assets, liabilities, business, management, prospects, Unitholders’ equity, profit, losses, earnings, results of operations, performance, position or condition, financial or otherwise, of the REIT Manager, China Merchants Commercial REIT or the Group as a whole; (2) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications or the distribution of the Offer Units under the Hong Kong Public Offering or the level of interest under the International Offering; (3) makes or will make or is likely to make it inadvisable, impracticable or incapable for the Hong Kong Public Offering and/or the International Offering to proceed or to market the Global Offering or the delivery or distribution of the Offer Units on the terms and in the manner contemplated by the offer related documents; or (4) has or will or may have the effect of making any material part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (b) there has come to the notice of the Joint Global Coordinators that:
 - (i) the Trustee or the REIT Manager seeks to retire, or is removed, as the trustee or the management company of China Merchants Commercial REIT, respectively;
 - (ii) any profit forecast or forecast of distribution(s) per Unit which appears in this Offering Circular is or becomes incapable of being met;

UNDERWRITING

- (iii) any statement contained in this Offering Circular, the Application Forms and the formal notice and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the REIT Manager in connection with the Hong Kong Public Offering (including any supplement or amendment thereto but excluding information relating to the Underwriters) was, when it was issued, or has become, untrue, incorrect, inaccurate, incomplete in any material respects or misleading or deceptive, or that any estimate, forecast, expression of opinion, intention or expectation contained in any of such documents is not fair and honest and based on reasonable grounds or reasonable assumptions;
- (iv) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this Offering Circular, constitute a material omission from, or misstatement in, this Offering Circular;
- (v) there is a material breach of any of the obligations imposed upon the REIT Manager, Eureka or the Vendor under the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Joint Global Coordinators, the Sole Listing Agent or the Underwriters), as applicable;
- (vi) there is any material adverse change (as defined in the Hong Kong Underwriting Agreement);
- (vii) the approval of the Listing Committee of the listing of, and permission to deal in, the Units in issue and to be issued pursuant to the Global Offering (including the Units which may be issued pursuant to the exercise of the Over-allotment Option), is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld;
- (viii) any person (other than any of the Underwriters) has withdrawn its consent to the issue of this Offering Circular with the inclusion of its reports, letters and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears;
- (ix) any litigation or claim of any third party being threatened or instigated against the REIT Manager or any member of the Group which may have a material adverse effect on the REIT Manager or the Group;
- (x) the REIT Manager withdraws this Offering Circular (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering;
- (xi) there is a prohibition on the REIT Manager for whatever reason from offering, allotting, issuing or selling any of the Offer Units pursuant to the terms of the Global Offering;

UNDERWRITING

- (xii) the Chairman, Chief Executive Officer, any other Non-executive Director (excluding Independent Non-executive Director) or Responsible Officers of the REIT Manager is vacating his or her office;
- (xiii) any Executive Director, Non-executive Director (excluding Independent Non-executive Director) or Responsible Officers of the REIT Manager is being charged with an indictable offence or is prohibited by operation of law or otherwise disqualified from taking part in the management of a company or there is the commencement by any governmental, political or regulatory body of any investigation or other action against any Director in his or her capacity as such or any member of the Group or an announcement by any governmental, political or regulatory body that it intends to commence any such investigation or take any such action;
- (xiv) any contravention by the REIT Manager or any member of the Group of the SFO, the REIT Code, the Listing Rules or applicable laws in any material respect;
- (xv) the non-compliance of this Offering Circular (or any other documents used in connection with the Global Offering) or any material respect of the Global Offering with the REIT Code, the Listing Rules or any other applicable laws; or
- (xvi) there is any order or petition for the winding-up of the REIT Manager, any member of the Group or Eureka or any composition or arrangement made by the REIT Manager, any member of the Group or Eureka with their respective creditors or a scheme of arrangement entered into by the REIT Manager, any member of the Group or Eureka or any resolution for the winding-up of any member of the REIT Manager, any member of the Group or Eureka or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of the REIT Manager, any member of the Group or Eureka or anything analogous thereto occurring in respect of the REIT Manager, any member of the Group or Eureka.

Undertakings

(A) Undertakings by the REIT Manager

Pursuant to the Hong Kong Underwriting Agreement, the REIT Manager has undertaken to each of the Joint Global Coordinators, the Sole Listing Agent and the Hong Kong Underwriters that, except (i) pursuant to the Global Offering; (ii) with the prior written consent of the Joint Global Coordinators (on behalf of themselves and on behalf of the Hong Kong Underwriters); or (iii) pursuant to the payment of Units to the REIT Manager in lieu of its fee

UNDERWRITING

on the term set out in this Offering Circular, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date falling six months after the Listing Date (the “**First Six-Month Period**”), China Merchants Commercial REIT will not:

- (i) offer, allot, issue, sell, accept subscription for, contract to allot, issue or sell, contract or agree to allot, issue or sell, assign, grant or sell any option, warrant, right or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, or otherwise transfer or dispose of, or agree to transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in any Units or other securities of China Merchants Commercial REIT, or any interests in any of the foregoing (including, but not limited to, any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, or any warrants or other rights to purchase, any Units or other securities of China Merchants Commercial REIT); or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership (legal or beneficial) of any Units or other securities of China Merchants Commercial REIT, or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Units or other securities of China Merchants Commercial REIT); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in Clause (i) or (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any transaction specified in Clause (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in Clause (i), (ii) or (iii) above is to be settled by delivery of Units or other securities of China Merchants Commercial REIT, in cash or otherwise (whether or not the issue of such Units or other securities of China Merchants Commercial REIT will be completed within the First Six-month Period). In the event that, during the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), China Merchants Commercial REIT enters into any of the transactions specified in Clause (i), (ii) or (iii) above or offers to or agrees to or announces any intention to, effect any such transactions, the REIT Manager shall take all reasonable steps to ensure that it will not create a disorderly or false market in the Units or other securities of China Merchants Commercial REIT. Eureka undertake to each of the Joint Global Coordinators, the Sole Listing Agent and the Hong Kong Underwriters to procure the REIT Manager to comply with the undertakings in this Clause (A).

UNDERWRITING

(B) Undertakings by Eureka

Pursuant to the Hong Kong Underwriting Agreement, Eureka has undertaken to each of the REIT Manager, the Joint Global Coordinators, the Sole Listing Agent and the Hong Kong Underwriters that, without the prior written consent of the Sole Listing Agent and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters):

- (a) save for pursuant to any exercise of the Over-allotment Option or the lending of Units pursuant to the Unit Borrowing Agreement, during the First Six-Month Period, it will not, and will procure that the relevant registered holder(s) will not:
 - (i) offer, pledge, charge, sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant, or purchase any option, warrant, contract or right to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Units or other securities of China Merchants Commercial REIT or any interest in any of the foregoing (including, but not limited to, any securities that are convertible into or exchangeable or exercisable for, or that represent the right to receive, or any warrants or other rights to purchase, any Units or other securities of China Merchants Commercial REIT) beneficially owned by it as of the Listing Date (the “**Locked-up Securities**”);
 - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of, any Locked-up Securities;
 - (iii) enter into any transaction with the same economic effect as any transaction specified in paragraph (i) or (ii) above; or
 - (iv) offer to or agree to or announce any intention to effect any transaction specified in paragraph (i), (ii) or (iii) above,

in each case, whether any such transaction specified in paragraph (i), (ii) or (iii) above is to be settled by delivery of Units or other securities of China Merchants Commercial REIT, in cash or otherwise (whether or not the settlement or delivery of such Units or other securities will be completed within the First Six-Month Period);

- (b) during the Second Six-Month Period, it will not, and will procure that the relevant registered holder(s) will not, enter into any of the transactions specified in paragraph (i), (ii) or (iii) above in respect of any Locked-up Securities or offer to or agree to or announce any intention to effect any such transaction if, immediately following such transaction or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it would cease to be the direct or indirect owner of Units which represents at least 30% (or such other amount as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) of the issued Units of China Merchants Commercial REIT;

UNDERWRITING

- (c) until the expiry of the Second Six-Month Period, in the event that it or the relevant registered holder(s) enters into any such transactions specified in (i), (ii) or (iii) above or offers to or agrees to or announces an intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of China Merchants Commercial REIT; and
- (d) at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling 12 months after the Listing Date, it will (a) if and when it or the relevant registered holder(s) pledges or charges any Units or other securities of China Merchants Commercial REIT beneficially owned by it, immediately inform the REIT Manager and the Joint Global Coordinators in writing of such pledge or charge together with the number of Units or other securities of China Merchants Commercial REIT so pledged or charged; and (b) if and when it or the relevant registered holder(s) receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged Units or other securities of China Merchants Commercial REIT will be disposed of, immediately inform the REIT Manager and the Joint Global Coordinators in writing of such indications.

Hong Kong Underwriters' Interests in China Merchants Commercial REIT

Save for their respective obligations under the Hong Kong Underwriting Agreement and, if applicable, the Unit Borrowing Agreement, as at the Latest Practicable Date, none of the Hong Kong Underwriters was interested, legally or beneficially, directly or indirectly, in any Units or any securities of China Merchants Commercial REIT, the REIT Manager or the Trustee or had any right or option (whether legally enforceable or not) to subscribe for or purchase, or to nominate persons to subscribe for or purchase, any Units or any securities of the REIT Manager or the Trustee.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Units as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement.

International Offering

International Underwriting Agreement

In connection with the International Offering, the International Underwriting Agreement is expected to be entered into between, among others, the REIT Manager, Eureka and the International Underwriters on the Price Determination Date. Under the International Underwriting Agreement and subject to the Over-allotment Option, the International Underwriters would, subject to certain conditions set out therein, agree severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the International Offering Units initially being offered pursuant to the International Offering. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. See the section headed "Structure of the Global Offering — The International Offering" in this Offering Circular.

UNDERWRITING

Over-allotment Option

Eureka is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters, pursuant to which Eureka may be required to sell up to an aggregate of 37,500,000 Units, representing not more than 5% of the number of Offer Units initially available under the Global Offering, at the Offer Price, to, among other things, cover over-allocations in the International Offering, if any. Please refer to the section headed “Structure of the Global Offering — Over-allotment Option” in this Offering Circular.

Commissions and Expenses

The Underwriters will receive an underwriting commission of 1.75% of the aggregate Offer Price of all the Offer Units, out of which they will pay any sub-underwriting commissions and other fees.

The REIT Manager agrees at its discretion to pay to the Joint Global Coordinators an incentive fee of up to 0.5% of the aggregate Offer Price of all the Offer Units.

For any unsubscribed Hong Kong Public Offering Units reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the relevant International Underwriters.

The aggregate underwriting commissions payable to the Underwriters in relation to the Global Offering (assuming an Offer Price of HK\$3.71 per Offer Unit (which is the mid-point of the Offer Price Range), the full payment of the discretionary incentive fee and the exercise of the Over-allotment Option in full) will be approximately HK\$65.7 million.

The aggregate underwriting commissions and fees together with the Hong Kong Stock Exchange listing fees, the SFC transaction levy and the Hong Kong Stock Exchange trading fee, legal and other professional fees and printing and all other expenses relating to the Global Offering are estimated to be approximately HK\$118.8 million (assuming an Offer Price of HK\$3.71 per Offer Unit (which is the mid-point of the Offer Price Range) and the full payment of the discretionary incentive fee) and will be paid by China Merchants Commercial REIT.

Indemnity

The REIT Manager has agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer or incur, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by them of the Hong Kong Underwriting Agreement.

UNDERWRITING

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilising process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively traded securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of China Merchants Commercial REIT and/or persons and entities with relationships with China Merchants Commercial REIT and may also include swaps and other financial instruments entered into for hedging purposes in connection with China Merchants Commercial REIT’s loans and other debt.

In relation to the Units, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the Units, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Units (which financing may be secured by the Units) in the Global Offering, proprietary trading in the Units and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Units. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Units, which may have a negative impact on the trading price of the Units. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Units, in baskets of securities or indices including the Units, in units of funds that may purchase the Units, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Units as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Units in most cases.

All such activities may occur both during and after the end of the stabilising period described in section headed “Structure of the Global Offering” in this Offering Circular. Such activities may affect the market price or value of the Units, the liquidity or trading volume in the Units and the volatility of the price of the Units, and the extent to which this occurs from day to day cannot be estimated.

UNDERWRITING

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilising Manager or any person acting for it) must not, in connection with the distribution of the Offer Units, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Units), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Units at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to the REIT Manager and/or its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

In addition, the Syndicate Members or their respective affiliates may provide financing to investors to finance their subscriptions of Offer Units in the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This Offering Circular is published in connection with the Hong Kong Public Offering as part of the Global Offering.

The Sole Listing Agent has made an application on behalf of China Merchants Commercial REIT to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Units in issue and to be issued as mentioned in this Offering Circular.

750,000,000 Offer Units will initially be made available under the Global Offering comprising:

- (a) the Hong Kong Public Offering of initially 75,000,000 Units (subject to reallocation) in Hong Kong as described in the sub-section headed “The Hong Kong Public Offering” below; and
- (b) the International Offering of initially 675,000,000 Units (subject to reallocation and the Over-allotment Option) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S, as described in the sub-section headed “The International Offering” below.

Investors may either:

- (a) apply for Hong Kong Public Offering Units under the Hong Kong Public Offering; or
- (b) apply for or indicate an interest for International Offering Units under the International Offering,

but may not do both.

The Offer Units will represent approximately 66.5% of the total Units in issue immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised. If the Over-allotment Option is exercised in full, the Offer Units will represent approximately 69.8% of the total Units in issue immediately following the completion of the Global Offering.

References in this Offering Circular to applications, Application Forms, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Offer Units initially offered

China Merchants Commercial REIT is initially offering 75,000,000 Units for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Units initially available under the Global Offering. The number of Units initially offered under the Hong Kong Public Offering, subject to any reallocation of Offer Units between the

STRUCTURE OF THE GLOBAL OFFERING

International Offering and the Hong Kong Public Offering, will represent approximately 6.6% of the total Units in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in the sub-section headed “Conditions of the Global Offering” below.

Allocation

Allocation of Offer Units to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offering Units validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offering Units, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offering Units.

For allocation purposes only, the total number of Hong Kong Public Offering Units available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally (to the nearest board lot) into two pools: pool A and pool B. The Hong Kong Public Offering Units in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offering Units with an aggregate price of HK\$5 million (excluding the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) or less. The Hong Kong Public Offering Units in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offering Units with an aggregate price of more than HK\$5 million (excluding the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable).

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Public Offering Units in one (but not both) of the pools are unsubscribed, such unsubscribed Hong Kong Public Offering Units will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of the immediately preceding paragraph only, the “price” for Hong Kong Public Offering Units means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Public Offering Units from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 37,500,000 Hong Kong Public Offering Units is liable to be rejected.

Reallocation

The allocation of the Offer Units between the Hong Kong Public Offering and the International Offering is subject to reallocation.

STRUCTURE OF THE GLOBAL OFFERING

If the number of Offer Units validly applied for under the Hong Kong Public Offering represents (a) 5 times or more but less than 15 times, (b) 15 times or more but less than 50 times, (c) 50 times or more but less than 100 times and (d) 100 times or more of the total number of Offer Units initially available under the Hong Kong Public Offering, then Offer Units will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Units available under the Hong Kong Public Offering will be increased to 150,000,000 Offer Units (in the case of (a)), 225,000,000 Offer Units (in the case of (b)), 300,000,000 Offer Units (in the case of (c)) and 375,000,000 Offer Units (in the case of (d)), representing 20%, 30%, 40% and 50% of the total number of Offer Units initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Units reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Units allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate.

In addition, the Joint Global Coordinators may reallocate Units from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Offering and, in the event of an under-subscription in the Hong Kong Public Offering, the Joint Global Coordinators will have the discretion to reallocate to the International Offering such number of unsubscribed Hong Kong Public Offering Units as it may deem appropriate.

The REIT Manager, the Directors and the Hong Kong Underwriters will take reasonable steps to identify and reject applications under the Hong Kong Public Offering from investors who have received Units in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Units in the Hong Kong Public Offering.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offering Units under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is/are breached and/or untrue (as the case may be) or if he has been or will be placed or allocated International Offering Units under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the Maximum Offer Price of HK\$4.00 per Offer Unit in addition to the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable on each Offer Unit, amounting to a total of HK\$4,040.31 for one board lot of 1,000 Units. If the Offer Price, as finally determined in the manner described in the sub-section headed "Pricing and Allocation" below, is less than the Maximum Offer Price of HK\$4.00 per Offer Unit, appropriate refund payments (including the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in the section headed "How to Apply for Hong Kong Public Offering Units" in this Offering Circular.

STRUCTURE OF THE GLOBAL OFFERING

THE INTERNATIONAL OFFERING

Number of Offer Units initially offered

The International Offering will consist of an offering of initially 675,000,000 Units representing 90% of the total number of Offer Units initially available under the Global Offering. The number of Units initially offered under the International Offering, subject to any reallocation of Offer Units between the International Offering and the Hong Kong Public Offering, will represent approximately 59.8% of the total Units in issue immediately following the completion of the Global Offering.

Allocation

The International Offering will include selective marketing of Offer Units to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Units in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities. Allocation of Offer Units pursuant to the International Offering will be effected in accordance with the “book-building” process described in the sub-section headed “Pricing and Allocation” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to hold or sell its Units after the Listing. Such allocation is intended to result in a distribution of the Units on a basis which would lead to the establishment of a solid professional and institutional Unitholder base to the benefit of China Merchants Commercial REIT and the Unitholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Units under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any allocation of Offer Units under the Hong Kong Public Offering.

Reallocation

The total number of Offer Units to be issued pursuant to the International Offering may change as a result of reallocation to the Hong Kong Public Offering in the case of over-subscription under the Hong Kong Public Offering as described in the sub-section headed “The Hong Kong Public Offering — Reallocation” above, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Units originally included in the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, Eureka is expected to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters).

STRUCTURE OF THE GLOBAL OFFERING

Pursuant to the Over-allotment Option, the International Underwriters will have the right, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) at any time from the date of the International Underwriting Agreement until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require Eureka to sell up to an aggregate of 37,500,000 Units, representing not more than 5% of the total number of Offer Units initially available under the Global Offering, at the Offer Price under the International Offering to, among other things, cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional International Offering Units to be sold pursuant thereto will represent approximately 3.3% of the total Units in issue immediately following the completion of the Global Offering. If the Over-allotment Option is exercised, an announcement will be made.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the securities in the secondary market during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilising Manager (or any of its affiliates or any person acting for it), on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilising or supporting the market price of the Units at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilising Manager (or any of its affiliates or any person acting for it) to conduct any such stabilising action. Such stabilising action, if taken, (a) will be conducted at the absolute discretion of the Stabilising Manager (or any of its affiliates or any person acting for it) and in what the Stabilising Manager reasonably regards as the best interest of the China Merchants Commercial REIT, (b) may be discontinued at any time and (c) is required to be brought to an end within 30 days after the last day for lodging applications under the Hong Kong Public Offering.

Stabilisation action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (a) over-allocating for the purpose of preventing or minimising any reduction in the market price of the Units, (b) selling or agreeing to sell the Units so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Units, (c) purchasing, or agreeing to purchase, the Units pursuant to the Over-allotment Option in order to close out any position established under paragraph (a) or (b) above, (d) purchasing, or agreeing to purchase, any of the Units for the sole purpose of preventing or minimising any reduction in the market price of the Units, (e) selling or agreeing to sell any Units in order to liquidate any position established as a result of those purchases and (f) offering or attempting to do anything as described in paragraph (b), (c), (d) or (e) above.

STRUCTURE OF THE GLOBAL OFFERING

Specifically, prospective applicants for and investors in the Offer Units should note that:

- (a) the Stabilising Manager (or any of its affiliates or any person acting for it) may, in connection with the stabilising action, maintain a long position in the Units;
- (b) there is no certainty as to the extent to which and the time or period for which the Stabilising Manager (or any of its affiliates or any person acting for it) will maintain such a long position;
- (c) liquidation of any such long position by the Stabilising Manager (or any of its affiliates or any person acting for it) and selling in the open market may have an adverse impact on the market price of the Units;
- (d) no stabilising action can be taken to support the price of the Units for longer than the stabilisation period, which will begin on the Listing Date, and is expected to expire on Thursday, 2 January 2020, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for the Units, and therefore the price of the Units, could fall;
- (e) the price of the Units cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and
- (f) stabilising bids or transactions effected in the course of the stabilising action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Units.

The REIT Manager will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilisation period.

Over-Allocation

Following any over-allocation of Units in connection with the Global Offering, the Stabilising Manager (or any of its affiliates or any person acting for it) may cover such over-allocations by, among other methods, exercising the Over-allotment Option in full or in part, by using Units purchased by the Stabilising Manager (or any of its affiliates or any person acting for it) in the secondary market at prices that do not exceed the Offer Price or through the Unit Borrowing Agreement as detailed below or a combination of these means.

UNIT BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations, if any, in connection with the Global Offering, the Stabilising Manager (or any of its affiliates or any person acting for it) may choose to borrow up to 37,500,000 Units (being the maximum number of Units which may be sold pursuant to the exercise of the Over-allotment Option) from Eureka, pursuant to the Unit Borrowing Agreement, which is expected to be entered into between the Stabilising Manager (or any of its affiliates or any person acting for it) and Eureka on or about the Price Determination Date.

STRUCTURE OF THE GLOBAL OFFERING

If the Unit Borrowing Agreement with Eureka is entered into, the borrowing of Units will only be effected by the Stabilising Manager (or any of its affiliates or any person acting for it) for the settlement of over-allocations in the International Offering.

The same number of Units so borrowed must be returned to Eureka or its nominees, as the case may be, on or before the third business day following the earlier of (a) the last day for exercising the Over-allotment Option and (b) the day on which the Over-allotment Option is exercised in full.

The Unit borrowing arrangement described above will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to Eureka by the Stabilising Manager (or any of its affiliates or any person acting for it) in relation to such Unit borrowing arrangement.

PRICING AND ALLOCATION

Pricing for the Offer Units for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or about, Tuesday, 3 December 2019, by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and the REIT Manager, and the number of Offer Units to be allocated under the various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$4.00 per Offer Unit and is expected to be not less than HK\$3.42 per Offer Unit, unless otherwise announced, as further explained below. Applicants under the Hong Kong Public Offering must pay, on application, the Maximum Offer Price of HK\$4.00 per Offer Unit plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, amounting to a total of HK\$4,040.31 for one board lot of 1,000 Units. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the Minimum Offer Price stated in this Offering Circular.**

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring Offer Units in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Units under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Joint Global Coordinators (on behalf of the Underwriters) may, where they deem appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the International Offering, and with the consent of the REIT Manager, reduce the number of Offer Units offered and/or the Offer Price Range below that stated in this Offering Circular at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, the REIT Manager will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the China Merchants Commercial REIT and the Hong Kong Stock Exchange at www.cmcreit.com and www.hkexnews.hk, respectively, notices of the reduction. Upon the issue of such a notice, the revised number of

STRUCTURE OF THE GLOBAL OFFERING

Offer Units and/or the Offer Price Range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (on behalf of the Underwriters) and the REIT Manager, will be fixed within such revised Offer Price Range.

Before submitting applications for the Hong Kong Public Offering Units, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Units and/or the Offer Price Range may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this Offering Circular, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Units will not be reduced and/or the Offer Price, if agreed upon by the Joint Global Coordinators (on behalf of the Underwriters) and the REIT Manager, will under no circumstances be set outside the Offer Price Range as stated in this Offering Circular.

The final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocations of the Hong Kong Public Offering Units and the results of allocations in the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in the section headed “How to Apply for Hong Kong Public Offering Units — D. Publication of Results” in this Offering Circular.

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to the Joint Global Coordinators (on behalf of the Underwriters) and the REIT Manager agreeing on the Offer Price.

The REIT Manager expects to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

These underwriting arrangements, including the Underwriting Agreements, are summarised in the section headed “Underwriting” in this Offering Circular.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Units will be conditional on:

- (a) the SFC having authorised this Offering Circular pursuant to section 105 of the SFO;
- (b) the Listing Committee granting approval for the listing of, and permission to deal in, the Units in issue and to be issued pursuant to the Global Offering on the Main Board of the Hong Kong Stock Exchange and such approval not having been withdrawn;
- (c) the Offer Price having been agreed between the Joint Global Coordinators (on behalf of the Underwriters) and the REIT Manager;

STRUCTURE OF THE GLOBAL OFFERING

- (d) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- (e) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this Offering Circular.

If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Underwriters) and the REIT Manager on or before Monday, 9 December 2019, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by the REIT Manager in the South China Morning Post (in English) and the the Hong Kong Economic Times (in Chinese) and on the websites of the REIT and the Hong Kong Stock Exchange at www.cmcreit.com and www.hkexnews.hk, respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in section headed “How to Apply for Hong Kong Public Offering Units” in this Offering Circular. In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Unit certificates for the Offer Units will only become valid at 8:00 a.m. on, Tuesday, 10 December 2019, provided that the Global Offering has become unconditional in all respects at or before that time.

DEALINGS IN THE UNITS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, 10 December 2019, it is expected that dealings in the Units on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Tuesday, 10 December 2019.

The Units will be traded in board lots of 1,000 Units each and the stock code of the Units will be 01503.

HOW TO APPLY FOR HONG KONG PUBLIC OFFERING UNITS

A. APPLICATIONS FOR HONG KONG PUBLIC OFFERING UNITS

1. How to Apply

If you apply for Hong Kong Public Offering Units, then you may not apply for or indicate an interest for International Offering Units.

To apply for Hong Kong Public Offering Units, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply through **HK eIPO White Form** service in the IPO App (Which can be downloaded by searching “IPO App” in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp) or on the designated website at www.hkeipo.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The REIT Manager, the Trustee, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application, in full or in part, for any reason at their discretion.

2. Who Can Apply

You can apply for Hong Kong Public Offering Units on a **WHITE** or **YELLOW** Application Form if you or any person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States (within the meaning of Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you apply for Hong Kong Public Offering Units online through the **HK eIPO White Form** service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

HOW TO APPLY FOR HONG KONG PUBLIC OFFERING UNITS

If an application is made by a person under a power of attorney, the REIT Manager, the Trustee and the Joint Global Coordinators may accept it at their discretion, and on any conditions they think fit, including requiring evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **HK eIPO White Form** service for the Hong Kong Public Offering Units.

Unless permitted by the Listing Rules or the REIT Code, you cannot apply for any Hong Kong Public Offering Units if:

- you are an existing beneficial owner of Units or a close associate of any such owner;
- you are a Director of the REIT Manager or a close associate of any such Director;
- you are a core connected person of China Merchants Commercial REIT or a person who will become a core connected person of China Merchants Commercial REIT immediately upon the completion of the Global Offering; or
- you have been allocated or have applied for any International Offering Units or otherwise participate in the International Offering.

References to “close associate” and “core connected person” use to such terms as defined in the Listing Rules as if applicable to REITs.

3. Applying for Hong Kong Public Offering Units

Which Application Channel to Use

For Hong Kong Public Offering Units to be issued in your own name, use a **WHITE** Application Form or apply online through the **HK eIPO White Form** service in the **IPO App** or at www.hkeipo.hk.

For Hong Kong Public Offering Units to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

No money shall be paid to any intermediary in Hong Kong who is not licensed or registered to carry on Type 1 regulated activity under Part V of the SFO.

HOW TO APPLY FOR HONG KONG PUBLIC OFFERING UNITS

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and an Offering Circular during normal business hours from 9:00 a.m. to 5:00 p.m. on Thursday, 28 November 2019, Friday, 29 November 2019 and Monday, 2 December 2019 and from 9:00 a.m. to 12:00 noon on Tuesday, 3 December 2019 from:

- (a) any of the following:

**China Merchants Securities
(HK) Co., Limited**
48/F
One Exchange Square
Central
Hong Kong

DBS Asia Capital Limited
73/F, The Center,
99 Queen's Road Central,
Central,
Hong Kong

- (b) any of the following branches of the receiving banks for the Hong Kong Public Offering:

DBS Bank (Hong Kong) Limited

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island . . .	Head Office	G/F, The Center, 99 Queen's Road Central, Central
	North Point Branch	G/F, 391 King's Road, North Point
	Happy Valley Branch	G/F, 18A–22 King Kwong Street, Happy Valley
	Aberdeen Branch	Shops A & B, G/F, Units A & B, 1/F, On Tai Building, 1–3 Wu Nam Street, Aberdeen
Kowloon	Nathan Road — SME Banking Centre	2/F, Wofoo Commercial Building, 574–576 Nathan Road, Mongkok
	Kowloon Bay — SME Banking Centre	Shop 6, G/F, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay
	Yaumatei Branch	G/F & 1/F, 131–137 Woo Sung Street, Yau Ma Tei
New Territories	Tuen Mun Town Plaza — SME Banking Centre	Shop 23, G/F, Tuen Mun Town Plaza (II), 3 Tuen Lung Street, Tuen Mun
	Kwai Chung Branch	G/F, 1001 Kwai Chung Road, Kwai Chung
	Ma On Shan Branch	Shop 205–206, Level 2, Ma On Shan Plaza, Ma On Shan

HOW TO APPLY FOR HONG KONG PUBLIC OFFERING UNITS

Bank of China (Hong Kong) Limited

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island . . .	Des Voeux Road West Branch	111–119 Des Voeux Road West, Hong Kong
	Wan Chai (Wu Chung House) Branch	213 Queen’s Road East, Wan Chai, Hong Kong
Kowloon	Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom, Kowloon
New Territories	Fo Tan Branch	No 2, 1/F Shatin Galleria, 18–24 Shan Mei Street, Fo Tan, New Territories
	Kwai Chung Plaza Branch	A18–20, G/F Kwai Chung Plaza, 7–11 Kwai Foo Road, Kwai Chung, New Territories

You can collect a **YELLOW** Application Form and an Offering Circular during normal business hours from 9:00 a.m. on Thursday 28 November 2019 till 12:00 noon on Tuesday 3 December 2019 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker’s cashier order attached and marked payable to “Ting Hong Nominees Limited — CMC REIT Public Offer” for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above at the following times:

Thursday, 28 November 2019	—	9:00 a.m. to 5:00 p.m.
Friday, 29 November 2019	—	9:00 a.m. to 5:00 p.m.
Monday, 2 December 2019	—	9:00 a.m. to 5:00 p.m.
Tuesday, 3 December 2019	—	9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, 3 December 2019, the last day for applications, or such later time as described in the sub-section headed “C. Effect of Bad Weather on the Opening and Closing of the Application Lists” below.

4. Terms and Conditions of an Application

Follow the detailed instructions in the **WHITE** or **YELLOW** Application Form carefully, otherwise your application may be rejected.

HOW TO APPLY FOR HONG KONG PUBLIC OFFERING UNITS

By submitting a **WHITE** or **YELLOW** Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- (a) undertake to execute all relevant documents and instruct and authorise the REIT Manager, the Trustee and/or the Joint Global Coordinators (or their agents or nominees), as agents of the REIT, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Public Offering Units allocated to you in your name or in the name of HKSCC Nominees as required by the Trust Deed;
- (b) agree to comply with the Trust Deed;
- (c) confirm that you have read the terms and conditions and application procedures set out in this Offering Circular and in the Application Form and agree to be bound by them;
- (d) confirm that you have received and read this Offering Circular and have relied only on the information and representations in this Offering Circular in making your application and will not rely on any other information or representations, except those in any supplement to this Offering Circular;
- (e) confirm that you are aware of the restrictions on the Global Offering set out in this Offering Circular;
- (f) agree that none of the REIT Manager, the Trustee, the Relevant Persons and the **HK eIPO White Form** Service Provider is or will be liable for any information and representations not in this Offering Circular (and any supplement to this Offering Circular);
- (g) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offering Units nor participated in the International Offering;
- (h) agree to disclose to the REIT Manager, the Trustee, the Hong Kong Unit Registrar, the receiving banks and the Relevant Persons any personal data which any of them may require about you and the person(s) for whose benefit you have made the application;
- (i) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and neither the REIT Manager, the Trustee nor the Relevant Persons will breach any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions in this Offering Circular and the Application Form;
- (j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (k) agree that your application will be governed by the laws of Hong Kong;

HOW TO APPLY FOR HONG KONG PUBLIC OFFERING UNITS

- (l) represent, warrant and undertake that (i) you understand that the Hong Kong Public Offering Units have not been and will not be registered under the US Securities Act and (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offering Units are outside the United States (within the meaning of Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (m) warrant that the information you have provided is true and accurate;
- (n) agree to accept the Hong Kong Public Offering Units applied for or any lesser number allocated to you under the application;
- (o) authorise (i) the REIT Manager and the Trustee to place your name(s) or the name of HKSCC Nominees on the register of Unitholders of China Merchants Commercial REIT as the holder(s) of any Hong Kong Public Offering Units allocated to you and such other registers as required under the Trust Deed and (ii) the REIT Manager and the Trustee and/or their agents to send any Unit certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint applications by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the Unit certificate(s) and/or refund cheque(s) in person;
- (p) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (q) understand that the REIT Manger, the Trustee, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Public Offering Units to you and that you may be prosecuted for making a false declaration;
- (r) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service or by any one as your agent or by any other person; and
- (s) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as its agent.

Additional Instructions for YELLOW Application Forms

You should refer to the **YELLOW** Application Form for details.

5. Applying Through the HK eIPO White Form Service

General

Individuals who meet the criteria in the sub-section headed “2. Who Can Apply” above may apply through the **HK eIPO White Form** service for the Offer Units to be allocated and registered in their own names through the **IPO App** or the designated website at www.hkeipo.hk.

Detailed instructions for application through the **HK eIPO White Form** service are set out in the **IPO App** and on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the REIT Manager and the Trustee. If you apply through the **IPO App** or the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this Offering Circular, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** Service Provider.

Time for Submitting Applications under the HK eIPO White Form Service

You may submit your application through the **HK eIPO White Form** service through the **IPO App** or the designated website at www.hkeipo.hk (24 hours daily, except on the last day for applications) from 9:00 a.m. on Thursday, 28 November 2019 until 11:30 a.m. on Tuesday, 3 December 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, 3 December 2019, the last day for applications, or such later time as described in the sub-section headed “C. Effect of Bad Weather on the Opening and Closing of the Application Lists” below.

No Multiple Applications

If you apply by means of the **HK eIPO White Form** service, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Public Offering Units, an actual application will be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under the **HK eIPO White Form** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

HOW TO APPLY FOR HONG KONG PUBLIC OFFERING UNITS

6. Applying By Giving Electronic Application Instructions to HKSCC via CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Public Offering Units and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre 1/F,
One & Two Exchange Square,
8 Connaught Place, Central,
Hong Kong

and complete an input request form.

