THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

This Circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of CMC REIT.

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 authorized under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

(Stock Code: 01503)

Managed by

China Merchants Land Asset Management Co., Limited

CIRCULAR TO UNITHOLDERS IN RELATION TO
(1) MAJOR AND CONNECTED PARTY TRANSACTIONS OF CHINA MERCHANTS COMMERCIAL REAL ESTATE INVESTMENT TRUST RELATING TO THE PURCHASE OF 51% OF A COMPANY, REPRESENTING A 46.41% EFFECTIVE INTEREST IN A PROPERTY IN BEIJING, PRC
(2) CONTINUING CONNECTED PARTY TRANSACTIONS
(3) EXTRAORDINARY GENERAL MEETING AND CLOSURE OF REGISTER OF UNITHOLDERS

Financial Adviser to the Manager

CMS 招商證券國際

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

SOMERLEY CAPITAL LIMITED

A letter to the Unitholders is set out on pages 24 to 99 of this Circular.

A notice convening the EGM to be held at Small Connaught Room, Mandarin Oriental, 5 Connaught Road, Central, Hong Kong on 30 June 2022 at 11:00 a.m. is set out on pages N-1 to N-3 of this Circular. Whether or not you are able to attend and vote at the EGM in person, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return it to the unit registrar of CMC REIT, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

To protect the attending Unitholders, staff and other stakeholders from the risk of infection of coronavirus disease 2019 ("**COVID-19**"), CMC REIT will implement certain precautionary measures at the EGM against the pandemic. Please refer to the section "Precautionary Measures for the EGM" in this circular.

14 June 2022

In order to safeguard the health and safety of Unitholders and other attendees and to minimise the risk of spreading of COVID-19, the Manager will implement the following precautionary measures for the EGM (or any adjournment thereof):

(a) compulsory body temperature screening/check at the entrance of the EGM venue;

(b) compulsory wearing of face masks at all times;

(c) scanning of the "LeaveHomeSafe" venue QR code;

(d) complying with the requirements of the "Vaccine Pass Direction"#;

(e) maintaining a safe distance between seats to ensure social distancing;

(f) no refreshments or drinks will be served; and

(g) no souvenirs will be provided.

"Vaccine Pass Direction" is defined under the Prevention and Control of Disease (Vaccine Pass) Regulation (Cap. 599L of the Laws of Hong Kong)

The Manager reserves the right to deny entry into the EGM venue if any person:

(i) refuses to comply with any of the precautionary measures referred to in (a) to (g) above;

(ii) has a body temperature of over 37.4 degree Celsius; or

(iii) is subject to health quarantine prescribed by the Government of Hong Kong or has close contact with any person under quarantine.

The above precautionary measures take time to complete and therefore, Unitholders are advised to arrive earlier in order to enter the EGM venue on time. The Manager seeks the understanding and cooperation of Unitholders to minimise the risk of spreading of COVID-19.

The Manager reminds that attendees should carefully consider the risks of attending the EGM, taking into account their own personal circumstances. In the interest of all Unitholders' health and safety and in view of the recent COVID-19 guidelines for prevention and control, the Manager wishes to remind all Unitholders that physical attendance at the EGM is not necessary for the purpose of exercising voting rights. As an alternative, by using the proxy forms with voting instructions inserted, Unitholders may appoint the chairman of the EGM as their proxy to vote on the relevant resolution at the EGM instead of attending the EGM in person. Completion and return of the proxy forms will not preclude the Unitholders from attending and voting in person at the EGM (or any adjournment thereof) should they subsequently so wish, and in such case, the proxy forms previously submitted shall be deemed to be revoked. The deadline for submission of completed proxy forms is 11:00 a.m. on 28 June 2022.

For any questions relating to the EGM, please contact the unit registrar of CMC REIT, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by post or by telephone ((852) 2980 1333) or by email (is-enquiries@hk.tricorglobal.com). The Manager will keep the evolving COVID-19 situation under review and will, if necessary, announce the implementation of any additional measures before the date of the EGM.

This overview section is qualified in its entirety by, and should be read in conjunction with, the full text of this Circular. Words and expressions not defined herein shall have the same meaning as in the main body of this Circular unless otherwise stated. Meanings of defined terms may be found in the "Definitions" section of this Circular.

BACKGROUND

CMC Real Estate Investment Trust is a real estate investment trust, the units of which were first listed on The Stock Exchange of Hong Kong Limited on 10 December 2019. CMC REIT's current portfolio includes one shopping mall, one Grade A office and three Grade B offices.

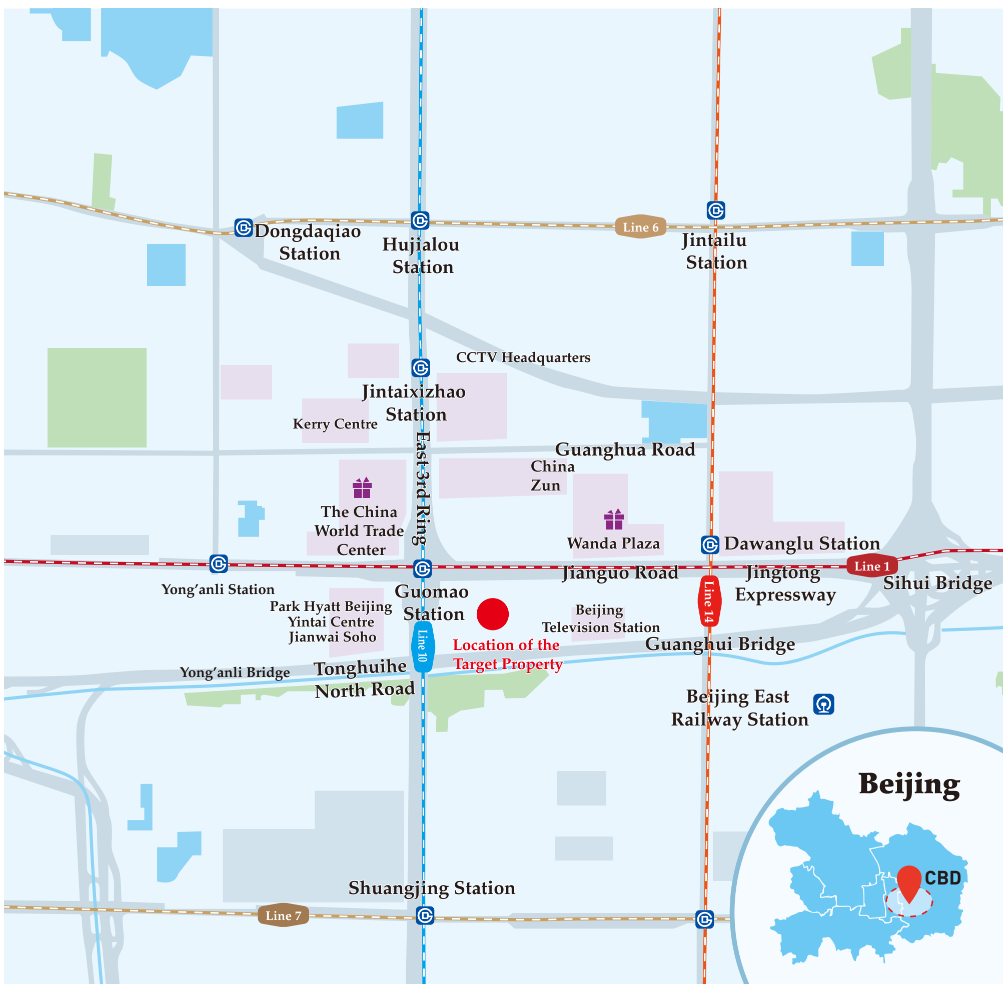
THE ACQUISITION

On 13 June 2022, CMC REIT (through the Purchaser), the Vendor and the Warrantor entered into the Sale and Purchase Deed, pursuant to which the Purchaser agreed to purchase, and the Vendor agreed to sell, the Target Shares, representing 51% of the equity interest in the Target Company. The Target Company is the indirect holding company of the PRC Subsidiary, which in turn is the registered legal owner of the land use rights and current ownership rights underlying the Target Property. The Target Shares represent a 46.41% effective interest in the PRC Subsidiary and the Target Property.

The Agreed Property Value is RMB2,700,000,000, being the asset value of the Target Property agreed by the Vendor and the Purchaser, and which represents a discount of approximately 1.1% to the Appraised Value (being RMB2,730,000,000 as at 31 March 2022). In November 2021, CMSK (the holding company of the Vendor) acquired 80% of the interest in the Vendor from its joint venture partner (being an independent third party) for a consideration amount of RMB2,097,600,000. In 1994, the PRC Subsidiary acquired the land use rights underlying the development known as Onward Science & Trade Center (招商局航華科貿中心) from Beijing Municipal Bureau of Housing for certain consideration, 20% of which is equivalent to RMB78,958,000. The agreed value of the Target Property for the acquisition in November 2021 of 80% of the interest in the Vendor was an amount equivalent to the Agreed Property Value of RMB2,700,000,000.

KEY INFORMATION OF THE TARGET PROPERTY

China Merchants Tower, AIA NPA Center, the 01-04 Connecting Podium, China Merchants Bank Building, China HP Building, Hengqin Life Tower, Inner Peace, ICBC Building and Taiping Financial Centre collectively constitute the development known as Onward Science & Trade Center (招商局航華科貿中心). Onward Science & Trade Center is a 320,000 sq.m. integrated property development, consisting of 4 office towers and 2 apartment buildings as well as the podium. The development was completed in 1998 and begun operations by 1999. The development has been partially sold by the PRC Subsidiary over the years, resulting in dispersed ownership between itself and other owners.



The Target Property comprises the following units of the development known as Onward Science & Trade Center (招商局航華科貿中心) located at 108, 108A, 108B, 110, 112, 116, 118, 118A and 118B Jianguo Road, Chaoyang District, Beijing, PRC:

(a) 15 office/multi-function units and 3 commercial units (being Grade A offices) at the 34-storey office building known as "China Merchants Tower";

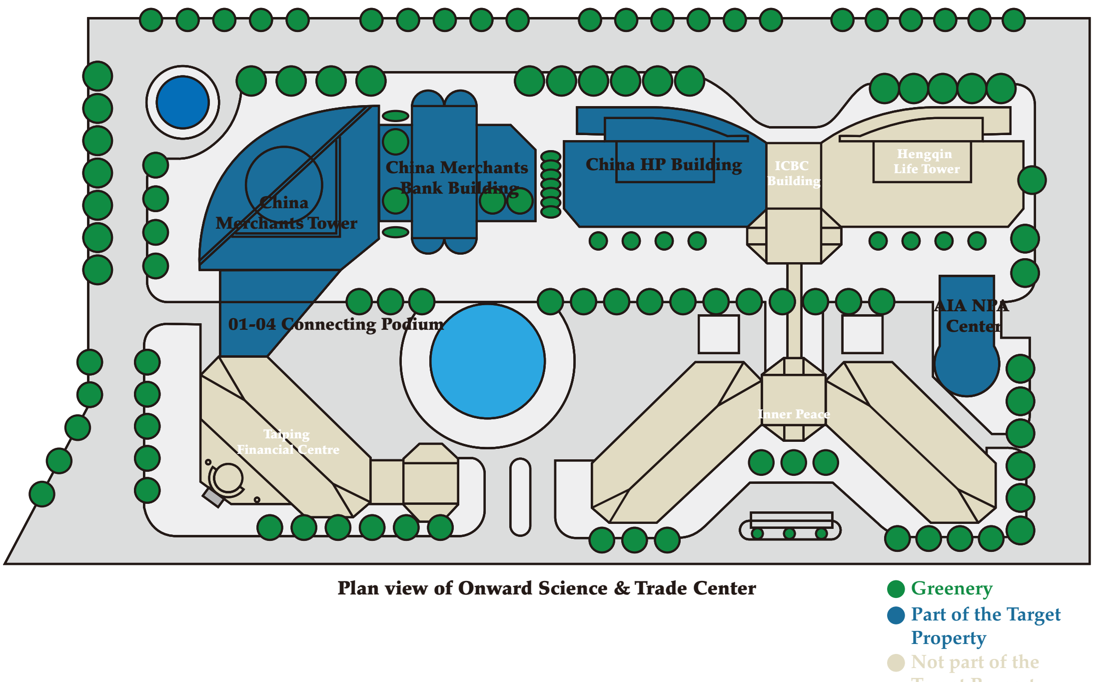
(b) 1 commercial unit (1st to 4th floor, 101) at the 4-storey commercial building known as "AIA NPA Center";

(c) 1 commercial unit (1st floor, 101) at the connecting podium known as the "01-04 Connecting Podium", connecting China Merchants Tower and Taiping Financial Centre;

(d) 1 commercial unit (1st to 3rd floor, 101) at the 3-storey commercial building known as "China Merchants Bank Building";

(e) 2 commercial units (3rd floor, 301 and 4th floor, 401) at the 18-storey office building known as "China HP Building"; and

(f) 528 underground car park spaces and 3 underground commercial units variously located at Hengqin Life Tower, AIA NPA Center, Inner Peace, ICBC Building, China HP Building, China Merchants Bank Building, China Merchants Tower, the 01-04 Connecting Podium and Taiping Financial Centre.



Plan view of Onward Science & Trade Center

Note: The underground car park spaces and underground commercial units variously located at Hengqin Life Tower, AIA NPA Center, Inner Peace, ICBC Building, China HP Building, China Merchants Bank Building, China Merchants Tower, the 01-04 Connecting Podium and Taiping Financial Centre are not reflected in this plan view.

The table below sets out a summary of certain key information on the Target Property as at 31 March 2022, unless otherwise indicated:

Portion	Approximate Gross Floor Area (sq.m.)	Approximate Gross Rentable Area (sq.m.)	Expiry of Land Use Right
Commercial (Level 1 to Level 4 of China HP Building, China Merchants Bank Building, AIA NPA Center and 01-04 Connecting Podium, excluding Level 4 of China Merchants Tower)	15,020.24	15,020.24	August 28th, 2034
Multi-function/Office (Level 4, Level 9 to Level 14, Levels 18, 19, 29, 30 and Level 32 to Level 34 of China Merchants Tower)	21,856.81	21,856.81	August 28th, 2044
Commercial (Basement mezzanine level of Target Property**)	3,946.94	3,946.94	August 28th, 2044
528 car parking spaces in basement**	7,546.27	N/A	August 28th, 2044
Total:	**48,370.26**	**40,823.99**	

** Variously located at Hengqin Life Tower, AIA NPA Center, Inner Peace, ICBC Building, China HP Building, China Merchants Bank Building, China Merchants Tower, the 01-04 Connecting Podium and Taiping Financial Centre

Average rent (RMB/sq.m./month) for the month of March 2022[(2)]	RMB326.83 (based on gross rented area)
Occupancy rate as at 31 March 2022	66.4%
Total monthly rent as at 31 March 2022	RMB8,860,000, representing an estimated net property yield of 3.9%
Appraised Value as at 31 March 2022	RMB2,730,000,000

FINANCING OF THE ACQUISITION

The purchase consideration for the Acquisition shall be equal to the Initial Consideration (being RMB1,341,537,262), and subject to either of the following payments after the Completion Date: (a) if the Adjusted NAV (as set out in the Completion Statement) is higher than RMB88,467,262 (being the Initial Adjusted NAV), the Purchaser shall pay the difference to the Vendor; or (b) if the Adjusted NAV (as set out in the Completion Statement) is lower than RMB88,467,262, the Vendor shall pay the difference to the Purchaser, in each case as set out in the Completion Statement.

The Manager shall finance the Consideration by drawing down from the New Facility.

INDEBTEDNESS TO VENDOR GROUP

Prior to Completion, the Vendor shall procure a member of the Vendor Group to provide an interest-free and unsecured loan to the Panama Subsidiary in the amount of the outstanding principal and accrued interest under the Mingyuan Dalian Bank Loan I and the Mingyuan Dalian Bank Loan II on terms satisfactory to the Purchaser and the Panama Subsidiary shall fully repay such outstanding amount under the Mingyuan Dalian Bank Loan I and the Mingyuan Dalian Bank Loan II prior to Completion.

The total outstanding amount under this loan from the Vendor Group to the Panama Subsidiary is expected to be approximately RMB119,000,000 at Completion.

NEW FACILITY

The Manager has entered into a commitment letter with the Banks for the provision of the New Facility. The New Facility is denominated in Hong Kong dollars for an amount of up to the Hong Kong dollar equivalent of RMB1,400,000,000. The New Facility is provided in two tranches, with the first tranche of the Hong Kong dollar equivalent of RMB1,300,000,000 bearing interest at 1.0% per annum over 1-month or 3-month HIBOR (provided that it is drawn down on or before 11 July 2022) and the second tranche of the Hong Kong dollar equivalent of RMB100,000,000 bearing interest at 0.9% per annum over 1-month or 3-month HIBOR, and each tranche will mature and become repayable in 12 months from the date of first utilisation. Each of the Trustee, Frontier Shekou, Existing Group Companies (BVI) and Existing Group Companies (Hong Kong) will provide an unconditional and irrevocable guarantee in favour of the Banks in respect of the New Facility.

The Manager shall finance the Consideration by drawing down on the New Facility.

The Manager has already received a bank term sheet for the Refinancing Facility of up to RMB3,900,000,000 to refinance the New Facility and Existing CMC REIT Group Facilities. The Refinancing Facility will mature and become repayable by 36 months from the first drawdown date and bear interest of 1.4% per annum over 3-month HIBOR.

EXPECTED GEARING RATIO

Based on the Unaudited Pro Forma Financial Information of the Enlarged Group set out in Appendix 4 headed "Unaudited Pro Forma Financial Information of the Enlarged Group" to this Circular, the pro forma adjusted ratio of debt to total assets of CMC REIT is anticipated to increase from 29.2% (as disclosed in its annual report for the year ended 31 December 2021) to approximately 33.1% immediately following Completion, assuming: (i) completion of the Acquisition; and (ii) HKD1,640,823,462 (equivalent to approximately RMB1,341,537,262) drawn down from the New Facility based on the consideration of the Target Shares as at 31 December 2021. Such ratio is below the 50% limit permitted under the REIT Code.

REASONS FOR AND BENEFITS OF THE ACQUISITION

1. DPU accretive acquisition

The Acquisition is expected to improve the DPU to existing Unitholders. Based on the pro forma financials as set out in section 6.2 headed "Financial Effects of the Acquisition" — "Pro Forma DPU" of this Circular, if the Acquisition had been completed on 1 January 2021 and based on the other assumptions in section 6, CMC REIT's pro forma DPU would have increased by 5.6% from RMB0.1511 to RMB0.1596 based on the New Facility (and by 3.3% from RMB0.1511 to RMB0.1560 based on the Refinancing Facility) for the twelve months ended 31 December 2021, due to the stable income produced from the Target Property.

2. Geographical diversification and enlargement of portfolio scale

The Acquisition is expected to geographically diversify CMC REIT's asset portfolio, which is currently concentrated in the Shekou area of Shenzhen. Post completion of the Acquisition, the attributable fair value of the properties of CMC REIT located in Shenzhen would decline from 100.0% to 71.4% based on the fair value as at 31 December 2021 for CMC REIT's existing properties. The Acquisition in Beijing would embark a start to CMC REIT's expansion from Shenzhen to other top tier cities in the PRC. The Acquisition is also expected to broaden CMC REIT's tenant base to reputable domestic and multi-national corporations.

Following the Acquisition, the fair market value of CMC REIT's portfolio is expected to increase by 40.0%, based on the fair value as at 31 December 2021 for CMC REIT's existing properties. The total assets for CMC REIT would exceed RMB10 billion.

3. Capture high office demand opportunity in the most vibrant city in China

Based on the Market Consultant's Report, Beijing's GDP reached approximately RMB4.03 trillion in 2021, increasing by 11.4% over the previous year at comparable prices. More than 4,500 foreign-invested enterprises have been established in Beijing, with over 15 billion USD foreign direct investment introduced. The growing strength of the Beijing economy as one of the growing international business centres in the world is likely to provide high demand in office rental units.

4. Prestigious location of Guomao CBD

The Target Property is a commercial building strategically located in Guomao Central Business District ("**CBD**" or "**Guomao CBD**") in the Chao Yang District of Beijing, the PRC's capital city. Guomao CBD is one of the most prestigious international business districts in PRC, home to the world's leading business in the financial, media, information technology, consulting and service industries. The Target Property is directly connected to one of Beijing's main roads, Jianguo Road (also known as the east extension of Changan Road), and is within walking distance from Guomao Station, which is one of the busiest interchange stations in Beijing.

5. Newly refurbished office building with rental uplift potential after 1st new leasing cycle

The Target Property has been undergoing major refurbishment and renovation since 2019 and this was largely completed at the end of 2021. The remaining work, mainly mechanical and engineering upgrades, is expected to be completed by the first half of 2022. The average rent of the Target Property of RMB326.8/sq.m./month as at 31 March 2022 is below the market rent which ranges from RMB340/sq.m./month to RMB450/sq.m./month, as set out on page A6-25 of this Circular, and over 50% of the Leases will expire by 2024. These factors together are likely to lead to a rental uplift after the first new leasing cycle and contribute to higher revenue.

6. Extensive and well-diversified tenants base, stable income

The Target Property has a solid tenant profile with over 80% of its tenants in the finance and banking sector and the professional services sector. The extensive and well-diversified tenants base will yield high average monthly rent, boosting and stabilising CMC REIT's income stream in the long term.

7. Rental uplift potential from retail leasing

The Target Property consists of commercial and office units, which commercial units are currently mostly leased out to corporate tenants for business use. As advised by the Market Consultant, the average retail rent in CBD was around RMB400-700 per sq.m. per month in Q4 2021, which is higher than the average rent of RMB326.83 per sq.m. per month of the Target Property in March 2022. The Manager is of the view that the commercial units of the Target Property would provide flexibility for CMC REIT to better cater to market need and adjust the tenant mix, thereby unlocking the rental uplift potential.

8. Reduction of risk

Balanced against the benefits arising from the diversification of CMC REIT's portfolio and tenant base, the Manager is also of the view that acquiring a 51% (and not 100%) interest in the Target Company mitigates risks associated with managing the Target Property and limits CMC REIT's obligations and liabilities pertaining to the Target Property to its proportionate interest in the Target Company.

By virtue of the Vendor retaining 49% of its interest in the Target Company post-Acquisition, the Purchaser benefits from having its interest aligned with CMSK (being the holding company of the Vendor), which has a sizeable local presence in Beijing and requisite experience in managing the Target Property. CMSK currently operates 3 office projects located in different districts in Beijing, totalling 220,000 sq.m. of gross floor area. CMSK also has a nationwide presence and is able to provide a wide range of tenant resources to the Target Property.

The acquisition of a 51% interest in the Target Company would also reduce the immediate financial burden on CMC REIT that would otherwise be associated with the acquisition of 100% interest in the Target Company, and the Acquisition is expected to result in a gearing ratio within the 50.0% borrowing limit under the REIT Code. CMC REIT retains a right of first offer to purchase the remaining 49% interest in the Target Property under the terms of the Shareholders' Agreement.

SUMMARY OF KEY RISK FACTORS

This section only provides some (but not all) of the risk factors in relation to the Acquisition. These risks include (i) risks relating to CMC REIT; (ii) risks relating to the Target Property; and (iii) risks relating to the real estate industry and the PRC. Some of the key risks in relation to the Acquisition are set out below. Unitholders should read and consider carefully the risk factors as more fully described in Appendix 7 headed "Risk Factors" before deciding to vote on the Transaction Matters Requiring Approval.

Risks relating to CMC REIT

- CMC REIT's results of operations may be adversely affected if the Operations Manager, Existing Properties Property Manager or the Property Manager fails to operate and manage the properties of CMC REIT (including the Target Property) in an effective and efficient manner or the REIT Manager decides to terminate operations management agreements (including the Operations Management Agreement) or property management agreements (including the Property Management Agreement) before expiration or decides not to renew such agreements upon expiration.

- CMC REIT may face risks associated with debt financing and the debt covenants in the facility agreements which could limit or adversely affect CMC REIT's operations.

- Pandemics, geopolitical tensions and other macro factors may negatively affect property investments.

- RMB is not freely convertible. There are significant restrictions on the remittance of RMB into and out of the PRC, and the ability of the PRC Subsidiary to remit RMB to Hong Kong and the ability of CMC REIT to make distributions may be subject to future limitations imposed by the PRC government.

- Decreases in property values as a result of the revaluation of the properties could result in a decrease in the annual consolidated net profit of CMC REIT for that year and may also trigger certain events of default which may lead to adverse consequences under certain facility agreement.

- Fluctuations in the value of RMB could affect the amount of distributions to Unitholders.

- Changes in market interest rates may adversely affect the property market and could negatively affect CMC REIT's ability to pay interest on its bank borrowings.

Risks relating to the Target Property

- CMC 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 CMC REIT's financial condition and results of operations.

- The Target Property is 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 Subsidiary will have to pay and additional conditions which may be imposed if the Manager decides to seek an extension or renewal of the land use rights for the Target Property.

- The land which the Target Property occupies 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 CMC REIT may not be sufficient.

- The Appraised Value is based on various assumptions and the price at which CMC REIT is able to sell the Target Property may be different from the Appraised Value or the initial acquisition price of the Target Property.

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

- The Target Property's success depends on the ability of the Manager to cooperate with the Vendor in operating the Target Group and the Target Property. Failure to cooperate in an efficient and effective manner could have a material adverse effect on the value of the Target Property and CMC REIT's results of operations.

- The Target Property is subject to concentration risk. The departure of major tenants at the Target Property may have a material adverse effect on CMC REIT's business, financial condition and results of operations.

- The Manager does not have any prior experience with owning, operating and managing properties in Beijing.

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 ability of CMC 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 CMC REIT's distributions to Unitholders.

- CMC REIT is subject to extensive PRC regulatory control on foreign investment in the real estate sector.

- CMC REIT may be adversely affected by the illiquidity of property investments.

Completion of the Acquisition is conditional upon satisfaction of the conditions precedent, which includes Unitholders' approval being obtained at the EGM for the Transaction Matters Requiring Approval, and accordingly, may or may not complete. Unitholders, as well as any prospective investors of CMC REIT, are advised to exercise caution when dealing in the Units.

TABLE OF CONTENTS

CMC REIT	China Merchants Commercial Real Estate Investment Trust (招商局商業房託基金), a collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO subject to applicable conditions from time to time
Manager	China Merchants Land Asset Management Co., Limited (in its capacity as manager of CMC REIT) Room 2603 to 2606, 26/F, China Merchants Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central Hong Kong
Directors of the Manager	*Non-executive Directors:* Huang Junlong *(Chairman)* Yu Zhiliang Liu Ning *Executive Director:* Guo Jin *Independent Non-executive Directors:* Lin Hua Lin Chen Wong Yuan Chin, Tzena
Trustee	DB Trustees (Hong Kong) Limited (in its capacity as trustee of CMC REIT) 60/F, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
Unit Registrar and Transfer Office	Tricor Investor Services Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Legal Advisers to the Manager as to Hong Kong law	Freshfields Bruckhaus Deringer 55th Floor, One Island East Taikoo Place, Quarry Bay Hong Kong
Legal Advisers to the Manager as to PRC law	JunHe LLP 20/F, China Resources Building, 8 North Jianguomen Avenue, Beijing

Legal Advisers to the Trustee as to Hong Kong law	Allen & Overy 9th Floor Three Exchange Square Central, Hong Kong
Reporting Accountants	Deloitte Touche Tohmatsu Registered Public Interest Entity Auditors 35/F, One Pacific Place 88 Queensway Hong Kong
Financial Advisers to the Manager	China Merchants Securities (HK) Co., Limited 48/F., One Exchange Square, Central Hong Kong
Independent Financial Adviser to the Independent Board Committee of the Manager, the Independent Unitholders and the Trustee	Somerley Capital Limited 20/F, China Building, 29 Queen's Road, Central
Independent Property Valuer	Cushman & Wakefield Limited 27/F, One Island East, Taikoo Place, 18 Westlands Road, Quarry Bay Hong Kong
Market Consultant	Knight Frank Petty Limited 4/F, Shui On Center, Wanchai, Hong Kong

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

"01-04 Connecting Podium"	has the same meaning ascribed to it in section 5.1.1 headed "Information on the Target Property" — "the Property" — "Description" in this Circular
"Accountant's Report"	the report dated 14 June 2022 from the Reporting Accountants regarding the Target Group, the text of which is set out in Appendix 2 headed "Accountant's Report of the Target Group" in this Circular
"Acquisition"	the proposed acquisition by the Purchaser from the Vendor of the Target Shares and the assignment of the Assigned Payables pursuant to the Sale and Purchase Deed
"Acquisition Fee"	the acquisition fee that the Manager is entitled to, as more particularly described in section 2.9.2 headed "Acquisition Fee" in this Circular
"Acquisition Loan"	the secured term loan to be obtained by the Purchaser from the Banks or their respective affiliates to finance the Purchaser's payment obligations for the Acquisition, being the New Facility
"Adjusted NAV"	has the same meaning ascribed to it in section 2.5.2 headed "Consideration and payment terms for the Acquisition" in this Circular

"Adjustments"	adjustments of certain items which are charged or credited to the consolidated statement of profit or loss and other comprehensive income for the relevant financial year or the relevant distribution period (as the case may be) of CMC REIT and SPVs (pro-rated, if applicable to CMC REIT's interest in the real estate held), including, but not limited to: (i) unrealised property revaluation gains 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 properties and/or disposal of the SPV or Joint Venture Entity which holds such properties; (v) fair value gains and losses on financial instrument; (vi) deferred tax charges/credits in respect of property valuation movements, 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 management fee payable to the Manager 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; (xi) depreciation and amortisation in respect of a real estate directly or indirectly owned by CMC 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 statements of profit or loss and other comprehensive income for the financial year; (xiii) the effects of any amount paid to the Manager, the Trustee or CMC REIT pursuant to the Committed DPU or otherwise for the express purpose of distribution to the holders; and (xiv) sharing of profits or losses of Joint Venture Entities which are minority-owned by the CMC REIT
"Agreed Property Value"	RMB2,700,000,000, which represents the asset value of the Target Property agreed by the Vendor and the Purchaser

"AIA NPA Center"	has the same meaning ascribed to it in section 5.1.1 headed "Information on the Target Property" — "the Property" — "Description" in this Circular
"Amended and Restated Operations and Property Management Framework Agreement"	the framework agreement dated 13 June 2022 entered into by the Manager (on behalf of the Group) and Eureka setting out the terms and conditions and pricing policy governing the Operations and Property Management Transactions for the period from 1 January 2022 to 31 December 2024
"Annual Caps"	has the same meaning ascribed to it in section 7.3 headed "Historical Amounts and Annual Caps" in this Circular
"Appraised Value"	the value of the Target Property as at 31 March 2022 as appraised by the Independent Property Valuer, being RMB2,730,000,000
"Assignable Payables" or "Payables"	the Target Company's indebtedness to the Vendor (including the Declared Dividend), the amount of which is approximately RMB2,316,398,000 as at the date of the Sale and Purchase Deed. For the avoidance of doubt, the relevant member of the Target Group's indebtedness to the relevant members of the Vendor Group arising from the loans to be provided by such members of the Vendor Group for the repayment of the outstanding principal and accrued interest under the Existing Group Facilities will remain outstanding after the Completion and will not be regarded as Assignable Payables
"Assigned Payables"	51% of the Assignable Payables
"associate"	has the meaning ascribed to this term in the REIT Code
"Banks"	DBS Bank Ltd., China Minsheng Banking Corp., Ltd and CMB Wing Lung Bank Limited
"Board"	the board of Directors

"Business Day"	any day (excluding Saturdays, Sundays, public holidays and days 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 and the PRC
"BVI Subsidiary"	Vast Joint Limited, a company incorporated in the BVI
"CAS"	the Basic Standard of the Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006 and specific standards and other relevant regulations issued thereafter
"Cayman Subsidiary"	SA Venice II, a company incorporated in the Cayman Islands
"CBD"	has the same meaning ascribed to it in the section headed "Overview" — "Reasons for and Benefits of the Acquisition" — "4. Prestigious location of Guomao CBD" in this Circular
"CCCC HK"	has the same meaning ascribed to it in section 2.7.2 headed "The Acquisition" — "Joint ownership arrangements" — "Minority interest in the Hong Kong Subsidiary"
"CCPT Matters Requiring Approval"	the Operations and Property Management Transactions under the Amended and Restated Operations and Property Management Framework Agreement and the proposed annual caps applicable thereto for the financial years ending 31 December 2022, 31 December 2023 and 31 December 2024
"China HP Building"	has the same meaning ascribed to it in section 5.1.1 headed "Information on the Target Property" — "the Property" — "Description" in this Circular

"China Indirect Transfer Rules"	the tax notices issued by the PRC State Administration of Taxation in respect of offshore indirect transfers of property of an "establishment or place" situated in the PRC, real estate situated in the PRC, equity interests in PRC resident enterprises and any other property directly held by a non-resident enterprise and whose transfer results in enterprise income tax liability for the non-resident enterprise in accordance with the provisions of the Enterprise Income Tax Law of the PRC, including without limitation, the notice titled "State Administration of Taxation's Bulletin on Several Issues of Enterprise Income Tax on Income Arising from Indirect Transfers of Property by Non-resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (State Administration of Taxation Bulletin 2015 No. 7 (國家稅務總局公告2015年第7號))", as may be amended or supplemented from time to time and including any similar or replacement law and including any applicable laws in the PRC
"China Merchants Bank Building"	has the same meaning ascribed to it in section 5.1.1 headed "Information on the Target Property" — "the Property" — "Description" in this Circular
"China Merchants Tower"	has the same meaning ascribed to it in section 5.1.1 headed "Information on the Target Property" — "the Property" — "Description" in this Circular
"CM Continuing CPTs"	the CM Tenancies and the Operations and Property Management Transactions
"CM Continuing CPTs EGM"	the Extraordinary General Meeting of CMC REIT held on 29 December 2021
"CM Connected Persons Group"	persons who are connected persons of CMC REIT by virtue of their relationships (including but not limited to directors, controlling entities, holding companies, subsidiaries or associates) with Eureka (being a substantial holder) or the Manager
"CM Tenancies"	has the same meaning ascribed to it in section 7.1 headed "Continuing Connected Party Transactions" — "Background" in this Circular

"CMC REIT"	CMC Real Estate Investment Trust (招商局商業房託基金), a Hong Kong collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO
"CMC REIT's Properties"	the properties owned by CMC REIT from time to time, whether held directly through the Trustee or indirectly through one or more SPVs or joint venture entities (where applicable)
"CMG"	China Merchants Group Limited (招商局集團有限公司), a company incorporated in the PRC, and a state-owned enterprise under the direct supervision of the State-owned Assets Supervision and Administration Commission of the State Council in the PRC and which is interested in 64.33% of the share capital of CMSK
"CML"	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"	cities where CML has its property business including Chongqing. Foshan, Guangzhou, Nanjing, Jurong and Xi'an
"CMSK"	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)
"Committed DPU"	the commitment provided by Eureka to the Trustee and the Manager that the DPU of CMC REIT for the period from 1 January 2021 to 31 December 2021 will not be less than HK$0.2541 per Unit
"Completion"	completion of the Acquisition pursuant to the Sale and Purchase Deed
"Completion Date"	the date on which Completion takes place, as more particularly described in section 2.5.5 headed "Completion" in this Circular

"Completion Statement"	the report of the Target Group as at the close of business on the Completion Date, which will be prepared in accordance with the Sale and Purchase Deed
"Conditions"	the conditions precedent to Completion, as more particularly described in section 2.5.5 headed "Conditions Precedent" in this Circular
"connected person(s)"	has the meaning ascribed to this term in the REIT Code
"Consideration"	has the same meaning ascribed to it in section 2.5.2 headed "Consideration and payment terms for the Acquisition" in this Circular
"Cyberport Building"	數碼大廈, an office building complex technically zoned for industrial use located at No. 1079, Nanhai Avenue, Nanshan District, Shenzhen City, Guangdong Province, the PRC
"Declared Dividend"	the dividend declared by the Target Company to the Vendor during the year ended 31 December 2021 but not yet paid to the Vendor
"Deferred Payment Date"	the fifth (5th) Business Day following the fulfilment of all of the conditions subsequent under the definitive agreements of the Acquisition Loan (including but not limited to the completion of registration of the mortgage and/or pledge provided by the Purchaser to the lenders of the Acquisition Loan) or such other date as may be agreed by the Parties
"Deposited Property"	all the assets of CMC REIT, including the Existing Properties currently held in CMC REIT's portfolio and, from and after Completion, the Target Property
"Directors"	the directors of the Manager
"DPU"	distribution per Unit
"EGM"	the extraordinary general meeting of Unitholders convened by and referred to in the EGM Notice