You can also collect an Offering Circular from the above address.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offering Units on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the REIT Manager, the Joint Global Coordinators and the Hong Kong Unit Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Public Offering Units and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (a) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this Offering Circular; and

HOW TO APPLY FOR HONG KONG PUBLIC OFFERING UNITS

- (b) HKSCC Nominees will do the following things on your behalf:
- agree that the Hong Kong Public Offering Units to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Public Offering Units applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offering Units nor participated in the International Offering;
 - declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as its agent;
 - confirm that you understand that the REIT Manager, the Trustee, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Public Offering Units to you and that you may be prosecuted for making a false declaration;
 - authorise the REIT Manager and the Trustee to place HKSCC Nominees' name on the register of Unitholders as the holder of the Hong Kong Public Offering Units allocated to you and such other registers as required under the Trust Deed, and despatch Unit certificate(s) and/or refund monies in accordance with the arrangements separately agreed between the REIT Manager, the Trustee and HKSCC;
 - confirm that you have read the terms and conditions and application procedures set out in this Offering Circular and agree to be bound by them;
 - confirm that you have received and read a copy of this Offering Circular and have relied only on the information and representations in this Offering Circular in causing the application to be made and will not rely on any other information or representations, except those in any supplement to this Offering Circular;

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- agree that none of the REIT Manager, the Trustee nor the Relevant Persons is or will be liable for any information and representations not in this Offering Circular (and any supplement to this Offering Circular);
- agree to disclose to the REIT Manager, the Trustee, the Hong Kong Unit Registrar, the receiving banks and the Relevant Persons any personal data which they may require about you;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with the REIT Manager and the Trustee, and to become binding when you give the instructions and such collateral contract to be in consideration of the REIT Manager and the Trustee agreeing that they will not offer any Hong Kong Public Offering Units to any person on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this Offering Circular. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this Offering Circular gives a public notice which excludes or limits that person's responsibility for this Offering Circular;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Hong Kong Public Offering Units;
- agree with the REIT Manager and the Trustee and for the benefit of each Unitholder (and so that the REIT Manager and the Trustee will be deemed by their acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for the REIT Manager and the Trustee and on behalf of each Unitholder, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Trust Deed; and

HOW TO APPLY FOR HONG KONG PUBLIC OFFERING UNITS

- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to the REIT Manager, the Trustee or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offering Units on your behalf;
- instructed and authorised HKSCC to arrange payment of the Maximum Offer Price, brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the Maximum Offer Price initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this Offering Circular.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 1,000 Hong Kong Public Offering Units. Instructions for more than 1,000 Hong Kong Public Offering Units must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Public Offering Units will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, 28 November 2019	—	9:00 a.m. to 8:30 p.m.
Friday, 29 November 2019	—	8:00 a.m. to 8:30 p.m.
Monday, 2 December 2019	—	8:00 a.m. to 8:30 p.m.
Tuesday, 3 December 2019	—	8:00 a.m. to 12:00 noon

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CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, 28 November 2019 until 12:00 noon on Tuesday, 3 December 2019 (24 hours daily, except on Tuesday, 3 December 2019, the last day for applications).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, 3 December 2019, the last day for applications, or such later time as described in the sub-section headed “C. Effect of Bad Weather on the Opening and Closing of the Application Lists” below.

Note:

- (1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offering Units applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offering Units for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offering Units given by you or for your benefit to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the REIT Manager, the Trustee, the Hong Kong Unit Registrar, the receiving banks and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. Warning for Electronic Applications

The application for Hong Kong Public Offering Units by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Public Offering Units through the **HK eIPO White Form** service is only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for applications to make your electronic application. The REIT Manager, the Trustee, the Relevant Persons and the **HK eIPO White Form** Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allocated any Hong Kong Public Offering Units.

HOW TO APPLY FOR HONG KONG PUBLIC OFFERING UNITS

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System for submission of their **electronic application instructions**, they should either (a) submit a **WHITE** or **YELLOW** Application Form or (b) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, 3 December 2019, the last day for applications, or such later time as described in the sub-section headed "C. Effect of Bad Weather on the Opening and Closing of the Application Lists" below.

8. How Many Applications Can You Make

Multiple applications for the Hong Kong Public Offering Units are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees", you must include:

- an account number; or
- some other identification code.

for **each** beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**).

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

"**Unlisted company**" means a company with no equity securities listed on the Hong Kong Stock Exchange.

"**Statutory control**" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

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B. HOW MUCH ARE THE HONG KONG OFFER UNITS

The Maximum Offer Price is HK\$4.00 per Offer Unit. You must also pay brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%. This means that for one board lot of 1,000 Hong Kong Public Offering Units, you will pay HK\$4,040.31.

You must pay the Maximum Offer Price, together with brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, in full upon application for Hong Kong Public Offering Units under the terms and conditions set out in the Application Forms.

The Application Forms have tables showing the exact amount payable for the numbers of Offer Units that may be applied for.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 1,000 Hong Kong Public Offering Units. Each application or electronic application instruction in respect of more than 1,000 Hong Kong Public Offering Units must be in one of the numbers set out in the table in the Application Form, or as otherwise specified in the **IPO App** or on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Hong Kong Stock Exchange trading fee will be paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please refer to the section headed “Structure of the Global Offering — Pricing and Allocation” in this Offering Circular.

C. EFFECT OF BAD WEATHER ON THE OPENING AND CLOSING OF THE APPLICATION LISTS

The application lists will not open or close if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning; and/or
- an announcement of “extreme conditions” by the Hong Kong Government in accordance with the revised “Code of Practice in Times of Typhoons and Rainstorms” issued by the Hong Kong Labour Department in June 2019.

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 3 December 2019. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

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If the application lists do not open and close on Tuesday, 3 December 2019 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal and/or extreme conditions in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this Offering Circular, an announcement will be made.

D. PUBLICATION OF RESULTS

The REIT Manager expects to announce the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Public Offering Units on Monday, 9 December 2019 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of China Merchants Commercial REIT at www.cmcreit.com and the Hong Kong Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and dates and in the manner set out below:

- in the announcement to be posted on the websites of China Merchants Commercial REIT and the Hong Kong Stock Exchange at www.cmcreit.com and www.hkexnews.hk, respectively, by no later than Monday, 9 December 2019;
- from the “Allotment Results” function in the **IPO App** or the designated results of allocations website at www.tricor.com.hk/ipo/result or www.hkeipo.hk/IPOResult with a “search by ID function” on a 24 hour basis from 8:00 a.m. on Monday, 9 December 2019 to 12:00 midnight on Sunday, 15 December 2019;
- from the allocation results telephone enquiry line by calling 36918488 between 9:00 a.m. and 6:00 p.m. from Monday, 9 December 2019 to Thursday, 12 December 2019 (excluding Saturday, Sunday and public holiday); and
- in the special allocation results booklets which will be available for inspection during the opening hours of the individual receiving bank designated branches referred to above from Monday, 9 December 2019 to Wednesday, 11 December 2019.

If the REIT Manager accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Public Offering Units if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are set out in section headed “Structure of the Global Offering” in this Offering Circular.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

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E. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG PUBLIC OFFERING UNITS

You should note the following situations in which the Hong Kong Public Offering Units will not be allocated to you:

(a) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the REIT Manager and the Trustee.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this Offering Circular gives a public notice which excludes or limits that person's responsibility for this Offering Circular.

If any supplement to this Offering Circular is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

(b) If the REIT Manager, the Trustee, the Joint Global Coordinators, the HK eIPO White Form Service Provider or their agents exercise their discretion to reject your application:

The REIT Manager, the Trustee, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(c) If:

- you make multiple applications or are suspected of making multiple applications;

HOW TO APPLY FOR HONG KONG PUBLIC OFFERING UNITS

- you or the person for whose benefit you apply for, have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offering Units and International Offering Units;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions in the **IPO App** or on the designated website at www.hkeipo.hk;
- you apply for more than 37,500,000 Hong Kong Public Offering Units, being 50% of the 75,000,000 Hong Kong Public Offering Units initially available under the Hong Kong Public Offering;
- the REIT Manager, the Trustee or the Joint Global Coordinators believe that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- the Underwriting Agreements do not become unconditional or are terminated.

F. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the Maximum Offer Price per Offer Unit (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable thereon) paid on application, or if the conditions of the Global Offering as set out in section headed "Structure of the Global Offering — Conditions of the Global Offering" in this Offering Circular are not satisfied or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Monday, 9 December 2019.

G. DESPATCH/COLLECTION OF UNIT CERTIFICATES/E-AUTO REFUND PAYMENT INSTRUCTIONS/REFUND CHEQUES

You will receive one Unit certificate for all Hong Kong Public Offering Units allocated to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Unit certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Offer Units. No receipt will be issued for sums paid on application.

HOW TO APPLY FOR HONG KONG PUBLIC OFFERING UNITS

If you apply by **WHITE** or **YELLOW** Application Form(s), subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (a) Unit certificate(s) for all the Hong Kong Public Offering Units allocated to you (for applicants on **YELLOW** Application Forms, Unit certificate(s) for the Hong Kong Public Offering Units allocated to you will be deposited into CCASS as described below); and
- (b) refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Public Offering Units, wholly or partially unsuccessfully applied for and/or (ii) the difference between the Offer Price and the Maximum Offer Price paid on application in the event that the Offer Price is less than the Maximum Offer Price paid on application (including brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% but without interest).

Part of the Hong Kong identity card number/passport number provided by you or the first-named applicant (if you are joint applicants) may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque.

Subject to arrangement on despatch/collection of Unit certificates and refund cheques as mentioned below, any refund cheques and Unit certificate(s) are expected to be posted on or before Monday, 9 December 2019. The right is reserved to retain any Unit certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier order(s).

Unit certificates will only become valid at 8:00 a.m. on Tuesday, 10 December 2019, provided that the Global Offering has become unconditional in all respects at or before that time. Investors who trade Units on the basis of publicly available allocation details or prior to the receipt of the Unit certificates or prior to the Unit certificates becoming valid do so entirely at their own risk.

Personal Collection

(a) *If you apply using a WHITE Application Form:*

- If you apply for 1,000,000 Hong Kong Public Offering Units or more on a **WHITE** Application Form and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Unit certificate(s) (where applicable) from the Hong Kong Unit Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, 9 December 2019, or any other place or date notified by the REIT Manager in the newspapers.

HOW TO APPLY FOR HONG KONG PUBLIC OFFERING UNITS

- If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant who is eligible for personal collection, your authorised representative must provide a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Unit Registrar.
- If you do not personally collect your refund cheque(s) and/or Unit certificate(s) (where applicable) within the time specified for collection, they will be despatched promptly to you to the address specified in your Application Form by ordinary post and at your own risk.
- If you apply for less than 1,000,000 Hong Kong Public Offering Units on a **WHITE** Application Form, your refund cheque(s) and/or Unit certificate(s) (where applicable) will be sent to the address specified in your Application Form on Monday, 9 December 2019 by ordinary post and at your own risk.

(b) If you apply using a YELLOW Application Form:

- If you apply for 1,000,000 Hong Kong Public Offering Units or more and have provided all information required by your Application Form, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Public Offering Units, your refund cheque(s) will be sent to the address specified in the Application Form on Monday, 9 December 2019 by ordinary post and at your own risk.
- If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Unit certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or your designated CCASS Participant's stock account as stated in your Application Form on Monday, 9 December 2019 or, in the event of a contingency, on any other date determined by HKSCC or HKSCC Nominees.
- If you apply through a designated CCASS Participant (other than a CCASS Investor Participant), for Hong Kong Public Offering Units credited to your designated CCASS Participant's stock account (other than a CCASS Investor Participant), you can check the number of Hong Kong Public Offering Units allocated to you with that CCASS Participant.
- If you apply as a CCASS Investor Participant, the REIT Manager expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering on Monday, 9 December 2019 in the manner as described in the sub-section headed "D. Publication of Results" above. You should check the announcement published by the REIT Manager and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 9 December 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offering Units to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System. HKSCC will also

HOW TO APPLY FOR HONG KONG PUBLIC OFFERING UNITS

make available to you an activity statement showing the number of Hong Kong Public Offering Units credited to your CCASS Investor Participant stock account.

(c) If you apply through HK eIPO White Form service:

- If you apply for 1,000,000 Hong Kong Public Offering Units or more through the **HK eIPO White Form** service and your application is wholly or partially successful, you may collect your Unit certificate(s) (where applicable) in person from the Hong Kong Unit Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, 9 December 2019, or any other place or date notified by the REIT Manager in the newspapers.
- If you do not personally collect your Unit certificate(s) within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post and at your own risk.
- If you apply for less than 1,000,000 Hong Kong Public Offering Units through the **HK eIPO White Form** service, your Unit certificate(s) (where applicable) will be sent to the address specified in your application instructions on Monday, 9 December 2019 by ordinary post and at your own risk.
- If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address specified in your application instructions in the form of refund cheque(s) by ordinary post and at your own risk.

(d) If you apply by giving electronic application instructions to HKSCC via CCASS:

Allocation of Hong Kong Public Offering Units

- For the purposes of allocating Hong Kong Public Offering Units, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Unit Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Unit certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, 9 December 2019 or on any other date determined by HKSCC or HKSCC Nominees.

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- The REIT Manager expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the REIT Manager will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (Hong Kong business registration number for corporations) and the basis of allocations of the Hong Kong Public Offering Units in the manner as described in “— *Publication of Results*” above on Monday, 9 December 2019. You should check the announcement published by the REIT Manager and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 9 December 2019 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offering Units allocated to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offering Units allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System on Monday, 9 December 2019. Immediately following the credit of the Hong Kong Public Offering Units to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offering Units credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the Maximum Offer Price per Offer Unit initially paid on application (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, 9 December 2019.

H. ADMISSION OF THE UNITS INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Units and the REIT Manager complies with the stock admission requirements of HKSCC, the Units will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Units on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

All necessary arrangements have been made to enable the Units to be admitted into CCASS.

EXPERTS

Various experts have issued reports and/or letters and/or certificates for inclusion in this Offering Circular. The REIT Manager has reviewed the reports, letters and certificates prepared by these experts.

The Independent Property Valuer, Deloitte, the Building Surveyor, the Market Consultant, the PRC Legal Advisors and the Sole Listing Agent have each given and have not withdrawn their respective written consents to the issue of this Offering Circular with the inclusion of their reports and/or letters and/or valuation certificates and/or summary thereof (as the case may be) and/or references to their names included herein in the form and context in which they are respectively included.

The Independent Property Valuer was responsible for: (i) conducting a valuation of the Properties and preparing the Independent Property Valuer's Valuation Report; and (ii) reviewing the forecasts of rental income for the Properties and assumptions used by the REIT Manager for the purposes of the profit forecast of China Merchants Commercial REIT for the period from the Listing Date to 31 December 2019 as set out in the section headed "Profit Forecast for the Profit Forecast Period" in this Offering Circular.

Deloitte is a firm of certified public accountants and is the reporting accountants and auditors for China Merchants Commercial REIT.

Zhong Lun Law Firm is a firm of PRC lawyers and is the legal advisor to the REIT Manager as to PRC law.

The Market Consultant was responsible for carrying out a comprehensive study of the commercial and retail market in the PRC and preparing the Market Consultant Report.

The Building Surveyor was responsible for carrying out a building condition property condition survey of the Properties and preparing the Building Survey Report.

The Sole Listing Agent was responsible for considering whether the profit forecast set out in the section headed "Profit Forecast for the Profit Forecast Period" in this Offering Circular was made by the REIT Manager after due and careful enquiry.

The following is the text of a report set out on pages I-1 to I-46, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.



ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF FRONTIER SHEKOU COMMERCIAL HOLDINGS LIMITED TO THE MANAGER OF CHINA MERCHANTS COMMERCIAL REAL ESTATE INVESTMENT TRUST AND CITIGROUP GLOBAL MARKETS ASIA LIMITED

Introduction

We report on the historical financial information of Frontier Shekou Commercial Holdings Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages I-4 to I-46, which comprises the consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 June 2019 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 (the "**Track Record Period**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Company will be injected into China Merchants Commercial Real Estate Investment Trust ("**China Merchants Commercial REIT**") upon completion of the proposed reorganisation. The Historical Financial Information set out on pages I-4 to I-46 forms an integral part of this report, which has been prepared for inclusion in the offering circular of China Merchants Commercial REIT dated 28 November 2019 (the "**Offering Circular**") in connection with the initial listing of units of China Merchants Commercial REIT on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Directors' and manager of China Merchants Commercial REIT's responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The manager of China Merchants Commercial REIT is responsible for the contents of the Offering Circular in which the Historical Financial Information is included, and such information is prepared based on accounting policies materially consistent with those of China Merchants Commercial REIT.

Reporting accountants' responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2016, 2017 and 2018 and 30 June 2019 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2018 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become

aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

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

Dividends

We refer to note 12 to the Historical Financial Information which contains information about the dividends declared by the Group in respect of the Track Record Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 November 2019

HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

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

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards (“**IFRSs**”) issued by International Accounting Standards Board (“**IASB**”) and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the “**Underlying Financial Statements**”).

The Historical Financial Information is presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand (“**RMB'000**”) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended 31 December			Six Months ended 30 June	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Revenue	6	366,901	359,501	389,472	182,303	190,737
Other income	7	3,967	7,397	5,028	1,926	3,066
Operating expenses	8	(121,692)	(86,771)	(90,062)	(39,566)	(43,146)
Fair value changes on investment properties . . .	13	216,000	707,252	1,200,833	922,748	381,507
Net reversal of (provision for) impairment losses for receivables		6	(34)	(240)	(2)	(55)
Depreciation		(512)	(230)	(179)	(89)	(66)
Exchange (loss) gain		—	(131)	31	3	2
Finance costs	9	—	—	(22,411)	(9,864)	—
Profit before tax		464,670	986,984	1,482,472	1,057,459	532,045
Income tax expense	10	(116,229)	(261,655)	(383,256)	(270,092)	(140,159)
Profit and total comprehensive income for the year/period		<u>348,441</u>	<u>725,329</u>	<u>1,099,216</u>	<u>787,367</u>	<u>391,886</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	NOTES	At 31 December			At 30 June
		2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Non-current assets					
Investment properties . . .	13	4,226,000	4,933,252	6,135,000	6,517,000
Property, plant and equipment		704	555	376	310
		<u>4,226,704</u>	<u>4,933,807</u>	<u>6,135,376</u>	<u>6,517,310</u>
Current assets					
Trade and other receivables	15	1,318	2,917	1,427	2,310
Amounts due from related companies	21(b)(i)	42,113	540,396	1,035,730	1,168,114
Bank balances and cash .	16	549,006	282,519	20,213	25,812
		<u>592,437</u>	<u>825,832</u>	<u>1,057,370</u>	<u>1,196,236</u>
Total assets		<u>4,819,141</u>	<u>5,759,639</u>	<u>7,192,746</u>	<u>7,713,546</u>
Current liabilities					
Trade and other payables	17	85,523	84,391	75,344	87,341
Amounts due to related companies	21(b)(ii)	156,988	3,816,806	3,814,989	3,714,226
Current tax liabilities		8,180	9,975	13,400	45,743
		<u>250,691</u>	<u>3,911,172</u>	<u>3,903,733</u>	<u>3,847,310</u>
Net current assets (liabilities)		<u>341,746</u>	<u>(3,085,340)</u>	<u>(2,846,363)</u>	<u>(2,651,074)</u>
Total assets less current liabilities		<u>4,568,450</u>	<u>1,848,467</u>	<u>3,289,013</u>	<u>3,866,236</u>
Non-current liability					
Deferred tax liabilities . . .	14	293,771	514,219	855,549	940,223
Total liabilities		<u>544,462</u>	<u>4,425,391</u>	<u>4,759,282</u>	<u>4,787,533</u>
Net assets		<u>4,274,679</u>	<u>1,334,248</u>	<u>2,433,464</u>	<u>2,926,013</u>
Equity					
Share capital	18	10,000	—	—	—
Reserves		4,264,679	1,334,248	2,433,464	2,926,013
Total equity		<u>4,274,679</u>	<u>1,334,248</u>	<u>2,433,464</u>	<u>2,926,013</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	<u>Share capital</u> RMB'000	<u>Statutory reserve</u> RMB'000 (note a)	<u>Other reserve</u> RMB'000 (note b)	<u>Retained earnings</u> RMB'000	<u>Total</u> RMB'000
At 1 January 2016.	10,000	5,000	3,353,907	713,545	4,082,452
Profit and total comprehensive income for the year	—	—	—	348,441	348,441
Dividend declared (note 12).	—	—	—	(156,214)	(156,214)
At 31 December 2016 . . .	10,000	5,000	3,353,907	905,772	4,274,679
Profit and total comprehensive income for the year	—	—	—	725,329	725,329
Reorganisation (note b) . .	(10,000)	—	(3,655,760)	—	(3,665,760)
At 31 December 2017 . . .	—	5,000	(301,853)	1,631,101	1,334,248
Profit and total comprehensive income for the year	—	—	—	1,099,216	1,099,216
At 31 December 2018 . . .	—	5,000	(301,853)	2,730,317	2,433,464
Profit and total comprehensive income for the period.	—	—	—	391,886	391,886
Dividend declared (note 12).	—	—	—	(319,337)	(319,337)
Deemed capital injection (note c).	—	—	420,000	—	420,000
At 30 June 2019	—	5,000	118,147	2,802,866	2,926,013
Unaudited					
At 1 January 2018.	—	5,000	(301,853)	1,631,101	1,334,248
Profit and total comprehensive income for the period.	—	—	—	787,367	787,367
At 30 June 2018 (unaudited)	—	5,000	(301,853)	2,418,468	2,121,615

Notes:

- (a) The statutory reserve represents the amount transferred from net profit for the year of the subsidiaries established in the People's Republic of China (the "PRC") (based on the subsidiaries' PRC statutory financial statements) in accordance with the relevant PRC laws until the statutory reserve reaches 50% of the registered capital of the subsidiaries. The statutory reserve cannot be reduced except either use to set off the accumulated losses or increase capital.
- (b) Other reserve at 1 January 2016 mainly represents the contribution of investment properties with an aggregate of fair value of RMB3,361,000,000 after deduction of share capital contribution of RMB7,000,000 by 深圳招商商置投資有限公司, a fellow subsidiary of the Company, to acquire the properties in prior year. The debit balance in 2017 represents the deemed distribution to shareholders upon completion of the reorganisation as detailed in note 2.
- (c) This represents the waiver of an amount due to Jumbo Pacific Holdings Limited, immediate holding company of the Company, of RMB420,000,000 on 18 June 2019 which is accounted for as deemed contribution from a shareholder.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six Months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Operating activities					
Profit before tax	464,670	986,984	1,482,472	1,057,459	532,045
Adjustments for:					
Depreciation	512	230	179	89	66
Fair value changes on investment properties	(216,000)	(707,252)	(1,200,833)	(922,748)	(381,507)
Net (reversal of) provision for impairment losses for receivables.	(6)	34	240	2	55
Interest income	(2,982)	(5,666)	(2,146)	(1,703)	(45)
Interest expenses.	—	—	22,411	9,864	—
Operating cash flows before movements in working capital.	246,194	274,330	302,323	142,963	150,614
Decrease (increase) in trade and other receivables.	393	(1,633)	1,250	(2,639)	(938)
(Decrease) increase in trade and other payables	(1,966)	(1,132)	(9,047)	10,131	11,997
Increase in amounts due from related companies	(3,470)	(2,655)	(7,729)	(5,515)	(7,870)
Increase (decrease) in amounts due to related companies	3,534	(1,435)	(2,097)	1,837	246
Cash generated from operations	244,685	267,475	284,700	146,777	154,049
PRC Enterprise Income Tax ("EIT") paid	(29,982)	(39,412)	(38,501)	(18,609)	(23,142)
Net cash from operating activities	214,703	228,063	246,199	128,168	130,907

NOTE	Year ended 31 December			Six Months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Investing activities					
Addition to investment properties	—	—	(915)	—	(493)
Advances to related companies	—	(537,956)	(1,117,910)	(935,600)	(128,230)
Repayments from related companies	28,076	42,328	630,305	24,345	3,716
Interest received	2,982	5,666	2,146	1,703	45
Purchase of property, plant and equipment	(447)	(81)	—	—	—
Placement of deposit in bank	(245,998)	(62,881)	—	—	—
Withdrawal of deposit in bank	—	312,698	62,881	62,881	—
Net cash used in investing activities	<u>(215,387)</u>	<u>(240,226)</u>	<u>(423,493)</u>	<u>(846,671)</u>	<u>(124,962)</u>
Financing activities					
Repayments to related companies	(8,592)	(7,547)	—	—	(346)
Advances from related companies	—	3,040	280	190	—
New bank loans raised . .	—	—	591,300	591,300	—
Repayments of bank loans	—	—	(591,300)	—	—
Interest paid	—	—	(22,411)	(9,864)	—
Net cash (used in) from financing activities	<u>(8,592)</u>	<u>(4,507)</u>	<u>(22,131)</u>	<u>581,626</u>	<u>(346)</u>
Net (decrease) increase in cash and cash equivalents	(9,276)	(16,670)	(199,425)	(136,877)	5,599
Cash and cash equivalents at beginning of the year/period	<u>245,584</u>	<u>236,308</u>	<u>219,638</u>	<u>219,638</u>	<u>20,213</u>
Cash and cash equivalents at end of the year/period, represented by:					
Bank balance and cash . . .	16 <u>236,308</u>	<u>219,638</u>	<u>20,213</u>	<u>82,761</u>	<u>25,812</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL

The Company was incorporated on 16 April 2014 and registered as a company with limited liability in the British Virgin Islands (the "BVI"). The subsidiaries of the Company are principally engaged in property investment. China Merchants Commercial REIT will acquire the ownership of the properties through the acquisition of the entire issued share capital of the Company upon the completion of the initial listing of units of China Merchants Commercial REIT on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Code on Real Estate Investment Trusts (the "REIT Code") issued by the Securities and Futures Commission (the "SFC").

The Company's immediate holding company is Jumbo Pacific Holdings Limited, a limited company incorporated in the BVI. One of its intermediate holding companies is China Merchants Shekou Industrial Zone Holdings Co. Ltd. ("CMSK") which is a joint stock company established in the PRC and its shares are listed on the Shenzhen Stock Exchange. The ultimate holding company of the Company is China Merchants Group ("CMG"). CMG is a PRC enterprise regulated and directly managed by the State-owned Assets Supervision and Administration Commission of the State Council and is owned and controlled by the PRC government.

The address of the registered office and the principal place of business of the Company is OMC Chambers, Wickhaws Cay 1, Road Town, Tortola, British Virgin Island.

The Historical Financial Information is presented in RMB, which is also the functional currency of the Company and the subsidiaries.

2. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Group's property investment businesses are carried out by five respective PRC entities, namely Shenzhen Shekou New Times Real Estate Investment and Management Co., Ltd. (深圳市蛇口新時代置業管理有限公司), Shenzhen Garden City Real Estate Investment and Management Co., Ltd. (深圳市花園城置業管理有限公司), Shenzhen Technology Building Real Estate Investment and Management Co., Ltd. (深圳市科大置業管理有限公司), Shenzhen Technology Building 2 Real Estate Investment and Management Co., Ltd. (深圳市科大二期置業管理有限公司), and Shenzhen Cyberport Building Real Estate Investment and Management Co., Ltd. (深圳市數碼大廈置業管理有限公司) ("**5 PRC Properties Companies**"), historically established under CMSK and each PRC entity holds a property in Shenzhen, the PRC. CMSK is controlled by CMG.

In 2015, CMSK disposed of the entire equity interests in the 5 PRC Properties Companies to an independent third party (the "**Buyer**") at a cash consideration of RMB3,386,000,000 ("**the Original Sales Prices**"), with a repurchase option that allows CMSK or its designated entities to reacquire the equity interests in the 5 PRC Properties Companies at a cash consideration of a price with an annual increment rate not greater than 5.5% per annum of the Original Sales Prices within 32 months from the date of the completion of disposal. Thus, CMSK considered it has retained control over the 5 PRC Properties Companies and such transaction was accounted for as a financing arrangement by CMSK.

On 13 February 2017, CMSK exercised the repurchase option and instructed its wholly owned subsidiary Jumbo Pacific Holdings Limited, to reacquire the 5 PRC Properties Companies through acquisition of entire equity interest in the Company, which hold entire equity interests in the 5 PRC Properties Companies through 6 BVI companies and 5 HK companies. The Company, 6 BVI companies and 5 HK companies are collectively referred to as the "Holding Companies". The acquisition of the Holding Companies was accounted for as acquisition of assets/liabilities through acquisition of companies as the Holding Companies has no operation other than investment holding. At the time of acquisition, the Holding Companies had net liabilities of RMB3,665,760,000 excluding the equity interest in the 5 PRC Properties Companies, mainly represent amount due to Jumbo Pacific Holdings Limited. The Group accounted for such transaction as deemed distribution to the shareholder.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group have been prepared as if the current group structure had been in existence throughout the two years ended 31 December 2017, or since the date of acquisition, where there is a shorter period. The consolidated statement of financial position as at 31 December 2016 present the assets and liabilities of the entities now comprising the Group, taking into account the date of acquisition.

The Company will be injected to China Merchants Commercial REIT, which is a collective investment scheme constituted as a unit trust and is authorised under section 104 of the Securities and Futures Ordinance, upon the listing of the units of China Merchants Commercial REIT on the Main Board of The Stock Exchange. China Merchants Commercial REIT was established under a trust deed dated 15 November 2019 made between REIT Manager and Trustee.

In preparing the Historical Financial Information, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group's current liabilities exceeded its current assets by RMB2,651,074,000 as at 30 June 2019. In the opinion of the directors of the Company, the Group has a number of sources of finance available to fund its operations, including internal resources or obtain additional financing from financial institutions by taking into account the current value of the Group's assets which have not been pledged. Accordingly, the Historical Financial Information has been prepared on a going concern basis.

3. APPLICATION OF IFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied International Accounting Standards ("IASs"), IFRSs, amendments and the related interpretations, which are effective for the accounting period beginning on 1 January 2019 throughout the Track Record Period.

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective.

IFRS 17	Insurance Contracts ¹
Amendments to IFRS 3	Definition of a Business ³
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to IAS 1 and IAS 8	Definition of Material ⁴
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform ⁴

¹ Effective for annual periods beginning on or after 1 January 2021.

² Effective for annual periods beginning on or after a date to be determined.

³ Effective for asset acquisitions and business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

⁴ Effective for annual periods beginning on or after 1 January 2020.

The directors of the Company anticipate that the application of all these new and amendments to IFRSs will have no material impact on the consolidated financial statements of the Group in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with the accounting policies which conform with IFRSs issued by the IASB. In addition, the Historical Financial Information includes applicable disclosure required by the Rules Governing the Listing of Securities on the Stock Exchange and by the REIT Code issued by the SFC.

The Historical Financial Information has been prepared on the historical cost basis, except for investment properties which are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 "Share-based payment", leasing transactions that are within the scope of IFRS 16 "Leases" ("**IFRS 16**"), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of assets".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the Track Record Period are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Merger accounting for business combination involving entities under common control

The Historical Financial Information incorporates the financial statements items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are consolidated using the existing carrying values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of profit or loss and other comprehensive income includes the results of each of the combining entities from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the process towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the district good or service.

If control of the service transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation.

Property management services

The Group provides property management services to the tenants of the properties. Since customer simultaneously receives and consumes the benefits when service provided, revenue from providing services is recognised over time in the period in which the services are rendered. The Group acts as principal and is primary responsible for providing the property management services to the tenants, the Group recognises the fee received or receivable from tenants as its revenue.

Advertising income and air conditioning income are recognised over time in the period in which the services are rendered.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in fair value of investment properties are included in profit or loss for the period in which they arise.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangible assets are estimated individually, or when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit during the years/period. Taxable profit differs from profit before tax as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years/periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessor

Rental income (including rental income from office buildings, shopping centre and car park income) from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

Variable lease payment, which includes gross turnover rental, are recognised as income in the accounting period on a receipt basis. No variable lease payments are recognised if there are uncertainties due to the possible return of amounts received.

Allocation of consideration to components of a contract

The Group applies IFRS 15 "Revenue from contracts with customers" ("IFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Refundable rental deposits

Refundable rental deposits received are accounted under IFRS 9 "Financial instrument" ("IFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets***Classification and subsequent measurement of financial assets***

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

The Group recognises a loss allowance for expected credit losses ("ECL") on financial assets which are subject to impairment under IFRS 9 (including trade and other receivables, amounts due from related companies and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for lease receivables (including trade related amounts due from related parties). The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on bank balances has not increased significantly since initial recognition if are determined to have low credit risk at the reporting date. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group write off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables and amounts due to related companies) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimation (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred taxation arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred taxation on investment properties, the directors of the Company have determined that the presumption of investment properties measured using the fair value model are recovered entirely through sale is rebutted. As a result, the Group has recognised deferred taxation on changes in fair value of investment properties using EIT rate at 25%.

Key source of estimation uncertainty

The following is the key assumption concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

Fair value measurements and valuation processes

In estimating the fair value of an asset, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages qualified valuers to perform the valuation. The directors of the Company work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The directors of the Company reports the valuation report and findings to the management half yearly to explain the cause of fluctuations in the fair value of the assets.

Investment properties are stated at fair value at the end of the reporting period based on the valuation performed by an independent professional valuer. In determining the fair value, the valuer has based on a method of valuation which involves certain estimates as described in note 13.

Where the actual future market data varies, a material adjustment on the fair values of investment properties may arise. In relying on the valuation reports, management has exercised its judgment and is satisfied that the method of valuation is reflective of the current market conditions.

6. REVENUE AND SEGMENT INFORMATION

Revenue recognition

	Year ended 31 December			Six Months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Rental income from office buildings and shopping centre	318,601	303,369	324,793	151,369	160,341
Management fee income	37,231	39,591	42,600	20,775	19,334
Car park income	6,277	7,187	8,278	4,066	4,385
Others	4,792	9,354	13,801	6,093	6,677
	<u>366,901</u>	<u>359,501</u>	<u>389,472</u>	<u>182,303</u>	<u>190,737</u>

The Group's investment properties are leased to tenants under operating lease with rental payable monthly. Lease payments for some contracts depend on shopping centre's turnover pursuant to the terms and conditions as set out in respective rental agreements.

The unguaranteed residual value does not represent a significant risk for the Group, as they relate to property which is located in a location with constant increase in general in value over the last 3 years. The Group did not identify any indications that this situation will change.

The gross rental income from investment properties includes variable lease payment of RMB3,265,000, RMB3,258,000, RMB2,433,000, RMB1,645,000 (unaudited) and RMB2,756,000 respectively for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group had minimum lease payment receivables on lease of office buildings, car parking spaces and shopping centre are as follows:

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	219,218	247,577	280,486	288,333
Between 1 and 2 years	129,969	161,434	212,664	201,086
Between 2 and 3 years	56,441	116,663	145,515	133,605
Between 3 and 4 years	32,540	79,329	94,179	64,186
Between 4 and 5 years	10,269	47,415	34,637	19,721
Later than 5 years	21,519	37,645	41,783	33,633
	<u>469,956</u>	<u>690,063</u>	<u>809,264</u>	<u>740,564</u>

Others represent revenue from advertising income and air conditioning income.

All services within the scope of IFRS 15 (i.e. management fee income and others) are for period of one year or less. For both income, the Group applied the practical expedient in IFRS 15 to recognise revenue in the amount that the Group has the right to invoice based on the terms of the relevant agreements in which the Group bills a fixed monthly amount. As permitted under IFRS 15, the transaction price of all these services allocated to the remaining performance obligations as at the end of each reporting period is not disclosed.