"EGM Notice"	the notice included in this Circular in respect of the EGM to consider and, if thought fit, approve the Matters Requiring Approval
"EGM Record Date"	30 June 2022, being the date by reference to which the eligibility of the Unitholders to participate in the EGM will be determined
"EGM Resolutions"	the Ordinary Resolutions to be passed at the EGM, as set out in the EGM Notice and explained in this Circular
"Encumbrance Discharge Filings"	the documents, files, resolutions, approvals, consents and/or waivers for the release of the Onshore Permitted Encumbrances in satisfaction of all requirements under the applicable laws
"Enlarged Group"	collectively, CMC REIT and the Target Group
"Enlarged Portfolio"	means the Existing Properties and, after Completion, the Target Property
"Eureka"	Eureka Investment Company Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of CMSK
"Existing CM Leasing Framework Agreement"	the framework agreement dated 9 December 2021 entered into by the Manager (on behalf of the Group) and Eureka setting out the framework terms governing the CM Tenancies for the period from 1 January 2022 to 31 December 2024
"Existing CMC REIT Group Facilities"	the Existing CMC REIT Group Offshore Facility and the Existing CMC REIT Group Onshore Facility
"Existing CMC REIT Group Offshore Facility"	the term loan facility for up to the HKD equivalent of RMB2,400 million entered into between DBS Bank Ltd., Hong Kong Branch (as lender) and the Purchaser (as borrower) on 22 November 2019

"Existing CMC REIT Group Onshore Facility"	the term loan facility for up to RMB100 million entered into between DBS Bank (China) Ltd (as lender) and the Existing Group Companies (PRC) (other than Shenzhen Technology Building Real Estate Investment and Management Co., Ltd. (深圳市科大置業管理有限公司)) (as borrowers) on 22 November 2019
"Existing Framework Agreements"	the Existing CM Leasing Framework Agreement and the Existing Operations and Property Management Framework Agreement
"Existing Group Companies (BVI)"	Shekou Net Valley Technology Limited, Shekou Net Valley Technology 2 Limited, Shekou Net Valley Garden City Cyberport Limited, Shekou Garden City Limited, Shekou Times Limited
"Existing Group Companies (Hong Kong)"	Shekou Net Valley Technology (Hong Kong) Limited, Shekou Net Valley Technology 2 (Hong Kong) Limited, Shekou Net Valley Garden City Cyberport (Hong Kong) Limited, Shekou Garden City (Hong Kong) Limited and Shekou Times (Hong Kong) Limited
"Existing Group Companies (PRC)"	Shenzhen Shekou New Times Real Estate Investment and Management Co., Ltd. (深圳蛇口新時代置業管理有限公司),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), 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 Garden City Real Estate Investment and Management Co., Ltd. (深圳市花園城置業管理有限公司)
"Existing Group Facilities"	the Mingyuan Dalian Bank Loan I, the Mingyuan Dalian Bank Loan II and the Onshore Decoration Loan
"Existing Operations and Property Management Framework Agreement"	means the framework agreement dated 9 December 2021 entered into by the Manager (on behalf of the Group) and Eureka setting out the framework terms governing the Operations and Property Management Transactions for the period from 1 January 2022 to 31 December 2024

"Existing Properties"	the properties currently held by CMC REIT, being (i) New Times Plaza; (ii) Cyberport Building; (iii) Technology Building; (iv) Technology Building 2; and (v) Garden City Shopping Centre, and "Existing Property" means any one of them
"Existing Properties Property Manager"	has the same meaning ascribed to it in section 7.4 headed "Continuing Connected Party Transactions" — "Reasons for and Benefits of the Continuing Connected Party Transactions" in this Circular
"Existing Vendor Facilities"	the Vendor 2017 Offshore Facility and the Vendor 2021 Offshore Facility
"F&B"	food and beverage
"Framework Agreements"	Existing CM Leasing Framework Agreement and Amended and Restated Operations and Property Management Framework Agreement
"Frontier Shekou"	Frontier Shekou Commercial Holdings Limited, a BVI business company incorporated in the BVI and the holding company of the Existing Group Companies (BVI), Existing Group Companies (Hong Kong) and Existing Group Companies (PRC)
"Garden City Shopping Centre"	花園城, a shopping centre located at No. 1086, Nanhai Avenue, Nanshan District, Shenzhen City, Guangdong Province, the PRC
"Group"	CMC REIT and the companies or entities directly or indirectly held or controlled by CMC REIT, and "Group Company" means any one of them
"Guomao CBD"	has the same meaning ascribed to it in the section headed "Overview" — "Reasons for and Benefits of the Acquisition" — "4. Prestigious location of Guomao CBD" in this Circular
"Hengqin Life Tower"	has the same meaning ascribed to it in section 5.1.1 headed "Information on the Target Property" — "the Property" — "Description" in this Circular
"HIBOR"	the rate of interest offered on Hong Kong dollars loans by banks in the Hong Kong interbank market for a specified period ranging from overnight to one year

"HK$, HKD or Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	the Hong Kong Financial Reporting Standards
"Hong Kong"	The Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Subsidiary"	Hong Kong Wahsheung Properties (Beijing) Limited 香港華商置業(北京)有限公司, a company incorporated in Hong Kong
"ICBC Tower"	has the same meaning ascribed to it in section 5.1.1 headed "Information on the Target Property" — "the Property" — "Description" in this Circular
"Indebtedness to Vendor Group"	has the same meaning ascribed to it in section 2.10.2 headed "The Acquisition" — "Facilities to be taken out by CMC REIT" — "Indebtedness to Vendor Group" in this Circular
"Independent Board Committee"	the independent committee established by the Board of the Manager to advise the Independent Unitholders on the Matters Requiring Approval, comprising Lin Hua, Lin Chen and Wong Yuan Chin, Tzena, being all of the independent non-executive Directors of the Manager
"Independent Financial Adviser"	Somerley Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee, the Independent Unitholders and the Trustee on the Matters Requiring Approval
"Independent Property Valuer"	Cushman & Wakefield Limited, the current principal valuer of CMC REIT
"Independent Property Valuer's Property Valuation Report"	the valuation report dated 14 June 2022 issued by the Independent Property Valuer in respect of the Target Property, the text of which is set out in Appendix 5 headed "Independent Property Valuer's Property Valuation Report" in this Circular

"independent third party(ies)"	party(ies) which are not connected persons of CMC REIT
"Independent Unitholders"	Unitholders other than those who have a material interest in the relevant resolutions that is different from that of all other Unitholders, within the meaning of paragraphs 8.7F and 9.9(f) of the REIT Code, and who are entitled to vote at the EGM
"INED(s)"	independent non-executive Director(s)
"Initial Adjusted NAV"	means RMB88,467,262, being an amount equal to 51% of the net asset value of the Target Company attributable to the Vendor as at 31 December 2021, based on the management accounts of the Target Company, disregarding the following assets and liabilities: (i) the value of the Target Property; (ii) the property, plant and equipment of the Target Group; (iii) the deferred tax liability in relation to accelerated tax depreciation and change in fair value of investment properties; and (iv) the Assignable Payables
"Initial Consideration"	has the same meaning ascribed to it in section 2.5.2 headed "Consideration and payment terms for the Acquisition" in this Circular
"Initial Payment"	has the same meaning ascribed to it in section 2.5.2 headed "Consideration and payment terms for the Acquisition" in this Circular
"Inner Peace"	has the same meaning ascribed to it in section 5.1.1 headed "Information on the Target Property" — "the Property" — "Description" in this Circular
"Joint Venture Entity"	an entity or partnership or other arrangement in which or through which CMC REIT invests in any jointly owned real estate as contemplated under paragraph 7.7A of the REIT Code, which may be majority-owned or minority-owned by CMC REIT
"Latest Practicable Date"	10 June 2022, being the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information contained in this Circular

"Leases"	the leases entered into between the PRC Subsidiary and the lessees of the Target Property
"Lessees"	the lessees under the Leases
"Listing Rules"	The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Long Stop Date"	the date six (6) months after the date of the Sale and Purchase Deed, or such later date as agreed by the Purchaser and the Vendor in writing
"Loss in Value"	has the same meaning ascribed to it in section 2.5.6 headed "Sale and Purchase Deed" — "Representations, Warranties and Indemnities" in this Circular
"Loss in Value Limitation"	has the same meaning ascribed to it in section 2.5.6 headed "Sale and Purchase Deed" — "Representations, Warranties and Indemnities" in this Circular
"Manager"	China Merchants Land Asset Management Co., Limited (in its capacity as the manager of CMC REIT), a company incorporated under the laws of Hong Kong
"Market Consultant"	Knight Frank Petty Limited
"Market Consultant's Report"	the letter dated 14 June 2022 from the Market Consultant, the text of which is set out in Appendix 6 headed "Market Consultant's Report" in this Circular
"Matters Requiring Approval"	collectively, the Transaction Matters Requiring Approval and the CCPT Matters Requiring Approval
"Mingyuan Dalian Bank Loan I"	the working capital loan for a principal amount of the RMB75,000,000 entered into between the Panama Subsidiary (as borrower) and Bank of Dalian Co., Ltd. Shanghai Branch (as lender) on 10 December 2019
"Mingyuan Dalian Bank Loan II"	the working capital loan for a principal amount of the RMB45,000,000 entered into between the Panama Subsidiary (as borrower) and Bank of Dalian Co., Ltd. Shanghai Branch (as lender) on 24 December 2020

"Minority-owned Property"	real estate which is jointly owned by CMC REIT and in which CMC REIT does not have majority ownership and control
"New Times Plaza"	新時代廣場, an office building located at No. 1, Taizi Road, Nanshan District, Shenzhen City, Guangdong Province, the PRC
"New Facility"	has the same meaning ascribed to it in section 2.10 headed "Facilities to be taken out by CMC REIT" in this Circular
"Offshore Permitted Encumbrances"	the share pledge of all the shares of the BVI Subsidiary and the Panama Subsidiary and 80% shares of the Hong Kong Subsidiary to China Minsheng Banking Corp., Ltd. Hong Kong Branch in connection with the Vendor 2017 Offshore Facility
"Onshore Decoration Loan"	the fixed asset loan agreement for a principal amount of RMB94,000,000 entered into between China Minsheng Bank Co., Ltd. Shanghai Branch (as lender) and the PRC Subsidiary (as borrower) on 25 November 2019
"Onshore Permitted Encumbrances"	(i) the property mortgage over the Target Property created in the interest of, and the pledge of all equity interest of the PRC Subsidiary to, China Minsheng Banking Corp., Ltd. Shanghai Free Trade Zone Branch (中國民生銀行股份有限公司上海自貿試驗區分行) in connection with a term loan facility for a principal amount of RMB3,000,000,000 entered into between China Minsheng Banking Corp., Ltd. Shanghai Free Trade Zone Branch (中國民生銀行股份有限公司上海自貿試驗區分行) (as lender) and the Vendor (as borrower) on 23 November 2017; (ii) the property mortgage over the Target Property created in the interest of China Minsheng Bank Corp., Ltd. Hong Kong Branch in connection with the Vendor 2017 Offshore Facility; (iii) the property mortgage over the Target Property created in the interest of China Minsheng Banking Corp., Ltd. Shanghai Branch (中國民生銀行股份有限公司上海分行) in connection with the Onshore Decoration Loan

"Operations and Property Management Transactions"	has the same meaning ascribed to it in section 7.1 headed "Continuing Connected Party Transactions" — "Background" in this Circular
"Operations Management Agreement"	the operations management agreement to be entered into between the PRC Subsidiary and the Operations Manager at Completion, as more particularly described in section 5.5.2 headed "Operations Management Agreement" in this Circular
"Operations Management Services"	has the same meaning ascribed to it in section 7.2.2 headed "Amended and Restated Operations and Property Management Framework Agreement" in this Circular
"Operations Manager"	China Merchants Shekou Enterprise Management (Shenzhen) Co., Ltd.* (招商蛇口企業管理（深圳）有限公司) or another indirect subsidiary of CMSK, which in each case will be a member of the CM Connected Persons Group
"Ordinary Resolution"	a resolution of Unitholders passed by a simple majority of the votes of those present, whether in person or by proxy, and entitled to vote, where the votes shall be taken by way of poll, but with a quorum of two or more Unitholders holding at least 10% of the Units in issue
"Ordinary Resolution No. 2"	the Ordinary Resolution to approve the Amended and Restated Operations and Property Management Framework Agreement, the Operations and Property Management Transactions under the Amended and Restated Operations and Property Management Framework Agreement and the proposed annual caps applicable to the Operations and Property Management Transactions for the three years ending 31 December 2022, 2023 and 2024
"Other Acquisition Fees and Expenses"	has the same meaning ascribed to it in section 2.9.3 headed "Other Acquisition Fees and Expenses" in this Circular
"Panama Subsidiary"	Ming Yuan Property (Hua Bei) Corporation (明源地產（華北）有限公司), a company incorporated in Panama

"PRC"	The People's Republic of China but excluding, for the purposes of this Circular, Hong Kong, Taiwan and the Macau Special Administrative Region
"PRC Subsidiary"	Onward Science & Trade Center Company Limited * (招商局航華科貿中心有限公司), a company incorporated in PRC and the registered legal owner of the Target Property
"Property Management Agreement"	the building management agreement to be entered into between the PRC Subsidiary and the Property Manager at Completion, as more particularly described in section 5.5.3 headed "Property Management Agreement" in this Circular
"Property Management Services"	has the same meaning ascribed to it in section 7.2.2 headed "Amended and Restated Operations and Property Management Framework Agreement" in this Circular
"Property Manager"	China Merchants Property Management (Beijing) Co., Ltd.* (北京招商局物業管理有限公司) or another indirect subsidiary of CMSK, which in each case will be a member of the CM Connected Persons Group
"Property Mortgage"	(i) the property mortgage over the Target Property created in the interest of China Minsheng Banking Corp., Ltd. Shanghai Free Trade Zone Branch (中國民生銀行股份有限公司上海自貿試驗區分行) in connection with a term loan facility for a principal amount of RMB3,000,000,000 entered into between China Minsheng Banking Corp., Ltd. Shanghai Free Trade Zone Branch (中國民生銀行股份有限公司上海自貿試驗區分行) (as lender) and the Vendor (as borrower) on 23 November 2017; (ii) the property mortgage over the Target Property created in the interest of China Minsheng Banking Corp., Ltd. Hong Kong Branch in connection with the Vendor 2017 Offshore Facility; and (iii) property mortgage over the Target Property created in the interest of China Minsheng Banking Corp., Ltd. Shanghai Branch (中國民生銀行股份有限公司上海分行), in connection with the Onshore Decoration Loan

"Purchaser"	Treasure Supreme International Limited, a company incorporated in the British Virgin Islands and a SPV of CMC REIT, that will, upon Completion, directly hold the Target Shares
"Refinancing Facility"	has the same meaning ascribed to it in section 2.10 headed "Facilities to be taken out by CMC REIT" in this Circular
"REIT"	Real Estate Investment Trust
"REIT Code"	the Code on Real Estate Investment Trusts published by the SFC as amended, supplemented or otherwise modified for the time being
"Reporting Accountants"	Deloitte Touche Tohmatsu
"Revised Annual Cap(s)"	the proposed revised annual cap amount(s) in respect of the Operations and Property Management Transactions for the three years ending 31 December 2022, 2023 and 2024 respectively, as set out in section 7.3.2 headed "Continuing Connected Party Transactions" — "Historical Transaction Amounts and Annual Caps" — "Operations and Property Management Transactions"
"RMB"	Renminbi, the official currency of the PRC
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Sale and Purchase Deed"	the deed for the sale and purchase of 51% of the issued shares in the capital of the Target Company dated 13 June 2022 entered into between the Purchaser, the Vendor and the Warrantor
"Shareholders' Agreement"	has the same meaning ascribed to it in section 2.6 headed "Shareholders' Agreement" of this Circular
"SPV(s)"	special purpose vehicle(s) that is owned and controlled by CMC REIT in accordance with the REIT Code and the Trust Deed
"sq.m."	square metre

"substantial holder"	has the meaning ascribed to this term in the REIT Code
"Taiping Financial Centre"	has the same meaning ascribed to it in section 5.1.1 headed "Information on the Target Property" — "the Property" — "Description" in this Circular
"Target Company"	SA Venice I, an exempted company with limited liability incorporated under the laws of the Cayman Islands which wholly-owns the Cayman Subsidiary and is the indirect owner of the PRC Subsidiary
"Target Group"	collectively: (1) the Target Company; (2) the Cayman Subsidiary; (3) the BVI Subsidiary; (4) the Hong Kong Subsidiary; (5) Panama Subsidiary; and (6) the PRC Subsidiary, and each a "Target Group Company"
"Target Property"	certain units of the development known as Onward Science & Trade Center (招商局航華科貿中心) located at 108, 108A, 108B, 110, 112, 116, 118, 118A and 118B Jianguo Road, Chaoyang District, Beijing, PRC, with 48,370.26 sq.m. of gross floor area in total, as more particularly described in section 5.1.1 headed "Information on the Target Property" — "the Property" — "Description" of this Circular
"Target Property Indemnity"	has the same meaning ascribed to it in section 2.5.6 headed "Sale and Purchase Deed" — "Representations, Warranties and Indemnities" in this Circular
"Target Shares"	51% of the issued shares of the Target Company
"Technology Building"	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"	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
"Total Fees and Charges"	the estimated total fees and charges payable by CMC REIT in relation to the Acquisition as more particularly described in section 2.9 headed "Fees and Charges" in this Circular

"Transaction Documents"	collectively: (1) the Sale and Purchase Deed (details of which are set out in section 2.5 headed "Sale and Purchase Deed" in this Circular); and (2) all other agreements that are to be executed or issued pursuant to the Sale and Purchase Deed
"Transaction Matters Requiring Approval"	the matters which require the approval of the Unitholders at the EGM being: (i) the Acquisition and the transactions contemplated under the Sale and Purchase Deed (including the Indebtedness to Vendor Group); and (ii) the execution of the Shareholders' Agreement and the transactions contemplated thereunder
"Trust Deed"	the deed of trust constituting CMC REIT dated 26 July 2021 and entered into between the Trustee and the Manager, as the same may be amended and supplemented from time to time by any supplemental deed
"Trustee"	DB Trustees (Hong Kong) Limited, in its capacity as trustee of CMC REIT
"Trustee's Additional Fee"	has the same meaning ascribed to it in section 2.9.4 headed "Trustee's Additional Fee" in this Circular
"Unaudited Pro Forma Financial Information of the Enlarged Group"	the unaudited pro forma statement of financial position of the Enlarged Group, the text of which is set out in Appendix 4 headed "Unaudited Pro Forma Financial Information of the Enlarged Group" in this Circular
"Unit"	one undivided unit in CMC REIT
"Unit Registrar"	Tricor Investor Services Limited, in its capacity as the Hong Kong unit registrar of CMC REIT
"United Kingdom"	the United Kingdom of Great Britain and Northern Ireland
"Unitholder(s)"	any person registered as holding a Unit on the register of Unitholders of CMC REIT
"US$, USD or US dollars"	United States dollars, the lawful currency of the United States of America

"Vendor"	Super Alliance Real Estate Partner L.P., a limited partnership formed according to the laws of the Cayman Islands
"Vendor Group"	the group of companies comprising the Vendor, any holding company from time to time of the Vendor and any subsidiary of the Vendor or of any such holding company but excluding each member of the Group
"Vendor 2017 Offshore Facility"	the term loan facility for a principal amount of RMB500,000,000 entered into between China Minsheng Banking Corp., Ltd. Hong Kong Branch (as lender) and the Vendor (as borrower) on 20 November 2017
"Vendor 2021 Offshore Facility"	the term loan facility for a principal amount of RMB2,993,000,000 entered into between among the Vendor (as borrower), the Warrantor (as guarantor) and China Minsheng Banking Corp., Ltd. Hong Kong Branch (as lender) on 23 November 2021
"Warrantor"	means Eureka Investment Company Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of CMSK
"%"	per cent or percentage

* *For identification purpose only*

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

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

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

For the purpose of this Circular, unless otherwise indicated, the conversion of RMB into HKD is calculated at the approximate exchange rate of HKD0.8176 to RMB1.00 as at 31 December 2021. The exchange rate is for illustrative purposes only and does not constitute representation that any amounts have been, could have been, or may be exchanged at the rates or any other rate at all.

Event	**Date & Time**
Latest date and time for lodging transfers of Units to participate and vote in the EGM	24 June 2022 at 4:30 p.m.
Book closure period (both days inclusive) to determine the eligibility of Unitholders to participate and vote in the EGM	27 June 2022 to 30 June 2022
Latest date and time for lodging proxy forms for the EGM	28 June 2022 at 11:00 a.m.
EGM Record Date	30 June 2022
Date and time of the EGM	30 June 2022 at 11:00 a.m.
Completion of the Acquisition (if the approval sought at the EGM for the Acquisition and the transactions contemplated under the Sale and Purchase Deed is obtained)	The 5th Business Day after the satisfaction (or, where permitted, waiver) of all the Conditions (which in turn shall be satisfied or waived before the Long Stop Date), or such other date as may be agreed in writing between the Purchaser and the Vendor

Further announcement(s) will be made by the Manager in relation to those events which are scheduled to take place after the EGM, including the poll results of the EGM and Completion of the Acquisition, as and when appropriate in accordance with applicable regulatory requirements.

Completion of the Acquisition is subject to and conditional upon satisfaction of the Conditions (as set out in section 2.5.4 of the Letter to the Unitholders headed "Conditions Precedent" in this Circular), which includes Unitholders' approval being obtained at the EGM for the Transaction Matters Requiring Approval, and accordingly, may or may not complete. Unitholders, as well as any prospective investors of CMC REIT, are advised to exercise caution when dealing in the Units.

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 authorized under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

(Stock Code: 01503)

Managed by
China Merchants Land Asset Management Co., Limited

Directors of the Manager:
Non-executive Directors:
Huang Junlong *(Chairman)*
Yu Zhiliang
Liu Ning

Executive Director:
Guo Jin

Independent Non-executive Directors:
Lin Hua
Lin Chen
Wong Yuan Chin, Tzena

Registered Office of the Manager:
Room 2603 to 2606, 26/F,
China Merchants Tower, Shun Tak Centre,
Nos. 168-200 Connaught Road Central
Hong Kong

14 June 2022

To: Unitholders of CMC REIT

Dear Sir/Madam,

(1) MAJOR AND CONNECTED PARTY TRANSACTIONS OF CHINA MERCHANTS COMMERCIAL REAL ESTATE INVESTMENT TRUST RELATING TO THE PURCHASE OF 51% OF A COMPANY, REPRESENTING A 46.41% EFFECTIVE INTEREST IN A PROPERTY IN BEIJING, PRC (2) CONTINUING CONNECTED PARTY TRANSACTIONS (3) EXTRAORDINARY GENERAL MEETING AND CLOSURE OF REGISTER OF UNITHOLDERS

1. INTRODUCTION

The purposes of this Circular are: (1) to provide you with further information in respect of, among other things, the Matters Requiring Approval; (2) to set out the recommendations of the Independent Board Committee in relation to the Matters Requiring Approval; (3) to set out the recommendation of the Independent Financial Adviser in relation to the Matters Requiring Approval; and (4) to serve notice of the EGM at which the resolutions seeking Unitholders' approval for the Matters Requiring Approval will be obtained.

2. THE ACQUISITION

2.1 Overview

On 13 June 2022, the Purchaser, the Vendor and the Warrantor entered into the Sale and Purchase Deed, pursuant to which the Purchaser agreed to purchase, and the Vendor agreed to sell, the Target Shares, representing 51% of the equity interest in the Target Company. The Target Company is the indirect holding company of the PRC Subsidiary, which in turn is the registered legal owner of the land use rights and current ownership rights underlying the Target Property, being multiple units in Onward Science & Trade Center (招商局航華科貿中心), located in Guomao CBD, Chaoyang, Beijing, PRC. The Target Shares represent a 46.41% effective interest in the PRC Subsidiary and the Target Property.

The Target Property comprises the following units of the development known as Onward Science & Trade Center (招商局航華科貿中心):

(a) 15 office/multi-function units (being Grade A offices) and 3 commercial units at the 34-storey office building known as "China Merchants Tower";

(b) 1 commercial unit (1st to 4th floor, 101) at the 4-storey commercial building known as "AIA NPA Center";

(c) 1 commercial unit (1st floor, 101) at the connecting podium known as the "01-04 Connecting Podium", connecting China Merchants Tower and Taiping Financial Centre;

(d) 1 commercial unit (1st to 3rd floor, 101) at the 3-storey commercial building known as "China Merchants Bank Building";

(e) 2 commercial units (3rd floor, 301 and 4th floor, 401) at the 18-storey office building known as "China HP Building"; and

(f) 528 underground car park spaces and 3 underground commercial units variously located at Hengqin Life Tower, AIA NPA Center, Inner Peace, ICBC Bank Building, China HP Building, China Merchants Bank Building, China Merchants Tower, the 01-04 Connecting Podium and Taiping Financial Centre.

China Merchants Tower, AIA NPA Center, the 01-04 Connecting Podium, China Merchants Bank Building, China HP Building, Hengqin Life Tower, Inner Peace, ICBC Building and Taiping Financial Centre collectively constitute the development known as Onward Science & Trade Center (招商局航華科貿中心). Onward Science & Trade Center is a 320,000 sq.m. integrated property development, consisting of 4 office towers and 2 apartment buildings as well as the podium. The development was completed in 1998 and begun operations by 1999. The development has been partially sold by the PRC Subsidiary over the years, resulting in dispersed ownership between itself and other owners.

The purchase consideration for the Acquisition shall be equal to RMB1,341,537,262, and subject to an adjustment to either: (a) add the amount of the Final Payment (if the Adjusted NAV is higher than RMB88,467,262); or (b) subtract the amount of the Final Payment (if the Adjusted NAV is lower than RMB88,467,262), in each case as set out in the Completion Statement (the "**Consideration**").

The Agreed Property Value of RMB2,700,000,000, being the asset value of the Target Property agreed by the parties, has been arrived at on a willing buyer/seller and arm's length transaction basis after taking into account the quality and historic performance of the Target Property. The Agreed Property Value represents a discount of approximately 1.1% to the Appraised Value (being RMB2,730,000,000) as at 31 March 2022 and represents an estimated net property yield of 3.9% based on the Target Property's total monthly rent (being RMB8,860,000) as at 31 March 2022. In November 2021, CMSK (the holding company of the Vendor) acquired 80% of the interest in the Vendor from its joint venture partner (being an independent third party) for a consideration amount of RMB2,097,600,000. In 1994, the PRC Subsidiary acquired the land use rights underlying the development known as Onward Science & Trade Center (招商局航華科貿中心) from Beijing Municipal Bureau of Housing for certain consideration, 20% of which is equivalent to RMB78,958,000. The agreed value of the Target Property for the acquisition in November 2021 of 80% of the interest in the Vendor was an amount equivalent to the Agreed Property Value of RMB2,700,000,000.

The Purchaser shall settle the Consideration using cash.

The Warrantor owns more than 10% of the Units and therefore is a substantial holder of CMC REIT. The Vendor is a subsidiary of the Warrantor, and therefore is an associate of the Warrantor. As a result, the Warrantor and the Vendor are each a connected person of CMC REIT within the meaning of Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code).

Accordingly, each of (1) the Acquisition and the transactions contemplated under the Sale and Purchase Deed; and (2) the execution of the Shareholders' Agreement and the transactions contemplated thereunder constitute a connected party transaction of CMC REIT under paragraph 8.5 of the REIT Code. As the highest applicable percentage ratio in respect of the Acquisition exceeds 5%, pursuant to paragraph 8.7A of the REIT Code, Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code) and the Trust Deed, each of the connected party transactions above is subject to the reporting, announcement, Circular and Independent Unitholders' approval requirements under Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code) and will require Independent Unitholders' approval by way of an Ordinary Resolution at the EGM.

As the highest applicable percentage ratio in respect of the Acquisition and the transactions contemplated under the Sale and Purchase Deed exceeds 25% but is less than 100%, the Acquisition and the transactions contemplated under the Sale and Purchase Deed constitute a major transaction of CMC REIT under Chapter 14 of the Listing Rules (modified as appropriate pursuant to the REIT Code), is subject to the reporting, announcement, Circular and Unitholders' approval requirements under Chapter 14 of the Listing Rules (modified as appropriate pursuant to the REIT Code) and will require Unitholders' approval by way of an Ordinary Resolution under the REIT Code and the Trust Deed.

As the Vendor is a subsidiary of the Warrantor and the subsidiaries of the Vendor are also subsidiaries of the Warrantor, members of the Vendor Group are associates of the Warrantor and therefore connected persons of CMC REIT. The Indebtedness to Vendor Group shall therefore, from the date of Completion, constitute connected party transactions of CMC REIT under paragraph 8.5 of the REIT Code. As the loan constituting the Indebtedness to Vendor Group is conducted on normal commercial terms or better and is not secured by the assets of the Group, pursuant to paragraph 8.7A of the REIT Code, Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code, in particular Rule 14A.90) and the Trust Deed, it is exempt from the reporting, announcement, Circular and Independent Unitholders' approval requirements under Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code). However, the Manager, taking the view that the Indebtedness to Vendor Group and the Acquisition are linked to each other and part and parcel of the same proposal, will seek Independent Unitholders' approval of the Indebtedness to Vendor Group under the same Ordinary Resolution to approve the (1) the Acquisition and the transactions contemplated under the Sale and Purchase Deed; and (2) the execution of the Shareholders' Agreement and the transactions contemplated thereunder.

On 9 December 2021, CMC REIT (through the Manager) entered into the Existing CM Leasing Framework Agreement with Eureka, which sets out the framework terms governing the CM Tenancies for the period from 1 January 2022 to 31 December 2024. The CM Tenancies under the Existing CM Leasing Framework Agreement constitute continuing connected transactions of CMC REIT and they (together with the annual caps applicable thereto) were approved by the Independent Unitholders at the CM Continuing CPTs EGM on 29 December 2021. As mentioned in section 7.1 headed "Continuing Connected Party Transactions" — "Background" above, the Manager will not be proposing increased annual caps or entering into a new framework agreement as a result of the Acquisition and the new CM Tenancies in respect of the Target Property, and the CM Tenancies in respect of the Target Property will be subject to the terms of the Existing CM Leasing Framework Agreement and the annual caps thereunder. As such, the Ordinary Resolution in relation to the CCPT Matters Requiring Approval will not cover the CM Tenancies under the Existing CM Leasing Framework Agreement (together with the annual caps applicable thereto).

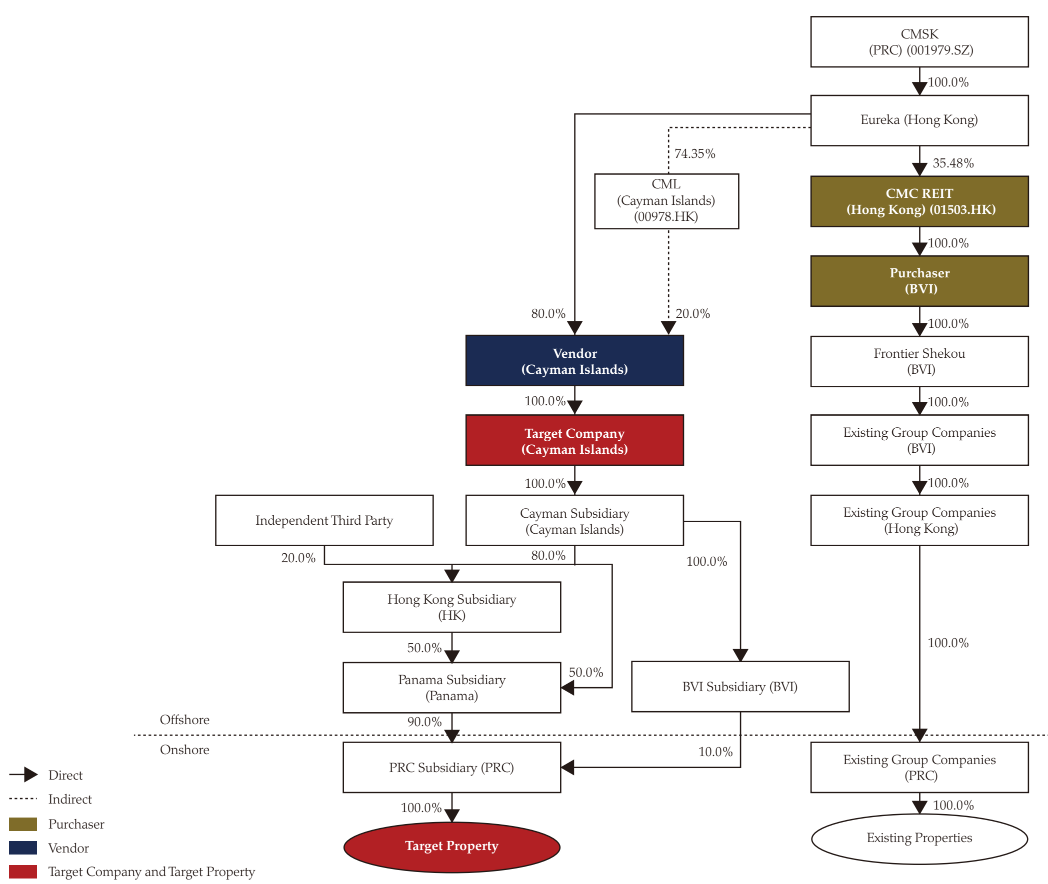
On 13 June 2022, CMC REIT (through the Manager) entered into the Amended and Restated Operations and Property Management Framework Agreement with Eureka, which sets out the framework terms governing the Operations and Property Management Transactions (including the Property Management Agreement with the Property Manager and the Operations Management Agreement with the Operations Manager in respect of the Target Property) for the period from 1 January

2022 to 31 December 2024, and which is conditional upon the passing of Ordinary Resolution No. 2 in the EGM Notice. As Eureka is a connected person of CMC REIT, the Operations and Property Management Transactions under the Operations and Property Management Framework Agreement constitute connected party transactions of CMC REIT.

As the highest applicable percentage ratio calculated in respect of the annual caps applicable to the Operations and Property Management Transactions under the Amended and Restated Operations and Property Management Framework Agreement exceeds 5%, such transactions and the proposed annual caps applicable thereto are subject to the Independent Unitholders' approval, announcement, reporting, annual review and other requirements under the REIT Code and/or Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code). Therefore, such Operations and Property Management Transactions are conditional upon the passing of Ordinary Resolution No. 2.

2.2 Holding structure of the Target Property before Completion

The expected holding structure of the Target Property immediately before Completion is as follows:

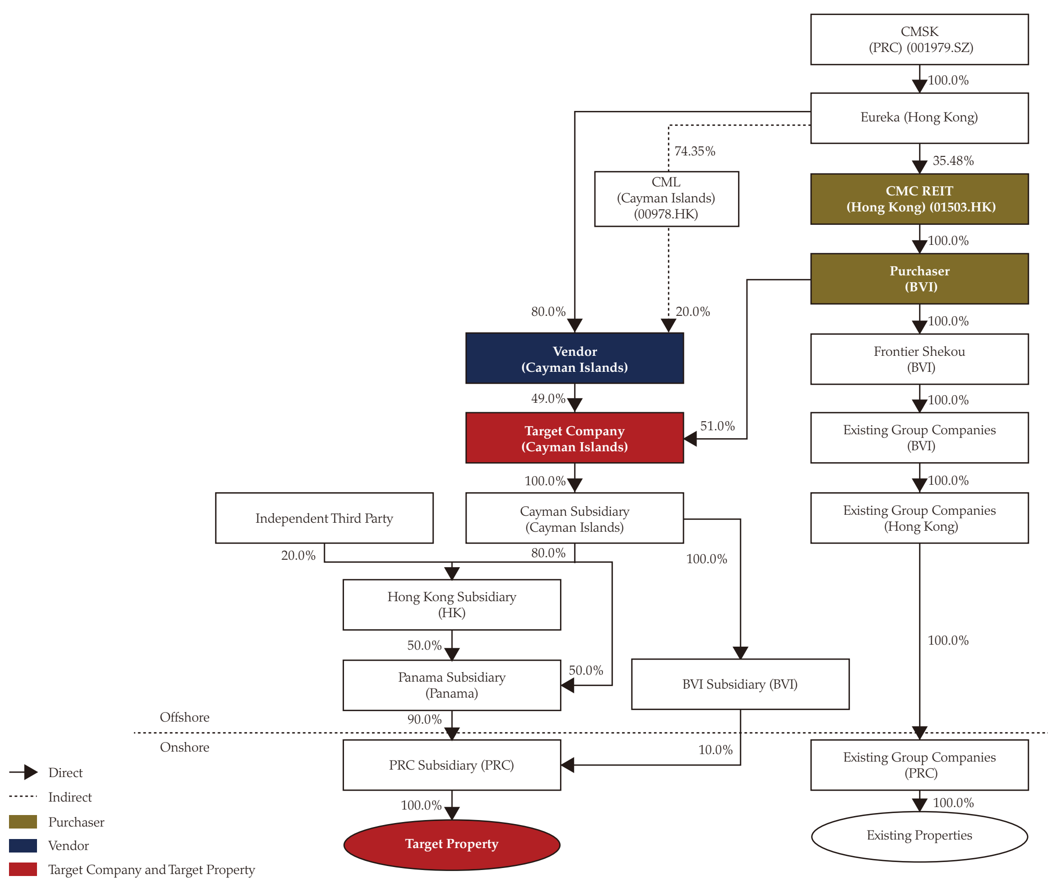


To the best of the knowledge, information and belief of the Manager as at the Latest Practicable Date, the Target Company, Cayman Subsidiary, BVI Subsidiary, Hong Kong Subsidiary, Panama Subsidiary and PRC Subsidiary will, immediately prior to Completion: (i) have the principal business activity of investment holding in the Target Property; (ii) not hold any other investment properties other than the Target Property or operate any other businesses; and (iii) not have any employees.

As shown in the structure chart above, (1) the PRC Subsidiary is held as to 90% by the Panama Subsidiary and 10% by the BVI Subsidiary; (2) the Panama Subsidiary is held as to 50% by the Hong Kong Subsidiary and 50% by the Cayman Subsidiary; (3) the Hong Kong Subsidiary is held as to 80% by the Cayman Subsidiary and 20% by an independent third party and which is not a connected person of CMC REIT; and (4) the Cayman Subsidiary is wholly-owned by the Target Company. Therefore, the Target Company owns indirectly (through the Cayman Subsidiary, the BVI Subsidiary, the Hong Kong Subsidiary and the Panama Subsidiary) a 91% effective interest in the PRC Subsidiary.

2.3 Expected holding structure of the Target Property after Completion

The expected holding structure of the Target Property immediately after Completion is as follows:



Immediately after Completion, the Purchaser will own 51% of the Target Company, and accordingly a 46.41% interest in the PRC Subsidiary and the Target Property.

As shown by the structure chart above, post-Completion, the Purchaser will have majority ownership and control of each of the Target Company, Cayman Subsidiary, BVI Subsidiary, Hong Kong Subsidiary, Panama Subsidiary and PRC Subsidiary. Please see section 2.7.1 headed "Acquisition of a 51% interest in the Target Company" and section 2.7.2 headed "Minority interest in the Hong Kong Subsidiary" for the Manager's analysis of the joint ownership arrangements for the Target Company and for the Hong Kong Subsidiary, respectively.

2.4 Information on the Parties

CMC REIT is a Hong Kong collective investment scheme constituted as an unit trust and authorised under section 104 of the SFO. CMC 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), focusing on (i) the Greater Bay Area (other than Foshan and Guangzhou, being two of the CML Cities), which is where the Existing Properties are situated; and (ii) Beijing and Shanghai. CMC REIT is managed by the Manager whose key investment objectives are to provide Unitholders with stable distributions, sustainable and long-term distribution, sustainable and long-term distribution growth, and enhancement in the value of CMC REIT's Properties.

The Manager is an indirect wholly-owned subsidiary of CML. The Manager has the general power of management over the assets of CMC REIT and the Manager's main responsibility is to manage the assets of CMC REIT for the benefit of the Unitholders.

The Vendor is a limited partnership formed in accordance with the laws of the Cayman Islands and its principal business activity is investment holding. 80% of its interests is directly held by the Warrantor and the other 20% is indirectly held by CML. CML is listed on the Hong Kong Stock Exchange (stock code: 00978.HK), and it is indirectly owned as to 74.35% by the Warrantor. The Warrantor is a direct wholly-owned subsidiary of CMSK and each of the Operations Manager and the Property Manager is an indirect subsidiary of CMSK. CMSK is a reputable state-owned enterprise listed on the Shenzhen Stock Exchange (stock code: 001979.SZ) and one of the flagship subsidiaries of CMG. CMSK has been actively developing, selling and managing various types of properties in the PRC.

2.5 Sale and Purchase Deed

2.5.1 General

On 13 June 2022, the Purchaser, the Vendor and the Warrantor entered into the Sale and Purchase Deed, pursuant to which the Purchaser agreed to purchase, and the Vendor agreed to sell, the Target Shares, representing 51% of the equity interest in the Target Company.

2.5.2 Consideration and payment terms for the Acquisition

The purchase consideration for the Acquisition is equal to the Initial Consideration, adjusted by the Final Payment.

The "**Initial Consideration**" is RMB1,341,537,262, being an amount equal to (i) 46.41% of the Agreed Property Value *plus;* (ii) the Initial Adjusted NAV.

The Initial Adjusted NAV of RMB88,467,262 is an amount equal to 51% of the net asset value of the Company attributable to the Seller as at 31 December 2021 based on the Accountants' Report, disregarding the following assets and liabilities: (a) the value of the Property; (b) the property, plant and equipment of the Group; (c) the deferred tax liability in relation to accelerated tax depreciation and change in fair value of investment properties; and (d) the Assignable Payables.

Please refer to the notes to the unaudited pro forma consolidated statement of financial position for the Enlarged Group as at 31 December 2021 for a detailed illustration of the computation of the Initial Consideration.

As the Initial Consideration is provisionally based on the Initial Adjusted NAV of the Target Company as at 31 December 2021, the parties to the Sale and Purchase Deed have agreed to make either of the following payments after the Completion Date ("**Final Payment**"):

(a) if the Adjusted NAV (as set out in the Completion Statement) is higher than RMB88,467,262 (being the Initial Adjusted NAV), the Purchaser shall pay the difference to the Vendor; and

(b) if the Adjusted NAV (as set out in the Completion Statement) is lower than RMB88,467,262, the Vendor shall pay the difference to the Purchaser.

The "**Adjusted NAV**" means an amount equal to the net asset value of the Target Company attributable to the Target Shares, determined based on the Completion Statement, disregarding the following assets and liabilities: (i) the value of the Target Property; (ii) the property, plant and equipment of the

Target Group; (iii) the deferred tax liability in relation to accelerated tax depreciation and change in fair value of investment properties; and (iv) the Assignable Payables. The Agreed Property Value of RMB2,700,000,000, being the asset value of the Target Property agreed by the parties, has been arrived at on a willing buyer/seller and arm's length transaction basis after taking into account the quality and historic performance of the Target Property. The Agreed Property Value represents a discount of approximately 1.1% to the Appraised Value (being RMB2,730,000,000) as at 31 March 2022, and represents an estimated net property yield of 3.9% based on the Target Property's total monthly rent (being RMB8,860,000) as at 31 March 2022.

Pursuant to the Sale and Purchase Deed, the Consideration shall be paid in the following manner:

(a) on the Deferred Payment Date, the Purchaser shall pay to the Vendor an amount equal to (i) the Initial Consideration; minus (ii) the Bulletin 7 Withholding Amount (the "**Initial Payment**"); and

(b) within ten Business Days after agreement or determination of the Completion Statement make the Final Payment.

At Completion, the Purchaser shall deliver to the Vendor a scanned copy of the fully executed commitment letter pursuant to which the Purchaser is or will be entitled to obtain, subject to the terms and conditions therein, the Acquisition Loan. For the avoidance of doubt, the timing of the payment of the Initial Payment shall not affect the Completion.

All amounts payable under the Sale and Purchase Deed shall be paid in HKD.

2.5.3 Bulletin 7 Withholding Amount

The sale of the Target Shares 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 Target Shares (the "**Bulletin 7 Withholding Amount**") from the consideration payable to the Vendor.

Upon the Purchaser's receipt from the Vendor of a copy of the tax payment notice(s) (if any) chopped by the bank designated by the relevant PRC tax authority evidencing the payment of the amount of the taxes payable by the Vendor arising out of or relating to the sale of the Transfer Shares and verification of the same by the Purchaser, the Purchaser shall transfer an amount equal to the Bulletin 7 Withholding Amount to the Vendor.

2.5.4 Conditions Precedent

Completion will be subject to the satisfaction of the following conditions (collectively, the "**Conditions**"):

(1) there being no material damage to the Target Property, no compulsory acquisition or resumption of the Target Property and no notice of such intention received from any governmental authority;

(2) no material breach of any warranties of the Vendor and Warrantor under the Sale and Purchase Deed which, in the opinion of the Purchaser and/or the Manager (in its capacity as manager of CMC REIT), will have a material adverse effect on the financial condition, prospects, earnings, business, undertaking or assets of CMC REIT or on the Target Property, in each case taken as a whole;

(3) all third party and corporate approvals (including any governmental approvals) required to consummate the Completion having been obtained;

(4) (a) the outstanding principal and accrued interest under the Existing Vendor Facilities and the Existing Group Facilities having been fully repaid;

(b) the unsecured interest-free loan agreements having been entered into between the relevant member of the Vendor Group and the Panama Subsidiary on terms satisfactory to the Purchaser in accordance with the Sale and Purchase Deed;

(c) the Offshore Permitted Encumbrances having been terminated, released and discharged at no cost to the Purchaser and no additional cost of Target Group other than the repayment of the loans and/or the facilities secured by the Offshore Permitted Encumbrances; and

(d) all Encumbrance Discharge Filings having been submitted to the relevant PRC government authorities at no cost to the Purchaser and no additional cost to the Target Group other than the repayment of the loans and/or the facilities secured by the Onshore Permitted Encumbrances;

(5) the Purchaser having entered into the definitive agreements of the Acquisition Loan for the Acquisition upon terms and conditions satisfactory to the Purchaser in its sole discretion; and

(6) the resolutions approving the Transaction Matters Requiring Approval having been passed by the Independent Unitholders at the EGM.

The Purchaser may waive any of the Conditions (other than the Conditions in paragraphs (1), (2) and paragraph (6) above) by notice in writing to the Vendor (subject to compliance with the REIT Code, the Listing Rules and other applicable laws, rules and regulations).

2.5.5 Completion

Completion shall take place on the 5th Business Day after the satisfaction or waiver of all the Conditions, or such other date as may be agreed by the Purchaser and the Vendor in writing. Subject to the Conditions being satisfied (or waived, as the case may be), the Manager expects Completion to take place around the second quarter of 2022. As soon as practicable following Completion, the Manager will issue an announcement to inform Unitholders that Completion has occurred. In the event that any of the Conditions have not been fulfilled or waived prior to the Long Stop Date, then the Purchaser shall not be bound to proceed with the Acquisition and the Sale and Purchase Deed shall cease to have any effect.

2.5.6 Representations, Warranties and Indemnities

The Sale and Purchase Deed contains customary representations and warranties given by the Vendor and Warrantor (as co-warrantors) in respect of the Target Group.

It also sets out certain limitations on the liability of the Vendor and Warrantor (as co-warrantors) in respect of any breach of the warranties, including:

(a) a limitation period of three years from the Completion Date for all claims made under the warranties (other than claims relating to fundamental warranties and tax warranties, in which case the limitation period is seven years from the Completion Date);

(b) a limitation amount of the Consideration for all claims relating to warranties; and

(c) a minimum per claim threshold for claims relating to the warranties of 0.05% of the amount of the Consideration, with such claims only being recoverable from the Vendor and Warrantor if the aggregate amount recoverable in respect of all such claims exceeds 0.2% of the amount of the Consideration (upon which the Vendor and Warrantor will be liable for the entire amount).

Furthermore, the Sale and Purchase Deed contains customary indemnities and, in particular, the Vendor and the Warrantor have irrevocably undertaken, on a joint and several basis, to indemnify CMC REIT, the Purchaser, the Manager and the Target Group, to the fullest extent permissible by law, for any losses (on a full indemnity basis) which any one of them may suffer in respect of the non-compliance of the Target Property with any applicable PRC law, including but not limited to:

(a) losses incurred in connection with the discrepancy of the real estate ownership certificate and the actual condition of the Target Property due to any construction exceeding approved plans, including any administrative penalties in respect of the construction exceeding approved plans and the leasing out of such non-compliant areas of the Target Property;

(b) losses incurred due to lack of approval of the owners of the Target Property in connection with the lease of certain public areas of the Target Property to tenants for private use, including any fines, confiscation of income and other penalties;

(c) losses incurred in connection with any fine or repossession or rectification order officially issued by the competent government authority relating to a non-conforming use of the Target Property, including:

    (i) losses resulting from the early termination of non-conforming Leases in accordance with their terms and pursuant to PRC law, where such termination is required in order to comply with such repossession or rectification order; and

    (ii) subject to the Loss in Value Limitation, any consequential reduction in the value of the Target Property as a direct consequence of complying with the repossession or rectification order officially issued by the competent government authority, as determined by the then principal valuer of CMC REIT (the "**Loss in Value**");

(d) losses incurred in connection with any non-compliance or lack of required permits, certificates or qualifications in connection with the construction and development of the Target Property; and

(e) losses incurred in connection with the non-registration of Leases

(the "**Target Property Indemnity**").

The Target Property Indemnity shall be subject to the following limitations:

(a) the Vendor and the Warrantor shall be under no liability in respect of any claim under the Target Property Indemnity unless notice of such claim shall have been served upon the Vendor and the Warrantor prior to the expiry of the land use rights of the Target Property;

(b) where CMC REIT, the Purchaser and/or the Manager makes a claim under the Target Property Indemnity for any losses suffered by any member of the Target Group, the liability of the Vendor and the Warrantor in respect of such claim shall be limited to a pro rata proportion (based on the Purchaser's proportionate interest in the Target Group) of the loss; and

(c) the liability of the Vendor and the Warrantor in respect of any claim made pursuant to paragraph (c)(ii) above of the Target Property Indemnity shall not exceed the amount equivalent to the product of:

(i) the ratio of (1) the Loss in Value, to (2) the most recent property valuation of the Target Property issued by the then principal valuer of CMC REIT prior to the reduction in the value of the Target Property;

(ii) multiplied by a pro rata proportion (based on the Purchaser's proportionate interest in the Target Group) of the Agreed Property Value

(such amount, the "**Loss in Value Limitation**").

Each of the Vendor and the Warrantor has undertaken to the Purchaser and shall ensure that the Vendor and the Warrantor will maintain net assets in excess of the Consideration for so long as the Target Property Indemnity is in force.

Taking into consideration:

(1) the abovementioned warranty and indemnity coverage from the Vendor which the Manager considers to be fair and reasonable, on normal commercial terms after arm's length negotiations and the best terms available to the Purchaser in the circumstances, and are in the interests of CMC REIT and the Unitholders as a whole;

(2) the guarantee by the Warrantor in respect of the Vendor's obligations under the Sale and Purchase Deed;

(3) satisfactory results of the Manager's due diligence review in respect of the Target Group and the Target Property; and

(4) the Manager's PRC Legal Adviser's opinion set out in sections 2.8 and 5.3 below,

the Manager is satisfied that the interests of CMC REIT and the Unitholders as a whole in respect of potential claims are adequately and sufficiently protected.

Investors should note that the Sale and Purchase Deed contains certain limitations of the amounts which can be claimed against the Vendor, and accordingly, the Purchaser may not be able to fully recover all claims against the Vendor under the Sale and Purchase Deed.

2.5.7 Pre-Completion and Post-Completion Undertakings

Prior to the Completion:

(a) the Vendor shall repay the outstanding principal and accrued interest under the Existing Vendor Facilities;

(b) the Vendor shall procure a member of the Vendor Group to provide to the Panama Subsidiary the loan constituting the Indebtedness to Vendor Group and the Panama Subsidiary shall fully repay the outstanding amount under the Mingyuan Dalian Bank Loan I and the Mingyuan Dalian Bank Loan II prior to the Completion;

(c) the Vendor shall procure the PRC Subsidiary to fully repay the outstanding principal and accrued interest under the Onshore Decoration Loan prior to the Completion;

(d) the Vendor shall repay the relevant member of the Target Group the outstanding amount owing by the Vendor to such member of the Target Group prior to the Completion; and

(e) the Vendor and the Warrantor shall ensure that:

(i) the Offshore Permitted Encumbrances have been terminated, released and discharged at no cost to the Purchaser and no additional cost to the Target Group other than the repayment of the loans and/or the facilities secured by the Offshore Permitted Encumbrances; and

(ii) all Encumbrance Discharge Filings have been submitted to the relevant PRC government authorities, in each case at no cost to the Purchaser and no additional cost to the Group other than the repayment of the loans and/or the facilities secured by the Onshore Permitted Encumbrances.

2.5.8 Vendor's tax obligations

As advised by the Manager's tax adviser, the obligation to pay PRC Enterprise Income Tax under the China Indirect Transfer Rules for the Vendor's sale of the Target Company Shares should be borne by the Vendor with the Purchaser only having a withholding obligation.

The Manager understands from its tax adviser that in respect of the Acquisition: (i) the Vendor should first make its tax filing to the relevant PRC tax authority; and (ii) the relevant PRC tax authority should then assess the amount of tax payable.

Pursuant to the Sale and Purchase Deed, the Vendor shall, at its own expense, as soon as possible and in any event no later than 30 days after the date of the Sale and Purchase Deed, truly, accurately and completely report all relevant information on the Acquisition to the relevant PRC tax authority in accordance with the China Indirect Transfer Rules. The Vendor shall: (a) promptly follow-up with the relevant PRC tax authority in respect of its assessments to and payments of tax on the Acquisition and submit all documents that may be requested by the relevant PRC tax authority to be submitted by the Vendor in connection with the Acquisition; and (b) promptly keep the Purchaser and the Manager informed of the foregoing.

The Vendor shall: (a) settle and pay in full the taxes payable by it arising out of or relating to the Acquisition within such period of time required by applicable law, rules and regulations as applied by the relevant PRC tax authority; and (b) provide the Purchaser with a copy of the tax payment notice(s) (if any) chopped by the bank designated by the relevant PRC tax authority evidencing the payment of the amount of such taxes payable.

The Manager's tax adviser, has provided advice to the Manager in respect of the estimated amount of indirect enterprise income tax payable under PRC Enterprise Income Tax Law and the China Indirect Transfer Rules in respect of the Vendor's sale of the Target Shares. In view of the above and the advice from its tax adviser, the Manager is of the view that the protection provided by the Vendor in respect of tax obligations under PRC Enterprise Income Tax Law and the China Indirect Transfer Rules, including the Bulletin 7 Withholding Amount, is sufficient and that the interests of the Unitholders are adequately protected.

2.6 Shareholders' Agreement

2.6.1 General

On 13 June 2022, the Purchaser, the Vendor (being the "**Shareholders**") and the Target Company entered into a shareholders' agreement (the "**Shareholders' Agreement**") in relation to the Target Company, to take effect from Completion. The principal terms of the Shareholders' Agreement are summarised in this section 2.6.

2.6.2 Board appointment rights

The Board of directors of the Target Company shall consist of up to three directors, two of whom shall be appointed by CMC REIT (through the Purchaser) and the remaining one of whom shall be appointed by the Vendor. The quorum for Board meetings of the Target Company shall be two directors, comprising at least one director nominated for appointment by each Shareholder. The Board chairman shall be nominated by the Purchaser and not have a casting vote.

2.6.3 Reserved matters

Board resolutions shall be passed by a simple majority of the votes cast by the directors, save for the following matters that require unanimous approval of each Shareholder (the "**Reserved Matters**"):

<u>Corporate</u>

(a) Any alteration to the Target Company's articles of association or to the memorandum of association or the articles of association of any other Target Group member;

(b) Any change in the share capital of the Target Company which results in any change to the equity proportion of the shareholders (i.e. the number of Shares held by the relevant shareholder calculated on a fully diluted basis and expressed as a proportion of the issued share capital of the Company on a fully-diluted basis (the "**Equity Proportion**")) (or to the authorised or issued share capital of any other Target Group member), or the creation or grant of any option, warrant, right or other interest to subscribe for or acquire any share in the capital of the Target Company which results in any change to the Equity Proportion of the shareholders or other securities or any share capital, of any Group Member;

(c) Any reorganisation, redemption or buy-back of, or any change in any of the rights attaching to, the share capital, shares, loan notes or other securities of any Target Group member, or any amalgamation, merger, demerger or other corporate reconstruction of any Target Group member however effected which results in any change to the Equity Proportion of the Shareholders;

(d) The registration of any person as a Shareholder or a shareholder of any Target Group member (whether by way of subscription or transfer) other than as permitted by the Sale and Purchase Deed;

Accounting and financial

(e) The appointment or removal of the auditors of the Target Company;

(f) Any alteration to the Target Group's accounting reference date (or financial year end) or, other than as required by law or relevant accounting principles;

Commercial

(g) Any material change in the nature, scope or geographical area of the business carried on by the Target Group;

(h) The cessation of any business operation of the Target Group;

(i) Any arrangement for any assignment, sale, transfer or disposal of the whole, or substantially the whole, of the business or assets of any Target Group member;

(j) Other than in the ordinary course of business, any arrangement for any assignment, sale, transfer or disposal of any material asset, or related group of assets of any Target Group member (whether by a single transaction or a series of transactions) having a net book value in excess of HKD one (1) million (or its equivalent) in aggregate;

(k) Any acquisition or subscription by any Target Group member of any part of the share capital, shares or other securities, or of the business or assets, of any company or other person;

(l) Any participation in, or termination of any participation in, any partnership, profit sharing arrangement or joint venture by any Target Group member;

(m) The formation or disposal of any subsidiary of any undertaking wholly owned or controlled by the Target Company, or the setting up or closing down of any branch or office of any Target Group member;

(n) Other than in the ordinary course of business, the making of any loan or advance by any Target Group member or the creation, renewal or extension of any borrowing of any Target Group member, in each case in excess of HKD one (1) million (or its equivalent);

(o) The creation or issue by any Target Group member of any mortgage, fixed or floating charge, debenture or loan notes (whether secured or unsecured), lien (other than a lien arising by operation of law or in the ordinary course of business) or any other encumbrance over the whole or any part of the business, or over any material asset, of any Target Group member;

(p) The giving by any Target Group member of any guarantee, security or indemnity;

(q) Any acquisition, purchase, sale, transfer, disposal, lease, licence or entering into occupation of any land or other property;

(r) Other than in the ordinary course of business, the approval of any obligation of any Target Group member which could involve the payment by it, in cash or otherwise, of amounts in excess of HKD one (1) million (or its equivalent) in aggregate in any 12-month period;

(s) Any major decision relating to the conduct (including the settlement) of any legal, arbitration or other dispute resolution proceedings with a potential liability or claim in excess of HKD one (1) million (or its equivalent), which are material in the context of the business carried on by the Target Group, to which any Target Group member is a party;

Employment

(t) The determination of the remuneration, if any, of the directors of any Target Group member and other senior management of the Target Group;

Insolvency

(u) Unless otherwise expressly provided for in the Sale and Purchase Deed, the taking of any step to:

(i) wind up or dissolve the Target Company or any other Target Group member;

(ii) obtain an administration order in respect of the Target Company or any other Target Group member;

(iii) apply or invite any person to appoint a receiver or receiver and manager of the whole or any part of the business or assets of the Target Company or any other Target Group member;

(iv) present a petition or convene a meeting convened for the bankruptcy, winding-up, recovery or similar proceedings (including a general agreement with any creditor) of the Target Company or any Target Group member;

(v) propose or make any arrangement, compromise or composition with, or any assignment for the benefit of, the Target Group's creditors generally, or enter into any agreement for or in connection with the rescheduling, restructuring or readjustment of any material part of the indebtedness of the Target Company or any other Target Group member; or

(vi) do anything similar or analogous to those steps referred to in paragraphs (z)(i) to (z)(v) of this section 2.6.3 headed "Reserved Matters", in any jurisdiction.

2.6.4 Right of first offer

Neither Shareholder shall transfer the shares of the Target Company ("**Shares**"), unless it has first made an offer to the other Shareholder to purchase all (but not some) of such Shares, and the other Shareholder declines to accept such offer. Such restriction on disposal shall not apply to a transfer by either Shareholder to its affiliates. The transferee of any permitted transfer of Shares shall enter into a deed of adherence to become bound by the Shareholders' Agreement.

2.6.5 Default

If a Shareholder (a) becomes insolvent; or (b) breaches certain provisions of the Shareholders' Agreement in relation to restrictions on transfer of Shares (such Shareholder, the "**Affected Shareholder**"), the other Shareholder may exercise an option to purchase some or all of the Shares held by the Affected Shareholder at the price as agreed by the Shareholders or failing such agreement the fair market value of such Shares determined in accordance with the Shareholders' Agreement. The Affected Shareholder, however, shall not be obliged to make a partial sale of its Shareholder Instruments.

2.7 Joint ownership arrangements

2.7.1 Acquisition of a 51% interest in the Target Company

To the best of its knowledge and belief and based on information currently available to the Manager, the Manager will be able to (through its interest in the Target Company, and having regard to the Reserved Matters in the Shareholders' Agreement as stated in section 2.6.3 headed "Reserved Matters" which do not impinge on the following matters):

(a) manage and maintain the Target Property;

(b) exercise the day-to-day management and operation of the Target Property free from interference, control or restriction;

(c) independently carry out asset enhancement work to the Target Property; and

(d) direct the PRC Subsidiary to exercise all rights as owner of the Target Property, for example, to sell, mortgage, occupy and lease out the Target Property without interference, in each case subject to applicable PRC laws and permits.

Based on the foregoing, the Manager is of the view that after Completion, CMC REIT will have "majority ownership and control" of the Target Property under paragraph 7.5(aa) of the REIT Code, and thereby meets such requirement. The Manager is of the view, and the Reporting Accountants agree, that the entities of the Target Group will, post-Completion, be accounted for as subsidiaries of the Group. In addition, the Manager is of the view that the acquisition of a 51% interest in the Target Company and entry into the Shareholders' Agreement with the Vendor is in the best interests of Unitholders by allowing CMC REIT to:

(a) nominate two out of three directors of the Target Company, whose decisions will generally be made by simple majority in accordance with the terms of the Shareholders' Agreement. For more details, please refer to section 2.6.3 headed "Reserved Matters";

(b) leverage on the Vendor's local market expertise attributable to its sizeable presence in Beijing, as well as its familiarity with the Target Property;

(c) mitigate risks associated with managing CMC REIT's obligations and liabilities pertaining to the Target Property limited to its proportionate interests in accordance with the terms of the Shareholders' Agreement; and

(d) reduce the immediate financial burden on CMC REIT that would otherwise be associated with the acquisition of the entire interest in the Target Company.

Accordingly, the Manager is of the view that the Purchaser entering into the Shareholders' Agreement and becoming joint venture partners with the Vendor will be in the interest of CMC REIT and the Unitholders as a whole.

The Hong Kong Legal Adviser to the Manager has advised the Manager that subject to due execution of the Sale and Purchase Deed and Completion, the Shareholders' Agreement and the joint ownership arrangements thereunder (which are governed by Hong Kong law) will be legal, valid, binding and enforceable under Hong Kong law.

2.7.2 Minority interest in the Hong Kong Subsidiary

As shown by the expected holding structure of the Target Property after Completion in section 2.3 headed "Expected holding structure of the Target Property after Completion", the Cayman Subsidiary holds 80% of the interest in the Hong Kong Subsidiary, and CCCC Industrial Investment Holding (HK) Company Limited ("**CCCC HK**") holds the remaining 20%. CCCC HK has been a shareholder of the Hong Kong Subsidiary since the latter's incorporation, with no transactional history with CMC REIT in relation to the Target Property (the Cayman Subsidiary having acquired its shares in the Hong Kong Subsidiary from a previous shareholder and not from CCCC HK).

CCCC HK is an indirect wholly-owned subsidiary of China Communications Construction Group Corporation Limited (中國交通建設集團有限公司), which is a state-owned enterprise under the direct supervision of the State-owned Assets Supervision and Administration Commission of the State Council in the PRC. Both CCCC HK and China Communications Construction Group Corporation Limited (中國交通建設集團有限公司) are independent third parties with no relationship to any connected persons of CMC REIT. The Manager is of the view that notwithstanding that CMC REIT will not be able to acquire 100% in the Hong Kong Subsidiary, the Acquisition of the 80% interest in the Hong Kong Subsidiary held by the Cayman Subsidiary (with the 51% interest in the Target Company to be acquired representing a 40.8% effective interest in the Hong Kong Subsidiary) is still in the interest of the Unitholders, the Independent Unitholders and CMC REIT as a whole, as CMC REIT will be able to, via the Cayman Subsidiary, nominate three directors of the Hong Kong Subsidiary and CCCC HK will be able to nominate one director, and decisions of the Board will be made by a majority of two-thirds of all directors. There is no shareholders' agreement or other similar document regulating the rights and obligations of the shareholders of the Hong Kong Subsidiary, and no reserved matters otherwise requiring the approval of the minority shareholder or any nominee director.

2.8 Arm's Length Terms and Due Diligence Review

Each of the Sale and Purchase Deed and the Shareholders' Agreement have been entered into by the parties thereto on normal commercial terms (including in respect of those terms relating to limitation of liability) following arm's length negotiations.

The Manager has conducted, and is satisfied with the results of, due diligence in respect of the Target Group and the Target Property (including the Leases), and no material irregularities or material non-compliance issues have been noted. Such due diligence has been carried out in accordance with the relevant provisions of the REIT Code (including the Practice Note on Overseas Investments by SFC-authorised REITs) and the Manager's compliance manual. In view of the foregoing, and having regard to the advice of its PRC Legal Adviser in section 5.3 headed "Ownership", the Manager is of the view that CMC REIT will immediately upon Completion hold (through the Purchaser and the Target Group) good, marketable, legal and beneficial title in the Target Property. In addition, the PRC Legal Adviser has also confirmed that all necessary licences and consents required for conducting the PRC Subsidiary's current business and operation in the location where the Target Property is located have been obtained by the PRC Subsidiary.

As part of the due diligence carried out by the Manager in respect of the Target Property, the Manager outsourced to an independent professional engineering company the work of carrying out an inspection and a survey of the Target Property, and the Manager is satisfied with such work and its results. The inspection revealed that both the building and structural fabrics, as well as the building services installations of the Target Property, were maintained in good condition with only minor rectification works required to be carried out.

2.8.1 Construction exceeding approved plans

Based on the Manager's due diligence, certain premises of the development known as Onward Science & Trade Center (招商局航華科貿中心), where the units of the Target Property are located, have exceeded approved plans.

Based on the advice of the Manager's PRC Legal Adviser:

(a) the PRC Subsidiary had in 1999 received certain administrative penalties in respect of the Target Property, which was fully paid. The Beijing Bureau of Land Resources recognised the ownership of the PRC Subsidiary in respect of the 48,370.26 sq.m. of gross floor area shown on the real estate ownership certificates (不動產權證書) for the Target Property, and the PRC Subsidiary was permitted by such authority to continue the use of such gross floor area;

(b) the real estate ownership certificate (不動產權證書) for China Merchants Bank Building indicates China Merchants Bank Building is a building with three floors whereas the building in reality has four floors. Notwithstanding this, the actual total gross floor area of China Merchants Bank Building of 6,143 sq.m. is identical to that as indicated on its real estate ownership certificate (不動產權證書). The 4th floor of China Merchants Bank Building has been leased to an independent third party tenant for commercial and office use; and

(c) in respect of AIA NPA Center, the previous tenant constructed an unauthorised mezzanine floor within the space of the original 4th floor by partitioning the space of the original 4th floor into two parts, being the space of the current 4th floor and that of the current 5th floor. Under PRC law, the entire space of the original 4th floor (being both the space of the current 4th floor and that of the current 5th floor) is wholly owned by the PRC Subsidiary. However, the PRC Subsidiary has not been issued with a real estate ownership certificate (不動產權證書) in respect of the gross floor area of the current 5th floor. The PRC Subsidiary did not receive rent from the previous tenant in respect of the current 5th floor, and it is currently vacant. As advised by the Vendor, there is therefore no operation, management or maintenance cost incurred in relation to the 5th floor of the AIA NPA Center. Any liability to compensate for losses arising out of the toppling or collapse etc. of the 5th floor of the AIA NPA Center will fall on the PRC Subsidiary, and any such losses will be covered by the representations and warranties given by the Vendor and Warrantor (as co-warrantors) in respect of the Target Group (as described in section 2.5.6 headed "Sale and Purchase Deed" — "Representations, Warranties and Indemnities").

As advised by the PRC Legal Adviser, according to the PRC Urban Planning Law (《城市規劃法》) in force at the material time, for construction that is executed without a building planning permit (建設工程規劃許可證) or that is not in compliance with such permit, the competent authority may order rectification of the construction within a specified time and impose a fine. In addition, the competent authority may also order the demolishing of the non-compliant construction within a specified time or confiscate the income from such construction. According to the PRC Urban and Rural Planning Law (《城鄉規劃法》) currently in force, for construction that is executed not in accordance with a building planning permit (建設工程規劃許可證), the competent authority may order rectification of the construction within a specified time and impose a fine, and may also order confiscate the construction or the income from such construction. In relation to the 5th floor of the AIA NPA Center, any order by the competent authority to demolish the non-compliant area will be issued to the PRC Subsidiary. The cost for demolishing the non-compliant area pursuant to any such order is estimated to be no more than RMB1 million, and this would be covered by the indemnity provided by the Vendor (as described in section 2.5.6 headed "Sale and Purchase Deed" — "Representations, Warranties and Indemnities").

In respect of the leasing by the PRC Subsidiary of the non-compliant areas, the PRC Legal Adviser has further advised that according to the Administrative Measures for Leasing of Commodity Housing (商品房屋租賃管理辦法), where non-compliant areas have been leased out, the competent authority may order rectification within a specified time and impose a fine of up to RMB5,000 or between one to three times the unlawful gains from such areas (but which fine shall not exceed RMB30,000). The relevant tenancy agreement may also be deemed to be invalid.

Therefore, there is a risk that the PRC Subsidiary may be subject to administrative penalties in respect of (i) the constructed areas at China Merchants Bank Building and AIA NPA Center that have exceeded approved plans (including potential orders issued by the competent authority to demolish the non-compliant area on the 5th floor of AIA NPA Center); and (ii) the leasing out of the non-compliant area at China Merchants Bank Building, and the tenancy agreement in respect of the non-compliant area at China Merchants Bank Building may be invalid.

The Manager does not consider the above to pose a material risk to CMC REIT because:

(i) real estate ownership certificates (不動產權證書) have been issued in respect of the 48,370.26 sq.m. of gross floor area of the Target Property owned by the PRC Subsidiary;

(ii) the non-compliant area on the 5th floor of AIA NPA Center has not been leased out, does not form part of the gross floor areas of the units constituting the Target Property, is not included in the accounts of the PRC Subsidiary and has not been included in the valuation for the Acquisition; and

(iii) the PRC Subsidiary has not received any notices, orders, enquiries, investigations or administrative penalties, nor has it ever been required to rectify or pay penalties, as a result of the above non-compliances since the Target Company began operations in 1999.

Furthermore, with regard to the above and the indemnity provided by the Vendor (as described in section 2.5.6 headed "Sale and Purchase Deed" — "Representations, Warranties and Indemnities") which covers any losses incurred in connection with discrepancy of the real estate ownership certificate and the actual condition of the Target Property due to any construction exceeding approved plans (including any administrative penalties in respect of the construction exceeding approved plans and the leasing out of such non-compliant areas of the Target Property), the Manager does not consider this issue to pose a material risk to CMC REIT. The Manager is of the view that the above non-compliances are immaterial non-compliances which are not expected to have a material adverse impact on the financial condition and business of CMC REIT.

The valuation of the Target Property by the Independent Property Valuer is based on the gross floor area indicated on the Real Estate Title Ownership Certificates Nos. 0110616, 0123244, 0123245, 0123246, 0123247 and 0123183 (不動產權證書) issued in respect of the Target Property, which gross floor area includes the area of the 4th floor of China Merchants Bank Building as well as the other areas mentioned in paragraph 2.8.1(a) above in respect of which the PRC Subsidiary has previously paid fines. In respect of the 5th floor of AIA NPA Center, as it is not included in the Real Estate Ownership Certificates (不動產權證書) issued in respect of the Target Property, we have not taken into account such area and disregarded the rental income (if any) generated by the 5th floor of AIA NPA Center.

2.8.2 Leasing of public areas without authorisation

According to the documents and written confirmations provided by the PRC Subsidiary, and permits relating to the development known as Onward Science & Trade Center (招商局航華科貿中心), the PRC Subsidiary has leased out certain public areas of the development (with a gross floor area of 572.67 sq.m.) to tenants for the private use but has not provided any resolutions of the owners of the relevant building of the development where such public areas are located in general meeting approving such leasing of public areas.

According to the PRC Legal Adviser,

(i) if the construction unit of a property disposes of the title or right of use of the owner of public works or public facilities of a property without authority, the competent authority may impose a fine of between RMB50,000 and RMB200,000, and the construction unit may also have to compensate the relevant owner for losses suffered; and

(ii) for any change of use of common areas or municipal public services facilities of a property without informing the property services provider and subsequently obtaining a resolution of the owners of the development approving the change of use, or uses common areas or municipal public services facilities for business operations without obtaining prior approval of the relevant owners, owners in general meeting and the property services provider, the competent authority may issue a warning, impose a fine of between RMB50,000 and RMB200,000 and confiscate the income generated from such areas for use in the repair and maintenance of the common areas and municipal public services facilities or as directed by the owners' in general meeting.

As the PRC Subsidiary has not been able to provide relevant procedural documents such as a resolution of the owners of the development in general meeting, there is a risk that the PRC Subsidiary has not obtained the approval of the owners of the development for its use of the public areas and may therefore be subject to relevant administrative penalties.

The Manager does not consider the above to pose a material risk to CMC REIT because:

(i) such area being leased out accounts for a very small portion of the revenue of the Target Company; and

(ii) the PRC Subsidiary has not received any notices, orders, enquiries, investigations or administrative penalties, nor has it ever been required to rectify or pay penalties, as a result of the above non-compliances since the Target Company began operations in 1999.

Furthermore, with regard to the above and the indemnity provided by the Vendor (as described in section 2.5.6 headed "Sale and Purchase Deed" — "Representations, Warranties and Indemnities") which covers any losses incurred due to lack of approval of the owners of the Target Property in connection with the lease of certain public areas of the Target Property to tenants for private use (including any fines, confiscation of income and other penalties), the Manager does not consider this issue to pose a material risk to CMC REIT.