Segment information

The Group determines its operating segments based on the reports reviewed by the executive directors of the Company, being the chief operating decision maker (the "CODM"), that are used to make strategic decisions. The Group's reportable segments are classified as (i) office buildings; and (ii) shopping centre, which are based on the types of properties held by the Group. Office buildings segment aggregates the operating segments, each being an individual office building, namely New Times Plaza, Cyberport Building, Technology Building and Technology Building 2 respectively, on the basis that the similar economic characteristic and nature of services provided. There is no aggregation of operating segment for shopping centre segment.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the year ended 31 December 2016

	<u>Office buildings</u> RMB'000	<u>Shopping centre</u> RMB'000	<u>Total</u> RMB'000
Segment revenue	238,800	128,101	366,901
Segment profit and profit before tax	306,865	157,805	464,670

For the year ended 31 December 2017

	<u>Office buildings</u> RMB'000	<u>Shopping centre</u> RMB'000	<u>Total</u> RMB'000
Segment revenue	223,631	135,870	359,501
Segment profit (loss)	1,258,758	(271,357)	987,401
Unallocated expenses			(417)
Profit before tax			986,984

For the year ended 31 December 2018

	<u>Office buildings</u> RMB'000	<u>Shopping centre</u> RMB'000	<u>Total</u> RMB'000
Segment revenue	246,895	142,577	389,472
Segment profit	901,049	581,566	1,482,615
Unallocated income			65
Unallocated expenses			(208)
Profit before tax			1,482,472

For the period ended 30 June 2018 (unaudited)

	<u>Office buildings</u> RMB'000	<u>Shopping centre</u> RMB'000	<u>Total</u> RMB'000
Segment revenue	114,778	67,525	182,303
Segment profit	588,535	469,020	1,057,555
Unallocated income			3
Unallocated expenses			(99)
Profit before tax			1,057,459

For the period ended 30 June 2019

	<u>Office buildings</u> RMB'000	<u>Shopping centre</u> RMB'000	<u>Total</u> RMB'000
Segment revenue	125,961	64,776	190,737
Segment profit	375,741	156,349	532,090
Unallocated income			2
Unallocated expenses			(47)
Profit before tax			532,045

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4. Segment profit represents the profit (loss) before tax earned (incurred) by each segment without allocation of certain other income, exchange (loss) gain and other unallocated operating expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment assets and liabilities*As at 31 December 2016*

	<u>Office buildings</u> RMB'000	<u>Shopping centre</u> RMB'000	<u>Total</u> RMB'000
Segment assets	3,369,875	1,449,266	4,819,141
Segment liabilities	365,814	178,648	544,462

As at 31 December 2017

	<u>Office buildings</u> RMB'000	<u>Shopping centre</u> RMB'000	<u>Total</u> RMB'000
Segment assets	4,320,957	902,210	5,223,167
Unallocated assets			536,472
Consolidated total assets			5,759,639
Segment liabilities	559,298	56,808	616,106
Unallocated liabilities			3,809,285
Consolidated total liabilities			4,425,391

As at 31 December 2018

	<u>Office buildings</u> RMB'000	<u>Shopping centre</u> RMB'000	<u>Total</u> RMB'000
Segment assets	4,777,536	1,390,922	6,168,458
Unallocated assets			1,024,288
Consolidated total assets			7,192,746
Segment liabilities	764,989	184,655	949,644
Unallocated liabilities			3,809,638
Consolidated total liabilities			4,759,282

As at 30 June 2019

	<u>Office buildings</u> RMB'000	<u>Shopping centre</u> RMB'000	<u>Total</u> RMB'000
Segment assets	5,064,743	1,500,396	6,565,139
Unallocated assets			1,148,407
Consolidated total assets			7,713,546
Segment liabilities	856,419	222,487	1,078,906
Unallocated liabilities			3,708,627
Consolidated total liabilities			4,787,533

For the purposes of monitoring segment performance and allocating resources, all investment properties, property, plant and equipment, trade and other receivables, trade payables, current tax liabilities, deferred tax liabilities, certain bank balances and cash, certain amount due from related parties, certain other payables and certain amount due to related companies are allocated to operating segments. Other corporate assets and liabilities (including remaining bank balances and cash, amount due from related companies, certain other payables and certain amount due to related companies) are unallocated.

Other segment information*For the year ended 31 December 2016*

	<u>Office buildings</u> RMB'000	<u>Shopping centre</u> RMB'000	<u>Total</u> RMB'000
Fair value changes on investment properties	133,000	83,000	216,000
Depreciation	(71)	(441)	(512)
Interest income	2,024	958	2,982
Net reversal of (provision for) impairment losses for receivables	7	(1)	6

For the year ended 31 December 2017

	<u>Office buildings</u> RMB'000	<u>Shopping centre</u> RMB'000	<u>Total</u> RMB'000
Fair value changes on investment properties. . . .	1,074,652	(367,400)	707,252
Depreciation.	—	(230)	(230)
Interest income	3,726	1,940	5,666
Net (provision for) reversal of impairment losses for receivables	<u>(36)</u>	<u>2</u>	<u>(34)</u>

For the year ended 31 December 2018

	<u>Office buildings</u> RMB'000	<u>Shopping centre</u> RMB'000	<u>Total</u> RMB'000
Fair value changes on investment properties. . . .	701,433	499,400	1,200,833
Finance costs.	—	(22,411)	(22,411)
Depreciation.	—	(179)	(179)
Interest income	1,696	450	2,146
Net provision for impairment losses for receivables	<u>(240)</u>	<u>—</u>	<u>(240)</u>

For the period ended 30 June 2018 (unaudited)

	<u>Office buildings</u> RMB'000	<u>Shopping centre</u> RMB'000	<u>Total</u> RMB'000
Fair value changes on investment properties. . . .	495,348	427,400	922,748
Finance costs.	—	(9,864)	(9,864)
Depreciation.	—	(89)	(89)
Interest income	1,276	427	1,703
Net provision for impairment losses for receivables	<u>—</u>	<u>(2)</u>	<u>(2)</u>

For the period ended 30 June 2019

	<u>Office buildings</u> RMB'000	<u>Shopping centre</u> RMB'000	<u>Total</u> RMB'000
Fair value changes on investment properties. . . .	272,507	109,000	381,507
Depreciation.	—	(66)	(66)
Interest income	17	28	45
Net provision for impairment losses for receivables	<u>(53)</u>	<u>(2)</u>	<u>(55)</u>

Geographical information

All of the Group's revenue is derived from activities and customers located in the PRC and the Group's non-current assets are all located in the PRC.

Information about major customers

For the year ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019, revenue of RMB38,136,000, RMB46,215,000, RMB53,952,000, RMB25,560,000 (unaudited) and RMB28,273,000 was derived from the fellow subsidiaries, intermediate holding company and ultimate holding company which are group of companies under CMG.

7. OTHER INCOME

	Year ended 31 December			Six Months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest income	2,982	5,666	2,146	1,703	45
Compensation income (note)	725	1,676	2,182	164	2,081
Others	260	55	700	59	940
	<u>3,967</u>	<u>7,397</u>	<u>5,028</u>	<u>1,926</u>	<u>3,066</u>

Note: Compensation income included compensation income from termination of lease contract, compensation from government and government grant.

8. OPERATING EXPENSES

	Year ended 31 December			Six Months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Advertising and promotion	3,796	5,247	4,734	394	2,114
Agency fee	117	128	1,082	—	—
Auditor's remuneration	252	170	218	99	36
Bank charges	493	528	30	16	7
Insurance	224	213	166	93	97
Property management expenses (note 21(a))	77,760	46,735	51,263	23,699	25,235
Other taxes	38,530	31,116	31,180	15,174	15,616
Repairs and maintenance	288	2,493	1,213	—	—
Others	232	141	176	91	41
	<u>121,692</u>	<u>86,771</u>	<u>90,062</u>	<u>39,566</u>	<u>43,146</u>

9. FINANCE COSTS

	Year ended 31 December			Six Months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest on bank borrowings	—	—	22,411	9,864	—

During the year ended 31 December 2018, bank loans of RMB441,300,000 and RMB150,000,000, bearing interest at loan prime rate plus 1.090% per annum and loan prime rate plus 1.472% per annum, was payable in 2027 and 2028 respectively. All bank loans were early repaid in November 2018.

10. INCOME TAX EXPENSE

	Year ended 31 December			Six Months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current tax					
PRC EIT	33,385	41,207	41,926	19,398	23,551
Withholding tax	—	—	—	—	31,934
	<u>33,385</u>	<u>41,207</u>	<u>41,926</u>	<u>19,398</u>	<u>55,485</u>
Deferred tax (note 14)					
Current year	82,844	220,448	341,330	250,694	84,674
	<u>116,229</u>	<u>261,655</u>	<u>383,256</u>	<u>270,092</u>	<u>140,159</u>

No provision for Hong Kong Profits Tax has been provided as the Group has no estimated assessable profits in Hong Kong during the Track Record Period.

Pursuant to the rules and regulations of the BVI, the Group is not subject to any income tax in BVI.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the statutory income tax rate of the PRC subsidiaries is 25% for the Track Record Period.

Details of the deferred taxation are set out in note 14.

The income tax expense for the Track Record Period is reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Six Months ended 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
Profit before tax	464,670	986,984	1,482,472	1,057,459	532,045
Tax at domestic income tax rate of 25%	116,168	246,746	370,618	264,365	133,012
Tax effect of expenses not deductible for tax purposes	42	101	26	16	10
Deferred tax on earnings of the Group's PRC subsidiaries	—	14,802	12,523	5,669	6,855
Effect of different tax rate of subsidiaries operating in other jurisdiction	—	6	9	8	2
Others	19	—	80	34	280
Income tax expense	116,229	261,655	383,256	270,092	140,159

11. DIRECTORS' EMOLUMENTS

Details of the emoluments paid or payable to the directors of subsidiaries and the senior management of subsidiaries during the Track Record Period are as follows:

(a) Directors of the Company

	Directors' Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonus RMB'000	Retirement benefit schemes contributions RMB'000	Total RMB'000
For the year ended 31 December 2016					
<i>Directors:</i>					
Mr. Peng, Vincent Shen	—	—	—	—	—
Mr. Li, Xiang Hai	—	—	—	—	—
	—	—	—	—	—
For the year ended 31 December 2017					
<i>Directors:</i>					
Mr. Peng, Vincent Shen	—	—	—	—	—
Mr. Li, Xiang Hai	—	—	—	—	—
Mr. Yu, Zhiliang	—	—	—	—	—
Mr. Wong King Yuen	—	—	—	—	—
	—	—	—	—	—
For the year ended 31 December 2018					
<i>Directors:</i>					
Mr. Yu, Zhiliang	—	—	—	—	—
Mr. Wong King Yuen	—	—	—	—	—
	—	—	—	—	—
For the six months ended 30 June 2019					
<i>Directors:</i>					
Mr. Yu, Zhiliang	—	—	—	—	—
Mr. Wong King Yuen	—	—	—	—	—
	—	—	—	—	—

Notes:

- (a) Mr. Peng, Vincent Shen and Mr. Li, Xiang Hai resigned as the director of the Company on 30 June 2017.
- (b) Mr. Yu, Zhiliang and Mr. Wong King Yuen were appointed as the director of the Company on 30 June 2017.

No remuneration was paid or is payable to all directors in respect of their services during the Track Record Period. All directors received remunerations from entities in the group headed by CMG. The directors are of the opinion that the services provided to the Group only occupy an insignificant amount of their time and therefore it is concluded that those directors are not remunerated for such services.

12. DIVIDENDS

During the year ended 31 December 2016, dividends of RMB156,214,000 was declared by 5 PRC Properties Companies to their legal shareholders. During the six months ended 30 June 2019, dividends of RMB319,337,000 was declared by the Company to the immediate holding company, Jumbo Pacific Holdings Limited. No dividend was paid or declared by the Company for the years ended 31 December 2017 and 2018 and the six months ended 30 June 2018.

13. INVESTMENT PROPERTIES

	At 31 December			At 30 June
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
FAIR VALUE				
At the beginning of the year/period . . .	4,010,000	4,226,000	4,933,252	6,135,000
Additions	—	—	915	493
Fair value changes on investment properties	216,000	707,252	1,200,833	381,507
At the end of the year/period	<u>4,226,000</u>	<u>4,933,252</u>	<u>6,135,000</u>	<u>6,517,000</u>

The Group's investment properties are located in Shenzhen, the PRC and are measured using the fair value model.

Investment properties were revalued as at 31 December 2016 by CBRE Limited, as at 31 December 2017 by Jones Lang LaSalle Corporate Appraisal and Advisory Limited and as at 31 December 2018 and 30 June 2019 by Cushman & Wakefield Limited. All are independent professional valuers with appropriate professional qualifications and experiences in the valuation of similar properties in the relevant locations.

The address of CBRE Limited is at 3/F, 4/F & 1204–06, Three Exchange Square, 8 Connaught Place, Central, Hong Kong. The address of the Jones Lang LaSalle Corporate Appraisal and Advisory Limited is at 6/F, Three Pacific Place, 1 Queen's Road East, Hong Kong. The address of the Cushman & Wakefield Limited is at 16/F, 1063 King's Road, Quarry Bay, Hong Kong.

The independent property valuers adopted income approach — income capitalisation method and discounted cash flow analysis to arrive the valuation of investment properties as at 31 December 2016, 2017 and 2018 and 30 June 2019. The income capitalisation method adopted by valuer have taken into account the net rental income of a property derived from its existing leases and/or achievable in the exiting market with due allowance for the reversionary income potential of the leases, which have been then capitalised to determine the fair value at an appropriate capitalisation rate. The discounted cash flow analysis involves discounting future cash flows of the property to its present value by using an appropriate discount rate with due allowance for the reversionary net income of the property, which is capitalised with a terminal capitalisation rate.

There were no transfers into or out of Level 3 during the Track Record Period.

The following table gives information about how the fair values of these investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Investment properties held by the Group in the consolidated statements of financial position	Fair value hierarchy	Valuation RMB'000	Valuation technique and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Garden City Shopping Centre (address: 深圳市南山區工業大道與工業九路交匯處蛇口花園城商業中心)	Level 3	31 Dec 2016: 1,246,000 31 Dec 2017: 878,600 31 Dec 2018: 1,378,000 30 Jun 2019: 1,487,000	Discount cash flow method The key inputs are		
			(1) Discount rate	Discount rate, taking into account of the risk free factor and the risk premium including management risk, liquidity risk, transaction risk and risk of property itself and adjustment to reflect the conditions of the shopping centre, of 8.25%, 8.50%, 8.75% and 8.75% respectively as at 31 December 2016, 2017 and 2018 and 30 June 2019.	The higher the discount rate, the lower the fair value
			(2) Monthly term rental	Monthly term rental is derived from the average of the rental as stated in the existing rental agreements (note a) of RMB152/sq.m./month, RMB153/sq.m./month, RMB158/sq.m./month and 179/sq.m./month respectively as at 31 December 2016, 2017 and 2018 and 30 June 2019.	The higher the monthly term rental, the higher the fair value.

Investment properties held by the Group in the consolidated statements of financial position	Fair value hierarchy	Valuation RMB'000	Valuation technique and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Technology Building (address: 深圳市南山區南海大道西, 工業七路南蛇口科技大廈)	Level 3	31 Dec 2016: 506,000 31 Dec 2017: 812,737 31 Dec 2018: 801,000 30 Jun 2019: 867,000	Income capitalisation method The key inputs are		
			(1) Term yield	Term yield, taking into account of yield generated by market average selling price and the market average rental from comparable properties and adjustment to reflect the conditions of the office buildings, of 5.25%, 5.00%, 4.50% and 4.50% respectively as at 31 December 2016, 2017 and 2018 and 30 June 2019.	The higher the term yield, the lower the fair value
			(2) Reversionary yield	Reversionary yield, taking into account of yield generated by market average selling price and the market average rental from comparable properties and adjustment to reflect the risk associated with the future rental, of 5.25%, 5.50%, 5.00% and 5.00% respectively as at 31 December 2016, 2017 and 2018 and 30 June 2019.	The higher the reversionary yield, the lower the fair value.
			(3) Monthly term rental	Monthly term rental is derived from the average of the rental as stated in the existing rental agreements (note a) of RMB82/sq.m./month, RMB94/sq.m./month, RMB93/sq.m./month and RMB98/sq.m./month respectively as at 31 December 2016, 2017 and 2018 and 30 June 2019.	The higher the monthly term rental, the higher the fair value.
			(4) Reversionary rental	Reversionary rental is derived from the average of the rental as stated in the new rental agreements (note b) of RMB87/sq.m./month, RMB103/sq.m./month, RMB100/sq.m./month and RMB109/sq.m./month respectively as at 31 December 2016, 2017 and 2018 and 30 June 2019.	The higher the reversionary rental, the higher the fair value.

Investment properties held by the Group in the consolidated statements of financial position	Fair value hierarchy	Valuation RMB'000	Valuation technique and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Cyberport Building (address: 深圳市南山區南油大道西側花園城數碼大廈)	Level 3	31 Dec 2016:	Income capitalisation method		
		553,000			
		31 Dec 2017:			
		663,000			
		31 Dec 2018:			
962,000					
		30 Jun 2019:			
		1,038,000			
			(1) Term yield	Term yield, taking into account of yield generated by market average selling price and the market average rental from comparable properties and adjustment to reflect the conditions of the office buildings, of 5.25%, 5.00%, 4.50% and 4.50% respectively as at 31 December 2016, 2017 and 2018 and 30 June 2019.	The higher the term yield, the lower the fair value
			(2) Reversionary yield	Reversionary yield, taking into account of yield generated by market average selling price and the market average rental from comparable properties and adjustment to reflect the risk associated with the future rental, of 5.25%, 5.50%, 5.00% and 5.00% respectively as at 31 December 2016, 2017 and 2018 and 30 June 2019.	The higher the reversionary yield, the lower the fair value.
			(3) Monthly term rental	Monthly term rental is derived from the average of the rental as stated in the existing rental agreements (note a) of RMB98/sq.m./month, RMB101/sq.m./month, RMB104/sq.m./month and RMB112/sq.m./month respectively as at 31 December 2016, 2017 and 2018 and 30 June 2019.	The higher the monthly term rental, the higher the fair value.
			(4) Reversionary rental	Reversionary rental is derived from the average of the rental as stated in the new rental agreements (note b) of RMB93/sq.m./month, RMB92/sq.m./month, RMB104/sq.m./month and RMB119/sq.m./month respectively as at 31 December 2016, 2017 and 2018 and 30 June 2019.	The higher the reversionary rental, the higher the fair value.

Investment properties held by the Group in the consolidated statements of financial position		Fair value hierarchy	Valuation RMB'000	Valuation technique and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Technology Building 2 (address: 深圳市南山区南海大道招商科技大廈二期)	Level 3	31 Dec 2016:	556,000	Income capitalisation method		
		31 Dec 2017:	832,915	The key inputs are		
		31 Dec 2018:	1,004,000			
		30 Jun 2019:	1,079,000			
		(1)	Term yield	Term yield, taking into account of yield generated by market average selling price and the market average rental from comparable properties and adjustment to reflect the conditions of the office buildings, of 5.25%, 5.00%, 4.50% and 4.50% respectively as at 31 December 2016, 2017 and 2018 and 30 June 2019.	The higher the term yield, the lower the fair value	
		(2)	Reversionary yield	Reversionary yield, taking into account of yield generated by market average selling price and the market average rental from comparable properties and adjustment to reflect the risk associated with the future rental, of 5.25%, 5.50%, 5.00% and 5.00% respectively as at 31 December 2016, 2017 and 2018 and 30 June 2019.	The higher the reversionary yield, the lower the fair value.	
		(3)	Monthly term rental	Monthly term rental is derived from the average of the rental as stated in the existing rental agreements (note a) of RMB83/sq.m./month, RMB83/sq.m./month, RMB95/sq.m./month and RMB99/sq.m./month respectively as at 31 December 2016, 2017 and 2018 and 30 June 2019.	The higher the monthly term rental, the higher the fair value.	
		(4)	Reversionary rental	Reversionary rental is derived from the average of the rental as stated in the new rental agreements (note b) of RMB88/sq.m./month, RMB100/sq.m./month, RMB104/sq.m./month and RMB113/sq.m./month respectively as at 31 December 2016, 2017 and 2018 and 30 June 2019.	The higher the reversionary rental, the higher the fair value.	

Investment properties held by the Group in the consolidated statements of financial position	Fair value hierarchy	Valuation RMB'000	Valuation technique and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
New Time Plaza (address: 深圳市南山區太子路新時代廣場)	Level 3	31 Dec 2016:	Income capitalisation method		
		1,365,000			
		31 Dec 2017:	The key inputs are		
		1,746,000			
		31 Dec 2018:			
		1,990,000			
		30 Jun 2019:			
		2,046,000			
			(1) Term yield	Term yield, taking into account of yield generated by market average selling price and the market average rental from comparable properties and adjustment to reflect the conditions of the office buildings, of 4.75%, 4.50%, 4.00% and 4.00% respectively as at 31 December 2016, 2017 and 2018 and 30 June 2019.	The higher the term yield, the lower the fair value
			(2) Reversionary yield	Reversionary yield, taking into account of yield generated by market average selling price and the market average rental from comparable properties and adjustment to reflect the risk associated with the future rental, of 4.75%, 5.00%, 4.50% and 4.50% respectively as at 31 December 2016, 2017 and 2018 and 30 June 2019.	The higher the reversionary yield, the lower the fair value.
			(3) Monthly term rental	Monthly term rental is derived from the average of the rental as stated in the existing rental agreements (note a) of RMB143/sq.m./month, RMB162/sq.m./month, RMB156/sq.m./month and RMB157/sq.m./month respectively as at 31 December 2016, 2017 and 2018 and 30 June 2019.	The higher the monthly term rental, the higher the fair value.
			(4) Reversionary rental	Reversionary rental is derived from the average of the rental as stated in the new rental agreements (note b) of RMB148/sq.m./month, RMB149/sq.m./month, RMB156/sq.m./month and RMB160/sq.m./month respectively as at 31 December 2016, 2017 and 2018 and 30 June 2019.	The higher the reversionary rental, the higher the fair value.

Notes:

- (a) Existing rental agreements represent tenancy agreements, including renewal agreements, which are signed before the end of the respective years/period.
- (b) New rental agreements represent tenancy agreements, including renewal agreements, which are to be signed or negotiated after the end of the respective years/period.

14. DEFERRED TAXATION

For the purpose of presentation in the consolidated statements of financial position, the deferred tax assets and liabilities have been offset. The following is the major deferred tax (assets) liabilities recognised and movements thereon during each reporting periods:

	Accelerated tax depreciation	Withholding tax on retained earnings to be distributed	Impairment losses for receivables	Change in fair value of investment properties	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	49,154	—	(7)	161,780	210,927
Charge to profit or loss for the year	28,842	—	2	54,000	82,844
At 31 December 2016	77,996	—	(5)	215,780	293,771
Charge (credit) to profit or loss for the year	28,842	14,802	(9)	176,813	220,448
At 31 December 2017	106,838	14,802	(14)	392,593	514,219
Charge (credit) to profit or loss for the year	28,677	12,523	(78)	300,208	341,330
At 31 December 2018	135,515	27,325	(92)	692,801	855,549
Charge to profit or loss for the period	14,358	6,855	18	95,377	116,608
Release upon distribution of earnings	—	(31,934)	—	—	(31,934)
At 30 June 2019	149,873	2,246	(74)	788,178	940,223

The PRC EIT Law requires withholding tax to be levied on distribution of profits earned by PRC entities for profits generated after 1 January 2008 at rate of 5% for Hong Kong resident companies, and at rate of 10% (5% if obtained the Hong Kong residents) for companies incorporated in BVI, which are the beneficial owners of the dividend received. Deferred tax is provided in full in respect of the undistributed earnings as at 31 December 2017, 2018 and 30 June 2019.

15. TRADE AND OTHER RECEIVABLES

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	1,042	2,724	1,710	2,648
Less: Allowance for impairment losses	(21)	(55)	(295)	(350)
	1,021	2,669	1,415	2,298
Other receivables	18	18	12	12
Prepayments	279	230	—	—
	1,318	2,917	1,427	2,310

Trade receivables represent lease receivables. Rental income under rental of office buildings and shopping centre are generally required to be settled by tenants within 30 days upon issuance of demand note.

The following is an aged analysis of trade receivables, presented based on the date of revenue recognition:

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	1,021	2,669	485	1,312
More than 1 months but within 3 months	—	—	—	34
Over 3 months	—	—	930	952
	1,021	2,669	1,415	2,298

16. BANK BALANCES AND CASH

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank or on hand	236,308	84,007	20,213	25,812
Time deposits (with original maturity of less than three months)	—	135,631	—	—
Cash and cash equivalents	236,308	219,638	20,213	25,812
Pledged deposit	312,698	—	—	—
Time deposits (with original maturity of more than three months)	—	62,881	—	—
Total	<u>549,006</u>	<u>282,519</u>	<u>20,213</u>	<u>25,812</u>

Average interest rate per annum is as follows:

	At 31 December			At 30 June
	2016	2017	2018	2019
Bank balances and deposits	<u>0.30% — 1.95%</u>	<u>0.00% — 1.95%</u>	<u>0.00% — 1.95%</u>	<u>0.00% — 0.03%</u>

Bank balances and cash are denominated in the following currencies:

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	549,006	281,507	19,155	24,994
Hong Kong Dollar ("HK\$")	—	1,012	1,058	818
Total	<u>549,006</u>	<u>282,519</u>	<u>20,213</u>	<u>25,812</u>

17. TRADE AND OTHER PAYABLES

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	190	3,445	241	284
Other payables	834	813	421	507
Other tax payables	9,031	9,167	1,776	16,323
Rental receipt in advance	814	949	486	749
Receipt on behalf of tenants (note)	20,454	14,629	9,878	11,098
Rental deposit received from tenants	53,585	55,060	60,322	57,230
Accruals	615	328	2,220	1,150
	<u>85,333</u>	<u>80,946</u>	<u>75,103</u>	<u>87,057</u>
	<u>85,523</u>	<u>84,391</u>	<u>75,344</u>	<u>87,341</u>

Note: The Group collected the turnover of certain food and beverage tenants from shopping centre on behalf of them and is obligated to remit to them for every half month.

The credit period granted by suppliers to the Group ranges from 30 days to 90 days during the Track Record Period. The following is an aged analysis of trade payables presented based on the invoice date at the end of each reporting period:

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 month	—	3,287	32	5
More than 1 month but within 3 months	—	40	—	52
Over 3 months	190	118	209	227
	<u>190</u>	<u>3,445</u>	<u>241</u>	<u>284</u>

18. SHARE CAPITAL

Share capital of the Group at 31 December 2016 represented aggregate of share capital of 5 PRC Properties Companies of RMB10,000,000.

The Company was incorporated in the BVI with one share of US\$1 issued and allotted to the initial subscriber under incorporation. On 13 February 2017, the share was transferred to Jumbo Pacific Holdings Limited.

19. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of net debt, which includes amounts due to related companies disclosed in note 21(b)(ii), net of cash and cash equivalents, and equity attributable to owners of the Group, comprising issued share capital and retained earnings.

The management of the Group reviews the capital structure regularly. As part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends or, issue of new shares as well as the issue of new debts or the redemption of existing debts.

20. FINANCIAL INSTRUMENTSCategories of financial instruments

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Financial assets at amortised cost	592,158	825,602	1,057,370	1,196,236
Financial liabilities				
Financial liabilities at amortised cost	232,051	3,890,753	3,885,851	3,783,345

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from related companies, bank balances and cash, trade and other payables and amounts due to related companies. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk*Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank deposits due to the fluctuation of the prevailing market interest rate. The Group currently does not have a policy on hedging interest rate risk.

No sensitivity analysis is presented since the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is limited due to their short maturities.

Foreign currency risk

Several subsidiaries of the Company have foreign currency transactions, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy in foreign currency risk. However, management monitors foreign exchange exposure and will consider hedging significant currency risk should the need arise.

The carrying amounts of the Group's monetary assets and monetary liabilities, denominated in currencies other than RMB at the end of each reporting period are as follows:

Assets

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
HKD	—	1,012	1,058	818

Liabilities

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
HKD	—	192	349	27

The impact of sensitivity for the foreign currency movement to profit or loss is minimal and no sensitivity analysis is disclosed.

Credit risk and impairment assessment

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of these assets as stated in the consolidated statements of financial position.

Other than concentration of credit risk on amounts due from related companies, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Trade receivables

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. In addition, the Group performs impairment assessment under ECL model on trade balances individually or based on provision matrix.

Tenants of the rental properties is required to settle the demand note within 30 days. Rental is payable in advance and interest is charged immediately on overdue balance at the rate of 1% per day during the Track Record Period. In addition, the management of the Group is responsible for follow up action to recover the overdue debt. The management of the Group also reviews the recoverable amount of each individual trade debtor regularly to ensure that adequate impairment losses are recognised for irrecoverable debts.

Amounts due from related companies

The management of the Group has made periodic assessments as well as individual assessment on recoverability based on historical settlement records and adjusts for forward looking information. In view of the strong financial capability of these related parties under CMG in respect of amount due from related parties with gross carrying value of RMB42,113,000, RMB540,396,000, RMB1,035,730,000 and RMB1,168,114,000 respectively as at 31 December 2016, 2017 and 2018 and 30 June 2019 and considered the future prospects of the industry in which these related parties operate, the management of the Group does not consider there is a risk of default and does not expect any losses from non-performance by these related parties, and accordingly, no impairment was recognised in respect of the amounts due from related parties.

Bank balances

The Group mainly transacts with banks with high credit ratings. The credit risk for bank balances (note 16) is considered as not material as such amount is placed in reputable banks with high credit ratings assigned by international credit-rating agencies. The Group assessed 12m ECL on these balances are by reference to probability of default and loss given default by credit rating grades published by international credit rating agencies and concluded that the expected credit losses are insignificant and thus no impairment loss has recognised.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables (lease receivables)	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts.	Lifetime ECL — not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle in full.	Lifetime ECL — not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources.	Lifetime ECL — not credit-impaired	Lifetime ECL — credit-impaired
Loss	There is evidence indicating the asset is credit-impaired.	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off	Amount is written off

The Group's lease receivables with aggregate gross carrying value of RMB1,042,000, RMB2,724,000, RMB523,000 and RMB1,439,000 respectively as at 31 December 2016, 2017 and 2018 and 30 June 2019 are grouped as watch list. The average loss rate as at 31 December 2016, 2017 and 2018 and 30 June 2019 are 2%, 2%, 7% and 6% respectively. The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

The Group's lease receivable with aggregate gross carrying value of nil, nil, RMB1,187,000 and RMB1,209,000 respectively as at 31 December 2016, 2017, 2018 and 30 June 2019 are credit-impaired and grouped as loss.

The following table shows the movement in lifetime ECL (non credit-impaired) that has been recognised as lease receivables under the simplified approach.

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at beginning of the year/period	27	21	55	38
Provision for the year/period	21	55	240	59
Amount recovered during the year/period	(27)	(21)	—	(4)
Transfer to credit impaired	—	—	(257)	—
Balance at the end of the year/period	<u>21</u>	<u>55</u>	<u>38</u>	<u>93</u>

The following table shows the movement in lifetime ECL (credit-impaired) that has been recognised as lease receivables under the simplified approach.

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at beginning of the year/period	—	—	—	257
Transfer from non-credit impaired	—	—	257	—
Balance at the end of the year/period	<u>—</u>	<u>—</u>	<u>257</u>	<u>257</u>

Liquidity risk

The management monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations. As at 31 December 2017 and 2018 and 30 June 2019, the Group had net current liabilities of RMB3,085,340,000, RMB2,846,363,000 and RMB2,651,074,000 respectively. Taking into account of the internal resources and fair value of investment properties that available to pledge to obtain additional financing from financial institutions as set out in note 2, the Group will be able to meet its financial obligation when they fall due.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Group believes that the Group will have sufficient working capital for its future operational requirement.

The Group's financial liability is non-interest bearing as at 31 December 2016, 2017 and 2018 and 30 June 2019. Based on the undiscounted cash flow of financial liabilities on the earliest date on which the Group can be required to pay, the Group's financial liabilities as at 31 December 2016, 2017 and 2018 and 30 June 2019 are repayable on demand or expected to be settled within three months after the end of the reporting period and the undiscounted cash flows equal to the carrying amount of the financial liabilities.

Fair value measurement of financial instruments

The fair values of the financial assets and financial liabilities have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values.

21. RELATED PARTY DISCLOSURES

(a) Transactions

Name of related companies	Nature of transactions	Year ended 31 December			Six months ended 30 June	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Ultimate holding company</i>						
招商局集團有限公司 China Merchants Group Limited ("CMG")	Rental income	3,007	4,602	1,233	1,232	—
<i>Intermediate holding company</i>						
招商局蛇口工業區控股股份有限公司 China Merchants Shekou Industrial Zone Holdings Co., Ltd ("CMSK")	Rental income	4,915	427	956	469	492
<i>Fellow subsidiaries</i>						
招商局國際信息技術有限公司 China Merchants International Information Technology Co., Ltd.* ("CM Information Technology")	Rental income	2,057	3,148	3,372	1,686	1,686
深圳金城融泰投資發展有限公司 Shenzhen Jinyurongtai Investment Development Co., Ltd.* ("SZ Jinyurongtai")	Rental income	—	510	—	—	—
深圳市招商投資控股有限公司 Shenzhen Merchant Finance Investment Holding Co., Ltd. ("SZ Merchant Finance")	Rental income	644	1,080	1,104	547	379
深圳招商商置投資有限公司 China Merchants Commercial Property Investment (Shenzhen) Co., Ltd. ("CMCP")	Rental income	417	3,813	4,805	2,288	2,522
深圳市招商國際船舶代理有限公司 China Merchants Ocean Shipping Agency Shenzhen ("CM Ocean Shipping")	Rental income	155	25	—	—	—
深圳市招商蛇口資產管理有限公司 China Merchants Shekou Asset Management Co., Ltd.* ("CMSK Asset Management")	Rental income	1,513	1,480	5,282	1,975	3,359
深圳招商房地產有限公司 China Merchants Real Estate (Shenzhen) Co., Ltd. ("CM Real Estate")	Rental income	16,514	19,576	19,385	9,676	10,236
深圳市招商局科技投資有限公司 China Merchants Technology Investment (Shenzhen) Co., Ltd. ("CM Technology")	Rental income	200	—	—	—	—
蛇口電視台 Shekou TV*	Rental income	92	99	107	53	55
招商局(深圳)進口商品有限公司 China Merchants (Shenzhen) Commodity Co., Ltd.* ("CM Commodity")	Rental income	449	208	—	—	—
深圳市招商創業有限公司 China Merchants Landmark (Shenzhen) Co., Ltd. ("CM Landmark")	Rental income	286	—	—	—	—
招商局公路科技(深圳)有限公司 China Merchants Road Tech (Shenzhen) Limited* ("CM Road Tech") (formerly known as "招商局亞太投資(深圳)有限公司 China Merchants Holdings (Pacific) Limited")	Rental income	498	124	—	—	—
招商局仁和人壽保險股份有限公司 China Merchants Life Insurance Company Limited ("CM Life Insurance")	Rental income	—	1,162	1,707	799	805
招商局國際(中國)投資有限公司 China Merchants International (China) Investment Co., Ltd. ("CM International Investment")	Rental income	5,166	1,390	—	—	—

Name of related companies	Nature of transactions	Year ended 31 December			Six months ended 30 June	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
中外運物流有限公司 Sinotrans Shipping Limited ("Sinotrans Shipping") (formerly known as "招商局物流集團有限公司 China Merchants Logistics Holding Co., Ltd.")	Rental income	—	3,373	6,410	2,867	3,607
招商局能源運輸股份有限公司 China Merchants Energy Shipping Co., Ltd. ("CM Energy")	Rental income	—	—	1,931	363	2,693
深圳市招商公寓發展有限公司 Shenzhen Merchants Apartment Development Co., Ltd.* ("SZ Merchants Apartment") (formerly known as "深圳蛇口工業區職工住宅有限公司 Shenzhen Shekou Gongye Employees House Co., Ltd.")	Rental income	474	—	—	—	—
招商局集團(香港)有限公司 China Merchants Group (Hong Kong) Co., Ltd. ("CMG HK")	Rental income	280	284	193	169	—
<i>Related parties</i>						
招商銀行股份有限公司 China Merchants Bank Co., Ltd. ("CM Bank") (note b)	Rental income	6,436	5,698	5,012	2,563	2,584
深圳市蛇口通訊有限公司 Shenzhen Shekou Communication Co., Ltd. ("SZ Shekou Communication") (note b)	Rental income	898	994	34	17	4
		<u>44,001</u>	<u>47,993</u>	<u>51,531</u>	<u>24,704</u>	<u>28,422</u>
<i>Ultimate holding company</i>						
CMG	Management fee income	466	466	116	116	—
<i>Intermediate holding company</i>						
CMSK	Management fee income	—	107	184	92	92
<i>Fellow subsidiaries</i>						
CM Information Technology	Management fee income	319	319	319	159	159
SZ Jinyurongtai	Management fee income	—	64	—	—	—
SZ Merchant Finance	Management fee income	—	85	170	85	57
CMCP	Management fee income	—	515	883	441	441
CMSK Asset Management	Management fee income	—	128	637	144	377
CM Real Estate	Management fee income	—	1,672	2,579	1,289	144
Shekou TV	Management fee income	25	25	25	12	12
CM Commodity	Management fee income	115	47	—	—	—
CM International Investment	Management fee income	—	112	—	—	—
CM Energy	Management fee income	—	—	468	167	603
CMG HK	Management fee income	—	24	3	3	—
Sinotrans Shipping	Management fee income	—	731	1,253	626	209
<i>Related party</i>						
CM Bank (note b)	Management fee income	36	336	500	249	252
		<u>961</u>	<u>4,631</u>	<u>7,137</u>	<u>3,383</u>	<u>2,346</u>

Name of related companies	Nature of transactions	Year ended 31 December			Six months ended 30 June	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Ultimate holding company</i>						
CMG	Car park income	7	34	30	30	—
<i>Fellow subsidiaries</i>						
CM Information Technology	Car park income	4	38	23	10	17
SZ Merchant Finance	Car park income	—	13	—	—	—
CMCP	Car park income	—	—	25	13	13
CMSK Asset Management	Car park income	—	—	32	—	48
CM Real Estate	Car park income	—	88	155	77	77
深圳招商物業管理有限公司	Car park income	494	347	500	138	151
Shenzhen Investment Promotion Real Estate Management Co., Ltd ("SZ Investment Promotion")						
Sinotrans Shipping	Car park income	—	—	—	—	15
		505	520	765	268	321
<i>Ultimate holding company</i>						
CMG	Others	—	1	—	—	—
<i>Intermediate holding company</i>						
CMSK	Others	—	—	4	2	—
<i>Fellow subsidiaries</i>						
CM Information Technology	Others	1	—	1	1	—
SZ Jinyurongtai	Others	—	1	—	—	—
SZ Merchant Finance	Others	—	19	1	1	1
CMCP	Others	—	19	—	—	1
CMSK Asset Management	Others	—	—	—	—	1
CM Real Estate	Others	—	28	47	24	13
CM Road Tech.	Others	—	3	—	—	—
CM International Investment	Others	—	3	—	—	—
CMG HK	Others	—	1	—	—	—
Sinotrans Shipping	Others	—	—	1	1	1
Shekou TV	Others	11	13	11	5	7
CM Commodity	Others	27	11	—	—	—
<i>Related party</i>						
CM Bank (note b)	Others	—	105	207	156	31
		39	204	272	190	55
<i>Fellow subsidiaries</i>						
SZ Investment Promotion (note a)	Property management expenses	38,941	46,101	51,263	23,699	25,235
CMCP (note a)	Property management expenses	38,819	634	—	—	—
		77,760	46,735	51,263	23,699	25,235
<i>Related Party</i>						
CM Bank (note b)	Interest income	564	722	67	36	28
<i>Related Party</i>						
CM Bank (note b)	Bank charges	12	12	10	7	5

* The English name is for identification only.

Notes:

(a) The Group engaged fellow subsidiaries to provide the property management service for the office building and shopping centre. Property management expenses were charged based on 12% of the aggregate amount of the fees and charges (except air-conditioning charges and promotional fees) and car parking fees collected by fellow subsidiaries per month except for Garden City Shopping Centre, which is equivalent to RMB650,000 per annum. Cost incurred by fellow subsidiaries include staff cost for the operation, utility cost, cleaning expense and other operating expense for the management service and the fellow subsidiaries recharged the Group via management fee arrangement.

(b) The related parties are associates of intermediate holding company and ultimate holding company.

(b) Balances

(i) Amounts due from related parties

	At 31 December			At 30 June
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Non-trade nature				
<i>Intermediate holding company</i>				
CMSK	—	533,956	1,021,561	1,146,075
<i>Fellow subsidiary</i>				
CMCP	38,328	—	—	—
	<u>38,328</u>	<u>533,956</u>	<u>1,021,561</u>	<u>1,146,075</u>
Trade nature				
<i>Intermediate holding company</i>				
CMSK	28	28	—	—
<i>Fellow subsidiaries</i>				
Sinotrans Shipping	—	—	3,645	—
SZ Investment Promotion	3,757	6,412	10,524	13,048
CMSK Asset Management	—	—	—	490
CM Real Estate	—	—	—	8,501
	<u>3,785</u>	<u>6,440</u>	<u>14,169</u>	<u>22,039</u>
	<u>42,113</u>	<u>540,396</u>	<u>1,035,730</u>	<u>1,168,114</u>

The Group's non-trade amounts due from related parties are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors of the Company, the amounts are expected to be repaid within twelve months after the end of each reporting period and accordingly the amounts are classified as current assets.

As represented by the directors of the Company, the non-trade nature amounts due from related parties as at 30 June 2019 is expected to be fully settled prior to the Listing.

The Group generally required amounts to be settled within 30 days after issuance of demand note for its provision of rental and management services to its related parties. The demand note would be issued on the first working day of each month. The following is an aging analysis of amounts due from related parties, presented based on the date of invoice:

	At 31 December			At 30 June
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Within 1 month	508	248	3,492	13,384
More than 1 month but within 3 months	513	441	1,674	—
Over 3 months	2,764	5,751	9,003	8,655
	<u>3,785</u>	<u>6,440</u>	<u>14,169</u>	<u>22,039</u>

As at 31 December 2016, 2017 and 2018 and 30 June 2019, included in the Group's amount due from related parties are balance with aggregate carrying amount of RMB3,277,000, RMB6,192,000, RMB10,677,000 and RMB8,655,000 which are past due for each of the reporting period. Out of the past due balances, all balances past due 90 days or more are not considered as in default as the related parties supported by strong financial capability from CMG.

Aging of amount due from related parties which are past due but not impaired:

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 month	340	199	895	—
More than 1 month but within 3 months	958	750	3,165	611
Over 3 months	1,979	5,243	6,617	8,044
	<u>3,277</u>	<u>6,192</u>	<u>10,677</u>	<u>8,655</u>

(ii) Amounts due to related parties

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Non-trade nature				
<i>Intermediate holding companies</i>				
CMSK	—	—	10	50
Eureka Investment Company Limited . .	—	128	349	—
<i>Immediate holding companies</i>				
Jumbo Pacific Holdings Limited	—	3,809,262	3,809,262	3,708,599
Shekou Times (Hong Kong) Limited (note b)	50,211	—	—	—
Shekou Net Valley Technology (Hong Kong) Limited (note b)	14,455	—	—	—
Shekou Net Valley Technology 2 (Hong Kong) Limited (note b)	20,660	—	—	—
Shekou Net Valley Garden City Cyberport (Hong Kong) Limited (note b)	22,345	—	—	—
Shekou Garden City (Hong Kong) Limited (note b)	40,469	—	—	—
<i>Fellow subsidiaries</i>				
CMCP	—	3	52	15
	<u>148,140</u>	<u>3,809,393</u>	<u>3,809,673</u>	<u>3,708,664</u>
Trade nature				
<i>Ultimate holding company</i>				
CMG	518	863	518	518
<i>Fellow subsidiaries</i>				
CM Road Tech	87	—	—	—
CM Life Insurance	—	404	404	404
CM International Investment	924	—	—	—
CM Information Technology	354	590	590	590
CM Energy	—	—	606	1,211
CM Ocean Shipping	27	—	—	—
SZ Merchant Finance	187	190	193	—
CM Real Estate	—	—	2	5
SZ Investment Promotion	5,338	3,117	175	—
CMSK Asset Management	—	—	345	345
Shekou TV	21	21	23	30
Sinotrans Shipping	—	1,367	1,367	1,367
CM Commodity	1	1	1	—
<i>Related parties</i>				
CM Bank (note a)	1,163	860	1,092	1,092
SZ Shekou Communication (note a) . . .	228	—	—	—
	<u>8,848</u>	<u>7,413</u>	<u>5,316</u>	<u>5,562</u>
	<u>156,988</u>	<u>3,816,806</u>	<u>3,814,989</u>	<u>3,714,226</u>

Notes:

- (a) The related parties are associates of intermediate holding company and ultimate holding company.
- (b) These companies are legal shareholders of 5 PRC companies but did not have control over 5 PRC companies before 13 February 2017. Detail of the ownership of 5 PRC companies refer to Note 2.

The Group's non-trade amounts due to related companies at 31 December 2016, 2017 and 2018 and 30 June 2019 are unsecured, interest-free and repayable on demand. As represented by the directors of the Company, the amount due to Jumbo Pacific Holdings Limited as at 31 December 2017 and 2018 and 30 June 2019 represents the payables acquired by Jumbo Pacific Holdings Limited to reacquire the Holding Companies in 2017 and dividend payable to Jumbo Pacific Holdings Limited. As represented by the directors of the Company, the non-trade nature amounts due to related parties as at 30 June 2019 will be repaid after the asset injection completion date or be capitalised by issuing unit upon Listing, details refer to note 26. Up to the date of report, RMB87,677,000 had been settled. The remaining amount of RMB956,337,000 is expected to be settled by the end of February 2020. The following is an aging analysis of trade amounts due to fellow subsidiaries presented based on respective date of invoice date:

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 month	5,338	3,185	179	—
More than 1 month but within 3 months	46	—	—	1,367
Over 3 months	3,464	4,228	5,137	4,195
	<u>8,848</u>	<u>7,413</u>	<u>5,316</u>	<u>5,562</u>

(c) Transactions/balances with other state-controlled entities

The Group itself is part of a large group of companies under CMG, which is controlled by the government of the PRC. Apart from the transactions with the parent company and its subsidiaries which have been disclosed in other notes to the Historical Financial information, the Group also conducts businesses with entities directly or indirectly owned or controlled, jointly controlled or significantly influenced by the PRC government ("**state-controlled entities**") in the ordinary course of business. The directors of the Company consider those entities other than the CMG are independent third parties as far as the Group's business transactions with them are concerned. In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not. The Group is of the opinion that it has provided, in the best of its knowledge, adequate and appropriate disclosure of related party transactions in the Historical Financial Information.

The Group has bank balances deposited in and entered into various transactions, including sales, purchases and other operating expenses, with other state-controlled entities during the Track Record Period in which the directors of the Company are of the opinion that it is impracticable to ascertain the identity of the controlling parties of these counterparties and accordingly whether the counterparties are state-controlled entities.

(d) Compensation of key management personnel

The Group's key management personnel are all directors of the Company. No directors' emoluments were paid or are payable by the Group for the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2018 and 2019 respectively.

22. PLEDGE OF ASSETS

As at 31 December 2016, the Group pledged the following assets:

- (a) shares in 5 PRC Properties Companies were pledged as part of the collateral for the facility agreement in respect of term loan facilities signed between the Company and DBS Bank Ltd., Hong Kong Branch.
- (b) 5 investment properties and bank balances of RMB312,698,000 (note 16) were pledged as part of the collateral for the facility agreements signed between 5 PRC Properties Companies and DBS Bank (China) Ltd., Shenzhen Branch.

The loan facilities were cancelled on 26 January 2017 due to reorganisation as detailed before in note 2.

23. PARTICULARS OF SUBSIDIARIES

During the Track Record Period and as at the date of this report, the Company has direct and indirect shareholdings/equity interests in the followings subsidiaries:

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and fully paid capital/ registered and paid in capital	Shareholding/equity interest attributable to the Group as at					Principal activities	Notes
			31 December			30 June 2019	the date of this report		
			2016	2017	2018				
%	%	%	%	%					
<i>Directly held:</i>									
Frontier Shekou Commercial Holdings Limited	BVI 16 April 2014	USD1	N/A	100	100	100	100	Investment holding	
Shekou Times Limited	BVI 23 April 2014	USD1	N/A	100	100	100	100	Investment holding	
Shekou Garden City Limited	BVI 23 April 2014	USD1	N/A	100	100	100	100	Investment holding	
Shekou Net Valley Technology Limited	BVI 23 April 2014	USD1	N/A	100	100	100	100	Investment holding	
Shekou Net Valley Technology 2 Limited	BVI 23 April 2014	USD1	N/A	100	100	100	100	Investment holding	
Shekou Net Valley Garden City Cyberport Limited	BVI 23 April 2014	USD1	N/A	100	100	100	100	Investment holding	
<i>Indirectly held:</i>									
Shekou Times (Hong Kong) Limited 蛇口新時代 (香港) 有限公司	Hong Kong 26 May 2014	HK\$1	N/A	100	100	100	100	Investment holding	1
Shekou Garden City (Hong Kong) Limited 蛇口花園城 (香港) 有限公司	Hong Kong 26 May 2014	HK\$1	N/A	100	100	100	100	Investment holding	1
Shekou Net Valley Technology (Hong Kong) Limited 蛇口網谷科技 (香港) 有限公司	Hong Kong 26 May 2014	HK\$1	N/A	100	100	100	100	Investment holding	1
Shekou Net Valley Technology 2 (Hong Kong) Limited 蛇口網谷科技二期 (香港) 有限公司	Hong Kong 26 May 2014	HK\$1	N/A	100	100	100	100	Investment holding	1

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and fully paid capital/ registered and paid in capital	Shareholding/equity interest attributable to the Group as at					Principal activities	Notes
			31 December			30 June 2019	the date of this report		
			2016	2017	2018				
%	%	%	%	%					
Shekou Net Valley Garden City Cyberport (Hong Kong) Limited 蛇口網谷花園城數碼(香港)有限公司	Hong Kong 26 May 2014	HK\$1	N/A	100	100	100	100	Investment holding	1
深圳市蛇口新時代置業管理有限公司	The PRC 23 April 2014	RMB2,000,000	100	100	100	100	100	Investment properties holding	2
深圳市花園城置業管理有限公司	The PRC 24 April 2014	RMB2,000,000	100	100	100	100	100	Investment properties holding	2
深圳市科大置業管理有限公司	The PRC 25 April 2014	RMB2,000,000	100	100	100	100	100	Investment properties holding	2
深圳市科大二期置業管理有限公司	The PRC 24 April 2014	RMB2,000,000	100	100	100	100	100	Investment properties holding	2
深圳市數碼大廈置業有限公司	The PRC 23 April 2014	RMB2,000,000	100	100	100	100	100	Investment properties holding	2

All subsidiaries now comprising the Group operate in the PRC are limited liability companies and have adopted 31 December as their financial year end date. The subsidiaries established in the PRC are wholly foreign owned enterprises.

No audited statutory financial statements have been prepared for the Company and its subsidiaries incorporated in the BVI since their respective dates of incorporation as they are incorporated in the jurisdiction where there are no statutory audit requirements.

Notes:

- The statutory financial statements for each of the two years ended 31 December 2016 and 2018 were audited by Deloitte Touche Tohmatsu. The statutory financial statements for the year ended 31 December 2017 were audited by SHINEWING (HK) CPA Limited.
- The statutory financial statements for each of the two years ended 31 December 2016 and 2018 were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP Shanghai branch. The statutory financial statements for the year ended 31 December 2017 were audited by SHINEWING Certified Public Accountants Shenzhen Branch.

None of the subsidiaries had issued any debt securities at the end of each reporting period.

24. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

	Bank borrowings	Interest payable	Dividend payable	Non-trade amounts due to related companies	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	—	—	—	518	518
Financing cash flows	—	—	—	(8,592)	(8,592)
Dividend declared	—	—	156,214	—	156,214
Other non-cash changes (note 25)	—	—	(156,214)	156,214	—
At 31 December 2016	—	—	—	148,140	148,140
Financing cash flows	—	—	—	(4,507)	(4,507)
Other non-cash changes (note 2)	—	—	—	3,665,760	3,665,760
At 31 December 2017	—	—	—	3,809,393	3,809,393
Financing cash flows	—	(22,411)	—	280	(22,131)
Finance costs	—	22,411	—	—	22,411
At 31 December 2018	—	—	—	3,809,673	3,809,673
Financing cash flows	—	—	—	(346)	(346)
Dividend declared	—	—	319,337	—	319,337
Other non-cash changes (note 25)	—	—	(319,337)	(100,663)	(420,000)
At 30 June 2019	—	—	—	3,708,664	3,708,664
Unaudited					
At 1 January 2018	—	—	—	3,809,393	3,809,393
Financing cash flows	591,300	(9,864)	—	190	581,626
Finance costs	—	9,864	—	—	9,864
At 30 June 2018	591,300	—	—	3,809,583	4,400,883

25. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2016, dividends of RMB156,214,000 declared by 5 PRC Properties Companies was reclassified and included in amount due to their shareholders.

During six months ended 30 June 2019, dividends of RMB319,337,000 declared by the Company to Jumbo Pacific Holdings Limited was reclassified and included in amount due to immediate holding company.

As at 18 June 2019, there was a waiver of an amount due to Jumbo Pacific Holdings Limited, immediate holding company, of RMB420,000,000. Such waiver is accounted for as deemed contribution from a shareholder.

26. EVENTS AFTER THE REPORTING PERIOD

The following events took place subsequent to 30 June 2019:

On 25 November 2019, Treasure Supreme International Limited and China Merchants Land Asset Management Co., Limited, the manager of China Merchants Commercial REIT, entered into a sale and purchase agreement with Jumbo Pacific Holdings Limited, pursuant to which DB Trustees (Hong Kong) Limited, the trustee, has conditionally agreed to issue units to Jumbo Pacific Holdings Limited in exchange for all of the issued Company's shares held by Jumbo Pacific Holdings Limited. China Merchants Commercial REIT will issue 377,819,549 units and make cash payment to Jumbo Pacific Holdings Limited in exchange for all of the issued the Company's shares. Upon completion of the reorganization, China Merchants Commercial REIT will own the 5 PRC Properties Companies through the Company.

27. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any subsidiaries in respect of any period subsequent to 30 June 2019 and up to the date of this report.

A. UNAUDITED PRO FORMA STATEMENTS OF FINANCIAL POSITION

The following tables set out, for illustrative purposes only, an unaudited pro forma statements of financial position of China Merchants Commercial Real Estate Investment Trust (“**China Merchants Commercial REIT**”) as at the Listing Date based on the Maximum Offer Price and an unaudited pro forma statement of financial position of China Merchants Commercial REIT as at the Listing Date based on the Minimum Offer Price.

These unaudited pro forma statements of financial position have been prepared based on the audited consolidated statements of financial position of Frontier Shekou Commercial Holdings Limited (“**Frontier Shekou**”) and its subsidiaries (together, “**the Group**”) as at 30 June 2019 as set out in Appendix I to this Offering Circular, assuming (i) the completion of the acquisition of the Group by China Merchants Commercial REIT, (ii) settlement of the assigned Frontier payables, (iii) the issuance of the Units pursuant to the Global Offering and (iv) the drawn down of loan facilities of RMB1,900,000,000, as if they had taken place on 30 June 2019.

These unaudited pro forma statements of financial position have been prepared for illustrative purposes only and do not purport to represent what the assets and liabilities of China Merchants Commercial REIT will actually be as at the Listing Date or to give a true picture of the financial position of China Merchants Commercial REIT as at the Listing Date or any future date.

Unaudited Pro Forma Statement of Financial Position of China Merchants Commercial REIT (Based on Maximum Offer Price of HK\$4.00)

	China Merchants Commercial REIT as at 30 June 2019 RMB'000 (Note 1)	Audited statement of financial position of the Group as at 30 June 2019 RMB'000 (Note 2)	Pro forma adjustments RMB'000	Notes	Pro forma statement of financial position of China Merchants Commercial REIT RMB'000
Non-current assets					
Investment properties	—	6,517,000	—		6,517,000
Property, plant and equipment	—	310	—		310
	—	6,517,310	—		6,517,310
Current assets					
Trade and other receivables	—	2,310	—		2,310
Amounts due from related companies	—	1,168,114	(1,146,075)	3(a)	22,039
Bank balances and cash	—	25,812	1,146,075	3(a)	1,119,745
			(87,677)	3(b)	
			(65)	3(c)	
			(4,393,845)	3(d)	
			1,885,600	4	
			2,543,845	6	
	—	1,196,236	(52,142)		1,144,094
Current liabilities					
Trade and other payables	—	87,341	—		87,341
Amounts due to related companies	—	3,714,226	(87,677)	3(b)	961,889
			(65)	3(c)	
			(2,664,585)	3(d)	
Current tax liabilities	—	45,743	—		45,743
	—	3,847,310	(2,752,327)		1,094,983
Net current liabilities	—	(2,651,074)	2,700,185		49,111
Total assets less current liabilities	—	3,866,236	2,700,185		6,566,421
Non-current liabilities					
Deferred tax liabilities	—	940,223	—		940,223
Bank borrowings	—	—	1,900,000	4	1,885,600
	—	—	(14,400)	4	—
	—	940,223	1,885,600		2,825,823
Net assets	—	2,926,013	814,585		3,740,598
Represented by:					
Share capital	—	—	—		—
Statutory reserve	—	5,000	(5,000)	3(e)	—
Other reserve	—	118,147	(118,147)	3(e)	—
Retained earnings	—	2,802,866	(2,802,866)	3(e)	—
	—	2,926,013	(2,926,013)		—
Net assets attributable to Unitholders:					
Issued units	—	—	1,336,574	3(d)	3,892,262
			2,653,200	6	
			(97,512)	6	
Reserves	—	—	(11,843)	6	(151,664)
	—	—	(139,821)	7	
	—	—	3,740,598		3,740,598

Unaudited Pro Forma Statement of Financial Position of China Merchants Commercial REIT (Based on Minimum Offer Price of HK\$3.42)

	China Merchants Commercial REIT as at 30 June 2019 RMB'000 (Note 1)	Audited statement of financial position of the Group as at 30 June 2019 RMB'000 (Note 2)	Pro forma adjustments RMB'000	Notes	Pro forma statement of financial position of China Merchants Commercial REIT RMB'000
Non-current assets					
Investment properties	—	6,517,000	—		6,517,000
Property, plant and equipment	—	310	—		310
	—	6,517,310	—		6,517,310
Current assets					
Trade and other receivables	—	2,310	—		2,310
Amounts due from related companies	—	1,168,114	(1,146,075)	3(a)	22,039
Bank balances and cash	—	25,812	1,146,075	3(a)	1,119,745
			(87,677)	3(b)	
			(65)	3(c)	
			(4,017,787)	3(d)	
			1,885,600	4	
			2,167,787	6	
	—	1,196,236	(52,142)		1,144,094
Current liabilities					
Trade and other payables	—	87,341	—		87,341
Amounts due to related companies	—	3,714,226	(87,677)	3(b)	961,889
			(65)	3(c)	
			(2,664,585)	3(d)	
Current tax liabilities	—	45,743	—		45,743
	—	3,847,310	(2,752,327)		1,094,983
Net current liabilities	—	(2,651,074)	2,700,185		49,111
Total assets less current liabilities	—	3,866,236	2,700,185		6,566,421
Non-current liabilities					
Deferred tax liabilities	—	940,223	—		940,223
Bank borrowings	—	—	1,900,000	4	1,885,600
			(14,400)	4	
	—	940,223	1,885,600		2,825,823
Net assets	—	2,926,013	814,585		3,740,598
Represented by:					
Share capital	—	—	—		—
Statutory reserve	—	5,000	(5,000)	3(e)	—
Other reserve	—	118,147	(118,147)	3(e)	—
Retained earnings	—	2,802,866	(2,802,866)	3(e)	—
	—	2,926,013	(2,926,013)		—
Net assets attributable to Unitholders:					
Issued units	—	—	1,142,771	3(d)	3,322,401
			2,268,486	6	
			(88,856)	6	
Reserves	—	—	(11,843)	6	418,197
			430,040	7	
	—	—	3,740,598		3,740,598

Notes:

- (1) China Merchants Commercial REIT was established on 15 November 2019. On the Listing Date, the entire interest in Frontier Shekou will be acquired by China Merchants Commercial REIT. China Merchants Commercial REIT has not been involved in any business prior to the Listing Date. The amount is extracted from the management account of China Merchants Commercial REIT as at 30 June 2019.
- (2) The balances have been extracted from the audited consolidated statement of financial position of the Group as at 30 June 2019 as set out in Appendix I to this Offering Circular.

The identifiable assets and liabilities of the Group, the shares of which have been acquired by China Merchants Commercial REIT, will be accounted for in the consolidated financial statements of China Merchants Commercial REIT at fair value using acquisition accounting.

- (3) The following adjustments represent the acquisition of the equity interest of Frontier Shekou by China Merchants Commercial REIT on the Listing Date pursuant to the Sale and Purchase Deed and Code of Real Estate Investment Trusts.
- a) The adjustment represents cash receipt of RMB1,146,075,000 from China Merchants Shekou Industrial Zone Holdings Co. Ltd. (“CMSK”) for settlement of amounts due from related companies.
- b) RMB1,044,014,000 is expected to be repaid by Frontier Shekou to the Jumbo Pacific Holdings Limited after the asset injection completion date, with the timing pending completion of the PRC companies' capital reduction and dividend processes. As at date of Offering Circular, RMB87,677,000 had been settled. The remaining amount of RMB956,337,000 is expected to be settled by the end of February 2020.
- c) The adjustment represents cash payment of RMB65,000 to CMSK and China Merchants Commercial Property Investment (Shenzhen) Co., Ltd. for settlement of amounts due to related companies.
- d) This represents total consideration of RMB5,730,419,000 and RMB5,160,558,000 for the acquisition of the entire equity interest of Frontier Shekou and settlement of assigned Frontier payables by China Merchants Commercial REIT based on the Maximum and Minimum Offer Price respectively. As set out in the Sale and Purchase Deed, the consideration shall be settled by issuance of 377,819,549 Units by China Merchants Commercial REIT amounting to HK\$1,511,278,000 (RMB1,336,574,000 equivalent) and HK\$1,292,143,000 (RMB1,142,771,000 equivalent), and cash payment of RMB4,393,845,000 and RMB4,017,787,000 based on the Maximum and Minimum Offer Price respectively. In accordance with the Sale and Purchase Deed, the cash payment is calculated as the sum of (i) gross proceeds from the Global Offering amounting to HK\$3,000,000,000 (RMB2,653,200,000 equivalent) and HK\$2,565,000,000 (RMB2,268,486,000 equivalent) based on the Maximum and Minimum Offer Price respectively, and (ii) RMB1,900,000,000 drawn down from the loan facilities, minus the transaction costs of the Global Offering of approximately RMB109,355,000 and RMB100,699,000 based on Maximum and Minimum Offer Price respectively and the amount of RMB50,000,000 as cash to be retained in China Merchants Commercial REIT out of the listing proceeds.
- | | Based on
Maximum Offer
Price of HK\$4.00
RMB'000 | Based on
Minimum Offer
Price of HK\$3.42
RMB'000 |
|---|---|---|
| Cash payment: | | |
| Gross proceeds from the Global Offering | 2,653,200 | 2,268,486 |
| Drawn down facilities | 1,900,000 | 1,900,000 |
| Transaction Costs | (109,355) | (100,699) |
| Cash to be retained | (50,000) | (50,000) |
| Total cash payment | 4,393,845 | 4,017,787 |
| Issuance of unit | 1,336,574 | 1,142,771 |
| Total consideration | <u>5,730,419</u> | <u>5,160,558</u> |
- e) Elimination of pre-acquisition reserves of Frontier Shekou including retained earnings and other reserves.
- (4) Draw down of loan facilities of RMB1,900,000,000 with an upfront debt establishment cost of RMB14,400,000, as part of the cash payment for the acquisition of Frontier Shekou as at set out in note 3(d).

- (5) China Merchants Commercial REIT is required to distribute to Unitholders an amount of no less than 90% of China Merchants Commercial REIT's annual distributable income for each financial year. Accordingly, the Units contain contractual obligations to pay cash dividends and also, upon the termination of China Merchants Commercial REIT, a share of all net cash proceeds derived from the sale or realisation of the assets of China Merchants Commercial REIT less any liabilities, in accordance with their proportionate interest in China Merchants Commercial REIT at the date of its termination. The Unitholders' funds (which are represented by the net proceeds from the issuance of Units) are therefore classified as financial liabilities in accordance with International Accounting Standard 32: Financial Instruments: Disclosure and Presentation. It is shown on the Unaudited Pro Forma Statements of Financial Position of China Merchants Commercial REIT as net assets attributable to Unitholders.
- (6) This represents the estimated net proceeds from the Global Offering of the issuance of 750,000,000 units based on Maximum Offer Price and Minimum Offer Price of HK\$4.00 and HK\$3.42 respectively, after deducting the issue costs which include underwriting commission, legal fees, printing costs, accountants' fees, advertisement and marketing related expenses, etc, assuming the Over-allocation Option is not exercised. Of the total issue cost of RMB109,355,000 and RMB100,699,000 based on Maximum and Minimum Offer Price, the portion amounted to RMB11,843,000 will be charged to the profit and loss account.
- (7) The amount represents the recognition of the excess or shortfall of the cost of acquisition at the Completion Date over the assumed fair value of net identifiable assets, liabilities and contingent liabilities of the Group and settlement of assigned Frontier payables as a deemed contribution by or deemed investment to China Merchants Commercial REIT. Since the fair values of the assets and liabilities of the Group as at Completion Date may be different from their assumed fair values used in the preparation of the unaudited pro forma statement of financial position presented above, the actual excess of the costs of acquisition over the fair values of net identifiable assets, liabilities and contingent liabilities of Frontier Shekdou, arising from the acquisition, if any, may be different from the estimated amount shown in this Appendix.

	Based on Maximum Offer Price of HK\$4.00 RMB'000	Based on Minimum Offer Price of HK\$3.42 RMB'000
Total consideration	5,730,419	5,160,558
Amount due to related companies	(2,664,585)	(2,664,585)
Net asset value as at 30 June 2019	<u>(2,926,013)</u>	<u>(2,926,013)</u>
	<u>139,821</u>	<u>(430,040)</u>

The acquisition is a transaction with an equity participant (i.e. CMSK). According to the Conceptual Framework for Financial Reporting, income or expense are increase or decrease in economic benefits other than those relating to contribution or distribution to equity participants. Accordingly, the difference between the net asset value and the consideration is not recognised as goodwill/negative goodwill but treated as a deemed distribution/contribution from equity holders and recognised in equity.

- (8) The NAV per Unit is RMB3.32 and RMB3.32 (equivalent to HK\$3.75 and HK\$3.75) based on the Maximum Offer price and Minimum Offer Price, respectively. The calculation of the NAV per Unit is arrived at on the basis of the net assets attributable to Unitholders extracted from the Unaudited Pro Forma Statement of Financial Position of China Merchants Commercial REIT based on the Maximum Offer Price and Minimum Offer Price, and on the basis that 1,127,819,549 Units will be in issue upon the completion of the Global Offering respectively. The Maximum Offer Price of HK\$4.00 and the Minimum Offer Price of HK\$3.42 represent a premium of 7% and a discount of 9% respectively to the NAV per unit.
- (9) For the purpose of the estimated proceeds from the Global Offering, the translation of HK\$ to RMB was made at the rate of HK\$1 to RMB0.8844. For NAV per Unit, the transaction of RMB to HK\$ was at the rate of RMB1 to HK\$1.1307. However, we make no comment as to the appropriateness of such rates or whether the Renminbi or Hong Kong dollars could have been, or could be, converted into Hong Kong dollars of Renminbi at those rates or at all.

**B. LETTER FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA
FINANCIAL INFORMATION**

The following is the text of a report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong in respect of the Group's unaudited pro forma financial information for the purpose of incorporation in this Offering Circular.

Deloitte.**德勤****INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****To the Directors of China Merchants Land Asset Management Co., Limited (As Manager
of China Merchants Commercial Real Estate Investment Trust)**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Merchants Commercial Real Estate Investment Trust (“**China Merchants Commercial REIT**”) by the directors of China Merchants Land Asset Management Co., Limited (the “**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated financial position of the Group as at 30 June 2019 and related notes as set out on pages II-1 to II-5 of Appendix II to the offering circular issued by China Merchants Commercial REIT dated 28 November 2019 (the “**Offering Circular**”). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-5 of Appendix II to this Offering Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Global Offering (as defined in the Offering Circular) on the consolidated financial position of China Merchants Commercial REIT as at 30 June 2019 as if the Global Offering, the settlement of the assigned Frontier payables, acquisition shares of Frontier Shekou Commercial Holdings Limited and the drawn down of loan facilities of RMB1,900,000,000 had taken place at 30 June 2019.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) as if the Listing Rules were applicable to China Merchants Commercial REIT and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules as if the Listing Rules were applicable to China Merchants Commercial REIT, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules as if the Listing Rules were applicable to China Merchants Commercial REIT and with reference to AG 7 issued by HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules as if the Listing Rules were applicable to China Merchants Commercial REIT.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 28 November 2019

A. LETTER FROM THE REIT MANAGER

The following is the text of the letter from the REIT Manager in relation to the forecast combined net profit of China Merchants Commercial REIT for the period from the Listing Date to 31 December 2019 as set out in the section headed “Profit Forecast for the Profit Forecast Period” in this Offering Circular.

28 November 2019

Securities and Futures Commission
Investment Products Division
35/F, Cheung Kong Centre
2 Queen’s Road Central
Hong Kong

Dear Sirs,

Confirmation regarding the profit forecast contained in the offering document

We, China Merchants Land Asset Management Co., Limited (the “**REIT Manager**”), in our capacity as the manager of China Merchants Commercial Real Estate Investment Trust (the “**Scheme**”), hereby confirm that:

- (a) we have exercised due care and consideration in compilation of the profit forecast of the Scheme for the period from the Listing Date to 31 December 2019 (the “**Profit Forecast**”) as set out in the section headed “Profit Forecast for the Profit Forecast Period”;
- (b) we have satisfied ourselves that the Profit Forecast has been stated after due and careful enquiry; and
- (c) we consider that the bases, accounting policies and assumptions used in the Profit Forecast to be appropriate and reasonable.

We are satisfied that all material facts which have come to our attention have been taken into account in arriving at the Profit Forecast and are satisfied that the Profit Forecast has been properly considered and documented.

Yours faithfully,

China Merchants Land Asset Management Co., Limited

(in its capacity as manager of China Merchants Commercial Real Estate Investment Trust)

B. LETTER FROM DELOITTE TOUCHE TOHMATSU

The following is the text of the letter from Deloitte Touche Tohmatsu, the reporting accountants of China Merchants Commercial REIT, in relation to the forecast combined net profit of China Merchants Commercial REIT and Frontier Shekou Commercial Holdings Limited and its subsidiaries for the period from the Listing Date to 31 December 2019 as set out in the section headed “Profit Forecast for the Profit Forecast Period” in this Offering Circular.

Deloitte.**德勤**

28 November 2019

The Directors

China Merchants Land Asset Management Co., Limited

(as Manager of China Merchants Commercial Real Estate Investment Trust, the “**REIT Manager**”)

Room 2603–2606, 26/F.

China Merchants Tower

Shun Tak Centre

Nos. 168–200 Connaught Road, Central

Hong Kong

Citigroup Global Markets Asia Limited

50/F, Champion Tower

3 Garden Road, Central

Hong Kong

Dear Sirs,

China Merchants Commercial Real Estate Investment Trust (“**China Merchants Commercial REIT**”)**Profit Forecast for Period Ending 31 December 2019**

We refer to the forecast of the combined profit of China Merchants Commercial REIT and Frontier Shekou Commercial Holdings Limited and its subsidiaries to be acquired upon the completion of the initial listing of units of China Merchants Commercial REIT on the Main Board of The Stock Exchange of Hong Kong Limited for the period from the date of listing as defined in the Offering Circular (“**Listing Date**”) to 31 December 2019 (the “**Profit Forecast**”) set forth in the section headed Profit Forecast for the Profit Forecast Period in the offering circular of China Merchants Commercial REIT dated 28 November 2019 (the “**Offering Circular**”).