The public areas in question do not form part of the Target Property, are not included in the Real Estate Ownership Certificates (不動產權證書) issued in respect of the Target Property and the Independent Property Valuer has in its valuation of the Target Property disregarded the rental income (if any) generated by such public areas.

2.8.3 Non-registration of Leases

As at the Latest Practicable Date, the PRC Subsidiary has not been able to provide the registration documents for the Leases in respect of the Target Property. According to the documents and written explanations provided by the PRC Subsidiary, it is a term in all of the Leases that the relevant lessee shall register the relevant Lease; as such, the PRC Subsidiary only assists the lessees in the registration process and it is also not able to ascertain if every lessee has completed the relevant Lease registration.

As advised by the PRC Legal Adviser, according to the Administrative Measures for Leasing of Commodity Housing (《商品房屋租賃管理辦法》), a fine of RMB1,000 to RMB10,000 shall be imposed on the PRC Subsidiary if it fails to rectify the situation within a prescribed time limit upon notification by the competent authority. It is presently unclear whether such fine applies to each unregistered Lease on a per-Lease basis. Assuming a separate fine applies to each unregistered Lease, the Manager considers that the maximum aggregate amount of penalty payable by the PRC Subsidiary in respect of such unregistered Leases if the PRC Subsidiary fails to rectify the situation within the prescribed time limit is approximately RMB380,000.

If some or all of the Leases have indeed not been registered, there is a risk that the PRC Subsidiary, as the lessor under the Leases, may be subject to the relevant administrative penalties.

As advised by the PRC Legal Adviser, the non-registration of the Leases would not adversely affect the validity or binding effect of such Leases or adversely affect the PRC Subsidiary's legal title to the Target Property. The PRC Subsidiary has not been required to rectify or pay penalties in respect of unregistered Leases as at the Latest Practicable Date. In addition, the Vendor has provided an indemnity (as described in section 2.5.6 headed "Sale and Purchase Deed" — "Representations, Warranties and Indemnities") which covers any losses incurred in respect of the non-compliance of the Target Property with any applicable PRC law. Having regard to the above, the Manager does not consider the above to pose a material risk to CMC REIT.

2.9 Fees and Charges

2.9.1 General

The estimated total fees and charges payable by CMC REIT in relation to the Acquisition (the "**Total Fees and Charges**") are approximately HKD26,000,000 and consists of the Acquisition Fee, the Other Acquisition Fees and Expenses and the Trustee's Additional Fee. Details of these fees and their amounts are set out in sections 2.9.2 to 2.9.4 below. The HKD equivalent of the Initial Consideration of RMB1,341,537,262 (being approximately

HKD1,640,823,462) plus the Total Fees and Charges (being approximately HKD26,000,000) is approximately HKD1,667,000,000.

2.9.2 Acquisition Fee

On Completion, the Manager will be entitled under the Trust Deed to receive an acquisition fee of RMB13,415,373, which is equal to 1% of the Initial Consideration (the "**Acquisition Fee**"). The Acquisition Fee shall be paid to the Manager in the form of cash in HKD based on the then prevailing exchange rate. For illustrative purposes, based on the exchange rate referred to in the definitions section of this Circular, the HKD equivalent of the Acquisition Fee is approximately HKD16,408,235.

2.9.3 Other Acquisition Fees and Expenses

CMC REIT incurred or is expected to incur other estimated fees and expenses in connection with the Acquisition (including advisory fees, professional fees, upfront fee for the New Facility and stamp duty), which is anticipated to be approximately HKD9,300,000 ("**Other Acquisition Fees and Expenses**"). The Other Acquisition Fees and Expenses are one-off transaction expenses of a non-recurring nature in connection with the Acquisition.

2.9.4 Trustee's Additional Fee

Pursuant to the Trust Deed, the Trustee is entitled to charge additional fees for duties undertaken by the Trustee 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 CMC REIT. The Trustee has agreed with the Manager that it will charge CMC REIT a one-time additional fee based on the time and costs incurred by it for duties undertaken by the Trustee in connection with the Acquisition, with such additional fee expected to be HKD100,000 (the "**Trustee's Additional Fee**").

2.9.5 Ongoing Fees

After Completion, pursuant to the Trust Deed and in addition to the fees payable to the Manager and Trustee in respect of the Existing Properties:

(a) the Manager will be entitled under the Trust Deed to receive management fees attributable to the Target Group comprising: (i) a base fee of 10.0% per annum of the Base Fee Distributable Income (as defined in the Trust Deed); and (ii) a variable fee of 25.0% per annum of the difference in distributions per Unit in a financial year compared to the preceding financial year multiplied by the weighted average number of Units in issue for such financial year, save that no such variable fee shall accrue or be payable from the listing date of CMC REIT to 31 December 2022; and

(b) the Trustee will be entitled under the Trust Deed to receive fees of between 0.0150% to 0.0250% per annum of the value of the Deposited Property, which may be increased from time to time to a maximum cap of 0.06% per annum of the value of the Deposited Property. The total fees payable to the Trustee in respect of the Deposited Property is subject to a minimum amount of RMB56,000 per month.

2.10 Facilities to be taken out by CMC REIT

2.10.1 General

At Completion, the Target Group will have entered into a loan constituting the Indebtedness to Vendor Group, which will be assumed and continue to be owed by CMC REIT (through the Panama Subsidiary) after Completion.

In addition, the Manager shall draw down from the New Facility at Completion to finance the Consideration to be paid by the Purchaser to the Vendor under the Sale and Purchase Deed.

2.10.2 Indebtedness to Vendor Group

Prior to Completion, the Vendor shall procure a member of the Vendor Group to provide an interest-free and unsecured loan to the Panama Subsidiary in the amount of the outstanding principal and accrued interest under the Mingyuan Dalian Bank Loan I and the Mingyuan Dalian Bank Loan II on terms satisfactory to the Purchaser (the "**Indebtedness to Vendor Group**") and the Panama Subsidiary shall fully repay such outstanding amount under the Mingyuan Dalian Bank Loan I and the Mingyuan Dalian Bank Loan II prior to Completion.

The total outstanding amount under this loan from the Vendor Group to the Target Group is expected to be approximately RMB119,000,000 at Completion.

As the loan constituting the Indebtedness to Vendor Group is conducted on normal commercial terms or better and are not secured by the assets of the Group, pursuant to paragraph 8.7A of the REIT Code, Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code, in particular Rule 14A.90) and the Trust Deed, it is exempt from the reporting, announcement, Circular and Independent Unitholders' approval requirements under Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code). However, the Manager, taking the view that the Indebtedness to Vendor Group and the Acquisition are linked to each other and part and parcel of the same proposal, will seek Independent Unitholders' approval of the Indebtedness to Vendor Group under the same

Ordinary Resolution to approve the (1) the Acquisition and the transactions contemplated under the Sale and Purchase Deed; and (2) the execution of the Shareholders' Agreement and the transactions contemplated thereunder. For the views of the Board (including the INEDs), the Independent Financial Adviser, the Independent Board Committee and the Trustee in respect of the Indebtedness to Vendor Group, please refer to section 9 headed "Views and Recommendations" in this Circular.

2.10.3 New Facility

The Manager has entered into a commitment letter with the Banks, for the provision of a Hong Kong dollar denominated offshore loan facility for an amount of up to the Hong Kong dollar equivalent of RMB1,400,000,000 (the "**New Facility**"). The Manager shall finance the Consideration by drawing down on the New Facility. None of the Banks are a connected person of CMC REIT within the meaning of Chapter 8 of the REIT Code.

The New Facility is provided in two tranches, with the first tranche of the Hong Kong dollar equivalent of RMB1,300,000,000 bearing interest at 1.0% per annum over 1-month or 3-month HIBOR (provided that it is drawn down on or before 11 July 2022) and the second tranche of the Hong Kong dollar equivalent of RMB100,000,000 bearing interest at 0.9% per annum over 1-month or 3-month HIBOR, and each tranche will mature and become repayable in 12 months from the date of first utilisation. Each of the Trustee, Frontier Shekou, Existing Group Companies (BVI) and Existing Group Companies (Hong Kong) will provide an unconditional and irrevocable guarantee in favour of the Banks in respect of the New Facility.

The terms and conditions of the New Facility described in this Circular are indicative only and subject to change depending on the market conditions at the time the New Facility is finalised and the relevant loan agreement(s) are signed, and do not represent the complete set of the actual terms and conditions. The actual terms and conditions of the New Facility may differ from, or may comprise additional or fewer terms and conditions as compared with, the indicative terms and conditions described in this Circular. To the extent that there are any material changes to the indicative terms and conditions described in this Circular, the Manager will issue an announcement to provide details of such changes.

The Manager has already received a bank term sheet for a refinancing facility of up to RMB3,900,000,000 to refinance the New Facility and Existing CMC REIT Group Facilities (the "**Refinancing Facility**"). The Refinancing Facility will mature and become repayable by 36 months from the first drawdown date and bear interest of 1.4% per annum over 3-month HIBOR.

3. REASONS FOR AND BENEFITS OF THE ACQUISITION

3.1 DPU accretive acquisition

The Acquisition is expected to be improve the DPU to existing Unitholders. Based on the pro forma financials as set out in section 6.2 headed "Financial Effects of the Acquisition" — "Pro Forma DPU" of this Circular, if the Acquisition had been completed on 1 January 2021 and based on the other assumptions in section 6, CMC REIT's pro forma DPU would have increased by 5.6% from RMB0.1511 to RMB0.1596 based on the New Facility (and by 3.3% from RMB0.1511 to RMB0.1560 based on the Refinancing Facility) for the year ended 31 December 2021, due to the stable income produced from the Target Property.

3.2 Geographical diversification and enlargement of portfolio scale

The Acquisition is expected to geographically diversify CMC REIT's asset portfolio, which is currently concentrated in the Shekou area of Shenzhen. Post completion of the Acquisition, the attributable fair value of the properties of CMC REIT located in Shenzhen would decline from 100% to 71.4% based on the fair value as at 31 December 2021 for CMC REIT's existing properties.

The Acquisition in Beijing would embark a start to CMC REIT's expansion from Shenzhen to other top tier cities in the PRC. The Acquisition is also expected to broaden CMC REIT's tenant base to reputable domestic and multi-national corporations.

Following the Acquisition, the fair market value of CMC REIT's portfolio is expected to increase by 40.0%, based on the fair value as at 31 December 2021 for CMC REIT's existing properties. The total assets for CMC REIT would exceed RMB10 billion.

3.3 Capture high office demand opportunity in the most vibrant city in China

Based on the Market Consultant's Report, Beijing's GDP reached approximately RMB4.03 trillion in 2021, increasing by 11.4% over the previous year at comparable prices. More than 4,500 foreign-invested enterprises have been established in Beijing, with over 15 billion USD foreign direct investment introduced. The growing strength of the Beijing economy as one of the growing international business centres in the world is likely to provide high demand in office rental units.

3.4 Prestigious location of Guomao CBD

The Target Property is a commercial building strategically located in Guomao CBD in the Chao Yang District of Beijing, the PRC's capital city. Guomao CBD is one of the most prestigious international business districts in PRC, home to the world's leading business in the financial, media, information technology, consulting and service industries.

The Target Property is directly connected to one of Beijing's main roads, Jianguo Road (also known as the east extension of Changan Rd), and is within walking distance from Guomao Station, which is one of the busiest interchange stations in Beijing.

3.5 Newly refurbished office building with rental uplift potential after 1st new leasing cycle

The Target Property has been undergoing major refurbishment and renovation since 2019 and this was largely completed at the end of 2021. The remaining work, mainly mechanical and & engineering upgrades, is expected to be completed by the first half of 2022. In addition, the average rent of Target Property of RMB326.8/sq.m./month as at 31 March 2022 is below the market rent which ranges from RMB340/sq.m./month to RMB450/sq.m./month, as set out on page A6-25 of this Circular, and over 50% of the Leases will expire by 2024. These factors together are likely to lead to a rental uplift after the first new leasing cycle and contribute to higher revenue.

3.6 Extensive and well-diversified tenants base, stable income

The Target Property has a solid tenant profile with over 80% of its tenants in the finance and banking sector and the professional services sector. The extensive and well-diversified tenants base will yield high average monthly rent, boosting and stabilising CMC REIT's income stream in the long term.

3.7 Rental uplift potential from retail leasing

The Target Property consists of commercial and office units, which commercial units are currently mostly leased out to corporate tenants for business use. As advised by the Market Consultant, the average retail rent in CBD was around RMB400-700 per sq.m. per month in Q4 2021, which is higher than the average rent of RMB326.83 per sq.m. per month of the Target Property in March 2022. The Manager is of the view that the commercial units of the Target Property would provide flexibility for CMC REIT to better cater to market need and adjust the tenant mix, thereby unlocking the rental uplift potential.

3.8 Reduction of risk

Balanced against the benefits arising from the diversification of CMC REIT's portfolio and tenant base, the Manager is also of the view that acquiring a 51% (and not 100.0%) interest in the Target Company mitigates risks associated with managing the Target Property and limits CMC REIT's obligations and liabilities pertaining to the Target Property to its proportionate interest in the Target Company.

By virtue of the Vendor retaining 49% of its interest in the Target Company post-Acquisition, the Purchaser benefits from having its interest aligned with CMSK (being the holding company of the Vendor), which has a sizeable local presence in Beijing and requisite experience in managing the Target Property. CMSK currently operates 3 office projects located in different districts in Beijing, totalling 220,000 sq.m. of gross floor area. CMSK also has a nationwide presence and is able to provide a wide range of tenant resources to the Target Property.

The acquisition of a 51% interest in the Target Company would also reduce the immediate financial burden on CMC REIT that would otherwise be associated with the acquisition of 100% interest in the Target Company, and the Acquisition is expected to result in a gearing ratio within the 50.0% borrowing limit under the REIT Code.

CMC REIT retains a right of first offer to purchase the remaining 49% interest in the Target Property under the terms of the Shareholders' Agreement. For more details, please refer to section 2.6 headed "Shareholders' Agreement".

4. FINANCING OF THE ACQUISITION

The Manager shall finance the Consideration using cash drawn down from the New Facility.

The intended financing structure is determined taking into consideration, among other things, CMC REIT's working capital sufficiency, optimal level of gearing after Completion and financing cost.

In addition, the Manager targets to diversify the capital structure of CMC REIT, and has already received a bank term sheet for the Refinancing Facility of up to RMB3,900,000,000 to refinance the New Facility.

Based on the Unaudited Pro Forma Financial Information of the Enlarged Group set out in Appendix 4 headed "Unaudited Pro Forma Financial Information of the Enlarged Group" to this Circular and the estimated Total Fees and Charges, the pro forma adjusted ratio of debt to total assets of CMC REIT is anticipated to increase from 29.2%, as disclosed in its annual report for the year ended 31 December 2021, to approximately 33.1% immediately following Completion, assuming: (i) completion of the Acquisition; and (ii) HKD1,640,823,462 (equivalent to approximately RMB1,341,537,262) drawn down from the New Facility based on the consideration of Target Shares as at 31 December 2021.

Such ratio is below the 50% limit permitted under the REIT Code.

5. INFORMATION ON THE TARGET PROPERTY

5.1 The Property

5.1.1 Description

The Target Property comprises the following units of the development known as Onward Science & Trade Center (招商局航華科貿中心):

(a) 15 office/multi-function units (being Grade A offices) and 3 commercial units of the 34-storey office building at 118 Jianguo Road, Chaoyang District, Beijing, PRC known as "China Merchants Tower" (the "**China Merchants Tower**");

(b) 1 commercial unit (1st to 4th floor, 101) of the 4-storey commercial building at 108A Jianguo Road, Chaoyang District, Beijing, PRC known as "AIA NPA Center" ("**AIA NPA Center**");

(c) 1 commercial unit (1st floor, 101) of the connecting podium at 118A Jianguo Road, Chaoyang District, Beijing, PRC ("**01-04 Connecting Podium**"), connecting China Merchants Tower and Taiping Financial Centre;

(d) 1 commercial unit (1st to 3rd floor, 101) of the 3-storey commercial building at 116 Jianguo Road, Chaoyang District, Beijing, PRC known as "China Merchants Bank Building" ("**China Merchants Bank Building**");

(e) 2 commercial units (3rd floor, 301 and 4th floor, 401) of the 18-storey office building at 112 Jianguo Road, Chaoyang District, Beijing, PRC known as "China HP Building" ("**China HP Building**"); and

(f) 528 underground car park spaces and 3 underground commercial units variously located at the office building at 108 Jianguo Road, Chaoyang District, Beijing, PRC known as "Hengqin Life Tower" ("**Hengqin Life Tower**"), AIA NPA Center, the serviced apartment at 108B Jianguo Road, Chaoyang District, Beijing, PRC known as "Inner Peace" ("**Inner Peace**"), the commercial building at 110 Jianguo Road, Chaoyang District, Beijing, PRC known as "ICBC Building" ("**ICBC Building**"), China HP Building, China Merchants Bank Building, China Merchants Tower, 01-04 Connecting Podium and the office building at 118B Jianguo Road, Chaoyang District, Beijing, PRC known as "Taiping Financial Centre" ("**Taiping Financial Centre**").

China Merchants Tower, AIA NPA Center, the 01-04 Connecting Podium, China Merchants Bank Building, China HP Building, Hengqin Life Tower, Inner Peace, ICBC Building and Taiping Financial Centre collectively constitute the development known as Onward Science & Trade Center (招商局航華科貿中心). Onward Science & Trade Center is a 320,000 sq.m. integrated property development, consisting of 4 office towers and 2 apartment buildings as well as the podium. The development was completed in 1998 and begun operations by 1999. The development has been partially sold by the PRC Subsidiary over the years, resulting in dispersed ownership between itself and other owners.

Simplified charts showing the property holding structure of the Target Property as at the Latest Practicable Date and immediately after Completion are contained in sections 2.2 and 2.3 headed "Holding structure of the Target Property before Completion" and "Expected holding structure of the Target Property after Completion" in this Circular.

5.1.2 Key Information

The table below sets out certain key information on the Target Property as at 31 March 2022, unless otherwise indicated.

Portion	Approximate Gross Floor Area (sq.m.)	Approximate Gross Rentable Area (sq.m.)	Expiry of Land Use Right(1)
Commercial (Level 1 to Level 4 of China HP Building, China Merchants Bank Building, AIA NPA Center and 01-04 Connecting Podium, excluding Level 4 of China Merchants Tower)	15,020.24	15,020.24	28 August 2034
Multi-function / Office (Level 4, Level 9 to Level 14, Levels 18, 19, 29, 30 and Level 32 to Level 34 of China Merchants Tower)	21,856.81	21,856.81	28 August 2044
Commercial (Basement mezzanine level of Target Property**)	3,946.94	3,946.94	28 August 2044
528 car parking spaces in basement**	7,546.27	N/A	28 August 2044
Total:	**48,370.26**	**40,823.99**	

** Variously located at Hengqin Life Tower, AIA NPA Center, Inner Peace, ICBC Building, China HP Building, China Merchants Bank Building, China Merchants Tower, the 01-04 Connecting Podium and Taiping Financial Centre

Average rent (RMB/sq.m./month) for the month of March 2022(2)	RMB326.83 (based on gross rented area)
Occupancy rate as at 31 March 2022(3)	66.4%
Total monthly rent as at 31 March 2022(4)	RMB8,860,000, representing an estimated net property yield of 3.9%
Appraised Value as at 31 March 2022	RMB2,730,000,000

Notes:

(1) As advised by the Manager's PRC Legal Adviser, JunHe LLP, according to the Law of the People's Republic of China on Administration of Urban Real Estate, if the land user intends to continue to use the land upon expiry of the use term, such user shall file an application for extension at least one year prior to expiry of the use term, the approval shall be granted except that the land needs to be expropriated for social public interest. Upon approval on extension, a new land use right grant contract shall be signed and the land premium shall be paid according to the relevant regulations. As such, as advised by JunHe LLP, unless the government plans to expropriate the land due to public interest, there will not be any material legal impediment for extension of the land use right.

(2) Average rent per leased sq.m. is based on rental income.

(3) Occupancy rate calculated based on leased gross rentable area over total gross rentable area.

(4) Total monthly rent is exclusive of management fee and value-added tax.

The Property Valuer has valued the Target Property as at 31 March 2022. The full text of the property valuation report of the Target Property is set out in Appendix 5 headed "Independent Property Valuer's Property Valuation Report" to this Circular. A reconciliation of the net book value of the Target Property as at 31 December 2021 as set out in the Accountants' Report of the Target Group in Appendix 2 headed "Accountant's Report of the Target Group" to this Circular to its fair value as at 31 March 2022 as set out in the property valuation report in Appendix 5 headed "Independent Property Valuer's Property Valuation Report" to this Circular is set out below:

	RMB million (whole interest basis)
Net book value of the Target Property as at 31 December 2021	2,700
Less: Depreciation during the three months ended 31 March 2022	–
Net book value of the Target Property as at 31 March 2022	2,700
Valuation surplus as at 31 March 2022	30
Valuation as at 31 March 2022 as set out in the Property Valuation Report in Appendix 5 headed "Independent Property Valuer's Property Valuation Report" to this Circular	2,730

5.1.3 Key financial information

Based on the Accountant's Report of the Target Group set out in Appendix 2 headed "Accountant's Report of the Target Group" to this Circular, the following table contains certain financial information of the Target Company for the three years ended 31 December 2019, 31 December 2020 and 31 December 2021 in accordance with the International Financial Reporting Standards:

	For the year ended 31 December 2019 *(RMB'000)*	**For the year ended 31 December 2020** *(RMB'000)*	**For the year ended 31 December 2021** *(RMB'000)*
Revenue	142,529	130,449	118,900
Fair value (loss)/gain of investment property	245,000	(68,845)	2,656
Profit/(loss) before income tax	354,898	27,889	85,909
Profit/(loss) attributable to owners of the Target Company	234,480	(5,418)	54,506

5.1.4 Occupant Profile and Details of Lessee Mix

The Target Property is mainly for office use. The commercial units within the Target Property are also mostly leased out to corporate tenants for business use, with only several amenities tenants. The table below sets out details of the overall occupant diversification of the Target Property, in terms of trade sub-sector by reference to total gross rented area as at 31 March 2022 and total gross rental income as at 31 March 2022, based on information provided by the Vendor:

Trade sector	**Percentage by gross rented area**	**Percentage by gross rental income**	**Numbers of Tenants**
Finance	47.6%	46.6%	6
Professional Service	39.0%	45.0%	7
F&B and Hospitality	5.9%	1.6%	2
Healthcare	4.5%	4.6%	1
Information Technology	1.7%	1.5%	3
Real estate	0.6%	0.6%	1
Transportation and Warehousing	0.5%	0.1%	1
Retail & Wholesale	0.1%	0.1%	1
	100%	100%	22

5.1.5 Top 10 Tenants based on signed leases as at 31 March 2022

No.	Trade Sector	Lease Expiration Date	Gross rented area *(sq.m.)*	Percentage by gross rented area	Monthly rental income *(RMB'000)*	Percentage by monthly rental income
1	Finance	Nov-24	10,094	37.2%	3,255	36.8%
2	Professional Services	Apr-29	8,434	31.1%	3,297	37.2%
3	Finance	Apr-26	2,023	7.5%	613	6.9%
4	F&B	Mar-23	1,406	5.2%	95	1.1%
5	Healthcare	May-27	1,220	4.5%	407	4.6%
6	Professional Services	Sep-23	996	3.7%	329	3.7%
7	Professional Services	Feb-23	325	1.2%	95	1.1%
8	Finance	Oct-24	308	1.1%	94	1.1%
9	Professional Services	May-23	304	1.1%	97	1.1%
10	Information technology	Aug-23	189	0.7%	58	0.6%
Total			25,299	93.3%	8,340	94.2%

None of the above top 10 tenants are members of the CM Connected Persons Group.

5.1.6 Schedule of Lease Expirations

The table below sets forth details of the percentage of expiries in respect of the Target Property's occupancy under the Leases as at 31 December 2021, which are scheduled to take place during the periods indicated below, by reference to total gross rentable area as at 31 December 2021 and total gross rental income for 2021, and assuming the Leases will not be renewed, based on information provided by the Vendor:

Period	Percentage by gross rentable area	Percentage by gross rental income
31 December 2022	2.1%	3.0%
31 December 2023	9.2%	9.5%
31 December 2024	25.8%	38.2%
31 December 2026	5.4%	7.4%
31 December 2027	3.3%	4.6%
31 December 2029	20.7%	37.2%
Owner-occupied	6.2%	–
Vacant	27.4%	–
Total	**100.0%**	**100.0%**

5.1.7 Delinquency Rates

No provision was made for unpaid rents for the years ended 31 December 2019, 2020 and 2021 in respect of the Target Property.

5.2 Property Valuation

Cushman & Wakefield Limited, the current principal valuer of CMC REIT, has been appointed as the Independent Property Valuer to appraise the value of the Target Property for the purpose of the Acquisition. The Appraised Value of the Target Property (as assessed by the Independent Property Valuer as at 31 March 2022) was RMB2,730,000,000. The Agreed Property Value represents a discount of approximately 1.1% to the Appraised Value (being RMB2,730,000,000 as at 31 March 2022). In November 2021, CMSK (the holding company of the Vendor) acquired 80% of the interest in the Vendor from its joint venture partner (being an independent third party) for a consideration amount of RMB2,097,600,000. In 1994, the PRC Subsidiary acquired the land use rights underlying the development known as Onward Science & Trade Center (招商局航華科貿中心) from Beijing Municipal Bureau of Housing for certain consideration, 20% of which is equivalent to

RMB78,958,000. The agreed value of the Target Property for the acquisition in November 2021 of 80% of the interest in the Vendor was an amount equivalent to the Agreed Property Value of RMB2,700,000,000.

In arriving at the Appraised Value, the Independent Property Valuer has made use of the income capitalisation approach with cross-checking against the market comparison approach. The income approach values the capacity of the Target Property on a market basis by capitalising the existing rental of all lettable units of the Target Property for the unexpired terms of contractual tenancies whilst vacant units are assumed to be let at their respective market rents as at 31 March 2022.

Upon expiry of the existing tenancies, each unit is assumed to be let at its market rent as at 31 March 2022, which is in turn capitalised for the unexpired term of the relevant land use rights under which the Target Property is held. The summation of the capitalised value of the term rental for the currently leased portion, the capitalised value of the reversion market rental as appropriately deferred for the currently leased portion and the capitalised value of the currently vacant portion provides the market value of the Target Property. The market comparison approach values the Target Property by making reference to comparable sales evidence, of property with similar characteristics as the Target Property as available in the relevant market.

According to the advice of the PRC Legal Adviser, certain premises of the development where the Target Property is located have exceeded approved plans, being:

(i) the 4th floor of China Merchants Bank Building, which has been leased to tenants;

(ii) the 5th floor of AIA NPA Center, which is vacant; and

(iii) other areas, in respect of which the PRC Subsidiary has previously paid fines for such non-conforming use and parts of which have now been leased to tenants.

The valuation by the Independent Property Valuer is based on the gross floor area indicated on the Real Estate Title Ownership Certificates Nos. 0110616, 0123244, 0123245, 0123246, 0123247 and 0123183 (不動產權證書) issued in respect of the Target Property, which gross floor area includes the area of the 4th floor of China Merchants Bank Building as well as the other areas mentioned above in respect of which the PRC Subsidiary has previously paid fines. In respect of the 5th floor of AIA NPA Center, as it is not included in the Real Estate Ownership Certificates (不動產權證書) issued in respect of the Target Property, the Independent Property Valuer has not taken into account such area and disregarded the rental income (if any) generated by the 5th floor of AIA NPA Center.

In addition, according to the advice of the PRC Legal Adviser, the PRC Subsidiary has leased out certain public areas of the development to tenants for private use but has not provided any resolutions of the owners of the relevant building of the development where such public areas are located in general meeting approving such leasing of public areas. These areas do not form part of the Target Property, are not included in the Real Estate Ownership Certificates (不動產權證書) issued in respect of the Target Property and the Independent Property Valuer has disregarded the rental income (if any) generated by such public areas.

As the Appraised Value only relates to the valuation of the Target Property, it does not take into account the financing and shareholding structure of the Target Property and is not equivalent to the value of the Target Group. Accordingly, the parties have agreed to adjust the Agreed Property Value in the manner described in section 2.5.2 headed "Consideration and payment terms for the Acquisition" in this Circular.

5.3 Ownership

CMC REIT will not directly hold the Target Property. Instead, the Target Property will be held on trust for CMC REIT by the Trustee in accordance with the provisions of the Trust Deed. More specifically, the Trustee will, through the Purchaser, hold CMC REIT's 51% interest in the Target Company. The Target Company is the indirect holding company of the PRC Subsidiary, which is the registered legal owner of the land use rights and current building ownership rights underlying the Target Property.

The PRC Legal Adviser of the Manager, JunHe LLP, has advised that the PRC Subsidiary has legally obtained the state-owned land use rights in respect of the Target Property and that it is the registered legal user of the land use rights and the registered legal owner of the building ownership rights underlying the Target Property. The PRC Subsidiary has legal ownership of the Target Property and can legally and beneficially own, use, occupy, transfer and lease out the Target Property in accordance with the relevant PRC laws and the relevant land grant contract (subject to the terms of mortgages and existing Leases). The PRC Legal Adviser of the Manager has also advised that the PRC Subsidiary is the sole owner of the building ownership rights underlying the Target Property and that such rights are free from encumbrances other than the Property Mortgage. In relation to the land use rights underlying the buildings where the Target Property is located, the PRC Legal Adviser has advised that the PRC Subsidiary is not the sole user of such land use rights as the rights are jointly owned by the PRC Subsidiary and other unit owners of the buildings where the Target Property is located, but that this would not affect the rights of the PRC Subsidiary in relation to the Target Property set out in the paragraph below (including the ability to, during the term of the relevant land use right, legally and beneficially own, use, occupy, transfer (including sell, exchange or transfer by way of gift), lease out or mortgage the Target Property).

Based on the above, the PRC Legal Adviser of the Manager is of the view that the PRC Subsidiary can, during the term of the relevant land use right, legally and beneficially own, use, occupy, transfer (including sell, exchange or transfer by way of gift), lease out or mortgage the Target Property or use it for other legal economic activities, in accordance with the relevant PRC laws and the relevant land grant contract free from encumbrances other than the Property Mortgage (subject to the terms of mortgages and existing Leases). Based on the above advice of the PRC Legal Adviser, the Manager is of the view, and the PRC Legal Adviser agrees, that CMC REIT will (through the PRC Subsidiary) have good, marketable, legal and beneficial title to the Target Property upon Completion.

According to the Law of the People's Republic of China on Administration of Urban Real Estate (中華人民共和國城市房地產管理法), if the land user intends to continue to use the land upon expiry of the use term (being 28 August 2034 in respect of the above-ground commercial portions of the Target Property and 28 August 2044 in respect of the multi-function/office portions, basement mezzanine commercial portions and basement car parking spaces of the Target Property), such user shall file an application for a land use right extension at least one year prior to expiry of the use term. The approval shall ordinarily be granted except when the land needs to be expropriated for social public interest. If the land use right extension is approved, a new land use right grant contract shall be signed and the land premium shall be paid according to the relevant regulations. For the reasons above, the PRC Legal Adviser of the Manager has advised that a land user may extend the land use right in accordance with PRC laws and administrative regulations and there will not be any material legal impediment for extension of the land use right unless the government plans to expropriate the land due to public interest. However, there can be no assurance that a land use right extension can always be obtained.

In certain circumstances, the PRC government may, where it considers it to be in the public interest, terminate land use rights and expropriate the land before the expiration of the term. In the event of any compulsory expropriation 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 Target Property is subsequently expropriated by the PRC Government, the level of compensation paid to CMC REIT pursuant to this basis of calculation may be less than the price which CMC REIT has paid or would have paid for the Target Property. In addition, the PRC government has the right to terminate long-term land use rights and withdraw early the land in the event the PRC Subsidiary fails to observe or perform certain terms and conditions pursuant to the land use rights grant contracts, in which case CMC REIT may not be entitled to any compensation.

The ability to make payments to the Panama Subsidiary and BVI Subsidiary may also be restricted by applicable laws and regulations that may restrict the repatriation in RMB out of the PRC. The Manager's PRC Legal Adviser has advised that there is no legal impediment on the remittance of dividends on retained earnings of the PRC Subsidiary out of the PRC to the Panama Subsidiary and BVI Subsidiary, provided that such remittance is made and tax-levied in accordance with the procedures set out under the relevant PRC laws and regulations, including but not limited to those laws on foreign investment, tax and foreign exchange and that such remittance is not made in breach of the terms of the New Facility. However, there is no assurance that new PRC regulations restricting RMB remittance into or out of the PRC will not be promulgated in the future.

5.4 Leases

5.4.1 Terms and termination

The Leases entered into for the Target Property are generally for terms ranging from three to five years, depending on factors such as the size of the leased premises, duration of the lease and lessee profile. Most Leases have fixed terms, but in some Leases the Lessees and the PRC Subsidiary as landlord have agreed on an optional term for renewal at the discretion of the tenants apart from the fixed term, in which case, the rental increase shall be re-determined through negotiation between both parties in accordance with the market conditions for commercial retail premises.

At the time of entering into a Lease, the Lessees are required to provide a non-interest bearing security deposit, which is generally an amount equivalent to three months' rent and management fees. Security deposits do not bear interest. Most of the Lessees are required to pay their rents on a monthly basis or with a longer payment period depending on the negotiation by both parties, on or around the beginning of each payment period. Consistent with market practice, fitting-out periods during which no rent is payable, which vary depending on market conditions at the time of negotiation, lease terms and leased areas, are commonly granted to the tenants by the landlord.

Under the Leases, the Lessees are responsible for payment of property management fees, utilities and other outgoings. The Lessees are also responsible for repair costs and all other expenses relating to the interior of the premises, while the PRC Subsidiary as landlord is responsible for repair costs relating to the main building structure.

In the event that the premises or any part of it is damaged, destroyed or otherwise rendered unfit for use by fire, typhoon or other force majeure events other than as a result of the negligence or fault of the Lessees, according to most of the Leases, the PRC Subsidiary as landlord or the Lessees shall be entitled to terminate the relevant Leases upon serving prior written notice to the other party if the situation has not been rectified for more than three months after such event. The tenant may also suspend the payment of rent, or reduce the rent according to the nature and extent of the damage sustained, until the damage is fully repaired or reinstated by the landlord, but the landlord is not obliged to repair or reinstate the damage. The Lessees are not permitted to assign or sublet the premises under the Leases, unless it is expressly agreed in the leases that they may assign or sublet the leased property to affiliated enterprises of the tenant or third parties after the landlord's consent is given.

The majority of the Leases do not enable the Lessees to terminate their Leases ahead of the scheduled expiration dates, unless the PRC Subsidiary as landlord delays in delivery of the premises or the premises have serious defects which render the premises unusable, in which case the Lessees may terminate their Leases where the landlord fails to deliver or rectify those defects (as the case may be) within 30 days upon receiving Lessees' written notices. If a Lessee unilaterally terminates the Lease for reasons other than the ones mentioned above without the PRC Subsidiary's consent, such Lessee shall compensate the landlord for any costs, expenses losses or damages sustained by the latter, including but not limited to any legal fees, loss of rent or other fees, which the landlord would otherwise be entitled to receive under the Lease but for the Lessee's unilateral termination thereof. The PRC Subsidiary is entitled to forfeit all the security deposit paid by such Lessee to offset costs, expenses, losses or damages referred to above and claim against such Lessee for any shortfall. In addition, the PRC Subsidiary has the right to terminate a Lease upon the occurrence of certain events, such as delay in rental payment beyond a specified period or agreed conditions of breach of covenants by the Lessee.

5.4.2 CM Tenancies in respect of the Target Property

As at the Latest Practicable Date, no Leases have been entered into between the PRC Subsidiary and tenants who are members of the CM Connected Persons Group.

Any Leases that may be entered into between the PRC Subsidiary and tenants who are members of the CM Connected Persons Group in the future in respect of the Target Property will be subject to the terms of the Existing CM Leasing Framework Agreement and the annual caps thereunder. The Manager will not be proposing increased annual caps or entering into a new framework agreement as a result of the Acquisition and any new CM Tenancies in respect of the Target Property. For details regarding the Existing CM Leasing Framework Agreement and the annual caps applicable to the CM Tenancies thereunder, please refer to section 7.2.1 headed "Framework Agreements" — "Existing CM Leasing Framework Agreement" and section 7.3.1 headed "Historical Transaction Amounts and Annual Caps" — "CM Tenancies" in this Circular.

5.5 Management of the Target Property

Upon Completion, the Target Property shall be managed pursuant to the following agreements, with the Manager supervising the same.

5.5.1 Framework Agreements

On 9 December 2021, the Manager entered into the Existing CM Leasing Framework Agreement with Eureka and on 13 June 2022, the Manager entered into the Amended and Restated Operations and Property Management

Framework Agreement with Eureka. These framework agreements set out the terms and conditions and pricing policies governing the CM Tenancies and the Operations and Property Management Transactions which are either in place or to be entered into or renewed from time to time by CMC REIT (including those pertaining to the Target Property that will be held by CMC REIT upon Completion). These framework agreements are or will be (as the case may be) for a term of three years from 1 January 2022 to 31 December 2024. The Amended and Restated Operations and Property Management Framework Agreement will be conditional upon the passing of the EGM Resolutions to approve the Matters Requiring Approval.

Each Framework Agreement requires the parties thereto procure the relevant contracting parties to the CM Tenancies and Operations and Property Management Transactions (as the case may be) to ensure that such transactions shall be entered into or otherwise conducted: (a) in writing; (b) on an arm's length basis and in the ordinary and usual course of business of CMC REIT; (c) on normal commercial terms or better (as defined under Rule 14A.06(26) of the Listing Rules) that are fair and reasonable and in the best interests of the Unitholders; (d) at the prevailing market rate for similar transactions; and (e) in compliance with the terms of such Framework Agreement and all applicable provisions of the REIT Code, the Listing Rules and the Trust Deed. For further details of each of the Framework Agreements, please refer to section 7.2 headed "Framework Agreements".

The Operations and Property Management Transactions will each be subject to and governed by the terms of the Amended and Restated Operations and Property Management Framework Agreement, as more particularly described in this section 5.5.

5.5.2 Operations Management Agreement

At Completion, the PRC Subsidiary and the Operations Manager will enter into the Operations Management Agreement pursuant to which the Operations Manager agrees to provide the Operations Management Services in respect of the Target Property for a term of three years commencing from the Completion Date.

Under the Operations Management Agreement, the Operations Manager will be entitled to receive from the PRC Subsidiary (i) an amount equivalent to 5.0% of the monthly rental income of the PRC Subsidiary, payable on a quarterly basis; and (ii) an amount equivalent to 2.5% of the PRC Subsidiary's semi-annual capital expenditure for refurbishment and renovation of the Target Property, payable on a semi-annual basis. The Operations Manager will bear its operating costs and expenses and be subject to the ongoing supervision of the Manager and the Onshore Manager Subsidiary.

The Operations Manager is an indirect subsidiary of CMSK. It is therefore a member of the CM Connected Persons Group and a connected person of CMC REIT. If the Ordinary Resolution in respect of the Operations and Property Management Transactions under the Amended and Restated Operations and Property Management Framework Agreement and the proposed annual caps applicable thereto is approved by the Independent Unitholders at the EGM, the transactions to be carried out under the Property Management Agreement will be subject to and in compliance with the Amended and Restated Operations and Property Management Framework Agreement (including the Revised Annual Caps set out therein) entered into between the Manager and Eureka on 13 June 2022, the details of which are set out in section 7.2.1 headed "Framework Agreements" — "Amended and Restated Operations and Property Management Framework Agreement".

5.5.3 Property Management Agreement

On Completion, the PRC Subsidiary and the Property Manager will enter into the Property Management Agreement pursuant to which the Property Manager will provide the Property Management Services in respect of the Target Property for a term of three years, which is automatically renewable unless either party notifies otherwise, commencing from the date of the Property Management Agreement.

Under the Property Management Agreement, for the Property Management Services rendered with respect to the Target Property, the Property Manager is entitled to be paid a monthly fee:

(a) from the PRC Subsidiary of RMB10.79 per sq.m. of the Target Property (other than car park spaces) that is vacant;

(b) from the PRC Subsidiary of RMB22.02 per sq.m in respect of 385.18 sq.m. of the Target Property owned and occupied by the PRC Subsidiary, representing a 24% discount to the rate paid to the Property Manager by Lessees (see 5.5.3(d) below);

(c) from the PRC Subsidiary of 10% of rent collected in respect of basement hourly car park spaces; and

(d) from each Lessee of RMB28.98 per sq.m. of the Target Property leased to such Lessee.

Pursuant to the Property Management Agreement, the Property Manager is subject to ongoing supervision by the Manager. The Property Manager is required to provide to the PRC Subsidiary an annual property management report setting out the property management proposals and budget.

The Property Manager is an indirect subsidiary of CMSK. Similar to the Operations Manager, it is therefore a member of the CM Connected Persons Group and a connected person of CMC REIT. If the Ordinary Resolution in respect of the Operations and Property Management Transactions under the Amended and Restated Operations and Property Management Framework Agreement and the proposed annual caps applicable thereto is approved by the Independent Unitholders at the EGM, the transactions to be carried out under the Property Management Agreement will be subject to and in compliance with the Amended and Restated Operations and Property Management Framework Agreement (including the Revised Annual Caps set out therein) entered into between the Manager and Eureka on 13 June 2022, the details of which are set out in section 7.2.1 headed "Framework Agreements" — "Amended and Restated Operations and Property Management Framework Agreement".

5.6 Competition

According to the Market Consultant's Report, the CBD area includes more than 33 high-quality office buildings including the Target Property. The CBD area holds the largest amount of supply for Grade-A office space in Beijing, totalling 3.4 million sq.m. as at the end of 2021.

There will be no new supply of office space in CBD in 2022, while a total 630,000 sq.m. of office space will be completed in 2023. In 2023, the building developed by Sino-ocean and HSBC will contribute 190,000 sq.m., while the development owned by China Investment Securities will supply 150,000 sq.m. to the market.

As a result of the pandemic and economic downturn in 2020, the vacancy rate of CBD Grade-A offices surged to 16.7%. Since early 2021, the office leasing activities in CBD has rebounded thanks to the rising demand from companies looking to take advantage of the more favourable leasing environment. According to the Market Consultant's Report, leasing activity of CBD in 2022 is expected to increase amid the recovery of the domestic economy. It is likely that vacancy rates will remain at around 9% to 11% as new lettings will absorb new supply from business expansion. Economic recovery is expected to drive market sentiment, which would support a rebound of office rents by around 2% to 3% in 2022.

As one of the most developed business districts, there are multiple prestigious retail malls within the CBD, including Oriental Plaza, APM, Emperor Group Centre, SKP etc.. Although the major retail properties coming to market in the future mostly are located at the peripheral areas, such properties which are brand new and operated by well-known developers will exert further pressure over the retail market citywide.

In 2021, the Chinese government announced it will set up a stock exchange in Beijing and build it into a major base for innovative small and medium-sized enterprises. The policy is expected to drive office demand in CBD from such enterprises.

6. FINANCIAL EFFECTS OF THE ACQUISITION

6.1 Pro Forma Financial Effects of the Acquisition

The pro forma financial effects of the Acquisition on total distributable amount and NAV below are strictly for illustrative purposes and were prepared based on:

(a) the audited consolidated financial information of CMC REIT for the year ended 31 December 2021; and

(b) the audited consolidated financial information of the Target Group for the year ended 31 December 2021 as set out in Appendix 2 headed "Accountant's Report of the Target Group" to this Circular,

and assuming:

(1) the Consideration is RMB1,341,537,262 based on the Accountant's Report as at 31 December 2021, and will be satisfied in cash; and

(2) other matters stated in sections 6.2 to 6.4 of this Circular.

The Manager considers the above assumptions to be appropriate and reasonable as at the date of this Circular. However, Unitholders should consider the information outlined below in light of such assumptions and make their own assessment of the future performance of CMC REIT.

Based on the pro forma financial effects of the Acquisition as stated in this section as well as Appendix 4 headed "Unaudited Pro Forma Financial Information of the Enlarged Group" which provides a more detailed illustration of the financial effects of the Acquisition, the Manager does not foresee any material adverse impact on the financial position of CMC REIT as a result of the Acquisition.

Unitholders should note that the financial effects of the Acquisition is on a pro forma basis and is subject to the assumptions set out in Appendix 4 headed "Unaudited Pro Forma Financial Information of the Enlarged Group" to the Circular. Accordingly, they do not constitute a profit forecast or represent the actual financial position of CMC REIT as a result of the Acquisition in the future.

6.2 Pro Forma DPU

The pro forma financial effects of the Acquisition on the DPU for the year ended 31 December 2021, as if the Acquisition was completed on 1 January 2021 and CMC REIT had held and operated the Target Property through to 31 December 2021, are as follows:

	Before the Acquisition	After the Acquisition based on the New Facility	Variance	After the Acquisition based on the Refinancing Facility	Variance
Total Distributable Amount *(RMB'000)*	170,403[1]	180,009[2]	5.6%	175,968[3]	3.3%
Issued Units *('000)*	1,127,820[4]	1,127,820[4]	–	1,127,820[4]	–
DPU *(RMB)*	0.1511	0.1596	5.6%	0.1560	3.3%
Committed DPU *(HKD)*	0.2541	0.2541	–	0.2541	–

Notes:

(1) Based on the audited consolidated statement of distribution of CMC REIT for the year ended 31 December 2021.

(2) The financial performance of the Enlarged Group (i) is based on the audited consolidated financial information of CMC REIT for the year ended 31 December 2021 and the audited financial information of the Target Group for the year ended 31 December 2021; (ii) assuming the Acquisition was completed on 1 January 2021; and (iii) assuming the New Facility described in section 2.10.3 headed "The Acquisition" — "Facilities to be taken out by CMC REIT" — "New Facility" in this Circular was drawn down for the Acquisition.

(3) The financial performance of the Enlarged Group (i) is based on the audited consolidated financial information of CMC REIT for the year ended 31 December 2021 and the audited financial information of the Target Group for the year ended 31 December 2021; (ii) assuming the Acquisition was completed on 1 January 2021; and (iii) assuming the Refinancing Facility described in section 2.10.3 headed "The Acquisition" — "Facilities to be taken out by CMC REIT" — "New Facility" in this Circular was drawn down for the Acquisition.

(4) Number of issued Units as at 31 December 2021.

6.3 Pro Forma net asset value attributable to Unitholders per Unit

The pro forma financial effects of the Acquisition on the net asset value attributable to Unitholders per Unit as at 31 December 2021, as if the Acquisition was completed on 31 December 2021, are as follows:

	Before the Acquisition	**After the Acquisition**
Net asset value attributable to Unitholders *(RMB'000)*	4,006,984[(1)]	3,994,379[(2)]
Issued Units *('000)*	1,127,820[(3)]	1,127,820[(3)]
Net asset value attributable to existing Unitholders per Unit *(RMB)*	3.55	3.54

Notes:

(1) Based on the audited consolidated financial information of CMC REIT for the year ended 31 December 2021.

(2) The financial position of the Enlarged Group is based on: (i) the audited consolidated financial statements of CMC REIT as at 31 December 2021 and the audited financial information of the Target Group as at 31 December 2021; and (ii) assuming the Acquisition was completed on 31 December 2021.

(3) Number of issued Units as at 31 December 2021.

6.4 Pro Forma capitalisation

The following table sets forth the capitalisation of CMC REIT as at 31 December 2021 based on the Unaudited Pro Forma Financial Information of the Enlarged Group set out in Appendix 4 headed "Unaudited Pro Forma Financial Information of the Enlarged Group" to this Circular, as if CMC REIT had completed the Acquisition on 31 December 2021.

	Actual *(RMB'000)*	**After the Acquisition** *(RMB'000)*
Total debt[(1)]	2,209,875	3,551,412
Net assets attributable to Unitholders	4,006,984	3,994,379
Total capitalisation[(2)]	6,216,859	7,545,791

Notes:

(1) Total debt represents total current and non-current borrowings.

(2) Total capitalisation equals to total debt plus net assets attributable to Unitholders.

7. CONTINUING CONNECTED PARTY TRANSACTIONS

7.1 Background

On 9 December 2021, in anticipation of the expiry of the waivers applied for by the Manager and granted by the SFC in 2019 from strict compliance with Chapter 8 of the REIT Code in respect of certain continuing party transactions of CMC REIT (the "**2019 CPT Waiver**") on 31 December 2021 and in view of the revision of the REIT Code on 4 December 2020 to, *inter alia*, broadly align the requirements applicable to connected party transactions of REITs with the requirements for companies listed on the Hong Kong Stock Exchange, CMC REIT (through the Manager) entered into the Existing CM Leasing Framework Agreement and the Existing Operations and Property Management Framework Agreement (the "**Existing Framework Agreements**") which set out the framework terms governing the CM Tenancies and Operations and Property Management Transactions (as described in this section 7.1 below) in relation to CMC REIT's Properties. The Existing Framework Agreements and the annual caps thereunder were approved by the Independent Unitholders at the CM Continuing CPTs EGM on 29 December 2021.

The categories of the CM Continuing CPTs are as follows:

(a) As part of the Group's ordinary and usual course of business, leasing transactions will from time to time be conducted between members of the CM Connected Persons Group and members of the Group in respect of CMC REIT's Properties (the "**CM Tenancies**")[1].

(b) As part of the Group's ordinary and usual course of business, operations management and property management transactions have been, or will from time to time be, conducted between members of the CM Connected Persons Group and members of the Group in respect of CMC REIT's Properties (the "**Operations and Property Management Transactions**"), including the Operations Management Agreement and Property Management Agreement to be entered into at Completion in respect of the Target Property. For further details of the Operations Management Agreement and Property Management Agreement, please refer to sections 5.5.2 and 5.5.3 headed "Operations Management Agreement" and "Property Management Agreement" respectively in this Circular.

If the Acquisition is completed, and assuming that CM Continuing CPTs in relation to the Target Property will be conducted with the CM Connected Persons Group, more continuing connected party transactions will arise, the nature of which is comparable to the existing CM Continuing CPTs governed by the Existing Framework Agreements.

The Acquisition will accordingly increase the scale of the CM Continuing CPTs with the CM Connected Persons Group. Accordingly, on 13 June 2022, CMC REIT (through the Manager) entered into Amended and Restated Operations and Property Management Framework Agreement to provide for new monetary limits as approved by independent unitholders from time to time, in order to accommodate the Operations and Property Management Transactions in respect of the Target Property for the financial years ending 31 December 2022, 31 December 2023 and 31 December 2024, as described in section 7.3.2 headed "Historical Transaction Amounts and Annual Caps" — "Operations and Property Management Transactions" below. The Revised Annual Caps increase the previous caps set in December 2021, to cover the new Operations and Property Management Transactions relating to the Target Property entered or to be entered into. Similar to the Existing Framework Agreements, the Amended and Restated Operations and Property Management Framework Agreement is for a term of three years from 1 January 2022 to 31 December 2024, and will be, together with the Operations and Property Management Transactions contemplated thereunder, regulated with reference to Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code). The Manager would like to take the opportunity of the EGM for

[1] Currently, there are no existing CM Tenancies in respect of the Target Property but 2,141 sq.m. of the owner-occupied areas has been licensed by the PRC Subsidiary to a member of the CM Connected Persons Group for a monthly licence fee of RMB237,463.

Unitholders to approve CMC REIT's entering into of the Amended and Restated Operations and Property Management Framework Agreement as well as the Revised Annual Caps thereunder.

However, the Manager will not be proposing increased annual caps or entering into a new framework agreement as a result of the Acquisition and the new CM Tenancies in respect of the Target Property, and the CM Tenancies in respect of the Target Property will be subject to the terms of the Existing CM Leasing Framework Agreement and the annual caps thereunder.

7.2 Framework Agreements

7.2.1 Existing CM Leasing Framework Agreement

As mentioned in section 7.1 headed "Continuing Connected Party Transactions" — "Background" above, the Manager entered into the Existing CM Leasing Framework Agreement with Eureka on 9 December 2021 to set out the framework terms (including the monetary limits) governing the CM Tenancies in respect of CMC REIT's Properties for the financial years ending 31 December 2022, 31 December 2023 and 31 December 2024.

The annual caps governing the CM Tenancies in respect of CMC REIT's Properties from time to time are described in section 7.3.1 headed "Historical Transaction Amounts and Annual Caps" — "CM Tenancies" below. The principal terms of the Existing CM Leasing Framework Agreement, as set out in the Circular for the CM Continuing CPTs EGM, are as follows:

Parties:	(1) The Manager (for and on behalf of the Group) (2) Eureka
Purpose and description:	To set out the framework terms governing tenancies entered or to be entered into between a member of the Group (as lessor) on the one hand and a member of the CM Connected Persons Group (as lessee) on the other hand in respect of any of CMC REIT's Properties during the term of the Existing CM Leasing Framework Agreement. The relevant members of the Group and CM Connected Persons Group shall enter into separate written agreements on normal commercial terms to be negotiated on a case-by-case and at arm's length basis which are fair and reasonable and in the interests of CMC REIT and the Unitholders as a whole.
Term:	Three (3) years from 1 January 2022 up to 31 December 2024.

Pricing policy: The rent chargeable for such transactions shall be based on the then prevailing market rates for properties for similar size and with similar attributes within the same building (or, if not available, within the vicinity).

To ensure that each transaction under the Existing CM Leasing Framework Agreement is entered into based on the then prevailing market rate and on normal commercial terms, the Manager shall arrange for an independent valuation to be conducted by the then prevailing principal valuer of CMC REIT for each CM Tenancy before it is first entered into or if and when it is renewed.

7.2.2 Amended and Restated Operations and Property Management Framework Agreement

The Manager entered into the Amended and Restated Operations and Property Management Framework Agreement with Eureka on 13 June 2022 to amend and restate the Existing Operations and Property Management Framework Agreement dated 9 December 2021 to provide for new monetary limits as approved by independent unitholders from time to time, in order to accommodate the Operations and Property Management Transactions in respect of the Target Property for the financial years ending 31 December 2022, 31 December 2023 and 31 December 2024 as described in section 7.3.2 headed "Historical Transaction Amounts and Annual Caps" — "Operations and Property Management Transactions" below. The Amended and Restated Operations and Property Management Framework Agreement sets out the framework terms governing the Operations and Property Management Transactions in relation to both the Existing Properties and the Target Property. The Amended and Restated Operations and Property Management Framework Agreement and the Revised Annual Caps thereunder are subject to the passing of the EGM Resolutions to approve the Matters Requiring Approval. If the EGM Resolutions to approve the Matters Requiring Approval is not passed, the Operations and Property Management Transactions will continue to be subject to the existing annual caps for the years ending 31 December 2022, 2023 and 2024 under the Existing Operations and Property Management Framework Agreement as approved by the Independent Unitholders at the CM Continuing CPTs EGM on 29 December 2021.

Save for the maximum aggregate annual amounts to be paid by the Group to the CM Connected Persons Group in respect of the Operations and Property Management Transactions (see section 7.3.2 below), the principal terms of the Amended and Restated Operations and Property Management Framework Agreement are identical to those of the Existing Operations and Property Management Framework Agreement which have been set out in the Circular for the CM Continuing CPTs EGM, being:

Parties:

(1) The Manager (for and on behalf of the Group)

(2) Eureka

Purpose and description: To set out the framework terms governing the Operations and Property Management Transactions during the term of the Existing Operation and Property Management Framework Agreement. The relevant members of the Group and the CM Connected Persons Group shall enter into separate written agreements on normal commercial terms to be negotiated on a case-by-case and at arm's length basis which are fair and reasonable and in the interests of CMC REIT and the Unitholders as a whole, which shall be no less favourable than those offered or available from independent third parties.

Term: Three (3) years from 1 January 2022 up to 31 December 2024.

Scope of services: The following services will be provided by the CM Connected Persons Group to the Group in respect of CMC REIT's Properties:

(1) Operations Management Services

The operations management services shall include, among other things:

(i) 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;

(ii) marketing services, including executing the marketing strategies approved by the Manager and executing advertising, marketing and publicity programmes in respect of CMC REIT's Properties;

(iii) 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;

(iv) leasing advisory services, including advising on the rent level and other commercial terms of the tenancy agreements;

(v) implementing the engineering and remodelling plans in respect of CMC REIT's Properties as approved by the 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 CMC REIT's Properties;

(vi) performance evaluation of CMC REIT's Properties and reporting to the Onshore Manager Subsidiary;

(vii) working with the other professional service providers to maintain the income generating capability of CMC REIT's Properties;

(viii) account management and document support services, including bank account maintenance and archiving of tenancy related documents and other contracts; and

(ix) information technology support.

(2) Property Management Services

The Property Management Services shall include, among other things, maintenance, repair and upkeep of common areas and facilities, supervising the renovation works carried out at CMC REIT's Properties, garbage collection and hygiene services, fire safety services, car park management and building security services.

Pricing policy: The fees chargeable for such transactions shall be based on the then prevailing market rates for similar services provided by professional service providers for properties of similar size and with similar attributes.

Other contractual provisions: Certain contractual provisions are included to provide that:

(i) each relevant member of the CM Connected Persons Group will at all times act in the best interests of CMC REIT 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) each relevant member of the CM Connected Persons Group will strictly adhere to the reporting lines approved by the REIT Manager in accordance with the provisions of the separate written operations management agreements and/or property management agreements, such that members of the CM Connected Persons Group will act in accordance with the sole directions of the REIT Manager;

(iii) the CM Connected Persons Group 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 CMC REIT's Properties become available, which relevant members of the CM Connected Persons Group acting reasonably and in good faith consider are or are likely to be in competition with CMSK, the CM Connected Persons Group will refer all such opportunities to the REIT Manager for vetting and confirmation before the CM Connected Persons Group proceeds with such opportunities.

To ensure that each transaction under the Amended and Restated Operations and Property Management Framework Agreement is entered into based on the then prevailing market rate and on normal commercial terms, the parties agree that the Manager shall arrange for an independent opinion on the terms of each such transaction to be issued by the then prevailing principal valuer of CMC REIT before the transaction is first entered into or if and when it is renewed. The principal valuer shall assess whether the terms of each such transaction are fair and reasonable with reference to the prevailing market rates and terms for similar services provided by professional operations management and property management service providers for properties of similar size and with similar attributes and on normal commercial terms.

The principal valuer, being a consulting firm specialising in valuation advisory on various asset classes including real estate and equity securities with proven track, has the source data with regard to the actual fees chargeable and terms provided by various service providers in relation to operations management services or property management services in major cities of the PRC from time to time. Such information covers market data in Chaoyang District, Beijing where the Target Property is located and in Nanshan District, Shenzhen where the Existing Properties are located and are within a 12-month period prior to the time the transaction is first entered into or if and when it is renewed. The person who will be responsible for providing the independent opinion in this respect would also possess adequate years of experience in valuation and corporate advisory industry. As such, the Manager considers that (i) the principal valuer is a competent and an appropriate party to assess the fees chargeable and terms under each of the Operations and Property Management Transactions in the future; (ii) the source data being the actual transactions of the prevailing market rates and terms are sufficient reference; (iii) a 12-month period (prior to the time the transaction is first entered into or if and when it is renewed) is fair and reasonable as such service contracts are still valid and operating; and (iv) the principal valuer who possesses the industry data as described above will be in an appropriate position to do the required assessment.

7.3 Historical Transaction Amounts and Annual Caps

7.3.1 CM Tenancies

The table below sets out the maximum aggregate annual amount to be received by Group from the CM Connected Persons Group in respect of the CM Tenancies of CMC REIT's Properties from time to time for each of the three years ending 31 December 2022, 2023 and 2024, as approved by the Independent Unitholders at the CM Continuing CPTs EGM:

Historical transaction amounts (approximate)			Annual Caps		
For the year ended 31 December 2019	**For the year ended 31 December 2020**	**For the year ended 31 December 2021**	**For the year ending 31 December 2022**	**For the year ending 31 December 2023**	**For the year ending 31 December 2024**
(RMB)	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*
(audited)	(audited)	(audited)			
5,716,000	85,053,000	94,360,000	114,200,000	122,194,000	130,748,000

7.3.2 *Operations and Property Management Transactions*

The table below sets out the aggregate historical transaction amounts paid by the Group to the CM Connected Persons Group in respect of the Operations and Property Management Transactions of the Existing Properties as well as the Target Property for the three years ended 31 December 2019, 2020 and 2021 (in respect of the Target Property, assuming Completion and it being held by CMC REIT from the start of such period), and the maximum aggregate annual amount to be paid by Group to the CM Connected Persons Group in respect of such Operations and Property Management Transactions for each of the three years ending 31 December 2022, 2023 and 2024 (which maximum aggregate annual amounts in respect of the Operations and Property Management Transactions of the Existing Properties have already been approved by the Independent Unitholders at the CM Continuing CPTs EGM):

	Historical Transaction Amounts (approximate)			Annual Caps		
	For the year ended 31 December 2019	**For the year ended 31 December 2020**	**For the year ended 31 December 2021**	**For the year ending 31 December 2022**	**For the year ending 31 December 2023**	**For the year ending 31 December 2024**
	(RMB)	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*
	(audited)	(audited)	(audited)			
Existing Properties	6,361,000	64,399,000	74,571,800	82,987,000	89,610,000	91,814,000
Target Property	7,557,955	7,873,346	7,130,579	5,038,000	10,748,000	10,998,000
Enlarged Portfolio	13,918,955	72,272,346	81,702,379	88,025,000	100,358,000	102,812,000

The proposed annual caps for the Operations and Property Management Transactions for the Target Property for the three years ending 31 December 2022, 2023 and 2024 have been determined based on: (i) the projected fees for operations management services and property management services based on the agreed fees basis as stipulated under the Operations Management Agreement and Property Management Agreement; (ii) the assumption that the Acquisition will be completed by the second quarter of 2022; (iii) the projected rental income of the Target Property, which is projected based on (a) the rental income receivable in accordance with the existing Leases until their expiries; (b) the rental income based on current market rents to be generated from vacant units and those upon expiry of the Leases; (c) the occupancy rate of the office portion of the Target Property being expected to increase gradually and reach 95% by the end of 2022 and those of the commercial portion and carparking spaces expected to maintain at 95% and 50% throughout 2022 to 2024, respectively; (d) an annual rental increment of 3% for office and commercial units and no increment for car parking spaces; and (e) the assumption that the Manager will not assume any major capital expenditure on the Target Property in 2022 to 2024 as major refurbishment and renovation was nearly fully completed in 2021 (see section 3.5 above).

In relation to the projected rental increment in (iii)(d) above, the Manager has reviewed the existing lease schedule of the Target Property and sample Leases and noted that (i) certain Leases for terms covering 2022 to 2024 have progressive rental rates; and (ii) the increment of 3% referred to in (iii)(d) above falls within the range of effective annual rental increment for the independent Leases of 2.0% to 6.7%.

In relation to the projected occupancy rate in (iii)(c) above, given (i) the occupancy of the office units had been over 95% in 2019 before renovation and refurbishment work and the COVID-19 pandemic ; and (ii) the Target Property is expected to have improved and better conditions after renovation and refurbishment which is expected to complete in the first half of 2022, the Manager considers the projected occupancy rate of the office and commercial units of 95% to be fair and reasonable.

7.4 Reasons for and Benefits of the Continuing Connected Party Transactions

The Group is principally engaged in real estate investment for property income. The CM Tenancies are in the ordinary and usual course of business of the Group and will contribute towards the occupancy rate of, and property income generated by, CMC REIT's Properties (including the Target Property).

The Manager is responsible under the Trust Deed and the REIT Code for ensuring that CMC REIT's Properties (including the Target Property) are professionally managed. Since the initial public offering of CMC REIT, the Operations Manager and Shenzhen China Merchants Property Holding Management Co., Ltd. (深圳招商物業管理有限公司), an indirect subsidiary of CMSK (the "**Existing Properties Property Manager**"), have been appointed to operate, maintain and manage the Existing Properties under the overall management and supervision of the Manager. The Manager regularly monitors and reviews the performance of the Operations Manager and the Existing Properties Property

Manager, and are satisfied that they will continue to provide professional services with efficient and effective management. The Manager expects that the Group will continue to enter into the Operations and Property Management Transactions with the CM Connected Persons Group to ensure business continuity and efficiency. While the Operations Management Services and the Property Management Services for the Existing Properties are presently performed by the Operations Manager and the Existing Properties Property Manager, respectively, some or all services may be delegated to other members of the CM Connected Persons Group based on its own internal group organisations. Therefore, the same reasons and benefits for continuing the appointments of the Operations Manager and the Existing Properties Property Manager would apply to any appointment of any other member of the CM Connected Persons Group (including the Property Manager) to provide the same services.

7.5 Internal Controls

The Manager has established an internal control system intended to ensure that connected party transactions between the 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.

The Manager maintains a register to record all connected party transactions which are entered into by members of the Group and the bases, including, where appropriate, any quotations from independent third parties, independent valuations and expert opinion obtained to support such bases, on which they are entered into. The Manager is also required to incorporate into its internal audit plan a review of all connected party transactions entered into by members of the Group. As a general rule, the Manager will demonstrate to the Audit Committee that all connected party transactions are carried out at arm's length, on normal commercial terms and in the interests of Unitholders.

7.6 Review and Reporting

The CM Continuing CPTs will be subject to the following review and reporting processes pursuant to paragraph 8.7A of the REIT Code and Rules 14A.55 to 14A.59, Rule 14A.71 and Rule 14A.72 of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code):

7.6.1 Annual review by the Independent Non-executive Directors

The independent non-executive Directors shall review the CM Continuing CPTs annually, and confirm in CMC 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 CMC 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 CMC REIT than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreements and the Manager's internal procedures governing them, if any, on terms that are fair and reasonable and in the interests of CMC REIT and the Unitholders as a whole.

7.6.2 Auditors' review procedures

In respect of each relevant financial year, the Manager shall engage and agree with the auditors of CMC REIT to perform certain review procedures on the CM Continuing CPTs. The auditors shall then report to the Manager in the auditors' report of CMC REIT on the factual findings based on the work performed by them, confirming whether anything has come to their attention that causes them to believe that any such transaction:

(i) has not been approved by the Board of directors of the Manager (including the approval of all of the independent non-executive Directors);

(ii) was not, in all material respects, in accordance with the pricing policies of CMC REIT;

(iii) was not entered into, in all material respects, in accordance with the terms of the relevant agreement; and

(iv) has exceeded its applicable annual cap amount.

The Manager shall provide a copy of the auditor's report to the SFC at least 10 Business Days before the bulk printing of the annual report of CMC REIT.

7.6.3 Auditor's access to books and records

The Manager shall allow, and shall procure the counterparty to the CM Continuing CPTs to allow, the auditors and the independent non-executive Directors sufficient access to their respective records for the purpose of reporting on such transactions.

7.6.4 Notification to the SFC

The Manager shall promptly notify the SFC and publish and announcement if it knows or has reason to believe that the independent non-executive Directors and/or the auditors will not be able to confirm the matters set out in sections 7.6.1 and/or 7.6.2 of this Circular above. The SFC may require the Manager to comply with the announcement and Unitholders' approval requirements and may impose additional conditions.

7.6.5 Annual reports

A brief summary of each CM Continuing CPT containing the information specified in Rules 14A.71 and 14A.72 of the Listing Rules shall be included in CMC REIT's annual reports.

7.7 Views relating to the CCPT Matters Requiring Approval

Pursuant to Rule 14A.40 of the Listing Rules, the Independent Board Committee (comprising all of the independent non-executive directors) has been established by the Board to advise the Independent Unitholders on the Matters Requiring Approval. Pursuant to Rule 14A.44 of the Listing Rules, the Independent Financial Adviser has been appointed to make recommendations to the Independent Board Committee, the Independent Unitholders and the Trustee on the Matters Requiring Approval under Rule 14A.45 of the Listing Rules.

7.7.1 Independent Financial Adviser

The Independent Financial Adviser has confirmed that it is of the view that:

(i) the terms of the Amended and Restated Operations and Property Management Framework Agreement and the basis for the Operations and Property Management Transactions thereunder (including the proposed Revised Annual Caps and the basis of arriving at the same) are fair and reasonable as far as the Independent Unitholders are concerned and in the interests of CMC REIT and the Unitholders as a whole; and

(ii) each of the Operations and Property Management Transactions contemplated under the Amended and Restated Operations and Property Management Framework Agreement:

(1) is and will be conducted in the ordinary and usual course of business of CMC REIT and consistent with the investment objectives and strategy of CMC REIT and in compliance with the REIT Code and the Trust Deed;

(2) is and will be conducted on terms which are and will be at arm's length and on normal commercial terms; and

(3) is fair and reasonable and in the interests of CMC REIT and the Unitholders as a whole.

Your attention is drawn to the Letter from the Independent Financial Adviser appended to this Circular which contains the Independent Financial Adviser's opinion and recommendation (including the reasons for its opinion and the factors that it has taken into consideration in forming its opinion).

7.7.2 Independent Board Committee

The Independent Board Committee, having taken into account the opinion and recommendation of the Independent Financial Adviser, is of the view that:

(i) the terms of the Amended and Restated Operations and Property Management Framework Agreement, and the basis for the Operations and Property Management Transactions thereunder (including the proposed Revised Annual Caps and the basis of arriving at the same) are fair and reasonable as far as the Independent Unitholders are concerned and in the interests of CMC REIT and the Unitholders as a whole; and

(ii) each of the Operations and Property Management Transactions contemplated under the Amended and Restated Operations and Property Management Framework Agreement respectively:

(1) is and will be conducted in the ordinary and usual course of business of CMC REIT and consistent with the investment objectives and strategy of CMC REIT and in compliance with the REIT Code and the Trust Deed;

(2) is and will be conducted on terms which are and will be at arm's length and on normal commercial terms; and

(3) is fair and reasonable and in the interests of CMC REIT and the Unitholders as a whole.

Accordingly, the Independent Board Committee recommends that the Independent Unitholders vote at the EGM in favour of Ordinary Resolution No. 2 to approve the Operations and Property Management Transactions contemplated under the Amended and Restated Operations and Property Management Framework Agreement and the proposed Revised Annual Caps applicable thereto. Should such approval be obtained at the EGM, the Revised Annual Caps applicable to the Amended and Restated Operations and

Property Management Framework Agreement will replace the existing annual caps applicable for the Operations and Property Management Transactions under the Existing Operations and Property Management Framework Agreement. Conversely, if such approval is not obtained at the EGM, the Existing Operations and Property Management Framework Agreement and the existing annual caps thereunder will continue to apply until 31 December 2024, and the Manager will re-comply with the applicable disclosure and/or independent Unitholders' approval requirements and other requirements under the REIT Code and the Listing Rules before any of the existing annual caps for any given year is exceeded as a result of the new Operations and Property Management Transactions in respect of the Target Property being assumed or entered into from time to time after Completion.

Your attention is drawn to the Letter from the Independent Board Committee appended to this Circular which contains the Independent Board Committee's opinion and recommendation.

7.7.3 Board

The Board (including the Independent Non-executive Directors, but excluding the Directors who have abstained from voting on the relevant Board resolution as set out in section 8.4 of this Circular) considers that the Operations and Property Management Transactions contemplated under the Amended and Restated Operations and Property Management Framework Agreement form an integral part of the normal operations of CMC REIT.

The Board is of the view that:

(i) the terms of the Amended and Restated Operations and Property Management Framework Agreement, and the basis for the Operations and Property Management Transactions thereunder (including the proposed Revised Annual Caps and the basis of arriving at the same) are fair and reasonable and in the interests of CMC REIT and the Unitholders as a whole; and

(ii) each of the Operations and Property Management Transactions contemplated under the Amended and Restated Operations and Property Management Framework Agreement:

    (1) is and will be conducted in the ordinary and usual course of business of CMC REIT and consistent with the investment objectives and strategy of CMC REIT and in compliance with the REIT Code and the Trust Deed;

    (2) is and will be conducted on terms which are and will be at arm's length and on normal commercial terms; and

    (3) is fair and reasonable and in the interests of CMC REIT and the Unitholders as a whole.

The Board therefore recommends that the Independent Unitholders vote at the EGM in favour of Ordinary Resolution No. 2 to approve the Operations and Property Management Transactions contemplated under the Amended and Restated Operations and Property Management Framework Agreement and the proposed Revised Annual Caps applicable thereto.

7.7.4 Trustee

Based and in sole reliance on: (a) the opinion of the Board in this letter and the information and assurances provided by the Manager; (b) the Letter from the Independent Board Committee appended to this Circular; and (c) the Letter from the Independent Financial Adviser appended to this Circular, the Trustee, having taken into account its duties set out in the Trust Deed and the REIT Code, is of the view that:

(i) the terms of the Amended and Restated Operations and Property Management Framework Agreement, and the basis for the Operations and Property Management Transactions thereunder (including the proposed Revised Annual Caps and the basis of arriving at the same) are fair and reasonable and in the interests of CMC REIT and the Unitholders as a whole;

(ii) each of the Operations and Property Management Transactions contemplated under the Amended and Restated Operations and Property Management Framework Agreement:

   (1) is consistent with the investment objectives and strategy of CMC REIT and in compliance with the REIT Code and the Trust Deed;

   (2) is on normal commercial terms; and

   (3) is fair and reasonable and in the interests of CMC REIT and the Unitholders as a whole; and

(iii) has no objection to the Manager proceeding with the Amended and Restated Operations and Property Management Framework Agreement and the Operations and Property Management Transactions thereunder (including the proposed Revised Annual Caps).

The Trustee's confirmation is being furnished for the sole purpose of complying with section 8.7D of the REIT Code, and is not to be taken as a recommendation or representation by the Trustee of the merits of the Amended and Restated Operations and Property Management Framework Agreement, the CM Continuing CPTs contemplated thereunder and the proposed Revised Annual Caps applicable thereto or of any statements or information made or disclosed in this Circular. The Trustee has not made any assessment of the merits or impact of the Amended and Restated Operations and Property Management Framework Agreement, the CM Continuing CPTs contemplated thereunder and the proposed Revised Annual Caps applicable thereto, other than for the purposes of fulfilling its fiduciary duties set out in the Trust Deed and the REIT Code. Accordingly, the Trustee urges all Unitholders, including those who have any doubts as to the merits or impact of the Amended and Restated Operations and Property Management Framework Agreement, the CM Continuing CPTs contemplated thereunder and the proposed Revised Annual Caps applicable thereto, to consider the Letter from the Independent Financial Adviser and seek their own financial or other professional advice.