Responsibilities of the directors of the REIT Manager

The Profit Forecast has been prepared by the directors of the REIT Manager based on the forecasted combined results of China Merchants Commercial REIT and Frontier Shekou Commercial Holdings Limited and its subsidiaries for the period from the Listing Date to 31 December 2019.

The directors of the REIT Manager are solely responsible for the Profit Forecast.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Forecast based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 “Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness” and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the directors of the REIT Manager have properly compiled the Profit Forecast in accordance with the bases and assumptions adopted by the directors of the REIT Manager and as to whether the Profit Forecast is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the bases and assumptions adopted by the directors of the REIT Manager as set out in sub-section headed “Profit Forecast for the Profit Forecast Period — Bases and Assumptions” on pages 178 to 186 of the Offering Circular and is presented on a basis consistent in all material respects with the accounting policies adopted by Frontier Shekou Commercial Holdings Limited as set out in our accountants’ report dated 28 November 2019, the text of which is set out in Appendix I of the Offering Circular.

Other Matter

We draw attention to sub-section headed “Profit Forecast for the Profit Forecast Period — Bases and Assumptions” on pages 178 to 186 of the Offering Circular which sets out the assumptions adopted by the directors of the REIT Manager regarding the fair value of the investment properties as at 31 December 2019. In preparing the Profit Forecast, the directors of the REIT Manager have assumed that the fair value of the investment property as at 31 December 2019 will not materially change from Listing Date to 31 December 2019. The actual increase or decrease in the fair value of the investment properties is likely to be different from the amount estimated or forecast. Any difference between the actual increase or decrease in fair value of the investment properties during the period from Listing Date to 31 December 2019 when compared to the amount as estimated by the directors of the REIT Manager would have the effect of increasing or decreasing the combined profit of China Merchants Commercial REIT for the period from the Listing Date to 31 December 2019 attributable to unitholders. Our opinion is not qualified in respect of this matter.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

C. LETTER FROM CUSHMAN & WAKEFIELD LIMITED

The following is the text of the letter from Cushman & Wakefield Limited, the independent property valuer of China Merchants Commercial REIT, in relation to the Rental Income Forecast of China Merchants Commercial REIT for the period from the Listing Date to 31 December 2019 as set out in the section headed “Profit Forecast for the Profit Forecast Period” in this Offering Circular.



16/F Jardine House
1 Connaught Place
Central
Hong Kong

28 November 2019

China Merchants Land Asset Management Co., Limited
(in its capacity as REIT Manager of China Merchants Commercial Real Estate Investment Trust)

Room 2603–2606, 26/F,
China Merchants Tower, Shun Tak Centre,
Nos. 168–200 Connaught Road Central,
Hong Kong

DB Trustees (Hong Kong) Limited
(as trustee of China Merchants Commercial Real Estate Investment Trust)
52/F International Commerce Centre,
1 Austin Road West,
Kowloon,
Hong Kong

Citigroup Global Markets Asia Limited
50/F, Champion Tower,
3 Garden Road,
Central,
Hong Kong

Dear Sirs,

China Merchants Commercial Real Estate Investment Trust (the “REIT”)

We confirm we have examined the rental income used in the calculations of the profit and distribution forecast of the REIT for the period from the Listing Date as defined in the offering circular in relation to the Proposed Listing (the “Offering Circular”) to 31 December 2019 (the “Profit Forecast”) and the related assumptions adopted by the directors of the REIT Manager as required by Appendix F of the Code on Real Estate Investment Trusts and set out under

the section headed “Profit Forecast for the Profit Forecast Period” in the Offering Circular and we confirm that such rental income forecast has been compiled in accordance with the assumptions made and such assumptions are reasonable.

The directors of China Merchants Land Asset Management Co., Limited (the “**REIT Manager**”) are solely responsible for the Profit Forecast.

Yours faithfully,
For and on behalf of
Cushman & Wakefield Limited
Philip C Y Tsang
Registered Professional Surveyor (General Practice)
Registered China Real Estate Appraiser
MSc, MHKIS
Director

D. REPORT OF SOLE LISTING AGENT

The following is the text of the letter from Citigroup Global Markets Asia Limited, the Sole Listing Agent of China Merchants Commercial REIT, in relation to the forecast combined net profit of China Merchants Commercial REIT for the period from the Listing Date to 31 December 2019 as set out in the section headed “Profit Forecast for the Profit Forecast Period” in this Offering Circular.



28 November 2019

The Directors
China Merchants Land Asset Management Co., Limited

Dear Sirs

We refer to the forecast of the combined net profit of China Merchants Commercial Real Estate Investment Trust (the “**REIT**”) for the period from 10 December 2019, being the anticipated date on which the units of the REIT are first listed and from which dealings therein are permitted to take place on The Stock Exchange of Hong Kong Limited (the “**Listing Date**”) to 31 December 2019 (the “**Profit Forecast**”) as set out in the subsections headed “**Profit Forecast for the Profit Forecast Period**” and “**Statement of Distributions**” in the offering circular of the REIT dated 28 November 2019 (the “**Offering Circular**”). The Profit Forecast has been prepared based on a forecast of the combined results of the REIT from the Listing Date to 31 December 2019.

We have discussed with you the bases and assumptions made by you as set out in the section headed “Profit Forecast for the Profit Forecast Period” in the Offering Circular upon which the Profit Forecast has been made. We have also considered, and relied on:

1. the report dated 28 November 2019 from Deloitte Touche Tohmatsu confirming that they have reviewed the accounting policies and calculations for the Profit Forecast and that the Profit Forecast has been properly compiled on the bases and assumptions adopted and presented on a basis consistent with the adopted accounting policies; and
2. the report dated 28 November 2019 from Cushman & Wakefield Limited confirming that it has examined the rental income used in the calculations of the Profit Forecast and that such rental income forecast has been compiled in accordance with the assumptions made and such assumptions are reasonable.

On the basis of the foregoing and on the basis of the accounting policies and calculations adopted by you and reviewed by Deloitte Touche Tohmatsu and on the basis of the assumptions adopted by you and reviewed by Cushman & Wakefield Limited for the calculations of the Profit Forecast, we, as the sole listing agent of the REIT, are of the opinion that the Profit Forecast has been made after due and careful enquiry. You, as directors of China Merchants Land Asset Management Co., Limited, the manager of the REIT, are solely responsible for the Profit Forecast.

Yours faithfully

Citigroup Global Markets Asia Limited

The following is the text of a letter and valuation report prepared for the purpose of incorporation in this Offering Circular received from Cushman & Wakefield Limited, an independent property valuer, in connection with its opinion of market values of the Properties as at 30 September 2019.



16/F Jardine House
1 Connaught Place
Central
Hong Kong

28 November 2019

China Merchants Land Asset Management Co., Limited
(in its capacity as REIT Manager of China Merchants Commercial Real Estate Investment Trust)
Room 2603–2606, 26/F,
China Merchants Tower, Shun Tak Centre,
Nos.168–200 Connaught Road Central,
Hong Kong

DB Trustees (Hong Kong) Limited
(as trustee of China Merchants Commercial Real Estate Investment Trust)
52/F International Commerce Centre,
1 Austin Road West,
Kowloon,
Hong Kong

Citigroup Global Markets Asia Limited
50/F, Champion Tower,
3 Garden Road,
Central,
Hong Kong

Dear Sirs

**China Merchants Commercial Real Estate Investment Trust
(the “China Merchants Commercial REIT”)
Valuation of 5 properties located in Nanshan District, Shenzhen City,
Guangdong Province, the People’s Republic of China (the “Properties”)**

INSTRUCTIONS, PURPOSE & VALUATION DATE

We refer to the instructions from China Merchants Land Asset Management Co., Limited (the “**REIT Manager**”), as defined in the offering circular, the “Offering Circular” for us to prepare market valuations of the Properties located in the People’s Republic of China (the “**PRC**”) (as detailed in the attached valuation report). 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 you with our opinion of the market values of the Properties as at 30 September 2019 (the “**Valuation Date**”) for the purpose of incorporation in the Offering Circular.

BASIS OF VALUATION

Our valuation of each of the Properties represents its market value which in accordance with HKIS Valuation Standards 2017 published by The Hong Kong Institute of Surveyors (“**HKIS**”) is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

COMPLIANCE

In valuing the Properties, we have complied with the requirements in accordance with Chapter 6.8 of the Code on Real Estate Investment Trust (the “**REIT Code**”) published by the Securities and Futures Commission and HKIS Valuation Standards 2017.

VALUATION ASSUMPTIONS

Our valuations of each the Properties exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of value available only to a specific owner or purchaser.

In the course of our valuations of the Properties situated in the PRC, with reference to the PRC Legal Opinion of the REIT Manager’s PRC legal advisors, Zhong Lun Law Firm (中倫律師事務所), we have prepared our valuations on the basis that transferable land use right in respect of each of the Properties for its specific term at nominal annual land use fees have been granted and that any premium payable have already been fully paid. We have relied on the information and advice given by the REIT Manager and its PRC legal advisors, regarding the titles and the interests in the Properties. In valuing the Properties, we have prepared our valuations on the basis that the owners have enforceable titles to the Properties and have free and uninterrupted right to use, occupy or assign the Properties for the whole of the unexpired terms as granted.

No allowances have been made in our valuations for any charges, mortgages or amounts owing on the Properties nor any expenses or taxation which may be incurred in effecting a 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.

We are not aware of any significant overseas taxes expected to be charged in respect of the Properties.

METHODS OF VALUATION

In valuing the Property Nos. 1 to 4, we have adopted the Income Capitalisation Method and cross-checked by the Market Comparison Method. Income Capitalisation Method is appropriate for valuations of the Properties with relatively uniform tenancy terms and conditions.

In valuing the Property No. 5, we have adopted the Discounted Cash Flow Method and cross-checked by the Market Comparison Method. Discounted Cash Flow Method is appropriate for valuation of the Property with variances in tenancy terms and conditions.

Income Capitalisation Method

Income Capitalisation Method estimates the values of the Properties on a market basis by capitalising the existing rental of all lettable units of each of the Properties for the respective unexpired terms of contractual tenancies whilst vacant units are assumed to be let at their respective market rents as at the Valuation Date. Upon expiry of the existing tenancies, each unit is assumed to be let at its market rent as at the Valuation Date, which is in turn capitalised for the unexpired term of the land use right under which the Property is held. The summation of the capitalised value of the term rental for the leased portion, the capitalised value of the reversion market rental as appropriately deferred for the leased portion and the capitalised value of the vacant portion provides the market value of each of the Properties.

Discounted Cash Flow (“DCF”) Method

DCF Method involves discounting future net cash flow after urban real estate tax, land use tax and value-added tax of each of the Properties 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.

Details of the key assumptions of our DCF valuations are set out in the valuation report of each of the Properties contained herein.

Market Comparison Method

For cross-checking of the valuations arrived from DCF Method or Income Capitalisation Method, we have also made reference to comparable sales evidence of properties with similar characteristics as available in the relevant market.

SOURCE OF INFORMATION

We have relied to a 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 China Merchants Commercial 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 title searches. However, 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

Our Shenzhen Office valuation team, including Joanna J J Deng (China Real Estate Appraiser of 19 years' valuation experience), have inspected the exterior and, where possible, the interior of the Properties. 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. According to the Building Survey Report prepared by Knight Frank Petty Limited, the Properties are structurally safe and maintained in good condition and that there are no material defects that would affect the operation and usage of the Properties. 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.

PROPOSED ASSET ENHANCEMENT INITIATIVES

The REIT Manager intends to implement asset enhancement initiatives for the Properties to maximise their long-term growth and optimise their operational performance. Its asset enhancement initiatives are expected to complete in one to two years after the Listing. However, the detailed plans of the asset enhancement initiatives are subject to internal assessments and actual market condition. The total estimated costs of the asset enhancement initiatives are expected to be approximately RMB400 million.

All refurbishment and renovation enhancements will be subject to the required building and planning approvals having been obtained. In addition, the REIT Manager will need to plan and implement the execution of the enhancements in accordance with the terms of the relevant tenancy agreements or as otherwise agreed with the relevant tenants. Other than the above asset enhancement initiatives and the usual recurring maintenance capital expenditures, the REIT Manager currently does not have any other plans to renovate, improve or redevelop the Properties.

1. NEW TIMES PLAZA (新時代廣場)

Currently, New Times Plaza is planning for comprehensive refurbishment and renovation, including a complete upgrade of the lobby, office areas and other facilities.

2. **CYBERPORT BUILDING (數碼大廈)**
3. **TECHNOLOGY BUILDING (科技大廈)**
4. **TECHNOLOGY BUILDING 2 (科技大廈二期)**

Cyberport Building/Technology Building/Technology Building 2 have plans to provide online and offline support to their tenants in hope to transform into a hub to incubate startup companies, and also plan to renovate its public area, external walls, landscape and other facilities.

5. **GARDEN CITY SHOPPING CENTRE (花園城)**

Garden City Shopping Centre has plans to renovate its external façade and improve its interior decorations.

GROUP REORGANISATION IN 2017

The Group's property investment businesses are carried out by five respective PRC entities, namely Shenzhen Shekou New Times Real Estate Investment and Management Co., Ltd. (深圳市蛇口新時代置業管理有限公司), Shenzhen Garden City Real Estate Investment and Management Co., Ltd. (深圳市花園城置業管理有限公司), Shenzhen Technology Building Real Estate Investment and Management Co., Ltd. (深圳市科大置業管理有限公司), Shenzhen Technology Building 2 Real Estate Investment and Management Co., Ltd. (深圳市科大二期置業管理有限公司), and Shenzhen Cyberport Building Real Estate Investment and Management Co., Ltd. (深圳市數碼大廈置業管理有限公司) ("**5 PRC Properties Companies**"), historically established under CMSK Industrial Zone Holdings Company Limited ("**CMSK**") and each PRC entity holds a property in Shenzhen, the PRC. CMSK is controlled by CMG.

In 2015, CMSK disposed of the entire equity interests in the 5 PRC Properties Companies to an independent third party (the "**Buyer**") at a cash consideration of RMB3,386,000,000 ("**the Original Sales Prices**"), with a repurchase option that allows CMSK or its designated entities to reacquire the equity interests in the 5 PRC Properties Companies at a cash consideration of a price with an annual increment rate not greater than 5.5% per annum of the Original Sales Prices within 32 months from the date of the completion of disposal. Thus, CMSK considered it has retained control over the 5 PRC Properties Companies and such transaction was accounted for as a financing arrangement by CMSK.

On 13 February 2017, CMSK exercised the repurchase option and instructed its wholly owned subsidiary Jumbo Pacific Holdings Limited, to reacquire the 5 PRC Properties Companies through acquisition of entire equity interest in the Company, which hold entire equity interests in the 5 PRC Properties Companies through 6 BVI companies and 5 HK companies. The Company, 6 BVI companies and 5 HK companies are collectively referred to as the "Holding Companies". The acquisition of the Holding Companies was accounted for as acquisition of assets/liabilities through acquisition of companies as the Holding Companies has no operation other than investment holding. At the time of acquisition, the Holding Companies had net liabilities of RMB3,665,760,000 excluding the equity interest in the 5 PRC Properties Companies, mainly represent amount due to Jumbo Pacific Holdings Limited.

CURRENCY

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

REMARKS

The existing use of the Properties are considered as the highest and best uses. We have not carried out any valuation on redevelopment basis, nor the study of possible alternative options.

We have been provided with the tenancy schedules, a standard Tenancy Agreement and a Licence Agreement by the REIT Manager. We have not examined the tenancy documents for each specific tenancy and our valuations are based on the basis that all tenancy agreements are executed and are in accordance with the provisions stated in the tenancy schedules provided to us. Moreover, we assume that the tenancies are valid, binding and enforceable.

We hereby certify that we have neither present nor prospective interest in the REIT or the valuation reported.

We are independent of the REIT, the trustee and the manager and each of the significant shareholders of the scheme within the paragraph 6.5 of the REIT Code. Mr. Philip C Y Tsang has no potential conflict of interest and is able to provide objective and unbiased valuations for the Properties.

The conclusions of market value are based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. This valuation report is prepared on fair and unbiased basis subject to our general assumptions and limitation conditions.

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

Yours faithfully,
For and on behalf of
Cushman & Wakefield Limited
Philip C Y Tsang

Registered Professional Surveyor (General Practice)
Registered China Real Estate Appraiser
MSc, MHKIS
Director

Note: Philip C Y Tsang is a Registered Professional Surveyor who has over 26 years' experience in the valuation of properties in the PRC.

SUMMARY OF VALUATIONS

Property	Market value in existing state as at 30 September 2019 (RMB)	Interest attributable to the Group (%)	Market value in existing state attributable to the Group as at 30 September 2019 (RMB)
1. New Times Plaza, No. 1, Taizi Road, Nanshan District, Shenzhen City, Guangdong Province, the PRC 中華人民共和國廣東省深圳市南山區 太子路1號新時代廣場	2,046,000,000	100	2,046,000,000
2. Cyberport Building, No. 1079, Nanhai Avenue, Nanshan District, Shenzhen City, Guangdong Province, the PRC 中華人民共和國廣東省深圳市南山區 南海大道1079號數碼大廈	1,038,000,000	100	1,038,000,000
3. Technology Building, No. 1067, Nanhai Avenue, Nanshan District, Shenzhen City, Guangdong Province, the PRC 中華人民共和國廣東省深圳市南山區 南海大道1067號科技大廈	867,000,000	100	867,000,000
4. Technology Building 2, No. 1057, Nanhai Avenue, Nanshan District, Shenzhen City, Guangdong Province, the PRC 中華人民共和國廣東省深圳市南山區 南海大道1057號科技大廈二期	1,079,000,000	100	1,079,000,000
5. Garden City Shopping Centre, No. 1086, Nanhai Avenue, Nanshan District, Shenzhen City, Guangdong Province, the PRC 中華人民共和國廣東省深圳市南山區 南海大道1086號花園城	1,549,000,000	100	1,549,000,000
Grand-total:	<u>6,579,000,000</u>		<u>6,579,000,000</u>

VALUATION REPORT

Property	Description and tenure	Particular of occupancy	Market Value in existing state as at 30 September 2019															
1. New Times Plaza, No. 1, Taizi Road, Nanshan District, Shenzhen City, Guangdong Province, the PRC	<p>New Times Plaza is an office building which comprises 2-storey commercial area (Level 1 to Level 2), 34-storey office (Level 3 to Level 33, Level 35, 36 and 38) and 212 car parking spaces in the basement. The Property was erected on a parcel of land with a site area of 8,642.45 sq.m. and was completed in 1997.</p> <p>The Property has a total Gross Floor Area of 87,336.98 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: center;">Approximate Gross Floor Area (sq.m.)</th> <th style="text-align: center;">Approximate Gross Rentable Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Office (Level 3 to Level 38)</td> <td style="text-align: center;">82,591.17</td> <td style="text-align: center;">62,654.22</td> </tr> <tr> <td>Commercial (Level 1 to Level 2)</td> <td style="text-align: center;">4,745.81</td> <td style="text-align: center;">4,945.81</td> </tr> <tr> <td>212 car parking spaces</td> <td style="text-align: center;">N/A</td> <td style="text-align: center;">N/A</td> </tr> <tr> <td>Total:</td> <td style="text-align: center;">87,336.98</td> <td style="text-align: center;">67,600.03</td> </tr> </tbody> </table>	Portion	Approximate Gross Floor Area (sq.m.)	Approximate Gross Rentable Area (sq.m.)	Office (Level 3 to Level 38)	82,591.17	62,654.22	Commercial (Level 1 to Level 2)	4,745.81	4,945.81	212 car parking spaces	N/A	N/A	Total:	87,336.98	67,600.03	<p>As at the Valuation Date, part of the commercial area with a total Gross Rentable Area of approximately 1,359.77 sq.m. has been leased under various tenancies with the majority that expires within 2 years, yielding a total monthly rent of approximately RMB420,000, exclusive of management fee and value-added tax.</p> <p>Part of the office with a total Gross Rentable Area of approximately 50,222.72 sq.m. has been leased under various tenancies with the majority that expires within 3 years, yielding total monthly rent of approximately RMB7,226,000, exclusive of management fee and value-added tax.</p> <p>A total Gross Rentable Area of approximately 16,017.54 sq.m. were vacant, in which 8,243.54 sq.m. were pending for the commencement dates of connected-party transaction tenancies with tenancy terms not yet commenced.</p>	<p>RMB2,046,000,000 (RENMINBI TWO BILLION FORTY SIX MILLION)</p> <p>(Based on the said total monthly rent as at the Valuation Date, the estimated net property yield of the Property is 4.48%.)</p>
Portion	Approximate Gross Floor Area (sq.m.)	Approximate Gross Rentable Area (sq.m.)																
Office (Level 3 to Level 38)	82,591.17	62,654.22																
Commercial (Level 1 to Level 2)	4,745.81	4,945.81																
212 car parking spaces	N/A	N/A																
Total:	87,336.98	67,600.03																

Notes:

- (1) According to Real Estate Title Certificate No.4000594829 dated 29 July 2014, the land use right of a parcel of land with a site area of approximately 8,642.45 sq.m. have been granted to Shenzhen Shekou New Times Real Estate Investment and Management Co., Ltd. (深圳市蛇口新時代置業管理有限公司) for a term of 50 years due to expire on 27 January 2045 for commercial office use. The legal title of the Property is vested in Shenzhen Shekou New Times Real Estate Investment and Management Co., Ltd. (深圳市蛇口新時代置業管理有限公司) with a total Gross Floor Area of approximately 87,336.98 sq.m. for office and commercial culture use.
- (2) According to Business Licence No. 914403003059177335 dated 4 April 2019, Shenzhen Shekou New Times Real Estate Investment and Management Co., Ltd. (深圳市蛇口新時代置業管理有限公司) was established on 23 April 2014 as a limited liability company.

- (3) Our analysis of the existing tenancy profile according to the tenancy information provided by the REIT Manager is set out below:

Occupancy Profile

Type	Approximate Gross Rentable Area ^{Note 1} (sq.m.)	% of Total
Leased	51,582.49	76.3
Vacant	16,017.54	23.7
Total:	67,600.03	100.0

Lease Commencement Profile

Year	Approximate Gross Rentable Area ^{Note 1} (sq.m.)	% of Total	*Monthly Rental ^{Note 2} (RMB)	% of Total	No. of Tenancies ^{Note 3}	% of Total
2011	975.16	1.9	222,569.59	2.9	1	1.2
2016	2,140.77	4.2	387,689.52	5.1	3	3.6
2017	11,557.23	22.4	1,635,509.65	21.4	14	16.7
2018	9,870.06	19.1	1,747,574.29	22.9	27	32.1
2019	27,039.27	52.4	3,652,857.15	47.7	39	46.4
Total:	51,582.49	100.0	7,646,200.19	100.0	84	100.0

Lease Expiry Profile

Year	Approximate Gross Rentable Area ^{Note 1} (sq.m.)	% of Total	Monthly Rental ^{Note 2} (RMB)	% of Total	No. of Tenancies ^{Note 3}	% of Total
2019	14,261.20	27.7	2,492,404.65	32.6	19	22.6
2020	5,989.33	11.6	952,014.29	12.5	28	33.3
2021	13,272.65	25.7	2,286,488.75	29.9	20	23.8
2022	16,707.79	32.4	1,735,418.22	22.6	13	15.5
2023	896.76	1.7	126,320.95	1.7	2	2.4
2024	454.76	0.9	53,553.33	0.7	2	2.4
Total:	51,582.49	100.0	7,646,200.19	100.0	84	100.0

Lease Duration Profile

Year	Approximate Gross Rentable Area ^{Note 1} (sq.m.)	% of Total	Monthly Rental ^{Note 2} (RMB)	% of Total	No. of Tenancies ^{Note 3}	% of Total
Up to 1 year	13,540.86	26.2	2,328,365.606	30.5	29	34.5
More than 1 year and up to 2 years	8,697.13	16.9	1,352,950.590	17.6	13	15.5
More than 2 years and up to 3 years	18,119.53	35.1	2,335,953.333	30.6	30	35.7
More than 3 years and up to 4 years	729.63	1.4	103,567.619	1.4	2	2.4
More than 4 years and up to 5 years	9,520.18	18.5	1,302,793.457	17.0	9	10.7
More than 9 years and up to 10 years	975.16	1.9	222,569.586	2.9	1	1.2
Total:	51,582.49	100.0	7,646,200.19	100.0	84	100.0

Note 1: As at the valuation date, the leased rentable area of 51,582.49 sq.m. only includes area for tenancies with tenancy terms already commenced and excludes a total Gross Rentable Area of 8,243.54 sq.m. for tenancies with tenancy terms not yet commenced.

Note 2: As at the valuation date, the total monthly rental only includes the monthly rental receivable from tenancies with tenancy terms already commenced and excludes the monthly rental receivable from the tenancies with tenancy terms not yet commenced, amounting to about RMB1,320,000 per month. The monthly rental is exclusive of value-added tax.

Note 3: As at the valuation date, the number of tenancies only includes 88 tenancies with tenancy terms already commenced and excludes the connected-party transaction tenancies with tenancy terms not yet commenced.

(4) According to the PRC legal opinion:

(i) Shenzhen Shekou New Times Real Estate Investment and Management Co., Ltd. (深圳市蛇口新時代置業管理有限公司) currently legally and effectively owns the land use right and building ownership of the real estate. It is the sole legal land use right holder and owner, and the rights and interests are protected by Chinese law; during the land use right period of the land, Shenzhen Shekou New Times Real Estate Investment and Management Co., Ltd. (深圳市蛇口新時代置業管理有限公司) independently enjoys by law, the right to possess, use, transfer, lease, mortgage, etc., the rights to dispose of the land and property and obtain income, and no need to pay any land use right transfer fee or land premium due to such disposal.

(ii) No land or property was found to be mortgaged or set up with other third party rights, nor was there any legal process that was found to have a material adverse effect on the ownership and use of the land, such as seizure, freezing, and litigation.

(iii) The Shenzhen Car Parking Spaces Operation Permit has been obtained; the necessary permits and licences for the operation of providing paid parking services have been obtained in accordance with the Law on Road Traffic Safety of the PRC and the Car Parking Spaces Planning Construction and Vehicles Parking Management Regulations of Shenzhen.

(5) In accordance with the information provided by the REIT Manager and the PRC Legal Opinion, the status of title and grant of major approvals and licences are as follows:

Real Estate Ownership Certificate Yes (above ground)
Business Licence Yes

(6) In valuing the Property, we have adopted the Income Capitalisation Method and cross-checked by the Market Comparison Method. Our key assumptions used in the Income Capitalisation Method Valuation are summarised as below:

Use	Income Capitalisation Method		
	Monthly Market Rent	Term Yield	Reversionary Yield
	RMB/sq.m.		
Office	160	4%	4.5%
Commercial	210-299	4%	4.5%
Car Parking Spaces	488		4.5%

* Monthly market rent is exclusive of management fee and value-added tax.

VALUATION REPORT

Property	Description and tenure	Particular of occupancy	Market Value in existing state as at 30 September 2019
2. Cyberport Building, No. 1079, Nanhai Avenue, Nanshan District, Shenzhen City, Guangdong Province, the PRC	Cyberport Building is an office building complex technically zoned for industrial use which comprises a 9-storey office building and a 6-storey office building, connected by a corridor at Level 1 and 2 respectively. The Property also comprises commercial units located at Level 1 and 255 car parking spaces in the basement. The Property was erected on a parcel of land with a site area of 15,561.45 sq.m. and was completed in 2009. The Property has a total Gross Floor Area of 40,435.09 sq.m. with details as follows:	As at the Valuation Date, portion of the Property with a total Gross Rentable Area of approximately 34,017.27 sq.m. has been leased under various tenancies with the majority that expires within 5 years, yielding a total monthly rent of approximately RMB3,825,000, exclusive of management fee and value-added tax.	RMB1,038,000,000 (RENMINBI ONE BILLION THIRTY EIGHT MILLION) (Based on the said total monthly rent as at the Valuation Date, the estimated net yield of the Property is 4.42%.)

Portion	Approximate Gross Floor Area (sq.m.)	Approximate Gross Rentable Area (sq.m.)	The remaining part of the Property was vacant.
Office	38,957.55	37,455.41	
Commercial	1,477.54	2,985.84	
255 car parking spaces	N/A	N/A	
Total:	40,435.09	40,441.25	

Note: The Gross Floor Area relates to Real Estate Title Certificate; the Gross Rentable Area relates to rent receivable.

The Gross Rentable Area is larger than the Gross Floor Area because, as per the tenancy details provided to us, some common area are also devoted for leasing to achieve rent receivable.

The land use right of the Property have been granted for a term of 50 years due to expire on 22 May 2057 for industrial use.

Notes:

- According to Real Estate Title Certificate No. 4000595164 dated 5 August 2014, the land use right of a parcel of land with a site area of approximately 15,561.45 sq.m. have been granted to Shenzhen Cyberport Building Real Estate Investment and Management Co., Ltd. (深圳市數碼大廈置業管理有限公司) for a term of 50 years due to expire on 22 May 2057 for industrial use. The legal title of the Property is vested in Shenzhen Cyberport Building Real Estate Investment and Management Co., Ltd. (深圳市數碼大廈置業管理有限公司) with a total Gross Floor Area of approximately 40,435.09 sq.m. for research and production use.
- According to Business Licence No. 914403003059178641 dated 14 February 2019, Shenzhen Cyberport Building Real Estate Investment and Management Co., Ltd. (深圳市數碼大廈置業管理有限公司) was established on 23 April 2014 as a limited liability company.
- Our analysis of the existing tenancy profile according to the tenancy information provided by the REIT Manager is set out below:

Occupancy Profile

Type	Approximate Gross Rentable Area (sq.m.)	% of Total
Leased	34,017.27	84.1
Vacant	6,423.98	15.9
Total:	40,441.25	100.0

Lease Commencement Profile

Year	Approximate Gross Rentable		Monthly Rental (RMB)	% of Total	No. of Tenancies	
	Area (sq.m.)	% of Total			% of Total	% of Total
2015	2,525.89	7.4	242,268.94	6.3	1	2.5
2016	1,904.43	5.6	231,707.32	6.1	4	10.0
2017	3,010.86	8.9	349,200.14	9.1	5	12.5
2018	16,263.93	47.8	1,946,157.91	50.9	18	45.0
2019	10,312.16	30.3	1,055,410.38	27.6	12	30.0
Total:	34,017.27	100.0	3,824,744.70	100.0	40	100.0

Lease Expiry Profile

Year	Approximate Gross Rentable		Monthly Rental (RMB)	% of Total	No. of Tenancies	
	Area (sq.m.)	% of Total			% of Total	% of Total
2019	751.49	2.2	82,849.98	2.2	1	2.5
2020	6,407.28	18.9	705,894.53	18.5	11	27.5
2021	5,625.20	16.5	639,831.03	16.7	7	17.5
2022	12,114.86	35.6	1,364,541.05	35.7	11	27.5
2023	6,473.18	19.0	804,775.06	21.0	8	20.0
2024	2,645.26	7.8	226,853.05	5.9	2	5.0
Total:	34,017.27	100.0	3,824,744.70	100.0	40	100.0

Lease Duration Profile

Year	Approximate Gross Rentable		Monthly Rental (RMB)	% of Total	No. of Tenancies	
	Area (sq.m.)	% of Total			% of Total	% of Total
Up to 1 year	1,518.52	4.5	166,041.41	4.3	3	7.5
More than 1 year and up to 2 years	1,428.50	4.2	171,186.93	4.5	2	5.0
More than 2 years and up to 3 years	10,877.49	32.0	1,189,126.77	31.1	15	37.5
More than 3 years and up to 4 years	5,495.38	16.1	688,653.08	18.0	7	17.5
More than 4 years and up to 5 years	14,697.38	43.2	1,609,736.50	42.1	13	32.5
Total:	34,017.27	100.0	3,824,744.70	100.0	40	100.0

(4) According to the PRC legal opinion:

- (i) Shenzhen Cyberport Building Real Estate Investment and Management Co., Ltd. (深圳市數碼大廈置業管理有限公司) currently legally and effectively owns the land use right and building ownership of the real estate. It is the sole legal land use right holder and owner, and the rights and interests are protected by Chinese law; during the land use right period of the land, Shenzhen Cyberport Building Real Estate Investment and Management Co., Ltd. (深圳市數碼大廈置業管理有限公司) independently enjoys by law, the right to possess, use, transfer, lease, mortgage, etc., the rights to dispose of the land and property and obtain income, and no need to pay any land use right transfer fee or land premium due to such disposal.
- (ii) No land or property was found to be mortgaged or set up with other third party rights, nor was there any legal process that was found to have a material adverse effect on the ownership and use of the land, such as seizure, freezing, and litigation.
- (iii) The stipulated uses in the Tenancies are office use and a few commercial use. According to the confirmation made by the Lands Division of Nanshan Administration of Shenzhen Municipal Planning and Natural Resources Bureau on 12 June 2019, it is relatively common for the buildings on industrial land to be used for office use in the Shekou area. In the future, when the land planning of the Shekou area is uniformly adjusted, there is no substantial obstacle to the

application of the land use change by Shenzhen Cyberport Building Real Estate Investment and Management Co., Ltd. (深圳市數碼大廈置業管理有限公司) in accordance with the unified arrangements of the government. The risk of the land being ordered to be recovered due to the rental activities carried out is practically non-existent.

- (iv) The area Cyberport Building located has been recognised by the government as the third batch of cultural industry bases in Shenzhen. Shenzhen Cyberport Building Real Estate Investment and Management Co., Ltd. (深圳市數碼大廈置業管理有限公司) has applied the Construction Project Completion Acceptance Fire Filing Form according to the policy support of the Nanshan District People's Government. The use of Cyberport Building is other and office. Its current leasing out and operating are in line with the government's policy orientation and related documents.
- (v) Shenzhen Cyberport Building Real Estate Investment and Management Co., Ltd. (深圳市數碼大廈置業管理有限公司) has not received any notices, inquiries, investigations and/or administrative penalties for the use of land, housing lease management, etc. by relevant government authorities. The lease contracts are valid, effective and are legally binding and enforceable to both parties; and practically does not have the risk of being ordered to return land due to violation of the above regulations.
- (vi) The Shenzhen Car Parking Spaces Operation Permit has been obtained; the necessary permits and licences for the operation of providing paid parking services have been obtained in accordance with the Law on Road Traffic Safety of the PRC and the Car Parking Spaces Planning Construction and Vehicles Parking Management Regulations of Shenzhen.
- (5) In accordance with the information provided by the REIT Manager and the PRC Legal Opinion, the status of title and grant of major approvals and licences are as follows:

Real Estate Ownership Certificate	Yes (above ground)
Business Licence	Yes

- (6) In valuing the Property, we have adopted the Income Capitalisation Method and cross-checked by the Market Comparison Method. Our key assumptions used in the Income Capitalisation Method Valuation are summarised as below:

Use	Income Capitalisation Method		
	Monthly Market Rent* RMB/sq.m.	Term Yield	Reversionary Yield
Office	119	4.5%	5%
Commercial	172	4.5%	5%
Car Parking Spaces	509		5%

* Monthly market rent is exclusive of management fee and value-added tax.