8. IMPLICATIONS UNDER THE REIT CODE AND THE TRUST DEED

8.1 Connected Party Transactions

The Warrantor owns more than 10% of the Units and therefore is a substantial holder of CMC REIT. CMSK is the holding company of the Warrantor and the Vendor is a subsidiary of the Warrantor, and therefore the CMSK and the Vendor are each an associate of the Warrantor. As a result, the Warrantor, CMSK and the Vendor are each a connected person of CMC REIT within the meaning of Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code).

Accordingly, (1) the Acquisition and the transactions contemplated under the Sale and Purchase Deed and (2) the execution of the Shareholders' Agreement and the transactions contemplated thereunder; each constitute a connected party transaction of CMC REIT under paragraph 8.5 of the REIT Code.

As the highest applicable percentage ratio in respect of the Acquisition exceeds 5%, pursuant to paragraph 8.7A of the REIT Code, Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code) and the Trust Deed, each of the connected party transactions above is subject to the reporting, announcement, Circular and Independent Unitholders' approval requirements under Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code) and will require Independent Unitholders' approval by way of an Ordinary Resolution at the EGM.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Banks and the Lessees are, as at the Latest Practicable Date, not connected persons of CMC REIT and are independent third parties.

As Mr. Huang Junlong, Ms. Liu Ning and Mr. Yu Zhiliang, each a non-executive Director, hold positions in CMSK and/or its associates, in order to avoid any actual potential conflict of interest, each of them had abstained from voting at the relevant Board resolution approving the Transaction Matters Requiring Approval.

8.2 Major transaction

As the highest applicable percentage ratio in respect of the Acquisition and the transactions contemplated under the Sale and Purchase Deed exceeds 25% but is less than 100%, the Acquisition and the transactions contemplated under the Sale and Purchase Deed constitute a major transaction of CMC REIT under Chapter 14 of the Listing Rules (modified as appropriate pursuant to the REIT Code), is subject to the reporting, announcement, Circular and Unitholders' approval requirements under Chapter 14 of the Listing Rules (modified as appropriate pursuant to the REIT Code) and will require Unitholders' approval by way of Ordinary Resolution under the REIT Code and the Trust Deed.

8.3 Connected party transaction in respect of the Indebtedness to Vendor Group

As the Vendor and its subsidiaries are connected persons of CMC REIT, the Indebtedness to Vendor Group shall, from the date of Completion, constitute a connected party transaction of CMC REIT under paragraph 8.5 of the REIT Code. As the loan constituting the Indebtedness to Vendor Group is conducted on normal commercial terms or better and is not secured by the assets of the Group, pursuant to paragraph 8.7A of the REIT Code, Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code, in particular Rule 14A.90) and the Trust Deed, it is exempt from the reporting, announcement, Circular and Independent Unitholders' approval requirements under Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code). The Manager, taking the view that the Indebtedness to Vendor Group and the Acquisition are linked to each other and part and parcel of the same proposal, will seek Independent Unitholders' approval of the Indebtedness to Vendor Group under the same Ordinary Resolution to approve the (1) the Acquisition and the transactions contemplated under the Sale and Purchase Deed; and (2) the execution of the Shareholders' Agreement and the transactions contemplated thereunder.

8.4 Continuing connected party transactions

On 9 December 2021, CMC REIT (through the Manager) entered into the Existing CM Leasing Framework Agreement with Eureka, which sets out the framework terms governing the CM Tenancies for the period from 1 January 2022 to 31 December 2024. The CM Tenancies under the Existing CM Leasing Framework Agreement constitute continuing connected transactions of CMC REIT and they (together with the annual caps applicable thereto) were approved by the Independent Unitholders at the CM Continuing CPTs EGM on 29 December 2021. As mentioned in section 7.1 headed "Continuing Connected Party Transactions" — "Background" above, the Manager will not be proposing increased annual caps or entering into a new framework agreement as a result of the Acquisition and the new CM Tenancies in respect of the Target Property, and the CM Tenancies in respect of the Target Property will be subject to the terms of the Existing CM Leasing Framework Agreement and the annual caps thereunder. As such, the Ordinary Resolution in relation to the CCPT Matters Requiring Approval will not cover the CM Tenancies under the Existing CM Leasing Framework Agreement (together with the annual caps applicable thereto).

On 13 June 2022, CMC REIT (through the Manager) entered into the Amended and Restated Operations and Property Management Framework Agreement with Eureka, which sets out the framework terms governing the Operations and Property Management Transactions (including the Property Management Agreement with the Property Manager and the Operations Management Agreement with the Operations Manager in respect of the Target Property) for the period from 1 January 2022 to 31 December 2024, and which is conditional upon the passing of Ordinary Resolution No. 2 in the EGM Notice. As Eureka is a connected person of CMC REIT for the reasons set out in section 2.1 headed "The Acquisition" — "Overview", the Operations and Property Management Transactions under the Amended and Restated Operations and Property Management Framework Agreement constitute connected party transactions of CMC REIT. As the highest applicable percentage ratio calculated in respect of the annual caps applicable to the Operations and Property Management Transactions under the Amended and Restated Operations and Property Management Framework Agreement exceeds 5%, such transactions and the proposed annual caps applicable thereto are subject to the Independent Unitholders' approval, announcement, reporting, annual review and other requirements under the REIT Code and/or Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code). Therefore, such Operations and Property Management Transactions are conditional upon the passing of Ordinary Resolution No. 2.

As Mr. Huang Junlong, Ms. Liu Ning and Mr. Yu Zhiliang, each a non-executive Director, hold positions in CMSK and/or its associates, in order to avoid any actual potential conflict of interest, each of them had abstained from voting at the relevant Board resolution approving the Amended and Restated Operations and Property Management Framework Agreement and the Revised Operations and Property Management Annual Caps applicable thereto.

8.5 EGM Resolutions

The Manager takes the view that each of the Transaction Matters Requiring Approval (including the Indebtedness to Vendor Group) are interdependent and linked to each other and part and parcel of a significant proposal. In particular, the Shareholders' Agreement only takes effect from Completion and will not be required but for the entry into the Sale and Purchase Deed. Accordingly, the Transaction Matters Requiring Approval (including the Indebtedness to Vendor Group) will be proposed under the same Ordinary Resolution.

As the Existing Operations and Property Management Framework Agreement and the existing annual caps thereunder do not expire until 31 December 2024 and no new annual caps would be needed if Completion does not take place, the Ordinary Resolution in relation to the CCPT Matters Requiring Approval will be conditional on the passing of the EGM Resolution to approve the Transaction Matters Requiring Approval. Accordingly, if the EGM Resolution relating to the Transaction Matters Requiring Approval is not passed, the Ordinary Resolution in relation to the CCPT Matters Requiring Approval will be deemed as not having been passed.

For the avoidance of doubt, if the EGM Resolution relating to the Transaction Matters Requiring Approval is passed but the Ordinary Resolution in relation to the CCPT Matters Requiring Approval is not passed, the CM Continuing CPTs will continue to be subject to the existing annual caps for the years ending 31 December 2022, 2023 and 2024 under the Existing Framework Agreements, and if any of such annual caps is exceeded, or if there is any material change to the terms of such transactions, CMC REIT shall comply with all applicable requirements (including the announcement and Unitholders' approval requirements) under Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code).

As mentioned in section 7.1 headed "Continuing Connected Party Transactions" — "Background" above, the CM Tenancies under the Existing CM Leasing Framework Agreement (together with the annual caps applicable thereto) were approved by the Independent Unitholders at the CM Continuing CPTs EGM on 29 December 2021. The Manager will not be proposing increased annual caps or entering into a new framework agreement as a result of the Acquisition and the new CM Tenancies in respect of the Target Property, and the CM Tenancies in respect of the Target Property will be subject to the terms of the Existing CM Leasing Framework Agreement and the annual caps thereunder. As such, the Ordinary Resolution in relation to the CCPT Matters Requiring Approval will not cover the CM Tenancies under the Existing CM Leasing Framework Agreement (together with the annual caps applicable thereto). Please refer to the EGM Notice for the proposed Ordinary Resolutions in relation to the Matters Requiring Approval (including the Indebtedness to Vendor Group). As soon as practicable after the EGM, the Manager will issue an announcement setting out the results of the EGM, including whether the EGM Resolutions have been passed.

8.6 Restrictions on voting

Paragraphs 8.7F and 9.9(f) of the REIT Code and paragraph 3.2 of Schedule 1 to the Trust Deed provide that a Unitholder shall be prohibited from voting their Units at, or counted in the quorum for, a meeting at which they have a material interest in the business to be contracted and that interest is different from the interests of all other Unitholders.

Member of the CM Connected Persons Group are, or may from time to become, counterparties to the Sale and Purchase Deed, the Shareholders' Agreement, the Amended and Restated Operations and Property Management Framework Agreement and the Operations and Property Management Transactions contemplated thereunder, and as such, are considered to have a material interest or deemed material interest in the EGM Resolutions to approve the Matters Requiring Approval, different from that of other Unitholders. Accordingly, to the extent that any member of the CM Connected Persons Group is a Unitholder, such person will be required to abstain from voting on the EGM Resolutions. Pursuant to the REIT Code and the Trust Deed, the Warrantor (being a member of the CM Connected Persons Group) has agreed to abstain, and procure that other members of the CM Connected Persons Group abstain, from voting on the EGM Resolutions.

Mr. Yu Zhiliang, a non-executive Director, also holds positions in CMSK and/or its associates. In order to avoid any actual or potential conflict of interest, Mr. Yu will abstain from voting on the EGM Resolutions.

So far as the Manager is aware, as at the Latest Practicable Date, the parties mentioned above as needing to abstain from voting are interested or deemed to be interested in 400,492,310 Units representing approximately 35.51% of the Units in issue.

Save for the Warrantor and Mr. Yu Zhiliang, as at the Latest Practicable Date, to the best of the Manager's knowledge, information and belief, after having made reasonable enquiries, the Manager is unaware of any other Unitholder that is required to abstain from voting at the EGM in respect of any EGM Resolution.

8.7 Manager has discretion

For the avoidance of doubt, given the Acquisition is dependent on the satisfaction of the Conditions (including, but not limited to, Purchaser having obtained financing for the Acquisition upon terms and conditions satisfactory to the Purchaser in its sole discretion and sufficient funds being available for the payment of the Consideration), Unitholders should note that the Manager may not proceed with the Acquisition if any of the Conditions are not satisfied or waived (as applicable) prior to the Long Stop Date.

9. VIEWS AND RECOMMENDATIONS

9.1 Directors

Having regard to the reasons for, terms of, and factors and other information taken into consideration in relation to, the Transaction Matters Requiring Approval as described in this Circular, the Board (including the INEDs), having taken into account the duties of the Manager under the Trust Deed and the REIT Code, considers that the Transaction Matters Requiring Approval (including the Indebtedness to Vendor Group) are:

(i) in the ordinary and usual course of business of CMC REIT and consistent with the investment objectives and strategy of CMC REIT; and

(ii) have been entered into on terms which are normal commercial terms at arm's length and are fair and reasonable so far as CMC REIT, the Independent Unitholders and the Unitholders are concerned, and in the interests of CMC REIT and the Unitholders as a whole.

The opinion of the Board in relation to the CCPT Matters Requiring Approval is set out at section 7.7.3 "Views relating to the CCPT Matters Requiring Approval" — "Board" in this Circular.

Accordingly, the Directors recommend that the Independent Unitholders vote at the EGM in favour of the EGM Resolutions in respect of the Matters Requiring Approval.

9.2 Independent Financial Adviser

The Independent Financial Adviser, Somerley Capital Limited, has been appointed by the Manager to provide its opinion on the Matters Requiring Approval (including the Indebtedness to Vendor Group) to the Independent Board Committee (as well as the Independent Unitholders and the Trustee).

The Independent Financial Adviser has confirmed that it is of the view that the Transaction Matters Requiring Approval (including the Indebtedness to Vendor Group) are:

(i) in the ordinary and usual course of business of CMC REIT and consistent with the investment objectives and strategy of CMC REIT; and

(ii) at arm's length and on normal commercial terms, fair and reasonable and in the interests of CMC REIT and the Unitholders as a whole.

The Independent Financial Adviser's views in relation to the CCPT Matters Requiring Approval is set out at section 7.7.1 "Views relating to the CCPT Matters Requiring Approval" — "Independent Financial Adviser" in this Circular.

Accordingly, the Independent Financial Adviser advises the Independent Board Committee to recommend, and the Independent Financial Adviser recommends, the Independent Unitholders to vote at the EGM in favour of the EGM Resolutions in respect of the Matters Requiring Approval.

Details of the Independent Financial Adviser's opinion, together with the principal factors taken into consideration arriving at such opinion, are set out in the "Letter from the Independent Financial Adviser" appended to this Circular.

9.3 Independent Board Committee

The Independent Board Committee has been established by the Board in accordance with Rule 14A.41 of the Listing Rules to advise the Independent Unitholders on the Matters Requiring Approval (including the Indebtedness to Vendor Group). Somerley Capital Limited has been appointed as Independent Financial Adviser to provide its opinion in respect of the same to the Independent Board Committee (as well as the Independent Unitholders and the Trustee).

Having regard to the reasons for, terms of, and factors and other information taken into consideration in relation to, Transaction Matters Requiring Approval (including the Indebtedness to Vendor Group), as described in this Circular and having taken into account the opinion of and the principal factors and reasons considered by the Independent Financial Adviser, the Independent Board Committee considers that the Transaction Matters Requiring Approval (including the Indebtedness to Vendor Group) are:

(i) in the ordinary and usual course of business of CMC REIT and consistent with the investment objectives and strategy of CMC REIT; and

(ii) at arm's length and on normal commercial terms, fair and reasonable and in the interests of CMC REIT and the Unitholders as a whole.

The Independent Board Committee's view in relation to the CCPT Matters Requiring Approval is set out at section 7.7.2 "Views relating to the CCPT Matters Requiring Approval" — "Independent Board Committee" in this Circular.

Accordingly, the Independent Board Committee recommends that the Independent Unitholders vote in favour of the Ordinary Resolutions in respect of the Matters Requiring Approval.

9.4 Trustee

Based and in sole reliance on: (1) the opinion of the Board in this letter and the information and assurances provided by the Manager; (2) the Letter from the Independent Financial Adviser; (3) the Letter from the Independent Board Committee; (4) the Independent Property Valuer's Property Valuation Report; and (5) the Market Consultant's Report, in each case, as set out in this Circular, the Trustee, having taken into account its duties set out in the Trust Deed and the REIT Code:

(a) is satisfied that the Transaction Matters Requiring Approval (including the Indebtedness to Vendor Group), are:

  (i) consistent with the investment objectives and strategy of CMC REIT;

  (ii) on normal commercial terms; and

  (iii) fair and reasonable and in the interests of CMC REIT and the Unitholders as a whole; and

(b) has no objection to the Manager proceeding with the Transaction Matters Requiring Approval (including the Indebtedness to Vendor Group).

The views of the Trustee in respect of the CCPT Matters Requiring Approval are set out at section 7.7.4 "Views relating to the CCPT Matters Requiring Approval" — "Trustee" in this Circular.

The Trustee's confirmation is being furnished for the sole purpose of complying with sections 8.7D and 10.10(o) of the REIT Code, and is not to be taken as a recommendation or representation by the Trustee of the merits of the Matters Requiring Approval or of any statements or information made or disclosed in this Circular. The Trustee has not made any assessment of the merits or impact of the Matters Requiring Approval (including the Indebtedness to Vendor Group), other than for the purposes of fulfilling its fiduciary duties set out in the Trust Deed and the REIT Code. Accordingly, the Trustee urges all Unitholders, including those who have any doubts as to the merits or impact of the Matters Requiring Approval (including the Indebtedness to Vendor Group), to consider the Letter from the Independent Financial Adviser and seek their own financial or other professional advice.

10. RESPONSIBILITY STATEMENTS OF THE MANAGER AND THE DIRECTORS

The Manager and the Directors, collectively and individually, accept full responsibility for the accuracy of the information contained in this 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 Circular misleading.

11. EXTRAORDINARY GENERAL MEETING AND CLOSURE OF REGISTER OF UNITHOLDERS

The EGM will be held at Small Connaught Room, Mandarin Oriental, 5 Connaught Road, Central, Hong Kong on 30 June 2022 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the EGM Resolution set out in the EGM Notice, which is set out on pages N-1 to N-3 of this Circular.

In order to determine which Unitholders will qualify to attend and vote at the EGM, the Register of Unitholders will be closed from 27 June 2022 to 30 June 2022 (both days inclusive) during which period no transfers of Units will be effected. For those Unitholders who are not already on the Register of Unitholders, in order to qualify to attend and vote at the EGM, all Unit certificates accompanied by the duly completed transfer forms must be lodged with the Unit Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 24 June 2022.

You can vote at the EGM if you are a Unitholder on 30 June 2022 which is referred to in this Circular as the EGM Record Date. You will find enclosed with this Circular the EGM Notice (see pages N-1 to N-3 of this Circular) and a form of proxy for use for the EGM.

Your vote is very important. Accordingly, please complete, sign and date the accompanying proxy form in accordance with the instructions printed thereon and return it to the Unit Registrar, Tricor Investor Services Limited, as soon as possible and in any event not less than 48 hours before the time fixed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

12. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to this Circular.

Yours faithfully,
By order of the Board of Directors of
China Merchants Land Asset Management Co., Limited
(as manager of CMC Real Estate Investment Trust)
Huang Junlong
Chairman of the Manager

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 authorized under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

(Stock Code: 01503)

Managed by
China Merchants Land Asset Management Co., Limited

14 June 2022

To: The Independent Unitholders

Dear Sirs/Madam,

(I) MAJOR AND CONNECTED PARTY TRANSACTIONS RELATING TO THE PURCHASE OF 51% OF A COMPANY, REPRESENTING A 46.41% EFFECTIVE INTEREST IN A PROPERTY IN BEIJING, PRC

(II) CONTINUING CONNECTED PARTY TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise you in connection with the Matters Requiring Approval, details of which are set out in the "Letter to the Unitholders" in the circular dated 14 June 2022 (the "**Circular**") from the Manager to the Unitholders, of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context otherwise requires.

Somerley Capital Limited has been appointed by the Manager to advise us, the Independent Unitholders and the Trustee in connection with Ordinary Resolution in relation to the Matters Requiring Approval. Details of their opinion, together with the principal factors taken into consideration, and assumptions and qualifications in arriving at such opinion, are set out in the "Letter from the Independent Financial Adviser", the text of which is contained in this Circular.

Having taken into account the opinion of Somerley Capital Limited and the principal factors and reasons considered by them, we consider that:

(a) the Transaction Matters Requiring Approval are: (i) in the ordinary and usual course of business of CMC REIT and consistent with the investment objectives and strategy of CMC REIT; and (ii) at arm's length and on normal commercial terms, fair and reasonable and in the interests of CMC REIT and the Unitholders as a whole;

(b) the terms of the Amended and Restated Operations and Property Management Framework Agreement, and the basis for the Operations and Property Management Transactions thereunder (including the proposed Revised Annual Caps and the basis of arriving at the same) are fair and reasonable as far as the Independent Unitholders are concerned and are in the interests of CMC REIT and the Unitholders as a whole; and

(c) each of the Operations and Property Management Transactions contemplated under the Amended and Restated Operations and Property Management Framework Agreement respectively: (i) is and will be conducted in the ordinary and usual course of business of CMC REIT and consistent with the investment objectives and strategy of CMC REIT and in compliance with the REIT Code and the Trust Deed; (ii) is and will be conducted on terms which are and will be at arm's length and on normal commercial terms; and (iii) is fair and reasonable and in the interests of CMC REIT the and Unitholders as a whole.

Accordingly, we recommend that the Independent Unitholders vote in favour of the EGM Resolutions at the EGM to approve the Matters Requiring Approval.

Yours faithfully,
for and on behalf of
the Independent Board Committee of
China Merchants Land Asset Management Co., Limited
(as manager of CMC Real Estate Investment Trust)

Lin Hua	**Lin Chen**	**Wong Yuan Chin, Tzena**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

The following is the text of a letter of advice from Somerley Capital Limited, prepared for the purpose of incorporation into this Circular, setting out its advice to the Independent Board Committee, the Trustee and the Independent Unitholders in connection with the Matters Requiring Approval.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

14 June 2022

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

Dear Sirs,

(1) MAJOR AND CONNECTED PARTY TRANSACTIONS OF CHINA MERCHANTS COMMERCIAL REAL ESTATE INVESTMENT TRUST RELATING TO THE PURCHASE OF 51% OF A COMPANY, REPRESENTING A 46.41% EFFECTIVE INTEREST IN A PROPERTY IN BEIJING, PRC; AND (2) CONTINUING CONNECTED PARTY TRANSACTIONS

We refer to the announcement dated 13 June 2022 published by CMC REIT relating to the captioned subjects and our appointment to advise the Independent Board Committee, the Trustee and the Independent Unitholders as regards the Matters Requiring Approval, details of which are set out in the Letter to the Unitholders contained in the circular of CMC REIT to its Unitholders dated 14 June 2022 (the "**Circular**"), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as defined in the Circular and the Letter to the Unitholders therein.

On 13 June 2022, the Purchaser, the Vendor and the Warrantor entered into the Sale and Purchase Deed, pursuant to which the Purchaser agreed to purchase, and the Vendor agreed to sell, the Target Shares, representing 51% of the equity interest in the Target Company and the Assigned Payables. The remaining 49% equity interest in the Target Company will be retained by the Vendor upon Completion. The Target Company is the indirect holding company of the PRC Subsidiary which is the registered legal owner of the land use rights and current ownership rights underlying the Target Property located in Guomao CBD, Chaoyang, Beijing, PRC. The Target Shares represent a 46.41% effective interest in the PRC Subsidiary and the Target Property. The Warrantor owns more than 10% of the Units and therefore is a substantial holder of CMC REIT. As the Vendor is a subsidiary of the Warrantor and the subsidiaries of the Vendor are also subsidiaries of the Warrantor, members of the Vendor Group are associates of the Warrantor. As a result, the Warrantor and the Vendor are each a connected person of CMC REIT within the meaning of Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code). Accordingly, (1) the Acquisition and the transactions contemplated under the Sale and Purchase Deed; (2) the execution of the Shareholders' Agreement; and (3) the Indebtedness to Vendor Group and the transactions contemplated thereunder each constitutes a connected party transaction of CMC REIT under paragraph 8.5 of the REIT Code. As the highest applicable percentage ratio in respect of the Acquisition exceeds 5%, pursuant to paragraph 8.7A of the REIT Code, Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code) and the Trust Deed, each of the connected party transactions above (except the Indebtedness to Vendor Group) is subject to the reporting, announcement, Circular and Independent Unitholders' approval requirements under Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code) and will require Independent Unitholders' approval by way of an Ordinary Resolution at the EGM. As the loan constituting the Indebtedness to Vendor Group is conducted on normal commercial terms or better and is not secured by the assets of the Group, pursuant to paragraph 8.7A of the REIT Code, Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code, in particular Rule 14A.90) and the Trust Deed, it is exempt from the reporting, announcement, circular and Independent Unitholders' approval requirements under Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code). However, the Manager, taking the view that the Indebtedness to Vendor Group and the Acquisition are linked to each other and part and parcel of the same proposal, will seek Independent Unitholders' approval of the Indebtedness to Vendor Group under the same Ordinary Resolution to approve (1) the Acquisition and the transactions contemplated under the Sale and Purchase Deed; and (2) the execution of the Shareholders' Agreement and the transactions contemplated thereunder. As the highest applicable percentage ratio in respect of the Acquisition and the transactions contemplated under the Sale and Purchase Deed exceeds 25% but is less than 100%, the Acquisition and the transactions contemplated under the Sale and Purchase Deed constitute a major transaction of CMC REIT under the Chapter 14 of the Listing Rules (modified as appropriate pursuant to the REIT Code), is subject to the reporting, announcement, circular and Unitholders' approval requirements under Chapter 14 of the Listing Rules (modified as appropriate pursuant to the REIT Code) and will require Unitholders' approval by way of an Ordinary Resolution under the REIT Code and the Trust Deed.

On 13 June 2022, CMC REIT (through the Manager) entered into the Amended and Restated Operations and Property Management Framework Agreement with Eureka. As Eureka is a connected person of CMC REIT, the Operations and Property Management Transactions under the Amended and Restated Operations and Property Management Framework Agreement constitute connected party transactions of CMC REIT. As it is expected that the existing annual caps for 2022-2024 are not sufficient to cover the Operations and Property Management Transactions relating to the Target Property upon Completion and the highest applicable percentage ratio calculated in respect of the annual caps applicable to the Operations and Property Management Transactions under the Amended and Restated Operations and Property Management Framework Agreement exceeds 5%, such transactions and the proposed annual caps applicable thereto are subject to the Independent Unitholders' approval, announcement, reporting, annual review and other requirements under the REIT Code and/or Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code). Therefore, such Operations and Property Management Transactions are conditional upon the passing of Ordinary Resolution No. 2.

As Mr. Huang Junlong, Ms. Liu Ning and Mr. Yu Zhiliang, each a non-executive Director, hold positions in CMSK and/or its associates, in order to avoid any actual or potential conflict of interest, each of them had abstained from voting at the relevant Board resolutions approving the Matters Requiring Approval.

The Independent Board Committee, comprising all the INEDs, namely Lin Hua, Lin Chen and Wong Yuan Chin, Tzena, has been established in accordance with Rule 14A.41 of the Listing Rules to advise the Independent Unitholders on the Matters Requiring Approval and how to vote, taking into account our recommendations. In respect of the Matters Requiring Approval, the Independent Board Committee has taken into account the opinion of and the principal factors and reasons considered by the Independent Financial Adviser to advise the Independent Unitholders whether Matters Requiring Approval are: (i) conducted in the ordinary and usual course of business of CMC REIT; and (ii) at arm's length and on normal commercial terms, fair and reasonable and in the interests of CMC REIT and the Independent Unitholders as a whole, in accordance with the REIT Code. We have been appointed to advise the Independent Board Committee, the Trustee and the Independent Unitholders in this regard.

Somerley is independent of (i) CMC REIT; (ii) the Manager; (iii) the Vendor; (iv) the Warrantor; (v) CMSK; (vi) the Trustee; (vii) each of the substantial Unitholders of CMC REIT; (viii) each of the relevant parties with respect to the Matters Requiring Approval; and (ix) their respective associates as defined under the REIT Code. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from CMC REIT, the Manager or any other party to the Matters Requiring Approval.

In formulating our opinion, we have reviewed, amongst others, the Sale and Purchase Deed, the Shareholders' Agreement and the Amended and Restated Operations and Property Management Framework Agreement, other existing tenancy agreements in respect of the Target Property and other information as set out in the Circular, in particular, the Appendices including the Independent Property Valuer's Property Valuation Report and Market Consultant's Report, the Accountant's Report of the Target Group and the Unaudited Pro Forma Financial Information of the Enlarged Group, the annual reports of CMC REIT for the year ended 31 December 2020 (the "**2020 Annual Report**") and for the year ended 31 December 2021 (the "**2021 Annual Report**"). We have also discussed with the Independent Property Valuer the valuation methodology and bases and assumptions for the valuation of the Target Property.

We have also relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Manager and have assumed that the information, facts and opinions provided to us are true and accurate. We have also sought and received confirmation from the Directors and management of the Manager that no material factors have been omitted from the information supplied and opinions expressed. We have no reason to doubt the truth, accuracy and completeness of the information provided to us or to believe that any material fact or information has been omitted or withheld. We have not, however, conducted an independent investigation into the affairs of the Manager, CMC REIT, the Target Group, the Existing Properties and the Target Property. We consider that we have been provided with and have reviewed sufficient information to reach an informed view. We have also assumed that the statements and representations made or referred to in the Circular were accurate and not misleading at the time they were made and continue to be accurate and not misleading up to the date of the EGM.

PRINCIPAL FACTORS TAKEN INTO ACCOUNT

In arriving at our opinion with regard to the Matters Requiring Approval, we have taken into account the following principal factors:

1. CMC REIT and Existing Properties

1.1 CMC REIT

Since its listing in 2019, CMC REIT's property portfolio comprised five properties in Shekou, Shenzhen, namely New Times Plaza, Cyberport Building, Technology Building, Technology Building 2 and Garden City Shopping Centre, which are all well served by public transportation network and equipped with car parking spaces. The total rentable area of the Existing Properties was 248,905 sq.m..

1.2 *Existing Properties*

The table below set forth certain details regarding the Existing Properties as at 31 December 2021:

Name of property	Type	Year of completion	Total rentable area (sq.m.)	Occupancy rate as at 31 December			Passing rent (RMB/per sq.m.) as at 31 December			Valuation (RMB million) as at 31 December 2021
				2021	2020	2019	2021	2020	2019	2021
Shenzhen:										
New Times Plaza	Grade A office building	1997	67,600	91.9%	91.9%	96.4%	179.4	174.6	170.0	2,077
Cyberport Building	Grade B office building complex	2009	40,441	71.3%	72.9%	74.0%	126.9	123.3	122.5	1,065
Technology Building	Grade B office building complex	2002	41,546	100.0%	83.7%	100.0%	119.6	104.1	103.4	888
Technology Building 2	Grade B office building complex	2010	43,092	81.2%	74.4%	92.6%	116.1	111.9	111.5	1,101
Garden City Shopping Centre	Integrated commercial complex	2006	56,226	90.5%	91.5%	76.0%	176.8	166.6	176.0	1,615
Total			**248,905**	**87.7%**	**84.3%**	**88.0%**				**6,746**

According to the 2020 Annual Report, in 2020, due to COVID-19 and excessive supply of high-end office buildings in Shenzhen, vacancy rates of Grade-A office buildings in Shenzhen rose and rental rate continued to decline, but absorption during the year increased by nearly 300% compared to 2019, indicating that demand in the office market remained strong. Based on the 2021 Annual Report, in 2021, despite some cases of COVID-19 appeared in Shenzhen during the year, the overall economic development remained positive. The office market in Shenzhen was relatively robust with net absorption exceeding new supply throughout the year, resulting in a decline in the office vacancy rate in the city. However, as the existing vacancies accumulated from previous years had not been fully absorbed, competition for tenants remained fierce. As most landlords opted for the quantity over price strategy, overall office rentals in the city still dropped marginally year-on-year.

In the first quarter of 2020, several tenants of New Times Plaza occupying a total of 6% rentable areas moved out. However, the Manager adopted flexible leasing strategies and provided new value-added services such as offering flexible lease term and renovated offices to help retain existing and attract new tenants. As a result, in the second half of 2020, the occupancy rate recovered from a low of 83% to 91.9% and the rental rates of newly signed leases increased slightly as well. In 2021, the Manager has managed to improve its rental rates while maintaining an average occupancy rate of over 90%. We are advised by the Manager that due to refurbishment and renovation of the building, they are able to increase the rental rate in 2020 and 2021.

In respect of Cyberport Building, Technology Building and Technology Building 2, as the tenants of these building complexes are mostly start-ups and small to medium-sized enterprises whose operations were greatly affected by the pandemic, some of them terminated their businesses or moved to cheaper peripheral properties which resulted in decline in occupancy rates between 2019 and 2020. In the second quarter of 2021, a new anchor tenant took up entire rentable area of Technology Building, driving up the occupancy rate to 100% and rental rate by 11%. Some tenants from Technology Building were relocated to Cyberport Building and Technology Building 2. This resulted in a boost to the occupancy rate in Technology Building 2. For Cyberport Building, as the tenants who relocated to the building were unable to offset the tenants who moved out of the building due to renovation and enhancement works, the occupancy rate slightly declined from 72.9% as of 31 December 2020 to 71.3% as of 31 December 2021. The Manager is currently conducting leasing promotions through various channels to fill out most of the vacant spaces. By the end of 2021, the overall monthly rental rate of the three building complexes has surpassed the level prior to the outbreak of COVID-19.

As for Garden City Shopping Centre, the business environment deteriorated sharply in 2020 due to COVID-19, which exerted pressure on tenants. Apart from providing rental concession to certain tenants over the difficult times to rebuild their confidence, the Manager also organised various promotional activities to increase footfall. Attributable to the aforementioned reasons as well as settlement of tenants after completion of renovation of certain sections of the shopping centre, the occupancy rate has substantially increased from 76.0% in 2019 to 91.5% by the end of 2020. The renovated sections were only gradually open for business in the fourth quarter of 2020 which had led to a significant drop in rental rate from RMB176.0/sq.m. in 2019 to RMB166.6/sq.m. by the end of 2020. In 2021, with the Manager's effort in optimising the tenant mix, introducing trendy brands and new stores, and improving customer satisfaction, the rental rate increased by 6% year-on-year. The occupancy rate however fell slightly from 91.5% as of 31 December 2020 to 90.5% as of 31 December 2021 due to a temporary fluctuation caused by adjustments being made to the tenant mix.

We are advised by the Manager that they will continue to invest in the upgrading of existing assets to comprehensively improve property quality and thus generate more income. They believe that upon commencement of operation of Shenzhen Metro Line 12 in 2022, the accessibility to the Existing Properties is expected to be further enhanced and the leasing demand for the properties is expected to increase.

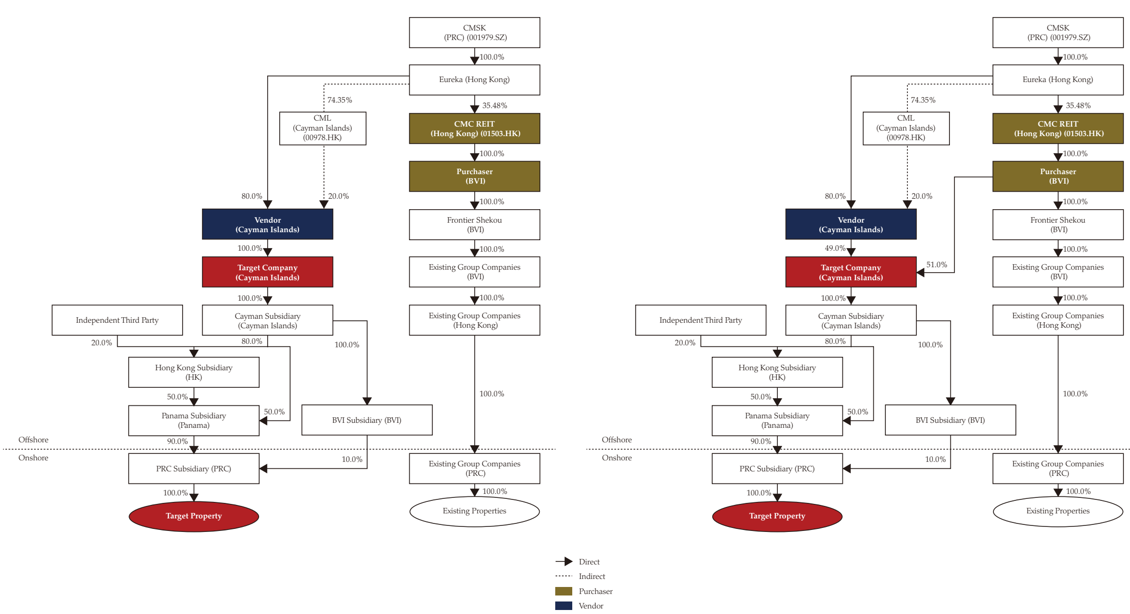
2. The Target Group and the Target Property

2.1 The Target Group

The Target Company is an exempted company with limited liability incorporated under the laws of the Cayman Islands which wholly-owns the Cayman Subsidiary and is the indirect owner of the PRC Subsidiary. The PRC Subsidiary is the registered legal owner of the land use rights and current ownership rights underlying the Target Property. The Target Group consists of the Target Company, the Cayman Subsidiary, the BVI Subsidiary, the Hong Kong Subsidiary, Panama Subsidiary and the PRC Subsidiary.

As set out in the Letter to the Unitholders, the expected holding structure of the Target Property immediately before Completion and immediately after Completion are as follows:

Immediately before Completion **Immediately after Completion**



As set out in the Letter to the Unitholders, to the best of the knowledge, information and belief of the Manager as at the Latest Practicable Date, the Target Company, Cayman Subsidiary, BVI Subsidiary, Hong Kong Subsidiary, Panama Subsidiary and PRC Subsidiary will, immediately prior to Completion: (i) have the principal business activity of investment holding in the Target Property; (ii) not hold any other investment properties other than the Target Property or operate any other businesses; and (iii) not have any employees.

As shown in the structure charts above, immediately before Completion, (1) the PRC Subsidiary is held as to 90% by the Panama Subsidiary and 10% by the BVI Subsidiary; (2) the Panama Subsidiary is held as to 50% by the Hong Kong Subsidiary and 50% by the Cayman Subsidiary; (3) the Hong Kong Subsidiary is held as to 80% by the Cayman Subsidiary and 20% by an independent third party and which is not a connected person of CMC REIT; and (4) the Cayman Subsidiary is wholly-owned by the Target Company. Therefore, the Target Company owns indirectly (through the Cayman Subsidiary, the BVI Subsidiary, the Hong Kong Subsidiary and the Panama Subsidiary) a 91% effective interest in the PRC Subsidiary.