VALUATION REPORT

Property	Description and tenure	Particular of occupancy	Market Value in existing state as at 30 September 2019															
3. Technology Building, No. 1067, Nanhai Avenue, Nanshan District, Shenzhen City, Guangdong Province, the PRC	Technology Building is an office building complex technically zoned for industrial use which comprises a 7-storey main building, and a 6-storey annex building. The Property also comprises 110 car parking spaces. The Property was erected on a parcel of land with a site area of 17,563.80 sq.m. and was completed in 2002. The Property has a total Gross Floor Area of 41,578.51 sq.m. with details as follows:	As at the Valuation Date, a total Gross Rentable Area of approximately 41,534.3 sq.m. has been leased under various tenancies with the majority that expires within 3 years, yielding a total monthly rent of approximately RMB3,849,000, exclusive of management fee and value-added tax.	RMB867,000,000 (RENMINBI EIGHT HUNDRED SIXTY SEVEN MILLION) (Based on the said total monthly rent as at the Valuation Date, the estimated net yield of the Property is 5.33%.)															
	<table border="1"> <thead> <tr> <th style="text-align: left;">Portion</th> <th style="text-align: center;">Approximate Gross Floor Area (sq.m.)</th> <th style="text-align: center;">Approximate Gross Rentable Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Main building</td> <td style="text-align: right;">33,529.22</td> <td style="text-align: right;">33,485.01</td> </tr> <tr> <td>Annex building</td> <td style="text-align: right;">8,049.29</td> <td style="text-align: right;">8,049.29</td> </tr> <tr> <td>110 Car Parking Spaces</td> <td style="text-align: center;">N/A</td> <td style="text-align: center;">N/A</td> </tr> <tr> <td>Total:</td> <td style="text-align: right;">41,578.51</td> <td style="text-align: right;">41,534.30</td> </tr> </tbody> </table>	Portion	Approximate Gross Floor Area (sq.m.)	Approximate Gross Rentable Area (sq.m.)	Main building	33,529.22	33,485.01	Annex building	8,049.29	8,049.29	110 Car Parking Spaces	N/A	N/A	Total:	41,578.51	41,534.30		
Portion	Approximate Gross Floor Area (sq.m.)	Approximate Gross Rentable Area (sq.m.)																
Main building	33,529.22	33,485.01																
Annex building	8,049.29	8,049.29																
110 Car Parking Spaces	N/A	N/A																
Total:	41,578.51	41,534.30																
	Note: The Gross Floor Area relates to Real Estate Title Certificate; the Gross Rentable Area relates to rent receivable.																	
	The land use right of the Property have been granted for a term of 50 years due to expire on 7 January 2051 for industrial use.																	

Notes:

- (1) According to Real Estate Title Certificate No. 4000595344 dated 7 August 2014, the land use right of a parcel of land with a site area of approximately 17,563.80 sq.m. have been granted to Shenzhen Technology Building Real Estate Investment and Management Co., Ltd. (深圳市科大置業管理有限公司) for a term of 50 years due to expire on 7 January 2051 for industrial use. The legal title of the Property is vested in Shenzhen Technology Building Real Estate Investment and Management Co., Ltd. (深圳市科大置業管理有限公司) with a total Gross Floor Area of approximately 41,578.51 sq.m. with details as follows:

Building Name	Completion Date	Gross Floor Area
Technology Building	26 June 2002	33,529.22
Technology Building	26 June 2002	8,049.29
Total:		41,578.51

- (2) According to Business Licence No. 91440300305917637U dated 15 February 2019, Shenzhen Technology Building Real Estate Investment and Management Co., Ltd. (深圳市科大置業管理有限公司) was established on 25 April 2014 as a limited liability company.
- (3) Our analysis of the existing tenancy profile according to the tenancy information provided by the REIT Manager is set out below:

Occupancy Profile

Type	Approximate Gross Rentable Area (sq.m.)	% of Total
Leased	41,534.30	100.0
Vacant	0	0.0
Total:	41,534.30	100.0

Lease Commencement Profile

Year	Approximate Gross Rentable		Monthly Rental		No. of Tenancies	
	Area (sq.m.)	% of Total	(RMB)	% of Total		% of Total
2017	4,107.21	9.9	407,785.87	10.6	3	12.0
2018	16,389.84	39.5	1,599,831.83	41.6	8	32.0
2019	21,037.25	50.6	1,841,263.20	47.8	14	56.0
Total:	41,534.30	100.0	3,848,880.90	100.0	25	100.0

Lease Expiry Profile

Year	Approximate Gross Rentable		Monthly Rental		No. of Tenancies	
	Area (sq.m.)	% of Total	(RMB)	% of Total		% of Total
2019	1,924.62	4.6	191,121.42	5.0	2	8.0
2020	6,242.61	15.0	578,507.55	15.0	3	12.0
2021	9,653.20	23.2	965,233.78	25.1	5	20.0
2022	12,629.78	30.4	1,209,024.24	31.4	7	28.0
2023	5,670.63	13.7	572,527.33	14.9	4	16.0
2024	5,413.46	13.0	332,466.57	8.6	4	16.0
Total:	41,534.30	100.0	3,848,880.90	100.0	25	100.0

Lease Duration Profile

Year	Approximate Gross Rentable		Monthly Rental		No. of Tenancies	
	Area (sq.m.)	% of Total	(RMB)	% of Total		% of Total
Up to 1 year	572.00	1.4	59,041.30	1.5	1	4.0
More than 1 year and up to 2 years	2,268.89	5.5	244,242.88	6.3	2	8.0
More than 2 years and up to 3 years	21,416.06	51.6	2,071,605.68	53.8	12	48.0
More than 3 years and up to 4 years	6,918.38	16.7	624,526.64	16.2	3	12.0
More than 4 years and up to 5 years	10,358.97	24.8	849,464.40	22.2	7	28.0
Total:	41,534.30	100.0	3,848,880.90	100.0	25	100.0

(4) According to the PRC legal opinion:

- (i) Shenzhen Technology Building Real Estate Investment and Management Co., Ltd. (深圳市科大置業管理有限公司) currently legally and effectively owns the land use right and building ownership of the real estate. It is the sole legal land use right holder and owner, and the rights and interests are protected by Chinese law; during the land use right period of the land, Shenzhen Technology Building Real Estate Investment and Management Co., Ltd. (深圳市科大置業管理有限公司) independently enjoys by law, the right to possess, use, transfer, lease, mortgage, etc., the rights to dispose of the land and property and obtain income, and no need to pay any land use right transfer fee or land premium due to such disposal.
- (ii) No land or property was found to be mortgaged or set up with other third party rights, nor was there any legal process that was found to have a material adverse effect on the ownership and use of the land, such as seizure, freezing, and litigation.
- (iii) The stipulated uses in the Tenancies are office use. According to the confirmation made by the Lands Division of Nanshan Administration of Shenzhen Municipal Planning and Natural Resources Bureau on 12 June 2019, it is relatively common for the buildings on industrial land to be used for office use in the Shekou area. In the future, when the land planning of the Shekou area is uniformly adjusted, there is no substantial obstacle to the application of the land use change by Shenzhen Technology Building Real Estate Investment and Management Co., Ltd. (深圳市科大置業管理有限公司) in accordance with the unified arrangements of the government. The risk of the land being ordered to be recovered due to the rental activities carried out is practically non-existent.

- (iv) The area Technology Building located has been recognised by the government as the third batch of cultural industry bases in Shenzhen. Shenzhen Technology Building Real Estate Investment and Management Co., Ltd. (深圳市科大置業管理有限公司) has applied the Construction Project Completion Acceptance Fire Filing Form according to the policy support of the Nanshan District People's Government. The use of Technology Building is other and office. Its current leasing out and operating are in line with the government's policy orientation and related documents.
- (v) Shenzhen Technology Building Real Estate Investment and Management Co., Ltd. (深圳市科大置業管理有限公司) has not received any notices, inquiries, investigations and/or administrative penalties for the use of land, housing lease management, etc. by relevant government authorities. The lease contracts are valid, effective and are legally binding and enforceable to both parties; and practically does not have the risk of being ordered to return land due to violation of the above regulations.
- (vi) The Shenzhen Car Parking Spaces Operation Permit has been obtained; the necessary permits and licences for the operation of providing paid parking services have been obtained in accordance with the Law on Road Traffic Safety of the PRC and the Car Parking Spaces Planning Construction and Vehicles Parking Management Regulations of Shenzhen.
- (5) In accordance with the information provided by the REIT Manager and the PRC Legal Opinion, the status of title and grant of major approvals and licences are as follows:

Real Estate Title Certificate	Yes (above ground)
Business Licence	Yes

- (6) In valuing the Property, we have adopted the Income Capitalisation Method and cross-checked by the Market Comparison Method. Our key assumptions used in the Income Capitalisation Method Valuation are summarised as below:

Use	Income Capitalisation Method		
	Monthly Market	Term Yield	Reversionary
	Rent* RMB/sq.m.		Yield
Office	110	4.5%	5%
Car Parking Spaces	456		5%

* Monthly market rent is exclusive of management fee and value-added tax.

VALUATION REPORT

Property	Description and tenure	Particular of occupancy	Market Value in existing state as at 30 September 2019																				
4. Technology Building 2, No. 1057, Nanhai Avenue, Nanshan District, Shenzhen City, Guangdong Province, the PRC	Technology Building 2 is an office building complex technically zoned for industrial use which comprises two 6-storey industrial workshops and 220 car parking spaces in the basement. The Property was erected on a parcel of land with a site area of 17,232.03 sq.m. and was completed in 2010. The Property has a total Gross Floor Area of 42,531.37 sq.m. with details as follows:	As at the Valuation Date, portion of the Property with a total Gross Rentable Area of approximately 37,902.2 sq.m. has been leased under various tenancies with the majority that expires within 5 years, yielding a total monthly rent of approximately RMB3,690,000, exclusive of management fee and value-added tax. The remaining part of the Property was vacant.	RMB1,079,000,000 (RENMINBI ONE BILLION SEVENTY NINE MILLION) (Based on the said total monthly rent as at the Valuation Date, the estimated net yield of the Property is 4.1%.)																				
	<table border="1"> <thead> <tr> <th style="text-align: left;">Portion</th> <th style="text-align: center;">Approximate Gross Floor Area (sq.m.)</th> <th style="text-align: center;">Approximate Gross Rentable Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Technology Building 2</td> <td></td> <td></td> </tr> <tr> <td> Building A</td> <td style="text-align: right;">20,991.01</td> <td style="text-align: right;">21,080.78</td> </tr> <tr> <td>Technology Building 2</td> <td></td> <td></td> </tr> <tr> <td> Building B</td> <td style="text-align: right;">21,540.36</td> <td style="text-align: right;">22,012.68</td> </tr> <tr> <td>220 car parking spaces</td> <td style="text-align: center;">N/A</td> <td style="text-align: center;">N/A</td> </tr> <tr> <td>Total:</td> <td style="text-align: right;"><u>42,531.37</u></td> <td style="text-align: right;"><u>43,093.46</u></td> </tr> </tbody> </table>	Portion	Approximate Gross Floor Area (sq.m.)	Approximate Gross Rentable Area (sq.m.)	Technology Building 2			Building A	20,991.01	21,080.78	Technology Building 2			Building B	21,540.36	22,012.68	220 car parking spaces	N/A	N/A	Total:	<u>42,531.37</u>	<u>43,093.46</u>	
Portion	Approximate Gross Floor Area (sq.m.)	Approximate Gross Rentable Area (sq.m.)																					
Technology Building 2																							
Building A	20,991.01	21,080.78																					
Technology Building 2																							
Building B	21,540.36	22,012.68																					
220 car parking spaces	N/A	N/A																					
Total:	<u>42,531.37</u>	<u>43,093.46</u>																					
	Note: The Gross Floor Area relates to Real Estate Title Certificate; the Gross Rentable Area relates to rent receivable. The Gross Rentable Area is larger than the Gross Floor Area because, as per the tenancy details provided to us, some common area are also devoted for leasing to achieve rent receivable.																						
	The land use right of the Property have been granted for a term of 50 years due to expire on 29 June 2057 for industrial use.																						

Notes:

- (1) According to Real Estate Title Certificate No. 4000595343 dated 7 August 2014, the land use right of a parcel of land with a site area of approximately 17,232.03 sq.m. have been granted to Shenzhen Technology Building 2 Real Estate Investment and Management Co., Ltd. (深圳市科大二期置業管理有限公司) for a term of 50 years due to expire on 29 June 2057 for industrial use. The legal title of the Property is vested in Shenzhen Technology Building 2 Real Estate Investment and Management Co., Ltd. (深圳市科大二期置業管理有限公司) with a total Gross Floor Area of approximately 42,531.37 sq.m. with details as follows:

Building Name	Building Use	Completion Date	Gross Floor Area
Technology Building 2 Building A	Industrial	3 February 2010	20,991.01
Technology Building 2 Building B	Industrial	3 February 2010	21,540.36
		Total:	<u>42,531.37</u>

- (2) According to Business Licence No. 914403003059179017 dated 16 April 2019, Shenzhen Technology Building 2 Real Estate Investment and Management Co., Ltd. (深圳市科大二期置業管理有限公司) was established on 24 April 2014 as a limited liability company.

- (3) Our analysis of the existing tenancy profile according to the tenancy information provided by the REIT Manager is set out below:

Occupancy Profile

Type	Approximate Gross Rentable Area (sq.m.)	% of Total
Leased	37,902.2	88.0
Vacant	5,191.26	12.0
Total:	43,093.46	100.0

Lease Commencement Profile

Year	Approximate Gross Rentable Area (sq.m.)	% of Total	Monthly Rental (RMB)	% of Total	No. of Tenancies	% of Total
2015	3,406.14	9.0	292,054.24	7.9	2	6.1
2017	6,574.49	17.3	616,985.00	16.7	4	12.1
2018	19,841.82	52.4	2,033,652.12	55.1	13	39.4
2019	8,079.75	21.3	747,779.20	20.3	14	42.4
Total:	37,902.20	100.0	3,690,470.56	100.0	33	100.0

Lease Expiry Profile

Year	Approximate Gross Rentable Area (sq.m.)	% of Total	Monthly Rental (RMB)	% of Total	No. of Tenancies	% of Total
2019	3,406.14	9.0	292,054.24	7.91	2	6.1
2020	14,263.07	37.6	1,264,012.36	34.25	11	33.3
2021	2,798.08	7.4	319,205.30	8.65	2	6.1
2022	3,697.68	9.8	372,326.45	10.09	5	15.2
2023	13,278.97	35.0	1,357,545.77	36.79	11	33.3
2024	458.26	1.2	85,326.44	2.31	2	6.1
Total:	37,902.20	100.0	3,690,470.56	100.00	33	100.0

Lease Duration Profile

Year	Approximate Gross Rentable Area ^{Note 1} (sq.m.)	% of Total	Monthly Rental ^{Note 2} (RMB)	% of Total	No. of Tenancies ^{Note 3}	% of Total
Up to 1 year	5,193.00	13.7	378,016.89	10.2	6	18.2
More than 1 year and up to 2 years	5,322.29	14.0	521,287.62	14.1	3	9.0
More than 2 years and up to 3 years	7,331.61	19.3	787,344.56	21.3	6	18.2
More than 3 years and up to 4 years	6,337.33	16.7	606,821.38	16.5	6	18.2
More than 4 years and up to 5 years	13,717.97	36.3	1,397,000.11	37.9	12	36.4
Total:	37,902.20	100.0	3,690,470.56	100.0	33	100.0

- (4) According to the PRC legal opinion:
- (i) Shenzhen Technology Building 2 Real Estate Investment and Management Co., Ltd. (深圳市科大二期置業管理有限公司) currently legally and effectively owns the land use right and building ownership of the real estate. It is the sole legal land use right holder and owner, and the rights and interests are protected by Chinese law; during the land use right period of the land, Shenzhen Technology Building 2 Real Estate Investment and Management Co., Ltd. (深圳市科大二期置業管理有限公司) independently enjoys by law, the right to possess, use, transfer, lease, mortgage, etc., the rights to dispose of the land and property and obtain income, and no need to pay any land use right transfer fee or land premium due to such disposal.

- (ii) No land or property was found to be mortgaged or set up with other third party rights, nor was there any legal process that was found to have a material adverse effect on the ownership and use of the land, such as seizure, freezing, and litigation.
- (iii) The stipulated uses in the Tenancies are office use and a few commercial use. According to the confirmation made by the Lands Division of Nanshan Administration of Shenzhen Municipal Planning and Natural Resources Bureau on 12 June 2019, it is relatively common for the buildings on industrial land to be used for office use in the Shekou area. In the future, when the land planning of the Shekou area is uniformly adjusted, there is no substantial obstacle to the application of the land use change by Shenzhen Technology Building 2 Real Estate Investment and Management Co. Ltd. (深圳市科大二期置業管理有限公司) in accordance with the unified arrangements of the government. The risk of the land being ordered to be recovered due to the rental activities carried out is practically non-existent.
- (iv) The area Technology Building 2 located has been recognised by the government as the third batch of cultural industry bases in Shenzhen. Shenzhen Technology Building 2 Real Estate Investment and Management Co., Ltd. (深圳市科大二期置業管理有限公司) has applied the Construction Project Completion Acceptance Fire Filing Form according to the policy support of the Nanshan District People's Government. The use of Technology Building 2 is other and office. Its current leasing out and operating are in line with the government's policy orientation and related documents.
- (v) Shenzhen Technology Building 2 Real Estate Investment and Management Co., Ltd. (深圳市科大二期置業管理有限公司) has not received any notices, inquiries, investigations and/or administrative penalties for the use of land, housing lease management, etc. by relevant government authorities. The lease contracts are valid, effective and are legally binding and enforceable to both parties; and practically does not have the risk of being ordered to return land due to violation of the above regulations.
- (vi) The Shenzhen Car Parking Spaces Operation Permit has been obtained; the necessary permits and licences for the operation of providing paid parking services have been obtained in accordance with the Law on Road Traffic Safety of the PRC and the Car Parking Spaces Planning Construction and Vehicles Parking Management Regulations of Shenzhen.
- (5) In accordance with the information provided by the REIT Manager, the status of title and grant of major approvals and licences are as follows:
- Real Estate Title Certificate Yes (above ground)
Business Licence Yes
- (6) In valuing the Property, we have adopted the Income Capitalisation Method and cross-checked by the Market Comparison Method. Our key assumptions used in the Income Capitalisation Method Valuation are summarised as below:

Use	Income Capitalisation Method		
	Monthly Market	Term Yield	Reversionary
	Rent		Yield
	RMB/sq.m.		
Office	113	4.5%	5%
Commercial	235	4.5%	5%
Car Parking Spaces	446		5%

* Monthly market rent is exclusive of management fee and value-added tax.

VALUATION REPORT

Property	Description and tenure	Particular of occupancy	Market Value in existing state as at 30 September 2019
5. Garden City Shopping Centre, No. 1086, Nanhai Avenue, Nanshan District, Shenzhen City, Guangdong Province, the PRC	Garden City Shopping Centre is a 5-storey shopping centre with various commercial units. The Property also comprises 644 car parking spaces and other ancillary facilities in 2-storey basements, including air conditioning vents and electric rooms. Such area will also serve as a connection between Garden City Shopping Centre and Metro Line 12. The Property was erected on a parcel of land with a site area of 25,629.40 sq.m. and was completed in 2006. The Property has a total Gross Floor Area of 50,496.85 sq.m. with details as follows:	As at the Valuation Date, portion of the Property with a total Gross Rentable Area of approximately 45,318.34 sq.m. has been leased under various tenancies with the majority that expires within 5 years, yielding an average total monthly rent of approximately RMB7,600,000, exclusive of management fee and value-added tax. A total floor area of 11,220.26 sq.m. were under renovation. The remaining portion of the Property was vacant.	RMB1,549,000,000 (RENMINBI ONE BILLION FIVE HUNDRED FORTY NINE MILLION) (Based on the said total monthly rent as at the Valuation Date, the estimated net yield of the Property is 5.89%.)

Portion	Approximate Gross Floor Area (sq.m.)	Approximate Gross Rentable Area (sq.m.)
Commercial	50,496.85	57,321.79
644 car parking spaces . .	N/A	N/A
Total:	50,496.85	57,321.79

Note: The Gross Floor Area relates to Real Estate Title Certificate; the Gross Rentable Area relates to rent receivable.

The Gross Rentable Area is larger than the Gross Floor Area because, as per the tenancy details provided to us, some common area are also devoted for leasing to achieve rent receivable.

The land use right of the Property have been granted for a term of 40 years due to expire on 14 April 2044 for commercial use.

Notes:

- According to Real Estate Title Certificate No. 4000594827 dated 29 July 2014, the land use right of a parcel of land with a site area of approximately 25,629.40 sq.m. have been granted to Shenzhen Garden City Real Estate Investment and Management Co., Ltd. (深圳市花園城置業管理有限公司) for a term of 40 years due to expire on 14 April 2044 for commercial use. The legal title of the Property is vested in Shenzhen Garden City Real Estate Investment and Management Co., Ltd. (深圳市花園城置業管理有限公司) with a total Gross Floor Area of approximately 50,496.85 sq.m. for commercial use.
- According to Business Licence No. 91440300305917709L dated 29 November 2018, Shenzhen Garden City Real Estate Investment and Management Co., Ltd. (深圳市花園城置業管理有限公司) was established on 24 April 2014 as a limited liability company.
- Our analysis of the existing tenancy profile according to the tenancy information provided by the REIT Manager is set out below:

Occupancy Profile

Type	Approximate Gross Rentable Area (sq.m.)	% of Total
Leased	45,318.34	79.1
Vacant	11,964.60	20.9
Total:	57,321.79	100.0

Note: As at the valuation date, the Gross Rentable Area was 57,321.79 sq.m.. It is expected to be enlarged to 58,590 sq.m. after the renovation of Zijing City (紫荆城).

Lease Commencement Profile

Year	Approximate Gross Rentable		Monthly Rental (RMB)	% of Total	No. of Tenancies	
	Area (sq.m.)	% of Total			% of Total	% of Total
2008	4,101.00	9.0	371,271.96	4.9	1	0.7
2014	291.39	0.6	61,330.48	0.8	1	0.7
2015	3,048.38	6.7	159,793.18	2.1	1	0.7
2016	4,607.37	10.2	685,838.63	9.0	8	5.9
2017	6,840.85	15.1	1,150,486.38	15.0	14	10.5
2018	10,018.59	22.1	1,979,281.27	25.8	39	29.2
2019	16,410.76	36.3	3,200,687.87	42.4	70	52.2
Total:	45,318.34	100.0	7,600,004.88	100.0	134	100.0

Lease Expiry Profile

Year	Approximate Gross Rentable		Monthly Rental (RMB)	% of Total	No. of Tenancies	
	Area (sq.m.)	% of Total			% of Total	% of Total
2019	1,611.64	3.6	401,237.06	5.2	16	12.0
2020	13,097.08	29.0	2,671,575.35	35.2	62	46.3
2021	8,993.22	19.8	1,738,509.08	22.9	29	21.6
2022	10,400.65	22.9	1,682,567.49	21.6	20	15.1
2024	1,261.33	2.8	225,757.24	3.0	3	2.2
2025	382.54	0.8	75,779.35	1.0	1	0.7
2026	4,101.00	9.0	371,271.96	4.9	1	0.7
2027	2,257.23	5.0	284,410.97	3.7	1	0.7
2028	3,213.65	7.1	192,819.00	2.5	1	0.7
Total:	45,318.34	100.0	7,600,004.88	100.0	134	100.0

Lease Duration Profile

Year	Approximate Gross Rentable		Monthly Rental (RMB)	% of Total	No. of Tenancies	
	Area (sq.m.)	% of Total			% of Total	% of Total
Up to 1 year	7,270.01	16.2	1,656,165.51	21.8	49	36.7
More than 1 year and up to 2 years	5,859.25	12.9	1,577,656.77	20.8	37	27.6
More than 2 years and up to 3 years	7,450.23	16.4	1,577,656.77	17.5	20	14.9
More than 3 years and up to 4 years	4,187.38	9.3	665,833.57	8.8	10	7.5
More than 4 years and up to 5 years	10,305.66	22.7	1,383,593.77	18.1	13	9.7
More than 5 years and up to 6 years	291.39	0.6	61,330.48	0.8	1	0.7
More than 7 years and up to 8 years	382.54	0.8	75,779.35	1.0	1	0.7
More than 9 years and up to 10 years	5,470.88	12.1	477,229.98	6.2	2	1.5
More than 16 years and up to 17 years	4,101.00	9.0	371,271.96	4.9	1	0.7
Total:	45,318.34	100.0	7,600,004.88	100.0	134	100.0

(4) According to the PRC legal opinion:

- (i) Shenzhen Garden City Real Estate Investment and Management Co., Ltd. (深圳市花園城置業管理有限公司) currently legally and effectively owns the land use right and building ownership of the real estate. It is the sole legal land use right holder and owner, and the rights and interests are protected by Chinese law; during the land use right period of the land, Shenzhen Garden City Real Estate Investment and Management Co., Ltd. (深圳市花園城置業管理有限公司) independently enjoys by law, the right to possess, use, transfer, lease, mortgage, etc., the rights to dispose of the land and property and obtain income, and no need to pay any land use right transfer fee or land premium due to such disposal.
- (ii) No land or property was found to be mortgaged or set up with other third party rights, nor was there any legal process that was found to have a material adverse effect on the ownership and use of the land, such as seizure, freezing, and litigation.
- (iii) The Shenzhen Car Parking Spaces Operation Permit has been obtained; the necessary permits and licences for the operation of providing paid parking services have been obtained in accordance with the Law on Road Traffic Safety of the PRC and the Car Parking Spaces Planning Construction and Vehicles Parking Management Regulations of Shenzhen.

(5) In accordance with the information provided by the REIT Manager and the PRC Legal Opinion, the status of title and grant of major approvals and licences are as follows:

Real Estate Title Certificate	Yes (above ground)
Business Licence	Yes

(6) In valuing the Property, we have adopted the Discounted Cash Flow Method and cross-checked by the Market Comparison Method. Our key assumptions used in the Discounted Cash Flow Method Valuation are summarised as below:

Monthly Market Rent*	RMB189–290 per sq.m.
Annual Growth in Market Rent	Year 1–3%; Stabilised at 2%
Occupancy Rate	Year 1–86%; Stabilised at 98%
Discount Rate	8.75%
Terminal growth Rate	2%

* Monthly market rent is exclusive of management fee and value-added tax.

MARKET OVERVIEW

CHINA GENERAL OVERVIEW

The People's Republic of China ("PRC") is the world's second biggest economic system (in terms of GDP) and the third largest country (in terms of total area) with a population of approximately 1.4 billion in 2018. Since the reform and opening policies instituted 41 years ago, the PRC's GDP has been continuously growing. The country had realised double-digit annual growth until 2007. Since 2010 when recovered from the economic crisis, PRC's economy has experienced steady growth with a softening trend. Under the influence of various macro-economic policies, the PRC's GDP increased from approximately RMB64 trillion in 2014 to approximately RMB90 trillion in 2018, representing a CAGR of approximately 8.7%. The growth of the PRC's booming economy is supported by the remarkably rising internal demand and the modestly developing external demand.

SHENZHEN CITY OVERVIEW

Shenzhen is one of the four first-tier cities in the PRC. It is situated at the eastern coast of River Pearl, sitting just across the river from Hong Kong, with a land area of approximately 1,997.47 square kilometres. Shenzhen is the first special economic zone in China, with nine districts and one new zone under its jurisdiction. As one of the core cities in the Guangdong-Hong Kong-Macao Greater Bay Area, Shenzhen is playing a strategically important role in the development of financial service, information technology, trade and logistics.

SHENZHEN OFFICE MARKET

There are several Grade A office submarkets in Shenzhen, including Luohu, Futian, Nanshan, Baoan, Longhua and Longgang. More than 80% of the Grade A office buildings are located at Futian and Nanshan district.

The Central Business District (CBD) in Futian has the largest supply of Grade A office buildings in Shenzhen. Many domestic and multinational corporates, especially those from the finance sector, choose this area as their priority presence. The Shenzhen Bay-Houhai area in Nanshan, where many headquarters base, is playing an increasingly important part in the Shenzhen Grade A office market. The Qianhai-Shekou Free Trade Area in Nanshan and Baoan, thanks to the policy, is planned to facilitate the functions of financial service, international trade, port logistics, and information technology service, and expected to be the main source of future office supply.

Supply and Demand

The total stock of Grade A office market in the third quarter of 2019 was around 5.38 million sq.m. New supply of Grade A office in this quarter was approximately 255,500 sq.m., which was mainly from Nanshan and Futian submarket. For the coming five years, Grade A office total supply is expected to reach around 8.5 million sq.m., and Nanshan, especially Qianhai, will be the main force of supply.

Prevailing economic uncertainty and ongoing deleveraging action nationwide impacted Shenzhen's Grade A office market in Q3. Reflecting this, net absorption amounted to only 39,260 sq.m., while the vacancy rate increased 2.9 percentage points q-o-q to 19.36%.

Rent

In an effort to attract quality tenants during this period of economic uncertainty, some landlords offered incentives and adjusted rent, causing the city's average rental cost in Q3 to decrease 2.9% q-o-q to RMB250 per sq.m. per month.

By submarket, rent in Futian fell 2.5% q-o-q to average RMB272.6 per sq.m. per month. The decline was driven by office spaces vacated by financial firms and caution exercised by some landlords to lease out idle office buildings to risky tenants. Ahead, competition arising from existing stock and projected new supply to complete are likely to place downward pressure on Futian's average rent. In Nanshan, an improving business environment and competitive rentals drove relocation activity. Net absorption was 54,475 sq.m. for Q3 in the area. However, average rent dropped 3.4% q-o-q to RMB229 per sq.m. and the vacancy rate increased to 28.34%. Elsewhere, Luohu's average rent edged down to RMB211.84 per sq.m., while vacancy crept up to 11.21% following a number of tenants relocating to quality buildings in alternative areas.

Market Trend

In 2019, the market may see office rent trend further downwards. Despite half of the forecast new supply in 2019 being for headquarter buildings, the sheer amount of volume is likely to cause competition to stiffen. But should trade frictions diminish, the leasing market is expected to rebound thanks to the broad industry demand for office space.

SHENZHEN INDUSTRIAL PARK OVERVIEW

The supply of Shenzhen industrial parks is not only from old factory renovation, but also from new completion on the new industrial land (M0). Shenzhen industrial parks can be found in eight areas, but most of them are located at Nanshan, Baoan, Longhua and Longgang. Typical industrial parks include High-tech park and Shekou Net Valley in Nanshan, Vanke Spark Online in Longgang, Baoneng Tech-park in Longhua, and Taihua Wutongdao in Baoan. These industrial parks have attracted companies from the sector of internet, e-commerce, telecommunication, computer, cultural creativity and data centre etc.

Supply and Demand

Currently there are over 3,600 sizable industrial parks in Shenzhen, and 95% of listed technology companies settled in these parks. The vacancy rate of prime industrial parks citywide was recorded at around 10% in the third quarter of 2019.

The high-tech park in Nanshan is a typical area for industrial parks in Shenzhen. By the end of 30 June 2019, total supply of industrial parks in the area reached 3.54 million sq.m. Influenced by the softening trend of the overall economy, the demand of prime industrial parks was shrinking, resulting in a decline in net absorption. The occupancy rate in the high-tech part was around 90% to 95%.

Shekou Net Valley is a successful case of renovation, with approximately 420,000 sq.m. supply of both renovated factories and newly built office buildings. The occupancy rate in the area is around 85% to 90%.

Rent

The average rent of prime industrial park in 2018 was around 55 per sq.m. The figure covered samples in developed area, such as Nanshan, where the sample rent ranged from RMB80 to 180 per sq.m., and developing area like Longgang, where rent was only at RMB40 per sq.m.

The current asking rent of prime industrial parks in Nanshan high-tech parks ranges from RMB100 to 180 per sq.m., and rent in Shekou Net Valley is around RMB80 to 150 per sq.m.

Market Trend

The external environment offers a great prospect for the future development of industrial park. The government sector has carried out various policies on both city renovation and new industrial land supply to support the development of the industrial parks.

Meanwhile, as the technology peer in the Greater Bay Area, Shenzhen is expected to attract more and more technology companies, thus stimulating the demand for R&D office and continuously taking up more supply of the industrial parks.

SHENZHEN RETAIL OVERVIEW

Shenzhen prime retail properties can be found in districts with a considerable resident base, such as Luohu, Futian, Nanshan, Baoan, Longhua and Longgang, and most of the prime shopping centres are in Futian and Nanshan.

Supply and Demand

Shenzhen's prime retail stock rose to 4 million sq.m. for the Q3. Amid fierce competition in the mature submarket, the occupancy rate in Futian One Avenue reached 90% on the back of competitive rentals. Prime malls in the emerging submarkets also enjoyed a sizeable resident base, such as Longhua Uniworld, which attracted busy traffic and a high occupancy rate. Despite 546,000 sq. m. of new retail supply, the citywide vacancy rate remained below 4% at the end of Q3.

Rent

New landmark projects are helping to develop Shenzhen's retail market, and, supported by convenient transport connections, an increasing number of Hong Kong residents visited, particularly for F&B. Promotion activities supported by the Shenzhen Shopping Festival also boosted traffic. However, regardless of competitive rentals in new completions, the city's average rent (of retail stores at the best floor) was flat at RMB895.7 per sq. m. per month for Q3.

Market Trend

The market is expected to add 853,000 sq. m. of new retail supply through 2020, with half of the new malls slated for Futian and Nanshan submarkets. New completions should cause further competition in the core areas. Meanwhile, emerging submarkets that enjoy a sizeable resident base, including Longhua and Xili, are expected to grow further as new prime retail supply comes online this year.



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29 July 2019

Dear Sirs

Technical Due Diligence Review of Cyberport Building, New Times Plaza, Technology Building, Technology Building 2 and Garden City Shopping Centre

BUILDING SURVEY SUMMARY

1. Introduction

Knight Frank Petty Limited was appointed as the Building Consultant to conduct a technical due diligence review of the following Properties (hereinafter referred to as “**the Properties**”):

1. Cyberport Building (數碼大廈)
2. New Times Plaza (新時代廣場)
3. Technology Building (科技大廈)
4. Technology Building 2 (科技大廈二期)
5. Garden City Shopping Centre (花園城)

This letter provides a summary of our approach and findings. In our role as the Building Consultant, we:

1. Conducted comprehensive building and building services condition survey of the Properties by visual inspection between 11 July 2019 and 17 July 2019 to confirm the structural integrity of the Properties and identify any existing major defects. Major building elements in accessible common areas of the Properties, including building façade, units, external areas, roofs, corridors, lavatories, plant rooms etc. Major building services installations including mechanical ventilation, air-conditioning, fire services, plumbing & drainage, electricity, lifts and escalators.
2. Compiled 10-Year Forecasts of Repair, Maintenance and Capital Expenditure of the Properties, and
3. Carried out inspection of current building layout and usage, comparing our findings against the latest general building plans approved by Government to identify any additional structure, existing or potential hazards, and deviations in respect of fire safety requirements and usage etc.

2. Conclusion

Condition of the Properties

Based on our comprehensive building condition survey and re-inspection, we believe that the Properties were in reasonable condition, consistent with buildings of a similar age, type and usage and that there were no material defects that would affect the operation and usage of the Properties and impede the transfer of the Properties. The repair, maintenance and capital expenditure forecasts were calculated on the basis of current local market rates and therefore the future expenditure requirements are comparable with the amounts generally required for Properties of similar age and commercial usage profile.

No apparent structural defects such as differential settlement, structural movement or deflection was identified on the exposed structural elements at the time of inspection; the apparent absence of these circumstances indicates that the Properties are structurally safe.

3. Survey Conducted

Comprehensive Building Condition Survey

The comprehensive building condition survey carried out on the Properties referred to above was conducted by a Hong Kong Registered Professional Surveyor (Building Surveying) and included a review of the Properties, which covered their fabric, structure and building services installations, to verify their present physical condition.