Immediately after Completion, the Purchaser will own 51% of the Target Company, and accordingly a 46.41% in the PRC Subsidiary and the Target Property. As shown in the charts above, post-Completion, the Purchaser will have majority ownership and control of each of the Target Company, Cayman Subsidiary, BVI Subsidiary, Hong Kong Subsidiary, Panama Subsidiary and PRC Subsidiary.

CMC REIT will not directly hold the Target Property. Instead, the Target Property will be held on trust for CMC REIT by the Trustee in accordance with the provisions of the Trust Deed. More specifically, the Trustee will, through the Purchaser, hold CMC REIT's 51% interest in the Target Company. As shown in the charts above, the Cayman Subsidiary holds 80% of the interest in Hong Kong Subsidiary, and CCCC HK holds the remaining 20%. CCCC HK has been a shareholder of the Hong Kong Subsidiary since the latter's incorporation, with no transactional history with CMC REIT in relation to the Target Property (the Cayman Subsidiary having acquired its shares in the Hong Kong Subsidiary from a previous shareholder and not from CCCC HK). CCCC HK is an indirect wholly-owned subsidiary of China Communications Construction Group Corporation Limited (中國交通建設集團有限公司), which is a state-owned enterprise under the direct supervision of the State-owned Assets Supervision and Administration Commission of the State Council in the PRC. Both CCCC HK and China Communications Construction Group Corporation Limited (中國交通建設集團有限公司) are independent third parties with no relationship to any connected persons of CMC REIT. The Manager is of the view that notwithstanding that CMC REIT will not be able to acquire 100% in the Hong Kong Subsidiary, the Acquisition of 80% interest in Hong Kong Subsidiary held by the Cayman Subsidiary (with the 51% interest in the Target Company to be acquired representing a 40.8% effective interest in the Hong Kong Subsidiary) is still in the interest of the Unitholders, the Independent Unitholders and CMC REIT as a whole, as CMC REIT will be able to, via the Cayman Subsidiary, nominate three directors of the Hong Kong Subsidiary and CCCC HK will be able to nominate one director, and decisions of the board will be made by a majority of two-thirds of all directors. There is no shareholders' agreement or other similar document regulating the rights and obligations of the shareholders of the Hong Kong Subsidiary, and no reserved matters otherwise requiring the approval of the minority shareholder or any nominee director.

The PRC Subsidiary is the registered legal owner of the land use rights and current building ownership rights underlying the Target Property. The PRC Legal Adviser to the Manager has also advised that the PRC Subsidiary is the sole owner of the building ownership rights underlying the Target Property and that such rights are free from encumbrances other than the Property Mortgage. In relation to the land use rights underlying the buildings where the Target Property is located, the PRC Legal Adviser has advised that the PRC Subsidiary is not the sole user of such land use rights as they are jointly owned by the PRC Subsidiary and other unit owners of the buildings where the Target Property is located, but that this would not affect the rights of the PRC Subsidiary in relation to the Target Property set out in the paragraph below (including the ability to, during the term of the relevant land use right, legally and beneficially own, use, occupy, transfer (including sell, exchange or transfer by way of gift), lease out or mortgage the Target Property). Based on the above advice of the PRC Legal Adviser, the Manager is of the view, and the PRC Legal Adviser agrees, that CMC REIT will (through the PRC Subsidiary) have good, marketable, legal and beneficial title to the Target Property upon Completion.

The ability to make payments to the Panama Subsidiary and BVI Subsidiary may also be restricted by applicable laws and regulations that may restrict the repatriation in RMB out of the PRC. The Manager's PRC Legal Adviser has advised that there is no legal impediment on the remittance of dividends on retained earnings of the PRC Subsidiary out of the PRC to Panama Subsidiary and BVI Subsidiary, provided that such remittance is made and tax-levied in accordance with the procedures set out under the relevant PRC laws and regulations, including but not limited to those laws on foreign investment, tax and foreign exchange and that such remittance is not made in breach of the terms of the New Facility. However, there is no assurance that new PRC regulations restricting RMB remittance into or out of the PRC will not be promulgated in the future.

It is noted that the land use rights in respect of the above-ground commercial portions of the Target Property will expire on 28 August 2034 and in respect of the multi-function/office portions, basement mezzanine commercial portions and basement car parking spaces of the Target Property on 28 August 2044. As set out in the Letter to the Unitholders, according to the Law of the People's Republic of China on Administration of Urban Real Estate (中華人民共和國城市房地產管理法), if the land user intends to continue to use the land upon expiry of the use term, such user shall file an application for a land use right extension at least one year prior to expiry of the use term. The approval shall ordinarily be granted except when the land needs to be expropriated for social public interest. If the land use right extension is approved, a new land use right grant contract shall be signed and the land premium shall be paid according to the relevant regulations. For the reasons above, the PRC Legal Adviser to the Manager has advised that a land user may extend the land use right in accordance with PRC laws and administrative regulations and there will not be any material legal impediment for extension of the land use right unless the government plans to expropriate the land due to public interest. However, there can be no assurance that a land use right extension can always be obtained. We have discussed with and were advised by the management of the Manager that the Manager intends to renew the land use rights of the Target Property when it expires.

Based on the above, we are of the view that the expected holding structure of the Target Property is not substantively different from the holding structures of Existing Properties, in terms of laws, regulations and ultimate control over the Target Property.

2.2 *The Target Property*

The Target Property is located in mix-use developments known as Onward Science & Trade Center (招商局航華科貿中心) in Guomao CBD, the Chaoyang District of Beijing, the PRC's capital city. The mixed-use developments, which commenced operation in 1999, comprised 4 Grade A office towers currently known as (i) China Merchants Tower and China Merchants Bank Building (which are semi-detached and considered as one office tower), (ii) China HP Building and ICBC Building (which are semi-detached and considered as one office tower); (iii) Hengqin Life Tower and AIA NPA Center (which are semi-detached and considered as one office tower), and (iv) Taiping Financial Centre, 2 serviced apartment buildings known as Inner Peace and a connecting podium known as "01-04 Connecting Podium". 01-04 Connecting Podium is connecting the 3rd floor of China Merchants Tower and Taiping Financial Centre. Properties of Onward Science & Trade Center (招商局航華科貿中心) were partially sold by the PRC Subsidiary over the years, resulting in dispersed ownership between itself and other owners as at the Latest Practicable Date.

The Target Property comprises (i) 15 office/multi-function units (being Grade A offices) and 3 commercial units of China Merchants Tower, (ii) 1 commercial unit (1st to 4th floor, 101) of AIA NPA Center; (iii) 1 commercial unit (1st floor, 101) of 01-04 Connecting Podium; (iv) 1 commercial unit (1st to 3rd floor, 101) of China Merchants Bank Building; (v) 2 commercial units (3rd floor, 301 and 4th floor, 401) of China HP Building; and (vi) 528 underground car park spaces and 3 underground commercial units variously located at Hengqin Life Tower, AIA NPA Center, Inner Peace, ICBC Building, China HP Building, China Merchants Bank Building, China Merchants Tower, the 01-04 Connecting Podium and Taiping Financial Centre.

The Target Property has been undergoing major refurbishment and renovation since 2019 and this was largely completed at the end of 2021. The remaining work, mainly mechanical and engineering upgrades, is expected to be completed by the first half of 2022.

Further details of the Target Property are summarised below:

Type	Approximate gross floor area (sq.m.)	Approximate gross rentable area (sq.m.)	Expiry of land use rights[(1)]
Commercial (Level 1 to Level 4 of China HP Building, China Merchants Bank Building, AIA NPA Center and 01-04 Connecting Podium, excluding Level 4 of China Merchants Tower)	15,020.24	15,020.24	28 August 2034
Multi-function/Office (Level 4, Level 9 to Level 14, Levels 18, 19, 29, 30 and Level 32 to Level 34 of China Merchants Tower)	21,856.81	21,856.81	28 August 2044
Commercial (Basement mezzanine level of Target Property)	3,946.94	3,946.94	28 August 2044
528 car park spaces in basement	7,546.27	N/A	28 August 2044
Total	**48,370.26**	**40,823.99**	**n.a.**

Average rent (RMB/sq.m./month) for the month of March 2022[(2)]	RMB326.83 (based on gross rented area)
Occupancy rate as at 31 March 2022[(3)]	66.4%
Total monthly rent as at 31 March 2022[(4)]	RMB8,860,000, representing an estimated net property yield of 3.9%
Appraised Value as at 31 March 2022	RMB2,730,000,000

Notes:

(1) As advised by the Manager's PRC Legal Adviser, JunHe LLP, according to the Law of the People's Republic of China on Administration of Urban Real Estate, if the land user intends to continue to use the land upon expiry of the use term, such user shall file an application for extension at least one year prior to expiry of the use term, the approval shall be granted except that the land needs to be expropriated for social public interest. Upon approval on extension, a new land use right grant contract shall be signed and the land premium shall be paid according to the relevant regulations. As such, as advised by JunHe LLP, unless the government plans to expropriate the land due to public interest, there will not be any material legal impediment for extension of the land use right.

(2) Average rent per leased sq.m. is based on rental income.

(3) Occupancy rate calculated based on leased gross rentable area over total gross rentable area.

(4) Total monthly rent is exclusive of management fee and value-added tax.

2.2.1 Occupant profile and details of lessee mix

The Target Property is mainly for office use. The commercial units within the Target Property are also mostly leased out to corporate tenants for business use, with only several amenities tenants. The table below sets out details of the overall occupant diversification of the Target Property, in terms of trade sub-sector by reference to total gross rented area as at 31 March 2022 and total gross rental income for the month ended 31 March 2022, based on information provided by the Vendor:

Trade sector	**Percentage by gross rented area**	**Percentage by gross rental income**	**Numbers of tenants**
Finance	47.6%	46.6%	6
Professional service	39.0%	45.0%	7
F&B and hospitality	5.9%	1.6%	2
Healthcare	4.5%	4.6%	1
Information technology	1.7%	1.5%	3
Real estate	0.6%	0.6%	1
Transportation and warehousing	0.5%	0.1%	1
Retail and wholesale	0.1%	0.1%	1
Total	**100.0%**	**100.0%**	**22**

2.2.2 Top 10 tenants based on signed leases as at 31 March 2022

No.	Trade Sector	Lease Expiration Date	Gross rented area (sq.m.)	Percentage by gross rented area	Monthly rental income (RMB'000)	Percentage by gross rental income
1.	Finance	Nov-24	10,094	37.2%	3,255	36.8%
2.	Professional Services	Apr-29	8,434	31.1%	3,297	37.2%
3.	Finance	Apr-26	2,023	7.5%	613	6.9%
4.	F&B	Mar-23	1,406	5.2%	95	1.1%
5.	Healthcare	May-27	1,220	4.5%	407	4.6%
6.	Professional Services	Sep-23	996	3.7%	329	3.7%
7.	Professional Services	Feb-23	325	1.2%	95	1.1%
8.	Finance	Oct-24	308	1.1%	94	1.1%
9.	Professional Services	May-23	304	1.1%	97	1.1%
10.	Information technology	Aug-23	189	0.7%	58	0.6%
	Total		**25,299**	**93.3%**	**8,340**	**94.2%**

2.2.3 Schedule of lease expirations

The table below sets forth details of the percentage of expiries in respect of the Target Property's occupancy under the Leases as at 31 December 2021, which are scheduled to take place during the periods indicated below, by reference to total gross rentable area as at 31 December 2021 and total gross rental income for 2021, and assuming the Leases will not be renewed, based on information provided by the Vendor:

Period	Percentage by gross rented area	Percentage by gross rental income
Year ending 31 December 2022	2.1%	3.0%
Year ending 31 December 2023	9.2%	9.5%
Year ending 31 December 2024	25.8%	38.2%
Year ending 31 December 2026	5.4%	7.4%
Year ending 31 December 2027	3.3%	4.6%
Year ending 31 December 2029	20.7%	37.2%
Owner-occupied	6.2%	–
Vacant	27.4%	–
Total	**100.0%**	**100.0%**

2.2.4 Delinquency rates

No provision was made for unpaid rents for the years ended 31 December 2019, 2020 and 2021 in respect of the Target Property.

3. Market overview and outlook

3.1 Macro overview of Beijing

Beijing is the capital of the PRC and the country's political and cultural centre with a residential population of over 21 million. According to Beijing Municipal Bureau of Statistics, Beijing's gross domestic product ("**GDP**") increased from RMB2.5 trillion in 2015 to RMB4.03 trillion in 2021, representing a compound annual growth rate ("**CAGR**") of 8.4%. In 2020, the service sector has accounted for nearly 82% of the city's GDP, which was one of the highest among major cities in the PRC.

In recent years, Beijing has benefited from favourable government policies, such as the Foreign Investment Law which becomes effective in January 2020, the set up of China (Beijing) Pilot Free Trade Zone in September 2020 and the opening of the Beijing Stock Exchange in November 2021. It is believed that these policies can attract more capital and business to Beijing, and in turn bring new demand for rental spaces.

Beijing consists of 16 administrative districts and has six ring roads. There are six administrative districts within the Sixth Ring Road, namely Xicheng, Dongcheng, Chaoyang, Haidian, Shijingshan, and Fengtai, which are typically considered as the inner city of Beijing. In addition, Beijing has a comprehensive transportation network, including 24 subway lines connecting various districts of the city. It is expected that six additional subway lines will be in operation by 2025.

3.2 Office market in Guomao CBD

According to the Market Consultant's Report, Guomao CBD where the Target Property is located, holds the largest amount of Grade-A office stock in the city, which totalled 3.4 million sq.m. as at the end of 2021, accounting for 28% of Beijing's total Grade-A office space of 12.2 million sq.m.. Demand for the Guomao CBD Grade-A offices is driven by a wide range of industries, including finance and insurance, professional services, TMT and manufacturing industries. Domestic companies are a steady source of demand for Guomao CBD Grade-A office property.

Based on the Market Consultant Report, average Grade-A office rent in Guomao CBD stayed at around RMB420/sq.m. per month to RMB429/sq.m. per month during 2015 to 2017, before dropped by 6.3% year-on-year to RMB402/sq.m. per month in 2018 resulting from the deleveraging policy and escalated Sino-US trade tension. Given the soft demand environment and a considerable amount of new Grade-A office buildings in Guomao CBD completed and delivered in 2019 (supplying over 500,000 sq.m. Guomao CBD Grade-A office spaces), rent in Guomao CBD continued its downtrend until 2020. The Guomao CBD Grade-A office market remained resilient under a challenging environment, with its rental adjustment (-5.4%) relatively lower than the overall level in Beijing (-8.4%) in 2020. As the pandemic was brought under better control in the PRC, demand for Grade-A office spaces has rebounded since early 2021. The active leasing market has balanced the large amount of supply resulting in the stable rents which ranged between RMB340/sq.m. per month to RMB450/sq.m. per month in the fourth quarter of 2021. Meanwhile, according to the Market Consultant Report, the vacancy rate of Guomao CBD Grade-A office remained at low levels between 4% and 6% from 2015 to 2018. Nonetheless, due to the deterioration of Sino-US relations and subsequent outbreak of COVID-19, vacancy rate increased to 9.6% in 2019 and further to 16.7% in 2020. Riding on the rising demand from companies looking to lock in the leases at favourable rental rates, the vacancy rate has gradually dropped to 9.3% by the end of 2021.

Looking forward, as stated in the Market Consultant Report, the leasing activity of Guomao CBD Grade-A office is expected to increase amid the recovery of domestic economy. Business expansion will underpin demand for office lettings. Vacancy rate will remain at around 9% to 11% as the new letting is likely to absorb majority of the new supply. The economic recovery will drive market sentiment to rise, which would support a rebound of office rents by around 2% to 3% in 2022.

3.3 Retail market in Guomao CBD

According to the Valuation Report, Guomao CBD is one of the 11 prime shopping areas in Beijing. Attributable to the shortage of land supply and the urban population control, the retail market of some non-core areas, such as Fengtai, Fangshan, Daxing and Tongzhou, is becoming active and has become the primary expansion areas in recent years. Most of these retail developments are neighborhood shopping mall, which enrich consumer choices for local residents. However, high-quality retail projects are mainly concentrated in core areas of the inner city of Beijing, especially in Guomao CBD, Sanlitun and Wangfujing. Guomao is the key shopping area with major shopping malls like China World Mall and Yintai Centre.

Beijing's retail market was under enormous pressure in 2020 due to the outbreak of COVID-19. However, as stated in the Valuation Report, there was no significant fluctuations in the rental rate of high-end shopping malls and the overall vacancy remained at low level. With effective control and normalisation of the pandemic, Beijing's shopper footfall and retail consumption levels have now largely returned to normal, with many shopping malls completing a round of tenant mix adjustments. According to the Beijing Municipal Bureau of Statistics, the total retail sales of consumer goods in Beijing amounted to RMB1.49 trillion in 2021, up by 8.4% year-on-year.

According to the Market Consultant Report, in Guomao CBD, the leasing demand for retail property was stable, principally attributable to its prime location. With robust and persistent demand, occupancy of retail properties stayed at high levels. In the fourth quarter of 2021, the occupancy rate was over 80% and the average retail rent was around RMB400-700/sq.m. per month. As advised by the Independent Property Valuer, there will be no new shopping mall in Guomao CBD in the next three years. Given there will be no new supply in the short term, stable growth of retail leasing market in Guomao CBD is expected.

3.4 *Car parking market in Guomao CBD*

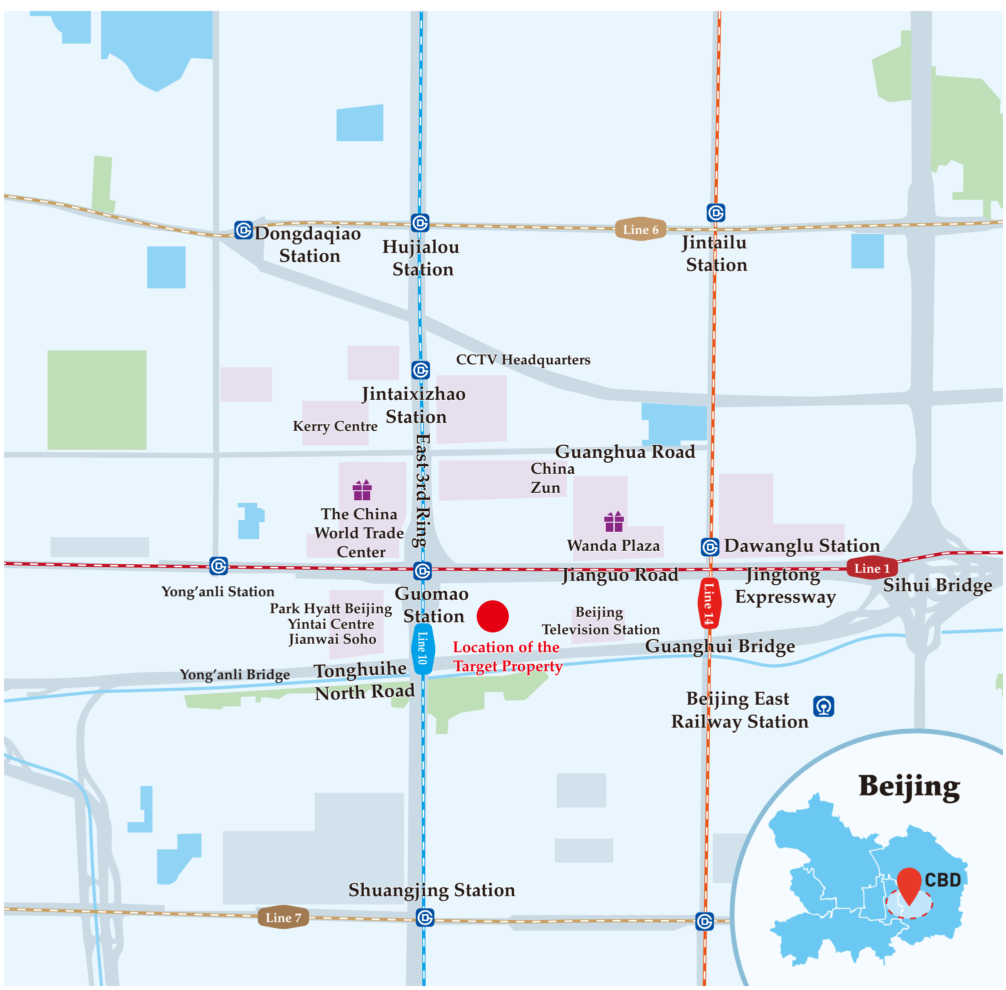
We have discussed and are advised by the Independent Property Valuer that the commercial parking spaces in Guomao CBD are generally located below office buildings and shopping malls. In respect of parking fee, as of the fourth quarter of 2021, the monthly rent of parking spaces in Guomao CBD ranged from RMB1,000-RMB3,000/space per month.

Independent Unitholders' attention is drawn to the Valuation Report (Appendix 5 to the Circular) and the Market Consultant Report (Appendix 6 to the Circular) which set out, among other things, further information on the Target Property and the commercial property market in Beijing (including Guomao CBD).

4. Reasons for and benefits of the Acquisition

As advised by the Manager, the Acquisition is in line with CMC REIT's investment objectives and growth strategies, to invest in high quality income-producing commercial real estate in top tier PRC cities with capital appreciation potential.

4.1 *Prestigious location of the Target Property in Guomao CBD*



The Target Property, which comprises of certain portions of the development known as Onward Science & Trade Center (招商局航華科貿中心), is located in Guomao CBD of Beijing where numerous Premium and Grade A office buildings are clustered at the intersection of Jianguo Road (also known as the east extension of Changan Road) and the Third Ring Road. Guomao CBD is one of the most prestigious and key international business districts in the PRC and home to many notable domestic and multi-national corporations. The Target Property is accessible by bus and is within walking distance from Guomao Station, which is one of the busiest interchange stations in Beijing.

Onward Science & Trade Center (招商局航華科貿中心) was built in 1999. The Target Property has been undergoing major refurbishment and renovation since 2019 and this was largely completed at the end of 2021. The remaining work, mainly mechanical and engineering upgrades, is expected to be completed by the first half of 2022. Given the refurbishment and renovation of the Target Property was largely completed at the end of 2021 and over 50% of the Leases will expire by 2024, the Manager believed that these factors together are likely to lead to a rental uplift in the next leasing cycle after completion of the refurbishment and renovation of Target Property and contribute to higher revenue.

4.2 DPU accretive acquisition

As stated in the Letter to Unitholders, the Acquisition is expected to improve the DPU to existing Unitholders. Based on the pro forma financials as set out in section 6.2 headed "Financial Effects of the Acquisition" – "Pro forma DPU" of the Letter to Unitholders, if the Acquisition had been completed on 1 January 2021 and based on the other assumptions in the same section, CMC REIT's pro forma DPU would have increased by 5.6% from RMB0.1511 to RMB0.1596 based on the New Facility (and by 3.3% from RMB0.1511 to RMB0.1560 based on the Refinancing Facility) for the twelve months ended 31 December 2021, due to the additional and stable income generated from the Target Property.

According to the listing prospectus of CMC REIT, Eureka has undertaken to make a cash payment to the Trustee for the benefit of CMC REIT if the annualised provisional DPU for relevant period from its listing date to 31 December 2022 is less than the annualised committed DPU for that relevant period. Based on the above, CMC REIT might need to rely on the cash payment by Eureka to achieve annualised committed DPU of HK$0.2614 for 2022. Such DPU commitment will end on 31 December 2022. Therefore, the Manager considers that it is the interests of CMC REIT and its Unitholders to proceed with the Acquisition which is expected to be DPU accretive on a pro forma basis.

4.3 Risk diversification and portfolio enhancement

The Acquisition, representing CMC REIT's first expansion from Shenzhen to other top tier cities in the PRC, can enable the Manager to diversify the risk from concentrating all of CMC REIT's investments in Nanshan Shekou, Shenzhen. Upon completion of the Acquisition, the attributable fair value of the Existing Properties (i.e. properties in Shenzhen) to CMC REIT's portfolio would decline from 100% to 71.4% based on the fair value of the Existing Properties as at 31 December 2021.

In addition, the Manager can broaden CMC REIT's tenant base through acquiring the Target Property as it has a solid tenant profile with over 80% of the tenants in the finance and banking sector and the professional services sector. It is expected that the extensive and well-diversified tenants base can yield high average monthly rent, boosting and stabilising CMC REIT's income stream in the long term.

Following the Acquisition, the fair market value of CMC REIT's portfolio is expected to increase by 40.0%, based on the fair value of the Existing Properties as at 31 December 2021. The total assets for CMC REIT would exceed RMB10 billion. Furthermore, as stated in the Letter to Unitholders, balanced against the benefits arising from the diversification of CMC REIT's portfolio and tenant base, the Manager is of the view that acquiring a 51% (and not 100%) interest in the Target Company limits CMC REIT's obligations and liabilities pertaining to the Target Property to its proportionate interest in the Target Company. The acquisition of a 51% interest in the Target Company would also reduce the immediate financial burden on CMC REIT that would otherwise be associated with the acquisition of 100% interest in the Target Company, and the Acquisition is expected to result in a gearing ratio within the 50.0% borrowing limit under the REIT Code. By virtue of the Vendor retaining 49% of its interest in the Target Company post-Acquisition, the Purchaser benefits from having its interest aligned with CMSK, (being the holding company of the Vendor), which has a sizeable local presence in Beijing and requisite experience in managing the Target Property. CMSK currently operates 3 office projects located in different districts in Beijing, totalling 220,000 sq.m. of gross floor area. CMSK also has a nationwide presence and is able to provide a wide range of tenant resources to the Target Property.

Please refer to the section 3 in the Letter to the Unitholders for further details.

CMC REIT's Existing Properties are located in Shekou, Shenzhen. New Times Plaza, a Grade A office building, and Garden City Shopping Centre, an integrated commercial complex, contributed the most in terms of portfolio value and income. Following the outbreak of COVID-19, Grade A office showed significant resilience as evidenced by its gradual increase in average monthly rents while the shopping centre experienced a setback in 2020 but managed to increase its rental rate in 2021. The remaining properties of CMC REIT are Grade B office buildings and all are about the same size, accounting for about 13-16% of the total portfolio value each, and their average rents are relatively stable and even showed some improvement in 2021. CMC REIT has paid a DPU of HK$0.2541 for 2021 representing a yield of about 9.7% in 2021 (based on its closing unit price on 31 December 2021). Such high yield is principally due to the committed DPU as undertaken by Eureka at the time of listing in 2019. However, the last committed DPU is for the year ending 31 December 2022. According to the Annual Report 2021, based on CMC REIT's distributable income for 2021 without the committed DPU, the DPU would be HK$0.1858 (equivalent to RMB0.1511) representing a yield of about 7.1%.

The Target Property, which is located in Guomao CBD and has undergone a major refurbishment and renovation in 2019-2022, would not only represent an opportunity to extend its foothold out of Shekou and tap into the center of the Beijing central business district but also improve its DPU. As stated in the Letter to Unitholders, the Acquisition is expected to improve the DPU from RMB0.1511 to RMB0.1596 for 2021 if the Acquisition completes on 1 January 2021, representing an increase of 5.6%. In addition, the Target Property is expected to generate higher revenue in view of a potential substantial rental uplift in the next leasing cycle after completion of its major refurbishment and renovation in 2022. On this basis, we consider that it is commercially reasonable for and in the interest of CMC REIT to carry out a DPU accretive acquisition some months ahead of the end of the committed DPU.

5. The Sale and Purchase Deed

5.1 Sale and Purchase Deed

A summary of the key terms of the Sale and Purchase Deed is set out as follows:

Date:	13 June 2022
Purchaser:	Treasure Supreme International Limited, a company incorporated in the British Virgin Islands and a SPV of CMC REIT.
Vendor:	Super Alliance Real Estate Partner L.P., a limited partnership formed according to the laws of the Cayman Islands and a direct subsidiary of the Warrantor and an indirect subsidiary of CMSK.
Warrantor:	Eureka, a company incorporated in Hong Kong and a wholly owned subsidiary of CMSK, which owns more than 10% of the Units and a substantial holder of CMC REIT. The Warrantor will maintain net assets in excess of the amount of the Consideration all time for so long as the Target Property Indemnity is in force.
Assets to be acquired:	Target Shares, representing (i) 51% of the equity interest in the Target Company; and (ii) Assigned Payables.

Consideration:	(1) Initial Consideration: RMB1,341,537,262 (equal to (i) 46.41% of the Agreed Property Value of RMB2,700,000,000; and (ii) the Initial Adjusted NAV (being RMB88,467,262)) (2) Final Payment: (a) if the Adjusted NAV (as set out in the Completion Statement) is higher than RMB88,467,262, the Purchaser shall pay the difference to the Vendor; and (b) if the Adjusted NAV (as set out in the Completion Statement) is lower than RMB88,467,262, the Vendor shall pay the difference to the Purchaser.
Payment terms:	(1) On the Deferred Payment Date, the Purchaser shall pay to the Vendor an amount equal to (i) the Initial Consideration; minus (ii) the Bulletin 7 Withholding Amount (the "**Initial Payment**"); and (2) within ten Business Days after agreement or determination of the Completion Statement make the Final Payment. At Completion, the Purchaser shall deliver to the Vendor a scanned copy of the fully executed commitment letter pursuant to which the Purchaser is or will be entitled to obtain, subject to the terms and conditions therein, the Acquisition Loan. For the avoidance of doubt, the timing of the payment of the Initial Payment shall not affect the Completion. All amounts payable under the Sale and Purchase Deed shall be paid in HKD.
Major conditions precedent:	Completion will be subject to the Conditions, including, amongst others: (a) the Purchaser having entered into the definitive agreements of the Acquisition Loan for the Acquisition upon terms and conditions satisfactory to the Purchaser in its sole discretion;

(b) (1) the outstanding principal and accrued interest under the Existing Vendor Facilities and the Existing Group Facilities having been fully repaid, (2) the unsecured interest-free loan agreements having been entered into between the relevant member of the Vendor Group and the Panama Subsidiary on terms satisfactory to the Purchaser in accordance with the Sale and Purchase Deed, (3) the Offshore Permitted Encumbrances having been terminated, released and discharged at no cost to the Purchaser and no additional cost of Target Group other than the repayment of the loans and/or the facilities secured by the Offshore Permitted Encumbrances; and (4) all Encumbrance Discharge Filings having been submitted to the relevant PRC government authorities at no cost to the Purchaser and no additional cost to the Target Group other than the repayment of the loans and/or the facilities secured by the Onshore Permitted Encumbrances; and

(c) the resolutions approving the Transaction Matters Requiring Approval having been passed by the Independent Shareholders at the EGM.

Completion: Completion shall take place on the 5th Business Day after the satisfaction or waiver of all the Conditions, or such other date as may be agreed by the Purchaser and the Vendor in writing. Subject to the Conditions being satisfied (or waived, as the case may be), the Manager expects Completion to take place around the second quarter of 2022. As soon as practicable following Completion, the Manager will issue an announcement to inform Unitholders that Completion has occurred. In the event that any of the Conditions have not been fulfilled or waived prior to the Long Stop Date, then the Purchaser shall not be bound to proceed with the Acquisition and the Sale and Purchase Deed shall cease to have any effect.

Representation, warranties and indemnities: The Sale and Purchase Deed contains customary representations and warranties given by the Vendor and Warrantor (as co-warrantors) in respect of the Target Group.

It also sets out certain limitations on the liability of the Vendor and Warrantor (as co-warrantors) in respect of any breach of the warranties, including:

(a) a limitation period of three years from the Completion Date for all claims made under the warranties (other than claims relating to fundamental warranties and tax warranties, in which case the limitation period is seven years from the Completion Date);

(b) a limitation amount of the Consideration for all claims relating to warranties; and

(c) a minimum per claim threshold for claims relating to the warranties of 0.05% of the amount of the Consideration, with such claims only being recoverable from the Vendor and Warrantor if the aggregate amount recoverable in respect of all such claims exceeds 0.2% of the amount of the Consideration (upon which the Vendor and Warrantor will be liable for the entire amount).

Furthermore, the Sale and Purchase Deed contains customary indemnities and, in particular, the Vendor and the Warrantor have irrevocably undertaken, on a joint and several basis, to indemnify CMC REIT, the Purchaser, the Manager and the Target Group, to the fullest extent permissible by law, for any losses (on a full indemnity basis) which any one of them may suffer in respect of the non-compliance of the Target Property with any applicable PRC law, including but not limited to:

(a) losses incurred in connection with the discrepancy of the real estate ownership certificate and the actual condition of the Target Property due to any construction exceeding approved plans, including any administrative penalties in respect of the construction exceeding approved plans and the leasing out of such non-compliant areas of the Target Property;

(b) losses incurred due to lack of approval of the owners of the Target Property in connection with the lease of certain public areas of the Target Property to tenants for private use, including any fines, confiscation of income and other penalties;

(c) losses incurred in connection with any fine or repossession or rectification order officially issued by competent government authority relating to a non-conforming use of the Target Property, including:

(i) losses resulting from the early termination of non-conforming Leases in accordance with their terms and pursuant to PRC law, where such termination is required in order to comply with such repossession or rectification order; and

(ii) subject to the Loss in Value Limitation (as defined below), any consequential reduction in the value of the Target Property as a direct consequence of complying with the repossession or the rectification order officially issued by the competent government authority, as determined by the then principal valuer of CMC REIT (the "**Loss in Value**");

(d) losses incurred in connection with any non-compliance or lack of required permits, certificates or qualifications in connection with the construction and development of the Target Property; and

(e) losses incurred in connection with the non-registration of the Leases (the "**Target Property Indemnity**").

The Target Property Indemnity shall be subject to the following limitations:

(a) the Vendor and the Warrantor shall be under no liability in respect of any claim under the Target Property Indemnity unless notice of such claim shall have been served upon the Vendor and the Warrantor prior to the expiry of the land use rights of the Target Property;

(b) where CMC REIT, the Purchaser and/or the Manager makes a claim under the Target Property Indemnity for any losses suffered by any member of the Target Group, the liability of the Vendor and the Warrantor in respect of such claim shall be limited to a pro rata proportion (based on the Purchaser's proportionate interest in the Target Group) of the loss; and

(c) the liability of the Vendor and the Warrantor in respect of any claim made pursuant to paragraph (c)(ii) above of the Target Property Indemnity shall not exceed the amount equivalent to the product of:

    (i) the ratio of (1) the Loss in Value, to (2) the most recent property valuation of the Target Property issued by the then principal valuer of CMC REIT prior to the reduction in the value of the Target Property;

    (ii) multiplied by a pro rata proportion (based on the Purchaser's proportionate interest in the Target Group) of the Agreed Property Value

(such amount, the "**Loss in Value Limitation**").

The Agreed Property Value of RMB2,700,000,000 represents a discount of approximately 1.1% to the Appraised Value of RMB2,730,000,000 as discussed in section 5.2 below. As one of the conditions precedent under the Sale and Purchase Deed, the Vendor shall procure a member of the Vendor Group to provide an interest-free and unsecured loan to the Panama Subsidiary to repay outstanding amounts under Mingyuan Dalian Bank Loan I & II prior to Completion, the terms of which we consider to be favourable to CMC REIT as it is interest-free and is not secured by the assets of the Group. For more details, please refer to the section 2.10.2 headed "Indebtedness to Vendor Group" of the Letter to Unitholders.

Based on the above, the Consideration for acquisition of 51% equity interest in the Target Company and the Assignable Payables is the sum of (i) 46.41% of the value of the Target Property; and (ii) the Adjusted NAV on Completion Date. 46.41% of the Agreed Property Value has taken into account the 9% effective interest held by the minority shareholders, through Hong Kong Subsidiary, in the Target Group (see the charts in section 2.1 above). As stated in the Letter to Unitholders, the Adjusted NAV shall be an amount equal to the net asset value of the Target Group attributable to the Target Shares, determined based on the Completion Statement, disregarding the following assets and liabilities: (i) the value of the Target Property; (ii) the property, plant and equipment of the Target Group; (iii) the deferred tax liability in relation to accelerated tax depreciation and change in fair value of investment properties; and (iv) the Assignable Payables. For illustrative purpose, based on the pro forma financials of the Enlarged Group set out in the Appendix 4 headed "Unaudited Pro Forma Financial Information of the Enlarged Group" to the Circular, assuming Completion takes place on 31 December 2021, the Adjusted NAV of the Target Company is about RMB88,467,262 as at 31 December 2021 and the Consideration would be RMB1,342 million.

It has been a common market practice for the final consideration of a sale and purchase of a company subject to completion account which shall take into account the value of other assets and liabilities as at completion date. We have discussed with the Manager on the Consideration and noted that 46.41% of Agreed Property Value represents the interest in the Target Property attributable to CMC REIT upon Completion and the Assigned Payables shall be assigned to CMC REIT dollar-for-dollar upon Completion. Therefore, (i) the Target Property (which is agreed by the parties to be acquired by CMC REIT at the Agreed Property Value), (ii) the Assigned Payables (which shall be assigned to CMC REIT dollar-for dollar upon Completion) and (iii) the property, plant and equipment of the Target Group and the deferred tax liability in relation to accelerated tax depreciation and change in fair value of investment properties (which are related to the Target Property and the deferred tax liability arising therefrom that, as advised by the Manager, is unlikely to crystallise in the future) shall be excluded when determining the Adjusted NAV. On this basis, we consider the basis in arriving at the Adjusted NAV and the calculation of the Consideration to be fair and reasonable and in the interests of CMC REIT and its Unitholders.