The comprehensive building condition survey comprised a visual inspection of the external façades, roofs and internal common areas to establish their overall condition and state of repair. Particular attention was paid to the existence of building and building services defects. Building defects such as cracks, spalled concrete, exposed and

corroded reinforcement, loosen/debonded plaster, damaged external finishes and water seepage, and of defects in building services installations such as damaged insulation of condensing water pipes, uncovered trunking, rusty pumps, and leaking valves were found. The defects found were minor in nature but we recommend repair work to be carried out. All defects and outstanding items identified in the visual inspections were noted in our comprehensive building condition survey report.

10-Year Forecasts of Repair, Maintenance and Capital Expenditure

We prepared 10-Year Forecasts of Repair, Maintenance and Capital Expenditure for the Properties for the 10 years ending at 2029, including the estimated costs of maintaining the Properties and associated building services installations. The following methodologies were used in preparing the forecasts:

1. The existing condition of the Properties was developed through our site inspection on the defects found.
2. Estimated routine annual maintenance costs were based on the available historical data provided and our professional judgment in formulating appropriate maintenance schedules.
3. Estimated costs were based on current market rates, with an inflation rate allowed.
4. The estimated expenditure on repairs and maintenance was calculated on the basis of sufficient work being carried out to maintain the existing standards of the Properties in good condition, consistent with private sector maintenance practices.

Our 10-Year Forecasts of Repair, Maintenance and Capital Expenditure does not include routine daily repair of consumables, maintenance of landscaping areas, any termed maintenance contract on routine maintenance (e.g. lubricants for machinery), accidental damages/force majeure.

Category of Expenditure (RMB'000)	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Cyberport Building	1,025	0	3,490	75	7,568	50	27	998	3,995	2,696
New Times Plaza	18,129	1,902	1,947	5,907	149	—	—	4	2,559	6,444
Technology Building	9,395	830	7,274	3,393	8,280	6,966	235	1,218	1,330	611
Technology Building 2.	73	205	213	4,359	—	6,402	2,517	1,234	4	1,050
Garden City Shopping Centre	793	1,996	3,089	1,878	3	8,609	—	2,607	2,851	3,995

The capital expenditure figures shown above include building and building services expenditure. Building capital expenditure items include re-roofing, external wall refurbishment and internal area refurbishment etc. Building services capital expenditure items include replacement of pumps and major plants etc.

Building Layout

The following works were common deviations identified in the Properties from the approved as-built drawings: i) Addition of storerooms in carparks; ii) Addition of concrete plinth or A/C plant on roof; iii) Addition of kiosk/restaurant at external areas; iv) Addition of covered structure to bicycle parking area. There were other changes found in each Property. No obvious structural defects due to addition of the above structures were found.

In addition, some guard posts at Cyberport Building and Technology Building 2 which were located outside the lot boundary. Portion of the external carparking areas and landscape area at south of the Technology Building were found extended to adjacent lot. However, these changes do not involve any structural changes to the Properties.

Apart from the above, the current building design with reference to the approved as-built drawing, no critical non-compliance of health and safety requirements of building was identified by the time of inspection.

According to the use stated in Building Ownership Permit (房產證), deviations were noted but PRC Legal Advisors have confirmed with competent authority that no non-compliance nor reason for the authority to take any enforcement action so far in the view of the Properties situated on a piece of land designated for the use of new and emerging industries.

4. Reports Delivered

Reports were prepared in relation to the Properties for which comprehensive building condition survey was conducted and included:

- A detailed description of our findings
- An assessment of the structural soundness of the Properties
- Plans indicating the location of photographs taken
- Photographs of typical defects
- Estimated costs of recommended repairs/replacement
- 10-Year Forecast of Repair, Maintenance and Capital Expenditure for the Properties and its assumptions
- List of outstanding items

We confirm that there is no major outstanding item that is material and would affect our opinion and conclusion in the report.

5. Limiting Conditions

In carrying out our review, we have relied upon the maintenance records, plans, schematic diagrams, test certificates and maintenance and capital expenditure records provided to us which we have supplemented with interviews of staff, and independently verified through physical site inspections and verifications. While we believe this information to be accurate, our review, including the comprehensive building condition survey, was conducted on a purely visual basis, without testing, opening-up or investigation and we cannot accept responsibility for the condition of concealed or inaccessible parts of the Properties or for the information provided to us.

Yours faithfully,
For and on behalf of
Knight Frank Petty Limited

Calvin Chan

MRICS MHKIS RPS(BS) RI Authorized Person

Director

Head of Building Consultancy

Investors should note that the following statements are based on advice received by the REIT Manager regarding the relevant laws, regulations and practice in the PRC in force as at the date of this Circular and may be subject to change.

REGULATIONS OF FOREIGN INVESTMENT INTO THE REAL ESTATE MARKET

Foreign investment into the PRC real estate market is legally permissible.

Since July 2006, foreign companies and individuals are no longer permitted to directly acquire and hold real estate in the PRC for investment purpose. Rather, a local PRC company, commonly referred to as foreign invested real estate enterprise (“**FIREE**”), must be established to carry out real estate investment. This requirement was established by the Opinions on Regulating the Access to and Administration of Foreign Investment in the Real Estate Market (關於規範房地產市場外資准入和管理的意見) jointly promulgated by the People’s Bank of China (“**PBOC**”), the State Administration for Foreign Exchange (“**SAFE**”) and other authorities on 11 July 2006, pursuant to which an overseas entity or individual investing in real estate in China other than for self-use, must apply for the establishment of a foreign invested real estate enterprise in accordance with applicable PRC laws and shall only conduct operations within the authorised business scope after obtaining the relevant approvals from and registering with the relevant governmental authorities.

FIREE is one type of foreign invested enterprise. It is subject to the same laws and regulations that generally apply to the foreign invested enterprises in other industries. In addition, an FIREE is not permitted to borrow foreign debts, including borrowing from foreign shareholder or foreign bank. This industry-specific restriction on borrowing was established by the Circular on Further Strengthening and Regulating the Examination, Approval, and Supervision of Direct Investment in Real Estate by Foreign Investors (關於進一步加強、規範外商直接投資房地產業審批和監管的通知) jointly promulgated by the Ministry of Commerce (“**MOFCOM**”) and SAFE on 23 May 2007 and the Circular of the State Administration of Foreign Exchange on Distributing the Administrative Measures for Registration of Foreign Debts (國家外匯管理局關於發布《外債登記管理辦法》的通知) promulgated by SAFE and effective on 13 May 2013. Specifically, any FIREE established on or after 1 June 2007 is not permitted to register foreign debts with SAFE and is therefor unable to borrow foreign debt, and any FIREE established before 1 June 2007 may still borrow foreign debt to the extent within and permitted by the difference between its total investment amount and registered capital after having satisfied certain statutory conditions.

Compared to other types of foreign invested enterprise, FIREE used to be subject to a higher capitalisation requirement and a more complex and time-consuming two-step government approval process. But these regulatory requirements have been abolished by now.

**APPENDIX VI OVERVIEW OF THE RELEVANT LAWS AND REGULATIONS
IN THE PRC AND COMPARISON OF CERTAIN ASPECTS OF
ITS PROPERTY LAWS AND THE LAWS OF HONG KONG**

Since October 2016, the formation, dissolution and major corporate change of an FIEE is no longer subject to approval by the MOFCOM or its local counterparty. The approval has been replaced with a filing for recordal, unless the underlying real estate project is on the Special Administrative Measures for Access of Foreign Investment (Negative List) (2019 Edition) (外商投資准入特別管理措施(負面清單)(2019年版)) jointly promulgated by the National Development and Reform Commission and the MOFCOM on 30 June 2019. Most types of real estate project are not on such list, including office buildings and shopping centres.

THE LAND AND PROPERTY SYSTEM OF THE PRC

The Land System

All land in the PRC (also the “**State**”) is either state-owned or collectively-owned, depending on the location of the land. All land in the urban areas is state-owned, and all land in the rural or suburban areas including land for houses and private plots in fields and on hillsides are, unless otherwise prescribed by the state, collectively-owned. The State has the right to expropriate or take over land in accordance with law if required for the benefit of the public. Although all land in the PRC is owned by the State or by collectives, private individuals, enterprises and other organisations are permitted to hold and develop land for which they are granted or allocated land use rights. Furthermore, those who obtain the State-owned land use rights by means of grant (出讓) or assignment (轉讓) can lease the aforementioned land use rights to a third party. In April 1988, the Constitution of the PRC (the “**Constitution**”) was amended by the PRC National People’s Congress to allow for the transfer of land use rights for value. In December 1988, the Land Administration Law (中華人民共和國土地管理法) of the PRC was amended to permit the transfer of land use rights for value. Under the Provisional Regulations of the PRC Concerning the Grant and Assignment of the Right to Use State-owned Land in Urban Areas (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例) (the “**Urban Land Regulations**”) promulgated in May 1990, local governments at or above county level have the power to grant land use rights for specific purposes and for a definite period to a land user pursuant to a contract for the grant of land use rights upon payment of a land grant premium. Under the Urban Land Regulations, there are different maximum periods of grant for different uses of land. They are generally as follows:

<u>Use of Land</u>	<u>Maximum Period (in years)</u>
Commercial, tourism, entertainment	40
Residential.	70
Industrial	50
Educational, scientific, cultural, public health and sports	50
Comprehensive utilisation or others	50

Under the Urban Land Regulations, all local and foreign enterprises are permitted to acquire land use rights unless the law provides otherwise. The State may not expropriate possession of lawfully granted land use rights prior to expiration of the term of grant. If public interest requires the expropriation of possession by the State under special circumstances during the term of grant, compensation must be paid by the State. A land user may lawfully assign, mortgage or lease its land use rights to a third party, and such assignment, mortgage or lease will not extend the remainder of the term of grant.

Upon expiration of the term of grant, renewal is possible subject to the execution of a new contract for the grant of land use rights and payment of a premium. If the term of the grant is not renewed, the land use rights and ownership of any buildings thereon will revert to the State without compensation.

The National People's Congress adopted the PRC Property Law (the "**Property Law**") (中華人民共和國物權法) in March 2007, which became effective on 1 October 2007. According to the Property Law, when the term of the right to use construction land for residential (but not other) purpose expires, it will be renewed automatically.

Grant of Land Use Rights

PRC law distinguishes between the ownership of land and the right to use land. Land use rights can be granted by the State to a person to entitle him/her to the exclusive use of a piece of land for a specified purpose within a specified term and on such other terms and conditions as may be prescribed. A land grant premium is payable on the grant of land use rights. The maximum term that can be granted for the right to use a piece of land depends on the purpose for which the land is used. As described above, the maximum limits specified in the relevant regulations vary from 40 to 70 years depending on the purpose for which the land is used.

Under the Urban Land Regulations, there are four methods by which land use rights may be granted, namely by private agreement, tender, auction or listing-for-sale.

On 11 June 2003, the Ministry of Land and Resources (which has been combined into the Ministry of National Resources as from March 2018) promulgated the Regulation on Grant of State-owned Land Use Rights by Agreement (協議出讓國有土地使用權規定), which became effective on 1 August 2003. According to such regulation, if there is only one intended user on a piece of land, the land use rights (excluding land use rights used for business purposes, such as commercial, tourism, entertainment and commodity residential properties) may be granted by way of private agreement. The local land bureau at municipal or county level, together with other relevant government departments including the urban planning authority, will formulate the plan on grant of state-owned land use rights by private agreement (協議出讓方案) concerning issues including the specific location, boundary, purpose of use, area, term of grant, conditions of use, conditions for planning and designing, time of supply, and submit such plan as well as the proposed minimum price of land grant premium, which is designated by the group decision based on the valuation result, to the relevant government for approval. The local land bureau at municipal or county level and the intended user will negotiate the land grant premium which shall not be lower than the minimum price approved by the relevant government and enter into the land grant contract based on such plan. If two or more entities are interested in the land use rights proposed to be granted, such land use rights shall be granted by way of tender, auction or listing-for-sale. Furthermore, according to the Rules

Regarding the Grant of State-owned Land Use Rights by Way of Tender, Auction and Listing-for-sale (招標拍賣掛牌出讓國有土地使用權規定) (the “**Land Use Grant Rules**”) which are effective from 1 July 2002, land use rights for properties for commercial use, tourism, entertainment and commodity residential purposes can only be granted through tender, auction and listing-for-sale.

Where land use rights are granted by way of tender, invitations to tender will be issued by the local land bureau at municipal or county level. The invitation will set out the terms and conditions upon which the land use rights are proposed to be granted. A committee will be established by the relevant local land bureau to evaluate the tenders which have been submitted. The successful bidder will then be asked to sign the grant contract with the local land bureau at municipal or county level and pay the relevant land grant premium within a prescribed period. The land bureau will consider the following factors: the successful bidder shall be either the bidder who can satisfy the comprehensive evaluation criteria of the tender, or who can satisfy the substantial requirements of the tender and also offer the highest bid.

Where land use rights are granted by way of auction, a public auction will be held by the relevant local land bureau at municipal or county level. The land use rights are granted to the bidder with the highest bid. The successful bidder will be asked to enter into a land grant contract with the local land bureau.

Where land use rights are granted by way of listing-for-sale, a public notice will be issued by the local land bureau at municipal or county level to specify the location, area and purpose of use of land and the initial bidding price, period for receiving bids and terms and conditions upon which the land use rights are proposed to be granted. The land use rights are granted to the bidder with the highest bid and which satisfies the terms and conditions. The successful bidder will then enter into a grant contract with the local land bureau.

Upon signing of the contract for the grant of land use rights, the grantee is required to pay the land grant premium pursuant to the terms of the contract, and the contract will later be submitted to the relevant local land bureau for the issue of the land use right certificate. Upon expiration of the term of grant, the grantee may apply for renewal of the term. Upon approval by the relevant local land bureau, a new contract shall be entered for renewing the grant, and a land grant premium shall be paid.

In September 2007, the Ministry of Land and Resources further promulgated the Regulations on the Grant of State-owned Construction Land Use Rights Through Tender, Auction and Listing-for-sale (招標拍賣掛牌出讓國有建設用地使用權規定) to require that (i) land for industrial use, except land for mining, and (ii) other types of land in which more than two potential land users are interested must also be granted by tender, auction or listing-for-sale. Only after the grantee has paid the land grant premium in full under the land grant contract, can the grantee apply for the land registration and obtain the land use right certificates. Furthermore, land use right certificates may not be issued in proportion to the land grant premium paid under the land grant contract.

The Ministry of Land and Resources promulgated Notice on Problems Regarding Strengthening the Supply and Regulation of Land Used for Real Estates Supply (關於加強房地產用地供應和監管有關問題的通知) (the “**Notice**”) on 8 March 2010. According to the Notice, the land provision for affordable housing, redevelopment of shanty towns and small/medium residential units for self-residence purpose should be no less than 70% of total land supply, and the land supply for large residential units will be strictly controlled and land supply for villa projects will be banned. The Notice also requires that the lowest land grant premium shall be no less than 70% of the basic land grant premium in which the granted land is located and the real estate developers’ bid deposit shall be no less than 20% of the lowest grant premium. The land grant contract must be executed within 10 working days after the land transaction is confirmed. The minimum down payment of the land grant premium shall be 50% and must be paid within one month after the execution of the land grant contract. The remaining land grant premium shall be paid in accordance with the contract, but no later than one year. If the land grant contract is not executed in accordance with the requirement above, the land shall not be handed over and the deposit will not be returned. If no land grant premium is paid after the execution of the contract, the land will be taken back.

In September 2010, the Ministry of Land and Resources and the Ministry of Housing and Urban-Rural Development jointly issued the Notice on Further Strengthening the Administration and Control of the Land-use and Construction of Real Estates (關於進一步加強房地產用地和建設管理調控的通知), which stipulates, among other things, that the planning and construction conditions and land use standards shall be specified when a parcel of land is to be granted, and the restrictions on the area of one parcel of land granted for commodity residential properties shall be strictly implemented. The development and construction of large low-density residential properties shall be strictly restricted, and the floor area ratio for residential land is required to be more than 1. In addition, a property developer and its shareholders will be prohibited from participating in land bidding before any illegal behaviours in which it engages, such as land idle for more than one year on its own reasons, have been completely rectified.

Transfer of Land Use Rights

After land use rights relating to a particular area of land have been granted by the State, unless any additional restriction is imposed, the party to whom such land use rights are granted may transfer, lease or mortgage such land use rights after certain statutory conditions are met. The difference between a transfer and a lease is that a transfer involves the vesting of the land use rights by the transferor in the transferee during the term for which such land use rights are vested in the transferor. A lease, on the other hand, does not involve a transfer of such land use rights by the lessor to the lessee. Furthermore, a lease, unlike a transfer, does not usually involve the payment of a transfer price. Instead, a rent is payable during the term of the lease. Land use rights cannot be transferred, leased or mortgaged if the provisions of the grant contract, with respect to the prescribed period and conditions of investment, development and use of the land, have not been complied with. In addition, different areas in the PRC have different conditions which must be fulfilled before the respective land use rights can be transferred, leased or mortgaged.

All transfers, mortgages and leases of land use rights must be evidenced by a written contract between the parties which must be registered with the relevant local land bureau at municipal or county level. Upon a transfer of land use rights, all rights and obligations contained in the contract pursuant to which the land use rights were originally granted by the State are assigned to the transferee automatically.

Under the Administration Law of Urban Real Property of the PRC (2009 revision) (中華人民共和國城市房地產管理法(2009年修訂)) (the “**Urban Real Property Law**”), real property that has not been registered and of which a title certificate has not been obtained in accordance with the law may not be assigned. Also, under the Urban Real Property Law, if land use rights are acquired by means of grant, the real property shall not be assigned before the following conditions have been met: (i) the land grant premium for the grant of land use rights must have been paid in full in accordance with the land grant contract and a land use right certificate must have been obtained; (ii) investment or development must have been made or carried out in accordance with terms of the land grant contract; (iii) where the investment or development involves housing construction projects, more than 25% of the total amount of investment or development must have been made or completed; (iv) where the investment or development involves a large tract of land, conditions for use of the land for industrial or other construction purposes must have been satisfied; (v) where the real property is assigned with a completed building, the building ownership certificate is needed as well.

Documents of Title

In the PRC, interest in land or building is registered with and certified by the government. Land registration is achieved by the issue of a land use right certificate (土地使用證) by the relevant authority to the land user. It is the evidence that the land user has obtained land use rights which can be assigned, mortgaged or leased. The building registration is the issue of a building ownership certificate (房屋所有權證) or a real estate ownership certificate (房地產權證) to the owner. It is the evidence that the owner has obtained building ownership rights in respect of the building erected on a piece of land. In the past, the registration systems for lands and buildings in most cities were separate, and the names of the certificates were different. On 24 November 2014, the State Council issued the Interim Regulations on Real Estate Registration (不動產登記暫行條例) to consolidate the registration systems. As a result, local government is required to establish a unified real estate registry to take charge of the registration of both lands and buildings, and the certificate to be issued upon completion of a registration has been renamed to “real estate title certificate (不動產權證書)”. However, all the land use right certificates (土地使用證), building ownership certificates (房屋所有權證) and real estate ownership certificates (房地產權證) issued before then should remain valid (land use right certificates (土地使用證), building ownership certificates (房屋所有權證), real estate ownership certificates (房地產權證) and real estate title certificate (不動產權證書) are hereinafter referred to collectively as the “Title Certificates” and individually as a “Title Certificate”).

According to the Land Registration Regulations (土地登記規則) (the “**Registration Regulations**”) promulgated by the State Land Administration Bureau (國家土地管理局), the predecessor of the Ministry of Land and Resources, on 28 December 1995 and the Building Registration Measures (房屋登記辦法) promulgated by the Ministry of Construction, the predecessor of the Ministry of Housing and Urban-Rural Development on 15 February 2008 and effective on 1 July 2008, all land use rights and building ownership rights which are duly registered are protected by the law.

Mortgage

The grant of mortgage in the PRC is governed by the Security Law of the PRC (中華人民共和國擔保法) (the “**Security Law**”) promulgated by the Standing Committee of the National People’s Congress in June 1995, the Measures for Administration of Mortgages of Urban Real Estate promulgated by the Ministry of Construction (城市房地產抵押管理辦法) in May 1997, as amended in August 2001, the Property Law and other relevant laws and regulations regulating real estates. Under the Security Law, any mortgage contract must be in writing and must contain specified provisions including (i) the type and amount of the principal indebtedness secured; (ii) the term of the obligation by the debtor; (iii) the name, quantity, quality, state, location, ownership of or the right to use the mortgaged property; and (iv) the scope of the mortgage. For mortgages of urban real properties, new buildings on a piece of land constructed after a mortgage contract has been entered into will not be subject to the mortgage.

The validity of a mortgage depends on the validity of the mortgage contract and registration of the mortgage with authorities. If the loan in respect of which the mortgage was given is not duly repaid, the mortgagee may sell the property to settle the outstanding amount and return the balance of the proceeds from the sale or auction of the mortgaged property to the mortgagor. If the proceeds from the sale of such property are not sufficient to cover the outstanding amount, the mortgagee may bring proceedings before a competent court or arbitration tribunal (where there is an agreement to recover the amount outstanding through arbitration) in the PRC.

The Security Law also contains comprehensive provisions dealing with guarantees. Under the Security Law, guarantees may be in two forms: (i) guarantees whereby the guarantor bears the liability when the debtor fails to perform the payment obligation; and (ii) guarantees with joint and several liability whereby the guarantor and debtor are jointly and severally liable for the payment obligation. A guarantee contract must be in writing and unless agreed otherwise, the term of a guarantee shall be six months from the due date of the principal obligation.

The Security Law further provides that where indebtedness is secured by a guarantee and mortgaged property, the guarantor’s liability shall be limited to the extent of the indebtedness that is not secured by the mortgaged property.

Lease

Both the Urban Land Regulations and the Urban Real Property Law permit leasing of granted land use rights and buildings thereon. However, leasing of land use rights obtained by allocation (劃撥) and of buildings on such allocated land is regulated by the Urban Land Regulations.

Leasing of urban real properties is also governed by the Administrative Measures for Leasing of Commodity Housing (商品房屋租賃管理辦法) issued by the Ministry of Housing and Urban-Rural Development in December 2010, which became effective on 1 February 2011. According to the Administrative Measures for Leasing of Commodity Housing, landlords and tenants are required to enter into lease contracts which must contain specified provisions, the floor area per tenant may not be less than the minimum living space stipulated by the local government where the building is located, no kitchens, lavatories, balconies or basement storerooms should be rented out as residence, and the lease contract should be registered with the relevant construction or property authorities at municipal or county level within 30 days after its conclusion. If the lease contract is extended or terminated or if there is any change to the registered items, the landlord and the tenant are required to effect alteration registration, extension of registration or deregistration with the relevant construction or property authorities within 30 days after the occurrence of the alteration, extension or termination.

The Contract Law of the PRC (中華人民共和國合同法) promulgated by the National People's Congress in March 1999 and effective from October 1999 provides among others, that the lease contract shall be in writing if its term is over six months, and the term of any lease contract shall not exceed twenty years. During the lease term, any change in the ownership of the leased property does not affect the validity of the lease contract. The tenant may sub-let the leased property if it is agreed by the landlord and the lease contract between the landlord and the tenant is still valid and binding. When the landlord is to sell a leased property under a lease contract, it shall give the tenant a reasonable advance notice before the sale, and the tenant has the priority right to buy such leased property on equal conditions. The tenant can waive such rights in the lease agreement.

The tenant must pay rent on time in accordance with the lease contract. In the event of default of rental payment without reasonable cause, the landlord may ask the tenant to pay within a reasonable period of time and may terminate the lease contract if the defaulted tenant fails to pay by the prescribed time limit.

Except as mentioned below or unless otherwise specified in the lease contract, if the landlord wishes to terminate the lease before its expiry date, prior consent shall be obtained from the tenants who are entitled to be indemnified for any resulting loss.

The landlord has the right to terminate the lease contract if the tenant sub-lets the property without prior consent from the landlord, or causes loss to the leased properties resulting from using the property not in compliance with the usage as stipulated in the lease contract, or defaults in rental payment and fails to rectify such default after a reasonable period as required by the landlord, or other circumstances occur allowing the landlord to terminate the lease contract under relevant PRC laws and regulations.

Sale and Transfer of Property

Under the Administrative Measures for the Sale of Commodity Buildings (商品房銷售管理辦法) and the Administrative Regulations on Urban Real Estate Development and Operation (城市房地產開發經營管理條例) as last amended in March 2019, commodity buildings may be put to pre-sale and post-completion sale upon satisfaction of certain preconditions. The preconditions for pre-sale include: (a) the land grant premium has been paid in full for the grant of the land use rights as provided by the land grant contract and a Title Certificate in respect of the land has been properly obtained, (b) the construction project planning permit and the construction work commencement permit have been obtained, (c) the capital injected in the development and construction has exceeded 25% of the total investment of the project construction, and the construction progress, the date of completion of construction and the date of delivery have been determined, and (d) the pre-sale permit has been obtained. The preconditions for post-completion sale include: (a) the property development enterprise shall have a business licence and a qualification certificate of a property development enterprise; (b) the enterprise shall obtain a land use right certificate or other approval documents for land use; (c) the enterprise shall have the construction works planning permit and construction works commencement permit; (d) the building shall have been completed, inspected and accepted as qualified; (e) the relocation of the original residents shall have been completed; (f) the provision of essential facilities for supplying water, electricity, heating, gas, communication, etc. shall have been made ready for use, and other essential utilities and public facilities shall have been made ready for use, or a date for their construction and delivery shall have been specified; and (g) the property management plan shall have been completed.

Before the post-completion sale of a commodity building, a property development enterprise shall submit the property development project manual and other documents evidencing the satisfaction of preconditions for post-completion sale to the property development authority.

According to the Urban Real Estate Law and the Provisions on Administration of Transfer of Urban Real Estate promulgated by the Ministry of Construction (城市房地產轉讓管理規定) in August 1995, as amended in August 2001, a real estate owner may sell, bequeath or otherwise legally transfer real estate to another person or legal entity. When transferring a building, the ownership of the building and the land use rights to the site on which the building is situated are transferred together. The parties to transfer must enter into a real estate transfer contract in writing and register the transfer with the real estate administration authority having jurisdiction over the location of the real estate within 90 days of the execution of the transfer contract.

Where the land use rights were originally obtained by grant, the real property may only be transferred on the condition that:

- the land grant premium has been paid in full for the grant of the land use rights as provided by the land grant contract and a Title Certificate in respect of the land has been properly obtained;
- investment in or development of such land must have been made or carried out in accordance with the terms of the land grant contract;

- in the case of a project in which buildings are being developed, development representing more than 25% of the total investment has been completed;
- in case of a development of a large tract of land, conditions for using such land for industrial or other purpose have been satisfied; and
- in case of where completed building is involved, the Title Certificate in respect of such building has been obtained.

If the land use rights were originally obtained by grant, the term of the land use rights after transfer of the real estate will be the remaining portion of the original term provided for in the land grant contract after deducting the time that has been used by the former land users. In the event that the assignee intends to change the use of the land provided for in the original grant contract, consent must first be obtained from the original land use rights grantor and the planning administration authority at the relevant city or county level and an agreement to amend the land grant contract or a new land grant contract must be signed in order to, *inter alia*, change the use of the land and adjust the land grant premium accordingly.

If the land use rights were originally obtained by allocation, such allocated land use rights may be changed to granted land use rights if approved by the government vested with the necessary approval power as required by the State Council. After the government authorities vested with the necessary approval power approved such change, the grantee must complete the formalities for the grant of the land use rights and pay the land grant premium according to the relevant statutes. Land for industry (including warehouse land, but excluding mining land), commercial use, tourism, entertainment and commodity housing development must be granted by tender, auction or listing-for-sale under the current PRC laws and regulations.

Property Management Rules in the PRC

The provision of property management service used to be subject to special licencing requirement in the PRC, but the State Council has abolished such requirement in 2017. A property management enterprise is no longer required to obtain a property management enterprise qualification certificate in order to carry out property management activities pursuant to the Decision on the Cancellation of the Third Batch of Matters for Administrative Licencing Items Delegated by the Central Government for Implementation by Local Authorities (國務院關於第三批取消中央指定地方實施行政許可事項的決定) issued on 12 January 2017 and the Decisions on the Cancellation of Certain Administrative Licencing Items (國務院關於取消一批行政許可事項的決定) issued on 22 September 2017. According to the Regulation on Property Management (物業管理條例) enacted by the State Council on 8 June 2003 and enforced on 1 September 2003, as last amended on 19 March 2018 and effective on 19 March 2018, owners may engage or dismiss a property management company with the consent of more than half of the owners who in the aggregate hold more than 50% of the total non-communal area of the building. If the developer is to employ a property management enterprise before the formal employment of a property management enterprise by the owners after the formation of the owners' meeting, it shall enter into a preparation stage property management services contract in writing with such property management enterprise.

**APPENDIX VI OVERVIEW OF THE RELEVANT LAWS AND REGULATIONS
IN THE PRC AND COMPARISON OF CERTAIN ASPECTS OF
ITS PROPERTY LAWS AND THE LAWS OF HONG KONG**

**COMPARISON OF CERTAIN ASPECTS OF THE PRC PROPERTY LAWS AND THE LAWS
OF HONG KONG**

The following is a general comparison of the legal protection of proprietary rights over real estate conferred by the legal systems of the PRC and Hong Kong:

PRC

General

Under the Urban Real Property Law, the legitimate rights and interests of the owners over real estate shall be protected by the law of the PRC, on which no person may unlawfully infringe.

In general, the legitimate rights and interests of the owners over real estate in PRC are protected under PRC law.

Land System in the PRC

PRC law distinguishes between the ownership of land and the right to use land. According to the Constitution, all land in the cities is owned by the State while land in the rural and suburban areas, unless otherwise specified by law, is owned by collectives. Houses sites (宅基地), privately farmed crop land (自留地) and hilly land (自留山) are also owned by collectives. The State may expropriate or take over land and pay compensation in accordance with law if such land is required for public interest.

Hong Kong

General

Following Hong Kong's reunification with the PRC on 1 July 1997, the Basic Law of Hong Kong becomes the constitution of Hong Kong. Article 6 of the Basic Law provides that Hong Kong shall protect the right of private ownership of property in accordance with the law. Under the concept of "one country, two systems", Hong Kong enjoys a high degree of autonomy and its legal system is separate from that of the PRC. The proprietary rights of land owners over landed properties in Hong Kong are protected under Hong Kong law, which consists of the English common law principles as well as the Hong Kong legislations.

System of Land Holding in Hong Kong

Land tenure in Hong Kong is essentially leasehold. Title to a landed property is derived from Government lease or agreements and conditions of grant (as the case may be) granted by the Hong Kong Government. Owners of landed properties in Hong Kong are effectively long leaseholders.

Under the Urban Land Regulations, a system for the grant and transfer of state owned land in urban areas was implemented. Pursuant to this system, all local and foreign companies, enterprises and other organisation and individuals, unless the law provides otherwise, are permitted to acquire land use rights and to develop and operate properties in accordance with PRC law.

Under the Urban Land Regulations, local governments at or above county level have the power to grant land use rights for specific purposes and for a definite period to a land user pursuant to a contract for the grant of land use rights upon payment of a land grant premium. There are different maximum periods of grant for different uses of land. They are generally as follows:

- up to 70 years for residential use;
- up to 50 years for industrial use;
- up to 50 years for educational, scientific, cultural, public health and sports;
- up to 40 years for commercial, tourism and entertainment uses; and
- up to 50 years for comprehensive use or all other uses.

Upon expiration of the term of grant, it is possible for a land user to renew such term subject to the execution of a new land grant contract and payment of a land grant premium. If the term of the grant is not renewed, the land use rights of the land and ownership of any building thereon will revert to the State without compensation. According to the Property Law, when the term of the right to use construction land for residential (but not other) property purposes expires, it will be renewed automatically.

Due to historical reasons, the terms of the Government leases vary from short term leases to leases of up to 999 years. Article 120 of the Basic Law essentially provides that all Government leases of land granted, decided upon or renewed before the establishment of the Hong Kong Special Administrative Region which extended beyond 30 June 1997, and all rights in relation to such Government leases, shall continue to be recognised and protected under the law of Hong Kong. Article 121 of the Basic Law provides that as regards all Government leases of land granted or renewed where the original Government leases contain no right of renewal, during the period from 27 May 1985 to 30 June 1997, which extend beyond 30 June 1997 and expire not later than 30 June 2047, the Government lessee is not required to pay any additional premium as from 1 July 1997, but an annual rent equivalent to 3% of the rateable value of the landed property concerned is payable to the Hong Kong Government.

In general, the terms of the earlier Government leases are less restrictive. As society has become more sophisticated, extensive development requirements, obligations and restrictions are found in recent Government grants. Very often, the Government will provide a restriction on alienation in the Government lease — the grantee is required to comply with all the positive obligations in the Government lease, such compliance being evidenced by the issuance of a certificate of compliance by the Lands Department, before the grantee is in a position to sell/assign any individual unit or car park of the development. If no such compliance has been issued, the grantee can only sell/assign the units unless it shall have obtained the relevant prior written consent from the Lands Department. Any non-compliance of the terms of the Government grant may render the Government exercising its rights of re-entry of the land.

Under the Urban Land Regulations, there are three methods by which land use rights may be granted, namely by agreement, tender or auction. According to the Land Use Grant Rules which are effective from 1 July 2002, land use rights for properties for commercial use, tourism, entertainment and commodity residential purposes can only be granted through tender, auction and listing-for-sale.

On 11 June 2003, the Ministry of Land and Resources promulgated the Regulation on Transfer of State-owned Land Use Rights by Agreement. According to this regulation, land use rights may be granted by way of agreement if it is not required under applicable laws and regulations that the land be granted by tender, auction and listing-for-sale.

Upon signing of the contract for the grant of land use right, the grantee is required to pay the land grant premium in accordance with the terms of the contract. Once the land grant premium is paid in full, the contract may be submitted to the relevant local bureau for the issue of a land use rights certificate evidencing the grant of land use rights.

In September 2007, the Ministry of Land and Resources further promulgated the Regulations on the Grant of State-owned Construction Land Use Rights Through Tender, Auction and Listing-for-sale to require that land for industrial use, except land for mining, must also be granted by tender, auction and listing-for-sale. Only after the grantee has paid the land grant premium in full under the land grant contract, can the grantee apply for the land registration and obtain the land use rights certificates. Furthermore, land use rights certificates may not be issued in proportion to the land grant premium paid under the land grant contract.

Certain Government leases and certain legislations in Hong Kong contain Government's right of resumption of the land or any part thereof for public purposes before expiry of the terms granted. Compensation may be made payable to the affected owners.

Any individual or corporate legal entity, whether local or overseas, may own landed property in Hong Kong. Property transactions in Hong Kong attract payment of ad valorem stamp duty in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong). Under the said Ordinance (i): any residential property acquired on or after 27 October 2012, either by an individual or a company (regardless of its place of incorporation), and resold within 36 months will be subject to payment of special stamp duty at different rates (up to 20% of the stated consideration or market value) for different holding periods (up to 36 months) of such property on top of the current ad valorem stamp duty (the "AVD"); (ii) a buyer's stamp duty at 15% of the stated consideration or market value is payable on top of the current AVD if a residential property is acquired after 27 October 2012 by any person (including limited company), except where he/she is a Hong Kong permanent resident or other exemptions apply; (iii) any agreement for sale for the acquisition of any residential property executed on or after 5 November 2016, either by an individual or a company, will be subject to AVD at a flat rate of 15% of the consideration or value of the residential property (whichever is the higher) unless specifically exempted or excepted therein (e.g. Hong Kong permanent resident purchaser who does not own any interest in any other residential property in Hong Kong); (iv) unless specifically exempted or otherwise provided, acquisition of more than one residential property under a single instrument executed on or after 12 April 2017 will be subject to the AVD flat rate at 15%, even if the purchaser is a Hong Kong permanent resident who is acting on his/her own behalf and is not a beneficial owner of any interest in other residential property in Hong Kong at the time of acquisition; and (v) AVD rates up to 8.5% on non-residential property transactions will be charged on the agreement for sale executed on or after 22 February 2013.

Subject to any restrictions imposed, the party to which the land use right is granted may transfer such land use rights. The transfer may be by way of sale, exchange or gift. The term of land use rights for the transferred land is the original term granted under the grant contract less the term which has already been enjoyed by the original grantee.

A transfer of land use rights must be evidenced by a written contract. Upon such transfer, all rights and obligations contained in the original contract for the grant of land use rights by the State are deemed to be simultaneously transferred to the transferee, together with any buildings and other fixtures on the land. The transfer must be duly registered at the relevant local land bureau and a new land use rights certificate will be issued and the original land use rights certificate will be suspended.

Under the Urban Real Property Law, in relation to a transfer of land for which land use rights were acquired by way of grant, the following conditions must be met:

- the land grant premium must have been paid in full in accordance with the land grant contract and a Title Certificate in respect of the land must have been obtained;
- investment in or development of such land must have been made or carried out in accordance with the terms of the land grant contract;
- if the investment or development involves the construction of building on the land, more than 25% of the total amount of investment or development must have been made or completed;

- where the investment or development involves a large tract of land, conditions for the use of the land for industrial or other construction purposes must have been met; and
- where completed building is involved, the Title Certificate in respect of such building must have been obtained.

Property Owners' Committee

According to the Regulation on Property Management, owners may engage or dismiss a property management company with the consent of more than half of the owners who in the aggregate hold more than 50% of the total non-communal area of the building. If, before the formal employment of a property management enterprise by the owners after the formation of the owners' meeting, the developer is to employ a property management enterprise, it shall enter into a preparation stage property management services contract in writing with such real estate management enterprise.

Strata Title Ownership

Strata-title ownership is commonly found in Hong Kong's multi-storey buildings. The structure is derived from the concept that all owners of the units are holding the land and the development jointly as co-owners. Such piece of land and the development built thereon are notionally divided into a number of undivided shares. An owner of each unit holds a certain number of the allocated undivided shares, together with the exclusive right to hold, use, occupy and enjoy his unit. All owners of the development then share the use of such common part and common facilities of the development which are intended for common use. The allocation of the undivided shares is usually made by the authorised person of the development with reference to the gross floor area of each unit. Immediately after the first unit of a development is assigned, the developer, the first purchaser of a unit and the building manager of the development will enter into a document known as the DMC, which sets out the rights and obligations of the parties vis-à-vis each other relating to the co-ownership and management of the development.

The system of building management in Hong Kong is mainly based upon private contractual arrangements between the owners of units in the development by virtue of a DMC. The governing legislation for building management is the Building Management Ordinance, which also plays an important role in guarding against drafting in of unfair terms by the developer in the DMC and in setting out the framework for the mandatory terms to be contained in a DMC, to the intent that the rights and obligations of the owners and the building manager of the development are regulated for the purpose of co-ownership and management of the development. The DMC is usually prepared in accordance with the guidelines laid down by the Government and the rules laid down by The Law Society of Hong Kong. It is commonly found in the newer Government leases that the terms of the DMC have to be approved by the Lands Department.

Documents of Title

In the PRC, interest in land or building is registered with and certified by the government. Land registration is effected by the issue of land use rights certificate by the relevant authority to the land user evidencing that the land user has obtained land use rights which can be assigned, mortgaged or leased. The building registration is the issue of a building ownership certificate or a real estate ownership certificate to the owner evidencing that the owner has obtained building ownership rights in respect of the building. In the past, the registration systems for lands and buildings in most cities were separate, and the names of the certificates were different. On 24 November 2014, the State Council issued the Interim Regulations on Real Estate Registration (不動產登記暫行條例) to consolidate the registration systems. As a result, local government is required to establish a unified real estate registry to take charge of the registration of both lands and buildings, and the certificate to be issued upon completion of a registration has been renamed to “real estate title certificate (不動產權證書)”. However, all the land use right certificates, building ownership certificates and real estate ownership certificates issued before then should remain valid.

According to the Registration Regulations and the Building Registration Measures, all land use rights and building ownership rights which are duly registered are protected by law.

The registration systems for lands and buildings have been consolidated in the PRC. Each county is required to establish a unified real estate registry to take charge of the registration of lands and buildings in its jurisdiction.

Land Registration

The present land registration system in Hong Kong is a “deeds registration” system. The governing legislation is the Land Registration Ordinance. Documents affecting landed properties in Hong Kong are lodged with the Land Registry for registration.

The Land Registry maintains a public land register for recording interests in the landed property in Hong Kong. Registration does not serve as a proof that a person registered as the owner has good title to the property. The deeds registration system simply confers priority on registered documents and any registered document will become a public record. Legal advice on title checking should be sought if one would like to ascertain whether a person has good and marketable title to a particular property.

Hong Kong has enacted the Land Titles Ordinance (Chapter 585 of the Laws of Hong Kong) in 2004. The new title registration system will transform the present system of deeds registration into a system of title registration. Under the new system, the title register will be conclusive evidence of title to the property. However, the date on which the new system will be implemented is yet to be ascertained.

Proving Title to Property

Before the title registration comes into actual operation, an owner's title to a property has to be proved by investigation of the original title deeds (if they relate exclusively to a particular property) or certified copies of the title deeds in order to ascertain the owner's title is properly derived from his predecessors in title and is not encumbered.

The Conveyancing and Property Ordinance (Chapter 219 of the Laws of Hong Kong) is the governing legislation of the conveyance of landed property in Hong Kong. It was enacted in 1984. It has been adopted from the relevant English statutes and codified various common law principles in real estate conveyance aspects. Apart from this ordinance, the rulings in the judgments of the court cases play an important part in determining whether the title to a property is in order.

Leases/Tenancies in PRC

Both the Urban Land Regulations and the Urban Real Property Law permit leasing of granted land use rights and buildings thereon.

Leasing of urban real properties is also governed by the Administrative Measures for Leasing of Commodity Housing (商品房屋租賃管理辦法) issued by the Ministry of Housing and Urban-Rural Development in December 2010, which became effective on 1 February 2011. According to the Administrative Measures for Leasing of Commodity Housing, landlords and tenants are required to enter into lease contracts which must contain specified provisions, the floor area per tenant may not be less than the minimum living space stipulated by the local government where the building is located, no kitchens, lavatories, balconies or basement storerooms should be rented out as residence, and the lease contract should be registered with the relevant construction or property authorities at municipal or county level within 30 days after its conclusion. If the lease contract is extended or terminated or if there is any change to the registered items, the landlord and the tenant are required to effect alteration registration, extension of registration or deregistration with the relevant construction or property authorities within 30 days after the occurrence of the extension, termination or alteration.

Leases/Tenancies in Hong Kong

The governing legislation of leasing and letting of landed property in Hong Kong is the Landlord and Tenant (Consolidation) Ordinance (Chapter 7 of the Laws of Hong Kong) (the “**LTCO**”). Under the former regime before the amendment is made to the LTCO in 2004, a domestic tenant is entitled to statutory renewal of tenancy provided he is willing to pay the prevailing market rent. Only on certain statutory grounds of opposition stated in the pre-amended LTCO, namely self-occupation by the landlord, rebuilding by the landlord, use of property for an illegal purpose or illegal subletting etc., could the landlord refuse to renew the tenancy. This regime has been abolished by the Landlord and Tenant (Consolidation) (Amendment) Ordinance 2004 (the “**Amendment Ordinance**”) which came into effect on 9 July 2004.

Further, under the Amendment Ordinance, the fixed term non-domestic tenancy will end upon the expiration of its contractual term and the landlord is no longer required to give any statutory notice to the tenant to end the tenancy, unless expressly required by the tenancy.

The Contract Law of the PRC provides among others, that the lease contract shall be in writing if its term is over six months, and the term of any lease contract shall not exceed twenty years. During the lease term, any change in the ownership of the leased property does not affect the validity of the lease contract. The tenant may sub-let the leased property if it is agreed by the landlord and the lease contract between the landlord and the tenant is still valid and binding. When the landlord is to sell a leased property under a lease contract, it shall give the tenant a reasonable advance notice before the sale, and the tenant has the priority right to buy such leased property on equal conditions.

The tenant must pay rent on time in accordance with the lease contract. In the event of default of rental payment without reasonable cause, the landlord may ask the tenant to pay within a reasonable period of time, and may terminate the lease contract if the defaulted tenant fails to pay by the prescribed time limit.

After the implementation of the Amendment Ordinance, in general, the landlord and the tenant enjoy more freedom in their negotiation on the terms of the letting. It is common practice in Hong Kong for landlords, especially those who own the whole commercial developments or residential blocks to impose extensive obligations on the tenants, such as the covenants to pay rent, management fees and rates, and sometimes promotion levy (particularly for large shopping arcades), to maintain the leased premises in a good condition, not to underlet, to comply with the DMC, the land grant, ordinances and other governmental regulations. The landlord's obligations are usually confined to the giving of "quiet enjoyment" (in brief it means the non-interference with the tenant's rights under the tenancy agreement), payment of government rent and the obligation to repair the structural part of the premises. The landlord or the tenant may institute legal proceedings to enforce their rights under the tenancy.

A lease with a term exceeding three years should be in a deed or it may not be effective. A lease for longer than three years should also be registered in the Land Registry, otherwise it is likely to be defeated by successors in title of the landlord. Further, if an option to renew the tenancy is granted to the tenant, common law cases laid down the ruling that the tenant should submit the tenancy agreement for registration in the Land Registry in order to obtain priority against third party interest even though the original term or the option term does not exceed three years.

FOREIGN EXCHANGE CONTROLS

The lawful currency of the PRC is the RMB, which is subject to foreign exchange controls and is not freely convertible into foreign exchange at this time. SAFE, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On 29 January 1996, the State Council promulgated the PRC Foreign Currency Administration Rules (中華人民共和國外匯管理條例) (the “**Foreign Currency Administration Rules**”) which became effective from 1 April 1996. The Foreign Currency Administration Rules classifies all international payments and transfers into current account items and capital account items. Current account items are no longer subject to SAFE approval while capital account items, in most cases, are still subject to approval from or registration with SAFE. The Foreign Currency Administration Rules was subsequently amended on 14 January 1997. Such amendment affirms that the State shall not restrict international current account payments and transfers. The Foreign Currency Administration Rules was further amended by the State Council on 1 August 2008 and came effective on 5 August 2008. Under the revised Foreign Currency Administration Rules, the compulsory settlement of foreign exchange is dropped. As long as the capital inflow and outflow under the current accounts are based upon legal and genuine transactions, individuals and entities may keep their income in foreign currencies inside or outside the PRC according to the provisions and terms to be set forth by the SAFE. The foreign exchange income generated from current account transactions may be retained or sold to financial institutions engaging in the settlement and sale of foreign exchange. Whether to retain or sell the foreign exchange income generated from capital account transactions to financial institutions is subject to approval from or registration with the SAFE or its branches, except for otherwise stipulated by the State. Foreign exchange or settled fund of foreign exchange of capital account must be used in a way that is compliant with SAFE regulations, and the SAFE or its branches are empowered to supervise the utilisation of the foreign exchange or settled fund of foreign exchange of capital account and the alterations of the capital accounts. The RMB follows a managed floating exchange rate system in line with the market demand and supply. A domestic individual or entity who conducts the overseas direct investment or overseas issue and transaction of negotiable securities and derivative financial products shall undergo registration formalities with foreign exchange administrative authorities of the State.

On 20 June 1996, PBOC promulgated the Administrative Regulation on Foreign Exchange Settlement, Sale and Payment (結匯、售匯及付匯管理規定) (the “**Settlement Regulations**”) which became effective on 1 July 1996. The Settlement Regulations superseded the Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯暫行管理規定) and abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. On the basis of the Settlement Regulations, the PBOC published the Announcement on the Implementation of Foreign Exchange Settlement and Sale Banks by Foreign Invested Enterprises (外商投資企業實行銀行結售匯工作實施方案). The announcement permits foreign invested enterprises to open, on the basis of their needs, foreign exchange settlement accounts for current account receipts and payments of foreign exchange, and specialised accounts for capital account receipts and payments at designated foreign exchange banks.

SAFE has issued and amended a series of regulations from 2005 to regulate offshore investment activities by PRC residents (including by both PRC domestic enterprises and individuals). The current effective SAFE regulations on offshore investment include without limitation, (i) the Circular of the State Administration of Foreign Exchange on Promulgating the Administrative Provisions on Foreign Exchange of the Outbound Direct Investments of Domestic Institutions (國家外匯管理局關於發布《境內機構境外直接投資外匯管理規定》的通知) issued on 13 July 2009, (ii) the Notice on Issues Relating to the Administration of Foreign Exchange in Overseas Investment and Finance and Round-Trip Investment Activities by Domestic Residents through Offshore Special Purpose Vehicles (關於境內居民通過境外特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (“**Circular 37**”) issued on 4 July 2014; and (iii) Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) issued on 13 February 2015. According to the foregoing, a “special purpose vehicle” (特殊目的公司) refers to an offshore company directly incorporated or indirectly controlled by PRC residents (including both PRC domestic enterprises and individuals), using the assets or equity interests held in domestic entities or offshore assets or equity interest lawfully held, for the purpose of investment and finance. Each PRC resident, whether an individual or enterprise, must complete the overseas investment foreign exchange registration procedures with relevant designated foreign exchange bank prior to (i) making capital contribution to such special purpose vehicle, (ii) changing the basic information of such special purpose vehicle, including the name of the domestic shareholder, the name of the special purpose vehicle, the term of operation and etc., and (iii) making capital increase or decrease to, or transferring or swapping shares of, or carrying out merger or acquisition with respect to, such special purpose vehicle. If PRC residents fail to comply with the foregoing registration requirement, the special purpose vehicle may be prohibited from distributing its profits and proceeds to its onshore parent company, and the PRC residents may be ordered by SAFE to rectify and imposed with fines. Moreover, failure to comply with the above registration requirements could result in liabilities under the relevant PRC laws for evasion of foreign exchange restrictions.

Furthermore, according to a notice issued by SAFE on 11 May 2013, any foreign invested enterprise should disclose to SAFE upon its foreign exchange registration as to whether its foreign investor is directly or indirectly owned or controlled by PRC residents; and non-compliance with the registration requirement under Circular 37 will prevent a foreign invested enterprise from completing its foreign exchange registration if its foreign investor is directly or indirectly owned or controlled by PRC residents until such non-compliance has been remedied.

On 1 September 2006, the Ministry of Construction and SAFE promulgated the Circular on the Issues Concerning the Regulation of Foreign Exchange Administration of the Real Estate Market (關於規範房地產市場外匯管理有關問題的通知) (which was amended on 4 May 2015 pursuant to the Circular of the State Administration of Foreign Exchange on Repealing and Revising the Regulatory Documents concerning the Reform for Registered Capital Registration System (國家外匯管理局關於廢止和修改涉及註冊資本登記制度改革相關規範性文件的通知)). This circular states that: (i) where foreign exchange is remitted for a real estate purchase, the foreign purchaser shall be subject to examination by the designated foreign exchange bank. The remitted funds shall be directly remitted by the bank to the RMB account of the real estate development enterprise and no payment remitted from abroad by the purchasers shall be kept in the foreign exchange account of current account of the real estate development enterprises; (ii) where the commercial house transaction fails to complete and the foreign purchaser intends to remit the purchase funds in RMB back to foreign currencies, the foreign purchaser shall be subject to examination by the designated foreign exchange bank; (iii) when selling real estates in the PRC and the purchase price received in RMB is remitted to foreign currencies, the foreign purchaser shall be subject to examination by the local branch of SAFE; and (iv) if its land use right certificate has not been obtained or the capital-fund in respect of development project is less than 35% of the total investment amount of the project, a foreign invested real estate enterprise is prohibited from borrowing from any foreign lenders and SAFE shall not process the foreign debt registration or examination and approval regarding the settlement of foreign debt. Please also note that the eligibility of a FIREE to incur foreign debt is subject to further restrictions imposed by the authorities in respect of its establishment date, i.e., a FIREE established on or after 1 June 2007 is not permitted to register foreign debts with SAFE and is therefore unable to borrow foreign debt, and any FIREE established before 1 June 2007 may still borrow foreign debt to the extent within and permitted by the difference between its total investment amount and registered capital after having satisfied certain statutory conditions.

With regard to foreign direct investments, SAFE has also issued and amended a series of circulars and regulations over the years regulating the administration of foreign exchange in foreign direct investments. The current effective SAFE regulations on foreign direct investments include without limitation, (i) the Provisions on the Administration of Foreign Exchange in Foreign Direct Investments of Foreign Investors (外國投資者境內直接投資外匯管理規定) issued on 10 May 2013, (ii) Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) issued on 13 February 2015, (iii) Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) issued on 30 March 2015 and (iv) Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) issued on 9 June 2016. Pursuant to these SAFE regulations, (i) the SAFE no longer processes foreign exchange registrations for foreign direct investments. Instead, foreign exchange registrations for foreign direct investments may be directly handled by designated foreign exchange banks; (ii) where the contribution of foreign exchange capital has been confirmed by the local branch of SAFE, such foreign exchange capital can be converted into RMB by the foreign invested enterprise at its bank based on its operational

**APPENDIX VI OVERVIEW OF THE RELEVANT LAWS AND REGULATIONS
IN THE PRC AND COMPARISON OF CERTAIN ASPECTS OF
ITS PROPERTY LAWS AND THE LAWS OF HONG KONG**

needs; and (iii) the RMB funds obtained by a foreign invested enterprise from conversion of its foreign exchange capital may only be used within its approved business scope or for purpose otherwise approved by laws and cannot be (i) directly or indirectly used for purpose outside the approved business scope or prohibited by law; (ii) directly or indirectly used for securities investment or any other speculative investment; (iii) unless otherwise provided as part of the approved business scope, used for extending loans to a non-affiliate; (iv) used for construction or purchase of real estate for purposes other than self-use (except for real estate enterprises).

1. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following agreements and documents will be available for inspection free of charge at the office of the REIT Manager at Room 2603 to 2606, 26/F, China Merchants Tower, Shun Tak Centre, Nos. 168–200 Connaught Road Central, Hong Kong during normal business hours up to the Listing Date.

- (a) Trust Deed;
- (b) Accountants' Report of China Merchants Commercial REIT, the text of which is set out in Appendix I to this Offering Circular;
- (c) Unaudited Pro Forma Statements of Financial Position of China Merchants Commercial REIT and the Reporting Accountants' letter in relation thereto, the text of which is set out in Appendix II to this Offering Circular;
- (d) the letter of the REIT Manager on the profit forecast, the letter of auditor on the profit forecast, the letter of the Sole Listing Agent on the profit forecast, and the letter from the Independent Property Valuer on the rental income forecast, the text of which is set out in Appendix III to this Offering Circular;
- (e) the Independent Property Valuer's valuation report, the text of which is set out in Appendix IV to this Offering Circular;
- (f) letter from the Building Surveyor in relation to its Building Survey Report, the text of which is set out in Appendix V to this Offering Circular;
- (g) corporate governance policy adopted by the REIT Manager;
- (h) each of the agreements referred to in the section headed "Material Agreements and Other Documents" in this Offering Circular;
- (i) written consents referred to in the section headed "Experts" in this Offering Circular; and
- (j) the Trustee's letters confirming no objection to the appointment and composition of the board of directors of the Property Companies.

In addition, a copy of the Trust Deed will be available for inspection free of charge at the above registered office of the REIT Manager during normal business hours as long as the Units are listed on the Hong Kong Stock Exchange.

2. QUALIFICATIONS AND CONSENTS OF EXPERTS

The qualifications of the experts who have given opinions in this Offering Circular are as follows:

<u>Name</u>	<u>Qualification</u>
Citigroup Global Markets Asia Limited	A licensed corporation under the SFO to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contract), Type 4 (advising on securities), Type 5 (advising on future contracts), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities as defined under the SFO
Deloitte Touche Tohmatsu	Certified public accountants
Zhong Lun Law Firm	PRC legal advisors to the REIT Manager
Cushman & Wakefield Limited	Independent Property Valuer
Knight Frank Petty Limited	Market Consultant
Knight Frank Petty Limited	Building Surveyor

Each of the entities listed above has given and has not withdrawn its written consent to the issue of this Offering Circular with the inclusion of its report and/or opinion and/or memorandum and/or valuation certificate and/or summary thereof (as the case may be) and/or references to its name included herein in the form and context in which it is included.

3. MISCELLANEOUS

Save as disclosed in this Offering Circular, as at the Latest Practicable Date:

- (a) none of the Directors nor any of the parties listed in paragraph 2 of this Appendix is interested in China Merchants Commercial REIT's promotion, or in any assets which have, within the two years immediately preceding the issuance of this Offering Circular, been acquired or disposed of by or leased to any member of the Predecessor Group, or are proposed to be acquired or disposed of by or leased to China Merchants Commercial REIT or any companies controlled by it;
- (b) none of the Directors nor any of the parties listed in paragraph 2 of this Appendix are materially interested in any contract or arrangement subsisting at the date of this Offering Circular which is significant in relation to China Merchants Commercial REIT's business;
- (c) save in connection with the Underwriting Agreements and save as disclosed in the section headed "Underwriting" of this Offering Circular, none of the parties listed in paragraph 2 of this Appendix:
 - (i) is interested legally or beneficially in any of the Units or any shares in any of companies controlled by China Merchants Commercial REIT; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for China Merchants Commercial REIT's securities;

- (d) no amount or securities or benefit has been paid or allotted or given within the two years preceding the date to this Offering Circular to any of China Merchants Commercial REIT's promoters nor is any such securities or amount or benefit intended to be paid or allotted or given;
- (e) none of the Directors or their respective associates has any ownership interest in the top five tenants in respect of the Properties, in terms of total monthly Base Rent for the month ended 30 September 2019, other than, in the case of any tenant or its holding company which is a listed company, as a shareholder holding less than 0.1% of the issued share capital of the listed company;
- (f) there are no outstanding loans or guarantees granted or provided by China Merchants Commercial REIT or any companies controlled by it to, or for the benefit of, any of the Directors;
- (g) within the two years immediately preceding the date of this Offering Circular, China Merchants Commercial REIT has not issued nor agreed to issue any Units fully or partly paid either for cash or for a consideration other than cash;
- (h) save in connection with the Underwriting Agreement, no outstanding Units are under option or are agreed conditionally or unconditionally to be put under option;
- (i) China Merchants Commercial REIT has not issued or agreed to issue any founder units, management units or deferred units;
- (j) none of the equity and debt securities of China Merchants Commercial REIT is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
- (k) China Merchants Commercial REIT has no outstanding convertible debt securities;
- (l) within the two years immediately preceding the date of this Offering Circular, no commissions, discounts, brokerages or other special items have been granted or paid to any Director, proposed Director, promoter, any of the parties listed in paragraph 2 of this Appendix nor any other person in connection with the issue or sale of any Units or shares or loan capital of China Merchants Commercial REIT or any of the companies controlled by it;
- (m) there are no arrangements in existence under which future dividends are to be waived or agreed to be waived; and
- (n) there have been no interruptions in the business of the Frontier Shekou and its subsidiaries or the Vendor which may have or have had a significant effect on the financial position of the Frontier Shekou and its subsidiaries or the Vendor, taken as a whole, in the last 12 months.

This Appendix VIII should be read by prospective investors in China Merchants Commercial REIT who are domiciled, or whose principal place of business, is in a member state of the European Union.

The REIT Manager proposes to market the Units in the United Kingdom, which is a member state of the European Union. The REIT Manager will therefore be subject to the Alternative Investment Fund Managers Directive of the European Union (the “**AIFM Directive**”).

Accordingly, the table below sets out certain information about China Merchants Commercial REIT which the REIT Manager is required to provide to prospective investors in China Merchants Commercial REIT under Article 23(1) of the AIFM Directive. This Appendix VIII should be read in conjunction with, and prospective investors in China Merchants Commercial REIT should read carefully, the Offering Circular dated 28 November 2019 (“**Offering Circular**”).

Each expression which is used in this Appendix VIII and not otherwise defined has the meaning given to it in this Offering Circular.

<u>DISCLOSURE TO INVESTORS</u>	<u>CROSS REFERENCE AND RELEVANT COMMENTS</u>
(a) A description of the investment strategy and objectives of the AIF (as defined in the AIFM Directive).	Please see the information which is set out under the section headed “Strategy” on pages 111 to 114 of this Offering Circular.
Information on where any master AIF is established and where the underlying funds are established if the AIF is a fund of funds.	China Merchants Commercial REIT is not a master AIF within the meaning of the AIFM Directive.
A description of the types of assets in which the AIF may invest.	Please see: <ul style="list-style-type: none"> ● The information which is set out under the section headed “Overview of China Merchants Commercial REIT” on page 2 of this Offering Circular; ● the definition of “Relevant Investments” on page 43 of this Offering Circular; ● the information which is set out under the section headed “Strategy” on pages 111 to 114 of this Offering Circular; and ● the information which is set out under the section headed “The Properties and Business” on pages 115 to 144 of this Offering Circular.

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The techniques it may employ and all associated risks, any applicable investment restrictions.

The circumstances in which the AIF may use leverage, the types and sources of leverage permitted and the associated risks, any restrictions on the use of leverage and any collateral and asset reuse arrangements, and the maximum level of leverage which the AIFM (as defined in the AIFM Directive) are entitled to employ on behalf of the AIF.

CROSS REFERENCE AND RELEVANT COMMENTS

Please see the information which is set out under the sections headed:

- “Risk Factors” on pages 67 to 98 of this Offering Circular;
- “Strategy” on pages 111 to 114 of this Offering Circular; and
- “Investment Restrictions” on page 255 of this Offering Circular.

Please see the information which is set out under the sections headed:

- “The amount that China Merchants Commercial REIT can borrow is limited, which may affect the operations of China Merchants Commercial REIT” under the section headed “Risk Factors” on page 73 of this Offering Circular;
- “Capital and risk management strategy” on page 114 of this Offering Circular which restricts the maximum amount of borrowing to 45%, or such other percentage (as may, from time to time, be prescribed by the REIT Code) of its total gross asset value; and
- “Facility Agreements” on pages 278 and 280 of this Offering Circular.

DISCLOSURE TO INVESTORS	CROSS REFERENCE AND RELEVANT COMMENTS
(b) A description of the procedures by which the AIF may change its investment strategy or investment policy, or both.	Please see the information which is set out under the section headed “Strategy” on page 111 of this Offering Circular, which requires the REIT Manager to seek Unitholders’ approval to amend the investment scope, as set out in the Trust Deed, and to comply with all applicable requirements under China Merchants Commercial REIT code.
(c) A description of the main legal implications of the contractual relationship entered into for the purpose of investment, including Information on jurisdiction and on the applicable law and on the existence or not of any legal instruments providing for the recognition and enforcement of judgments in the territory where the AIF is established.	<p>An investor in China Merchants Commercial REIT will subscribe for units in, and become a unitholder of, China Merchants Commercial REIT in accordance with the provisions of the Global Offering (see pages 328 to 336 of this Offering Circular).</p> <p>The terms and conditions which govern China Merchants Commercial REIT are set out in the Trust Deed and shall be binding upon each investor in China Merchants Commercial REIT.</p> <p>China Merchants Commercial REIT is established under, and the Trust Deed is governed by, the laws of Hong Kong.</p> <p>If a final and conclusive judgment under which a fixed sum of money is payable were obtained from the courts in England and Wales in respect of China Merchants Commercial REIT, that judgment could be enforced in Hong Kong by way of common law.</p> <p>In essence, the common law of Hong Kong permits an action to be brought upon a foreign judgment, meaning that a foreign judgment, which is regarded as creating a debt between the parties to it, could form the basis of a cause of action in Hong Kong by the judgment creditor against the judgment debtor.</p>

DISCLOSURE TO INVESTORS**CROSS REFERENCE AND
RELEVANT COMMENTS**

In a common law action for enforcement of a foreign judgment, the judgment creditor has to prove that the foreign judgment is a final judgment conclusive upon the merits of the claim. Such a judgment must be for a fixed sum and must also come from a “competent” court as determined by the private international law rules applied by the Hong Kong courts.

Pursuant to Foreign Judgments (Reciprocal Enforcement) Ordinance (Cap 319, Laws of Hong Kong), if a final and conclusive judgment under which a sum of money is payable (not being an amount payable in respect of taxes or other charges of a like nature or in respect of a fine or other penalty) were obtained in specific courts in Australia, Austria, Belgium, Bermuda, Brunei, France, Germany, India, Israel, Italy, Malaysia, the Netherlands, New Zealand, Singapore and Sri Lanka in respect of China Merchants Commercial REIT, that judgment would, on application to the Hong Kong Courts, be registered and would thereafter be enforceable.

This domestic legislation, however, does not extend to judgments made by the courts in England and Wales.

Hong Kong is currently not a party to any international conventions nor bilateral treaties, such as the Hague Convention, relating to the recognition and enforcement of foreign judgments.

<u>DISCLOSURE TO INVESTORS</u>	<u>CROSS REFERENCE AND RELEVANT COMMENTS</u>
(d) The identity of the AIFM, the AIF's depositary, auditor and any other service providers and a description of their duties and the investors' right.	Please see the information which is set out under the section headed "Parties involved in the Global Offering" on pages 63 to 66 of this Offering Circular. The REIT Manager is a non-European Economic Area AIFM for the purposes of the AIFM Directive and therefore it is not required to appoint a depositary in respect of China Merchants Commercial REIT.
(e) A description of how the AIFM is complying with the requirements of Article 9(7) of the AIFM Directive.	The REIT Manager has, and will maintain the benefit of, directors' and officers' liabilities insurance. Furthermore, the REIT Manager will acquire, and maintain, the benefit of professional indemnity insurance in respect of professional liability risks in accordance with the Fund Manager Code of Conduct of Hong Kong.
(f) A description of any delegated management function as referred to in Annex I by the AIFM and of any safe-keeping function delegated by the depositary, the identification of the delegate and any conflicts of interest that may arise from such delegations.	The REIT Manager has delegated the execution of certain asset management functions to the Onshore Manager Subsidiary pursuant to its general powers of delegation under China Merchants Commercial REIT Code. For more information, please see the information which is set out in the last paragraph on page 212 of this Offering Circular. The REIT Manager has also delegated certain property management functions to the Operations Manager and the Property Manager. For more information, please see the information which is set out under the section headed "Highly experienced and committed management team with a proven track record" on page 5 of this Offering Circular.

DISCLOSURE TO INVESTORS**CROSS REFERENCE AND
RELEVANT COMMENTS**

	<p>As set out above, the REIT Manager is a non-EEA AIFM within the meaning of the AIFM Directive and therefore it is not required to appoint a depositary in respect of China Merchants Commercial REIT.</p> <p>For information about conflicts of interest and details of the processes by which the REIT Manager will manage any such conflicts of interest, please see the information which is set out under the sections headed “Arrangements to mitigate conflicts of interest” on pages 235 to 236 of this Offering Circular and “Conflicts” on pages 243 to 245 of this Offering Circular.</p>
(g) A description of the AIF’s valuation procedure and of the pricing methodology for valuing assets, including the methods used in valuing hard-to-value assets in accordance with Article 19.	<p>Please see the information which is set out under the section headed:</p> <ul style="list-style-type: none">• “Reporting and Transparency” on page 246 of this Offering Circular; and• “Valuations of Investments” on page 256 of this Offering Circular, which states that the methodology shall follow the Valuation Standards on Properties published by the Hong Kong Institute of Surveyors or the International Valuation Standards issued by the International Valuation Standards Council.

DISCLOSURE TO INVESTORS	CROSS REFERENCE AND RELEVANT COMMENTS
<p>(h) A description of the AIF's liquidity risk management, including the redemption rights both in normal and in exceptional circumstances, and the existing redemption arrangements with investors.</p>	<p>Please see the information about liquidity risk management which is set out under the section headed "Strategy" on pages 111 and 114 of this Offering Circular.</p> <p>Units will be tradeable on the Hong Kong Stock Exchange in accordance with the rules which govern the Hong Kong Stock Exchange from time to time.</p> <p>A Unitholder will have no right of redemption in respect of the Units which it acquires from time to time. For more information, please see pages 56, 94 and 254 of this Offering Circular.</p>
<p>(i) A description of all fees, charges and expenses and of the maximum amounts thereof which are directly or indirectly borne by investors.</p>	<p>Please see the information which is set out under the section headed "Certain Fees and Charges" on pages 21 to 23 of this Offering Circular.</p>
<p>(j) A description of how the AIFM ensures a fair treatment of investors and, whenever an investor obtains preferential treatment or the right to obtain preferential treatment, a description of that preferential treatment, the type of investors who obtain such preferential treatment and, where relevant, their legal or economic links with the AIF or AIFM.</p>	<p>China Merchants Commercial REIT has one class of Units. All Units will be listed on the Hong Kong Stock Exchange and will be available to all prospective investors on the same terms and conditions.</p> <p>In certain circumstances, China Merchants Commercial REIT may issue Units after the listing of China Merchants Commercial REIT on the Hong Kong Stock Exchange, which may be at a discount to the price at which Unitholders acquired their Units. For more information, please see the information set out under the section headed "Issues of further Units post-listing" on pages 246 and 247 of this Offering Circular.</p>

	<u>DISCLOSURE TO INVESTORS</u>	<u>CROSS REFERENCE AND RELEVANT COMMENTS</u>
(k)	The latest annual report referred to in Article 22.	This is not applicable as China Merchants Commercial REIT has yet to publish its first annual report.
(l)	The procedure and conditions for the issue and sale of units or shares.	Please see the information set out under the section headed “Issue of Units and/or Convertible Instruments” on pages 250 to 254 of this Offering Circular.
(m)	The latest net asset value of the AIF or the latest market price of the unit or share of the AIF, in accordance with Article 19.	As at the date of this Offering Circular, the net asset value of China Merchants Commercial REIT is not readily available and a prospective investor may acquire a Unit in China Merchants Commercial REIT for the amount set out on the front page of this Offering Circular.
(n)	Where available, the historical performance of the AIF.	As at the date of this Offering Circular the historical performance of China Merchants Commercial REIT is not available.
(o)	The identity of the prime broker and a description of any material arrangements of the AIF with its prime brokers and the way the conflicts of interest in relation thereto are managed and the provision in the contract with the depositary on the possibility of transfer and reuse of AIF assets, and information about any transfer of liability to the prime broker that may exist.	The REIT Manager is a non-EEA AIFM within the meaning of the AIFM Directive and therefore it is not required to appoint a prime broker in respect of China Merchants Commercial REIT.

	DISCLOSURE TO INVESTORS	CROSS REFERENCE AND RELEVANT COMMENTS
(p)	<p>A description of how and when the following information will be disclosed.</p> <ul style="list-style-type: none">• The percentage of the AIF's assets which are subject to special arrangements arising from their illiquid nature;• any new arrangements for managing the liquidity of the AIF;• the current risk profile of the AIF and the risk management systems employed by the AIFM to manage those risks;• any changes to the maximum level of leverage which the AIFM may employ on behalf of the AIF as well as any right of the reuse of collateral or any guarantee granted under the leveraging arrangement; and• the total amount of leverage employed by that AIF.	<p>As part of the wider corporate governance of China Merchants Commercial REIT, a Disclosures Committee has been established which will be responsible for reviewing matters relating to the disclosure of information to Unitholders and public announcements. For further information, please see pages 242 and 243 of this Offering Circular.</p>