As advised by the Manager, as it takes time for the Purchaser to complete the registration of security documents with the Banks, it is expected that the Deferred Payment Date will be later than the Completion Date. Having considered that (i) the Initial Payment will be made after the Completion Date; and (ii) the Final Payment will be assessed at the Completion Date and made based on the Completion Statement, we are of the view that the above payment terms are in the interest of CMC REIT and Unitholders as a whole.

We have reviewed clauses relating to warranties and indemnities as disclosed in circulars of other Hong Kong listed REITs in relation to acquisitions of properties in the PRC in the past five years up to and including the day immediately before the Latest Practicable Date, and noted that (i) the limitation period of (a) fundamental warranties was five or seven years; (b) tax warranties was seven years; (c) warranties (other than fundamental warranties and tax warranties) was two or three years; and (d) indemnities relating to non-conformalities was from the acquisition completion date up to the expiry of the relevant land use rights; and (ii) the maximum claim amount of (a) all claims (other than the tax warranty claims and the non-conformalities indemnity claims) were capped at the consideration or agreed acquisition amount; (b) tax warranty claims were capped at the consideration or agreed acquisition amount or not subject to any limitation; and (c) the non-conformalities indemnity claims were capped at the consideration or not subject to any limitation. Given that the clauses relating to warranties and indemnities under the Sale and Purchase Deed are no less favourable than those of other Hong Kong listed REITs' acquisitions, we concur with the Manager's view that the interests of CMC REIT and the Unitholders as a whole in respect of potential claims are adequately and sufficiently protected.

Please refer to the sub-section 2.5 in the Letter to the Unitholders of the Circular for detailed terms of the Sale and Purchase Deed.

5.2 *Agreed Property Value and Appraised Value*

The Agreed Property Value has been arrived at on a willing buyer/seller and arm's length transaction basis after taking into account the quality and historical performance of the Target Property and represents a discount of 1.1% to the Appraised Value of RMB2,730 million as at 31 March 2022 (the "**Valuation Date**") as appraised by the Independent Property Valuer (being Cushman & Wakefield Limited, the current principal valuer of CMC REIT).

5.2.1 Valuation methodologies

As stated in the Independent Property Valuer's Property Valuation Report, the Independent Property Valuer adopted the income capitalisation method in arriving at the Appraised Value and cross-referenced by the market comparison approach. The income capitalisation method estimates the value of Target Property on a market basis by capitalising the existing rental of all lettable units of the Target Property for the 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 rights under which the Target Property is held. The market comparison approach provides an indication of value by comparing the Target Property with comparable sales with similar characteristics as available in the relevant market.

We have discussed the rationale for the adopted valuation methodologies with the Independent Property Valuer and consider that the income capitalisation method cross-referenced by the market comparison approach is an appropriate valuation method for assessing the market value of the Target Property and is in line with the valuation methodologies not only in CMC REIT's property valuation reports included in its 2020 Annual Report and 2021 Annual Report but also in most of other Hong Kong listed REITs'. On this basis, we consider that the adopted valuation methodologies are reasonable and acceptable.

5.2.2 Valuation bases and assumptions

Income capitalisation approach

As discussed with the Independent Property Valuer, the adopted reversionary yields have been based on the yields deriving from the sale and purchase of en bloc office buildings in Chao Yang District in the past 2-3 years and the Independent Property Valuer's knowledge of the market expectations of property investors. SK Tower (SK大廈), CITIC Prudential Life Building Tower A (中信保誠人壽大廈A座) and LG Gemeni Mansion (LG雙子座大廈) were selected based on the aforementioned criteria. The Independent Property Valuer applied the reversionary yield within the range of those of the three comparable office buildings when estimating the reversionary value of the office and commercial portions of the Target Property as the comparable office buildings mainly consist of office and commercial units. For the carpark, the Independent Property Valuer has considered it a different class of asset, and thus further collected and analysed the sale and purchase/asking price and corresponding rental rate of carparking spaces of R&F Another City (富力又一城), Huateng International Apartment (華騰國際公寓) and Soli City (沿海賽洛城) in Chao Yang District in December 2021 and applied a reversionary yield within the range of those of the comparable carparking spaces when estimating the reversionary value of the carpark portion of the Target Property. The term yields adopted were 0.5% lower than the reversionary yields across all types. We understand from the Independent Property Valuer that the term yield reflects existing leases with secured and certainties of income stream as compared with reversionary period and we noted that the 0.5% yield rate difference is the same as those adopted in valuation of the Existing Properties as stated in the 2021 Annual Report and those adopted by other independent valuers as stated in the annual reports of Yuexiu Real Estate Investment REIT (stock code: 405) and Hui Xian Real Estate Investment Trust (stock code: 87001), and therefore we consider such difference is largely in line with the market practice.

To determine market rent, the Independent Property Valuer mainly referenced to the transacted rental rate/asking rental rate of office, commercial premises and carparking spaces as at 31 March 2022 in Chao Yang District. Some adjustments have been made to the relevant comparables to (i) reflect the discrepancies between them and corresponding portions of the Target Property in terms of transport accessibility, age, floor and building quality; and (ii) reflect the possible transacted rental rate if only asking rental rate of such comparables are available. The rental rates of (i) office premises located at mid-floor of China Overseas Plaza (中海廣場), mid-floor of Kerry Center (嘉里中心) and lower floor of World Finance Center (環球金融中心) have been collected and analysed for determining the market rent of the office portion of the Target Property, (ii) commercial premises located at lower floors of World Finance Center (環球金融中心), Kerry Center (嘉里中心) and Beijing Yintai Center (北京銀泰中心) for the commercial portion of the Target Property and (iii) carparking spaces of Jinghui Tower (京匯大廈), Beijing Yintai Center (北京銀泰中心) and Kerry Center (嘉里中心) for the carpark portion of the Target Property (the "**Comparable Rents**"). A monthly rent of RMB542 per sq.m. for the commercial portion (above-ground levels), the monthly rent of RMB415 per sq.m. for the office portion, RMB319 per sq.m. for the commercial portion (basement mezzanine levels) and RMB1,590 per lot for the carpark portion applied in the valuation of the Target Property are lower than the range of the Comparable Rents mainly due to discrepancies in terms of (i) floor levels and (ii) transacted rental rate and asking rental rate.

Market comparison approach

The market comparison approach was used to cross-check the appraised value of office, commercial and carpark portions. In this regard, asking prices/transacted prices of comparable properties in March 2022 in Chao Yang District were collected and analysed. The collected comparables were then adjusted to take into account the discrepancies between them and corresponding portions of the Target Property in terms of transport accessibility, size, floor, ancillary facilities, unexpired term of land use rights and whether the comparables are asking prices. As advised by the Independent Property Valuer, asking price/transacted prices of (i) offices at higher floor of Central Internal Trade Center (中環世貿中心), mid-floor of Prosper Center (世紀財富中心) and higher floor of Fortune Financial Center (財富金融中心) have been collected for the office portion of the Target Property, (ii) comparable commercial premise of Korean Cultural Center (韓國文化院), Jinghui Tower (京匯大廈) and Maple Palace (中海楓丹公館) for the commercial portion of the Target Property and (iii) comparable carparks of Maple Palace (中海楓丹公館), Lanbao International Center (藍堡國際中心) and R&F City (Block B) (富力城B區) for carpark portion of the Target Property (the "**Market Comparables**"). The appraised value of the office, commercial (above-ground levels) and commercial (basement mezzanine levels) portions of the Target Property of RMB70,825 per sq.m., RMB55,392 per sq.m. and RMB51,179 per sq.m., respectively, are lower than the ranges of those of Market Comparables, mainly due to discrepancies in terms of (i) transacted prices and asking prices of the comparables, (ii) the size of the properties acquired/to be acquired, (iii) floor levels and (iv) unexpired term of land use rights. The appraised value of the carpark portions of the Target Property of RMB280,303 per lot is within the range of the Market Comparables.

Furthermore, as stated in the Letter to Unitholders, in November 2021, CMSK (the holding company of the Vendor) acquired 80% in the Vendor from its joint venture partner (being an independent third party) at an agreed value of the Target Property which is equivalent to the Agreed Property Value of RMB2,700,000,000.

The bases and assumptions adopted in arriving at the Appraised Value using the income capitalisation approach are largely based on objective parameters, including the contractual terms of the tenancies and the market yields of comparable transactions. The Appraised Value is also cross-checked with the direct comparison method (i.e. the market comparison approach) based on actual sales transactions and/or asking prices of comparable properties. In addition, we have been advised by the Independent Property Valuer that all the comparables were selected from an exhaustive list generated from its own database. On these grounds and having reviewed and discussed with the Independent Property Valuer on their valuation model and list of comparables and term/reversionary yields adopted, we consider that the bases and assumptions adopted to arrive at the Appraised Value are fair and reasonable and in line with market practice.

5.3 Shareholders' Agreement

On 13 June 2022, the Purchaser, the Vendor (being the "**Shareholders**") and the Target Company entered into the Shareholders' Agreement in relation to the Target Company, to take effect from Completion. The principal terms of the Shareholders' Agreement comprise board appointment rights, reserved matters, rights of first offer and default. The Hong Kong Legal Adviser to the Manager has advised the Manager that subject to due execution of the Sale and Purchase Deed and Completion, the Shareholders' Agreement and the joint ownership agreements thereunder (which are governed by Hong Kong law) will be legal, valid, binding and enforceable under Hong Kong Law. Detailed terms of the Shareholders' Agreement are set out in section 2.6 of the Letter to Unitholders.

As set out in the Letter to the Unitholders, the board of directors of the Target Company shall consists of up to three directors, two of whom shall be appointed by CMC REIT (through the Purchaser) and the remaining one shall be appointed by the Vendor. The quorum for board meetings of the Target Company shall be two directors, comprising at least one director nominated for appointment by each Shareholder. The board chairman shall be nominated by the Purchaser and do not have a casting vote. Board resolutions shall be passed by a simple majority of the votes cast by the directors save for the Reserved Matters (including a change in constitutional documents/share capital, change of auditor, alternation of accounting policies, a material change of the business and insolvency), which require unanimous approval by each shareholder. The arrangement affords a reasonable minority protection and is considered to be customary in the context of joint venture arrangements.

Rights of first offer clause restricts the Shareholder from transferring the shares of the Target Company, unless it has first made an offer to the other Shareholder to purchase all (but not some) of such shares. The default clause also imposes restrictions on transfer of shares of the Target Company by the Affected Shareholders and allows the other Shareholder to exercise an option to purchase some or all of shares held by the Affected Shareholders. Both clauses are commonly seen in joint venture shareholders' agreements.

Considering that (i) CMC REIT will have majority control over the board of the Target Company in view of its 51% interests in the Target Company upon Completion; and (ii) other arrangements such as the voting requirements of the board resolutions over general matters and Reserved Matters, rights of first offer and default clauses are customary and commonly seen in joint venture arrangements, we are of the view that the terms under the Shareholders' Agreement are in line with market practice and in the interests of CMC REIT and the Unitholders as a whole.

6. Financing of the Acquisition

As set out in the Letter to the Unitholders, the Manager has entered into a commitment letter with the Banks for the provision of the New Facility. The New Facility is denominated in Hong Kong dollars for an amount of up to Hong Kong dollar equivalent of RMB1,400 million. The New Facility is provided in two tranches, with the first tranche of the Hong Kong dollar equivalent of RMB1,300,000,000 bearing interest at 1.0% per annum over 1-month or 3-month HIBOR (provided that it is drawn down on or before 11 July 2022) and the second tranche of the Hong Kong dollar equivalent of RMB100,000,000 bearing interest at a 0.9% per annum over 1-month or 3-month HIBOR, and each tranche will mature and become repayable in 12 months from the date of first utilisation. Each of the Trustee, Frontier Shekou, Existing Group Companies (BVI) and Existing Group Companies (Hong Kong) will provide an unconditional and irrevocable guarantee in favour of the Banks in respect of the New Facility. None of the Banks are a connected person of CMC REIT within the meaning of Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules (modified as appropriate pursuant to the REIT Code).

The Manager shall finance the Consideration using cash drawn down from the New Facility. The intended financing structure is determined taking into consideration, among other things, CMC REIT's working capital sufficiency, optimal level of gearing after Completion and financing cost. In addition, the Manager targets to diversify the capital structure of CMC REIT, and has already received a bank term sheet for the Refinancing Facility of up to RMB3,900 million to refinance the New Facility and Existing CMC REIT Group Facilities. The Refinancing Facility will mature and become repayable by 36 months from the first drawdown date and bear interest of 1.4% per annum over 3-month HIBOR.

The terms and conditions of the New Facility and the Refinancing Facility described in the Letter to the Unitholders are indicative only and subject to change depending on the market conditions at the time the New Facility and the Refinancing Facility are finalised and the relevant loan agreement(s) are signed, and do not represent the complete set of the actual terms and conditions. The actual terms and conditions of the New Facility and the Refinancing Facility may differ from, or may comprise additional or fewer terms and conditions as compared with, the indicative terms and conditions described in the Letter to the Unitholders. To the extent that there are any material changes to the indicative terms and conditions described in the Letter to the Unitholders, the Manager will issue an announcement to provide details of such changes.

Based on the pro forma financials of the Enlarged Group set out in Appendix 4 headed "Unaudited Pro Forma Financial Information of the Enlarged Group" to this Circular and the estimated Total Fees and Charges, the pro forma adjusted ratio of debt to total assets of CMC REIT is anticipated to increase from 29.2%, as disclosed in the 2021 Annual Report, to approximately 33.1% immediately following Completion, assuming: (i) completion of the Acquisition; and (ii) HKD1,640,823,462 (equivalent to approximately RMB1,341,537,262) drawn down from the New Facility to finance the Consideration. Such ratio is below the 50% limit permitted under the REIT Code.

As set out in the 2021 Annual Report, CMC REIT's secured bank borrowings bear interests at fixed rates of 1.2% to 4.5% per annum or HIBOR plus 0.9% per annum as at 31 December 2021. Also as advised by the Manager, the effective interest rate of CMC REIT's bank borrowings as at 31 December 2021 is 2.54% per annum. Given that the average 1-month and 3-month HIBOR from 1 January 2021 to 31 May 2022 (being the latest available information) ranged from 0.06% to 0.27% and 0.14% to 0.84% per annum (source: Hong Kong Monetary Authority), respectively, the interest rates under the two tranches of the New Facility and the Refinancing Facility will range from 1.06% to 1.84%, 0.96% to 1.74% and 1.54% to 2.24% per annum, respectively. Having considered that the interest of the New Facility and the Refinancing Facility is lower than the effective interest rate of CMC REIT's bank borrowings, we consider the terms of the New Facility and the Refinancing Facility to be fair and reasonable.

7. Financial effects of the Acquisition

The pro forma financial effects of the Acquisition on total distributable amount and NAV below are strictly for illustrative purposes and were prepared based on (a) the audited consolidated financial information of CMC REIT for the year ended 31 December 2021; and (b) the audited consolidated financial information of the Target Group for the year ended 31 December 2021 as set out in Appendix 2 headed "Accountant's Report of the Target Group" to the Circular and other assumptions set out in section 6.1 in the Letter to the Unitholders.

Unitholders should note that the financial effects of the Acquisition are on a pro forma basis and are subject to the assumptions set out in Appendix 4 headed "Unaudited Pro Forma Financial Information of the Enlarged Group" to the Circular. Accordingly, they do not constitute a profit forecast or represent the actual financial position of CMC REIT as a result of the Acquisition in the future.

7.1 Pro Forma DPU

As set out in the Letter to the Unitholders, the pro forma financial effects of the Acquisition on the DPU for the year ended 31 December 2021, as if the Acquisition was completed on 1 January 2021 and CMC REIT had held and operated the Target Property through to 31 December 2021, are as follows:

	Before the Acquisition	After the Acquisition (based on the New Facility)	Variance	After the Acquisition (based on the Refinancing Facility)	Variance
Total Distributable Amount (RMB'000)	170,403(1)	180,009(2)	5.6%	175,968(3)	3.3%
Issued Units ('000)(4)	1,127,820(4)	1,127,820(4)	–	1,127,820(4)	–
DPU (RMB)	0.1511	0.1596	5.6%	0.1560	3.3%
Committed DPU (HKD)	0.2541	0.2541	–	0.2541	–

Notes:

(1) Based on the audited consolidated statement of distribution of CMC REIT for the year ended 31 December 2021.

(2) The financial performance of the Enlarged Group (i) is based on the audited consolidated financial information of CMC REIT for the year ended 31 December 2021 and the audited financial information of the Target Group for the year ended 31 December 2021; (ii) assuming the Acquisition was completed on 1 January 2021; and (iii) assuming the New Facility was drawn down for the Acquisition.

(3) The financial performance of the Enlarged Group (i) is based on the audited consolidated financial information of CMC REIT for the year ended 31 December 2021 and the audited financial information of the Target Group for the year ended 31 December 2021; and (ii) assuming the Acquisition was completed on 1 January 2021; and (iii) assuming the Refinancing Facility was drawn down for the Acquisition.

(4) Number of issued Units as at 31 December 2021.

As shown in the table above, CMC REIT's DPU will increase from RMB0.1511 before the Acquisition to RMB0.1596 based on the New Facility and RMB0.1560 based on the Refinancing Facility after the Acquisition, respectively.

In the event the DPU of the Enlarged Portfolio for the year ending 31 December 2022 is below the 2022 annualised committed DPU of HK$0.2614, Eureka will make the cash payment and the Unitholders will enjoy DPU of HK$0.2614 for 2022. In the event the DPU of the Enlarged Portfolio for the year ending 31 December 2022 exceed HK$0.2614 per DPU, Eureka will not make the cash payment and the Unitholders will receive such amount of DPU generated by the Enlarged Portfolio for 2022.

7.2 *Pro forma net assets attributable to Unitholders per Unit*

The pro forma financial effects of the Acquisition on net assets attributable to Unitholders per Unit as at 31 December 2021, as if the Acquisition was completed on 31 December 2021, are as follows:

	Before the Acquisition	**After the Acquisition**
Net assets attributable to Unitholders (RMB'000) ("**NAV**")	4,006,984(1)	3,994,379(2)
Issued Units ('000)	1,127,820(3)	1,127,820(3)
Net assets attributable to existing Unitholders per Unit (RMB) ("**NAV per Unit**")	3.55	3.54

Notes:

(1) Based on the audited consolidated financial information of CMC REIT for the year ended 31 December 2021.

(2) The financial position of the Enlarged Group is based on: (i) the audited consolidated financial information of CMC REIT for the year ended 31 December 2021 and the audited financial information of the Target Group for the year ended 31 December 2021; and (ii) assuming the Acquisition was completed on 31 December 2021.

(3) Number of issued Units as at 31 December 2021.

As illustrated from the table above, the NAV per Unit was approximately RMB3.55 as at 31 December 2021. As stated in the pro forma balance sheet of the Enlarged Group as at 31 December 2021 set out in the Appendix 4 headed "Unaudited Pro Forma Financial Information of the Enlarged Group" to the Circular, both the NAV and NAV per Unit, on a pro forma basis, would slightly decrease from RMB4,007 million to RMB3,994 million and from RMB3.55 to RMB3.54 respectively. We have discussed with the Manager and the Reporting Accountants and are advised that such decrease was due to the one-off Total Fees and Charges.

Given the reasons for and benefits of the Acquisition and the improvement on the DPU, we consider the financial effects of the Acquisition on NAV and NAV per Unit to be acceptable.

8. Continuing Connected Party Transactions

8.1 *Background and reasons for the entering into of the Amended and Restated Operations and Property Management Framework Agreement*

The Group is principally engaged in real estate investment for property income. Since the initial public offering of CMC REIT, the Operations Manager and the Existing Properties Property Manager have been appointed to operate, maintain and manage the Existing Properties under the overall management and supervision of the Manager. The Manager regularly monitors and reviews the performance of the Operations Manager and the Existing Properties Property Manager, and are satisfied that they will continue to provide professional services with efficient and effective management.

On 9 December 2021, CMC REIT (through the Manager) entered into the Existing Operations and Property Management Framework Agreement which sets out the framework terms governing Operations and Property Management Transactions in relation to the Existing Properties. The Existing Operations and Property Management Framework Agreement and the annual caps thereunder were approved by the Independent Unitholders at the CM Continuing CPTs EGM on 29 December 2021.

If the Acquisition is completed, and assuming that the Operations and Property Management Transactions in relation to the Target Property will be conducted with the CM Connected Persons Group, more continuing connected party transactions will arise, the nature of which is comparable to the existing Operations and Property Management Transactions governed by the Existing Operations and Property Management Framework Agreement. The Acquisition will accordingly increase the scale of the Operations and Property Management Transactions with the CM Connected Persons Group.

On 13 June 2022, CMC REIT (through the Manager) entered into the Amended and Restated Operations and Property Management Framework Agreement to set new monetary limits to accommodate the Operations and Property Management Transactions in respect of the Target Property for the financial years ending 31 December 2022, 31 December 2023 and 31 December 2024. The Revised Annual Caps increase the previous caps set in December 2021, to cover the new Operations and Property Management Transactions relating to the Target Property entered or to be entered into. Similar to the Existing Operations and Property Management Framework Agreement, the Amended and Restated Operations and Property Management Framework Agreement and the Revised Annual Caps are subject to the passing of the EGM Resolutions to approve the Matters Requiring Approval.

8.2 Amended and Restated Operations and Property Management Framework Agreement

The Amended and Restated Operations and Property Management Framework Agreement sets out the framework terms governing the Operations and Property Management Transactions in relation to both the Existing Properties and the Target Property. Save for the maximum aggregate annual amounts to be paid by the Group to the CM Connected Persons Group in respect of the Operations and Property Management Transactions, the principal terms of the Amended and Restated Operations and Property Management Framework Agreement are identical to those of the Existing Operations and Property Management Framework Agreement. Details of the terms of the Amended and Restated Operations and Property Management Framework Agreement are set out in the Letter to

Unitholders and those of Existing Operations and Property Management Framework Agreement in the circular of CMC REIT dated 10 December 2021.

8.2.1 Operations and Property Management Transactions

We have reviewed the Operations and Property Management Transactions in respect of Existing Properties and noted that CMC REIT (through the Manager) (i) entered into one operation services agreement with one operations manager in respect of all five Existing Properties for a term of 3 years up to 31 December 2024; and (ii) entered into five property management agreements for a 12-month term up to 31 December 2022, in respect of each of the Existing Properties. Both operations manager and property manager are members of the CM Connected Persons Group. A summary of the fees payable by CMC REIT under the Operations and Property Management Transactions is set out below:

Name of Existing Properties	Type	Fee basis of operations management services: Rental income(1)	Fee basis of operations management services: Capital expenditure(2)	Fee basis of property management services(3)
1. New Times Plaza	Office/Commercial/ Carpark	5%	2.5%	12%
2. Cyberport Building	Office/Commercial/ Carpark	5%	2.5%	12%
3. Technology Building	Office/Carpark	5%	2.5%	12%
4. Technology Building 2	Office/Carpark	5%	2.5%	12%
5. Garden City Shopping Centre	Shopping centre/ Carpark	5%	2.5%	RMB650,000 per annum(4)

Notes:

(1) The fee, which is calculated based on the monthly rental income generated by the subject property (except for carparking spaces), is basically payable on a quarterly basis.

(2) The fee, which is calculated based on capital expenditure for refurbishment and renovation incurred by the subject property, is payable as to 2% on an annual basis and as to 0.5% upon payment of such capital expenditure.

(3) The fee, which is calculated based on a percentage of certain property management fees, carparking fees and other operating charges collected from tenants (except for air-conditioning charges and promotional fees) in respect of the subject property (other than Garden City Shopping Centre), is payable on monthly basis.

(4) Garden City Shopping Centre is subject to a fixed management fee of RMB650,000 per annum, which is payable on monthly basis.

As shown in the above table, it is noted that (i) the basis of operations services fees are the same across all the Existing Properties; (ii) the basis of property management fees are the same across 4 out of 5 Existing Properties, each of which are basically offices, commercial (if any) and carparking spaces; and (iii) Garden City Shopping Centre is subject to a fixed management fee of RMB650,000 per annum.

We have reviewed the operation management agreement (the "**Enlarged Portfolio OM Agreement**") and the Property Management Agreement, in respect of the Enlarged Portfolio and the Target Property respectively, entered into by CMC REIT on the one hand and the operations manager and the property manager on the other hand, both being the members of the CM Connected Persons Group, on 13 June 2022 and noted that (i) the fees basis of operations management services is the same as those of the Existing Properties; and (ii) the fee basis of property management services is also the same as those of the Existing Properties except for Garden City Shopping Centre which is subject to a fixed management fee.

As stated in CMC REIT's prospectus in November 2019, the scope of the Operations Management Services includes (i) leasing services; (ii) marketing services, (iii) tenancy development and management services; (iv) leasing advisory services; (v) implementing the engineering and remodelling plans; (vi) performance evaluation of the properties; (vii) account management and document support services; and (viii) information technology support. We have reviewed the similar arrangement(s) conducted by other Hong Kong listed REIT(s) for their properties in the PRC but noted that (a) some of them have adopted a fee structure based on a fixed percentage of the property income plus reimbursement of expenses incurred in provision of the operations services (e.g. staff costs and other expenses), which is different from those under the Operations Management Services; and (b) one adopted the operations management fee based on 3% - 4% of the property income for the provision of services (i), (ii) and (iii) only as mentioned above. All of them are therefore considered not appropriate for comparison purpose. We have further discussed with the Manager and were provided with three quotes (the "**Independent Quotes**") from independent operations managers in 2022 with the same scope of the Operations Management Services which is, in our view, in line with the service providers selection process conducted by other Hong Kong listed issuers, and noted that the operations management fee payable by CMC REIT under the CMC REIT Operations Management Transactions is no less favourable than those Independent Quotes. We have also discussed with and been advised by the Independent Property Valuer that based on its knowledge, the basis of the operations management services fee payable by CMC REIT is in line with the market. On these bases, we consider the operations management fee payable by CMC REIT for the Operations Management Services to be fair and reasonable.

Pursuant to the Property Management Agreement in respect of the Target Property, (i) CMC REIT shall pay monthly property management fees comprising (a) RMB22.02 per sq.m. for units self-occupied by CMC REIT; (b) RMB10.7863 per sq.m. of the vacant units; and (c) 10% of the rent generated from the hourly car parking spaces managed by the Property Manager and (ii) the tenants of the leased out units shall pay the management fees directly to the Property Manager. As advised by the Manager, the Property Manager only manages the carparking spaces owned by the Target Company, which are not subject to monthly leases, by issuing tickets to and collecting hourly fees from visitors. We (i) have been provided with a full list of property management contracts in respect of the Target Property and have randomly selected and reviewed the property management agreements entered into between the Property Manager and independent tenants and (ii) have been provided with the property management contracts entered with other owners and tenants of the buildings comprising Onward Science & Trade Center (招商局航華科貿中心) for which they are considered to be fair and representative. It is noted that the fees structure under the Property Management Agreement in respect of the Target Property is different from those of the independent contracts but (i) the management fee bases for Target Property (other than those leased out) are no less favourable than those charged by the Property Manager to independent tenants within the same buildings; (ii) the management fees of the leased out units shall be payable by the tenants directly; and (iii) as advised by the Manager, only one independent contract (the "**Comparable PM Contract**") entered into with a significant owner of China Merchants Tower regarding its office portion as well as carparking spaces. We have reviewed the Comparable PM Contract pursuant to which, such owner shall pay the management fee of RMB28.98 per sq.m. based on the office area for those of both office and carparking spaces irrespective of whether the units are vacant or not but, as advised by the Manager, the carparking spaces owned by such significant owner are not operated by the Property Manager for lease-out. On this basis, it is considered that the management fee payable by the Target Group is no less favourable than those charged by the Property Manager to independent tenants.

As regards the 10% income generated from the hourly carparking spaces managed by the Property Manager as its management fees, given, as advised by the Manager, the Property Manager has not been engaged to manage other carparking lots within Onward Science & Trade Center (招商局航華科貿中心) and no details of similar transactions are available in the public domain in the recent three years as advised by the Independent Property Valuer, we have carried out a search on the profit margins of Hong Kong or PRC listed carpark operators whose business are mainly in the PRC and noted that the latest available profit margins of such listed carpark operators ranged from 2.3% to 21.3%. The management fee (i.e. 10% of the income generated from the hourly carparking lots), which is, in our view, is analogous or comparable to the gross profit margins of the aforementioned listed carpark operators. Given the management fee of 10% payable to the Property Manager falls within the gross profit margins of listed carpark operators, we consider it to be fair and reasonable and in the interests of CMC REIT and its Unitholders as a whole.

In addition, as set out in the Letter to Unitholders, to ensure that each transaction under the Amended and Restated Operations and Property Management Framework Agreement is entered into based on the then prevailing market rate and on normal commercial terms, the parties agree that the Manager shall arrange for an independent opinion on the terms of each such transaction to be issued by the then prevailing principal valuer of CMC REIT before the transaction is first entered into or if and when it is renewed. The principal valuer shall assess whether the terms of each such transaction are fair and reasonable with reference to the prevailing market rates and terms for similar services provided by professional operations management and property management service providers for properties of similar size and with similar attributes and on normal commercial terms.

Based on the above, we consider the terms of the Amended and Restated Operations and Property Management Framework Agreement, which are carried out at arm's length and on normal commercial terms and consistent with the investment objectives and strategy of CMC REIT, to be fair and reasonable and in the interests of CMC REIT and its Unitholders as a whole.

8.2.2 The Revised Annual Caps – Operations and Property Management Transactions

Set out below are the historical and projected amounts of the Operations and Property Management Transactions in respect of the Target Property:

	Historical Transaction Amounts For the year ended 31 December			**Projected Transaction Amounts For the year ending 31 December**		
	2019	**2020**	**2021**	**2022**	**2023**	**2024**
		RMB'000			*RMB'000*	
Operations and Property Management Transactions arising from the Target Property	7,558	7,873	7,131	4,579	9,770	9,997
Buffer				458	977	1,000
				5,038	10,748	10,998

Note: Due to rounding, the figures may not add up to the totals.

As advised by the Manager, the Acquisition is expected to be completed around the second quarter of 2022 and thus projected Operations and Property Management Transactions in respect of the Target Property for 6 months will be included into the projected Operations and Property Management Transactions amounts in 2022. The proposed Revised Annual Caps for the financial years ending 31 December 2022, 2023 and 2024 are set out in the below table:

	For the year ending 31 December		
	2022	**2023**	**2024**
		RMB'000 *(approximate)*	
Existing annual caps	82,987	89,610	91,814
Projected Operations and Property Management Transactions arising from the Target Property	5,038	10,748	10,998
Revised Annual Caps	88,025	100,358	102,812

Note: Due to rounding, the figures may not add up to the totals.

We have been provided with and have reviewed the projection of the operations management transaction amounts and the property management transaction amounts in respect of the Target Property for 2022-2024 and noted that (i) the projected fees of both service types agreed to fees basis as stipulated under the Enlarged Portfolio OM Agreement and the Property Management Agreement in respect of the Target Property; (ii) the Acquisition is expected to be completed around the second quarter of 2022; (iii) the rental income of the Target Property is projected based on (a) the rental income receivable in accordance with the existing leases until their expiries; (b) the rental income based on current market rents to be generated from vacant units and those upon expiry of the leases; (c) the occupancy rates of office being expected to grow gradually and reach 95% by the end of the 2nd half of 2022, that of the commercial spaces expected to remain the same at 95% and that of carparking spaces expected to maintain at 50% throughout 2022-2024; and (d) the annual rental increment of 3% for office and commercial and no increment for carparking spaces. The Manager did not assume any major capital expenditure on the Target Property in 2022-2024 as major refurbishment and renovation was largely completed at the end of 2021 (see section 4.1 above).

In addition, we have compared the annual caps projection by the Manager and the valuation projection by Independent Property Valuer and noted that the Manager applied the same market rental rates for office, retail and carparking spaces as adopted by the Independent Property Valuer to arrive at the Appraised Value. The Manager applied the annual rental increment of 3% for office in the projection for 2022-2024. We have reviewed the existing full lease schedule of the Target Property and randomly selected three sample leases, for which we consider they are fair and representative samples, and noted that (i) the terms of the sample leases agreed to the lease schedule provided to us; (ii) certain leases for terms covering 2022-2024 have progressive rental rates; and (iii) the increment of 3% falls within the range of effective annual rental increments from 2.0% to 6.7% for those independent leases in (ii). We also noted that the occupancy rate of the office portion of the Target Property is expected to increase gradually and reach 95% by the end of 2022 and those of the commercial portion and carparking spaces are expected to maintain at 95% and 50% throughout 2022 to 2024, respectively, which were achieved in early 2019 before the commencement of the refurbishment and renovation work. We have discussed with the Manager on the adoption of the occupancy rate for the office portion and are advised that the low occupancy rate as at 31 March 2022 was principally due to the renovation and refurbishment in 2021 (see section 2 above) as well as the resurgence of COVID-19 and it is expected that the occupancy rate will gradually pick up in the second half of 2022. Given (i) the occupancy of office portion has been over 95% in 2019 before the renovation and refurbishment work and COVID-19 pandemic; and (ii) the Target Property is expected to have improved and better conditions after renovation and refurbishment which is expected to complete in the first half of 2022, we consider the adoption of 95% occupancy rate for office portion to be fair and reasonable. On these bases, we consider that the projected Operations and Property Management Transaction amounts for 2022-2024 to be fair and reasonable.

In determining the Revised Annual Caps for 2022-2024, the Manager applied a buffer of 10% to the projected Operations and Property Management Transaction amounts to allow for contingencies to accommodate possible fluctuations resulted from any changes in rental or other market conditions and the potential increase in the occupancy rate of the Target Property. Given the buffer of 10% is within the range of the buffers between 1.3% and 49% normally adopted by other REITs listed in Hong Kong for annual caps in relation to office and retail leases, we consider the inclusion of a buffer of 10% for the purpose of determining the Revised Annual Caps to be fair and reasonable.

8.3 Internal control

As set out in the Letter to the Unitholders, the Manager has established an internal control system intended to ensure that connected party transactions between the 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.

The Manager maintains a register to record all connected party transactions which are entered into by members of the Group and the bases, including, where appropriate, any quotations from independent third parties, independent valuations and expert opinion obtained to support such bases, on which they are entered into. The Manager is also required to incorporate into its internal audit plan a review of all connected party transactions entered into by members of the Group. As a general rule, the Manager will demonstrate to the Audit Committee that all connected party transactions are carried out at arm's length, on normal commercial terms and in the interests of Unitholders.

Given that (i) the Manager has established internal control system to monitor the connected party transactions between the Group and the CM Connected Persons Group; (ii) as discussed in the section 8.2.1 above, the terms of the Operations and Property Management Transactions in respect of the Target Property were on normal commercial terms and no less favorable than those of the independent third parties; and (iii) the INEDs and the auditors will, pursuant to the REIT Code and Rule 14A of the Listing Rules (as modified under the REIT Code), review each of those transactions contemplated under the Amended and Restated Framework Agreements and confirm whether such transactions have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the relevant agreement governing it on terms that are fair and reasonable and in the interests of CMC REIT and the Unitholders as a whole, we are of the view that adequate measures have been put in place to ensure the transactions contemplated under the Amended and Restated Framework Agreements are conducted on normal commercial terms.

9. Risk factors

Attention is drawn to the Independent Unitholders that investment in real estate involves risks. Independent Unitholders are recommended to consider carefully, together with all other information in the Circular, the risk factors in relation to the Acquisition as disclosed in Appendix 7 headed "Risk Factors" to the Circular which are generally in line with the risk profile of CMC REIT as a unit trust that invests primarily in income-producing real estate assets.

The Independent Unitholders should also be aware that the Acquisition shall be financed by the New Facility and the Enlarged Portfolio shall be refinanced by the end of 2022. The terms and conditions of the New Facility and the Refinancing Facility as described in the Circular are indicative only and subject to change depending on the market conditions at the time the New Facility and the Refinancing Facility each is finalised and the relevant loan agreement(s) are signed, and do not represent the complete set of the actual terms and conditions. The actual terms and conditions of the New Facility and the Refinancing Facility may differ from, or may comprise additional or fewer terms and conditions as compared with, the indicative terms and conditions described in the Circular. To the extent that there are any material changes to the indicative terms and conditions described in the Circular, the Manager will issue an announcement to provide details of such changes.

DISCUSSION AND ANALYSIS

CMC REIT is comparatively small in terms of asset size and market capitalization compared with other listed REITs in Hong Kong, but it has a yield of about 9.7% in 2021, which is higher than average for Hong Kong REITs. The higher yield is principally due to the committed DPU as undertaken by Eureka at the time of listing in 2019 and the last committed DPU is for the year ending 31 December 2022. Based on CMC REIT's distributable income for 2021 without the committed DPU, the DPU yield is about 7.1%. All the Existing Properties are located in Shekou, Shenzhen. New Times Plaza, a Grade A office building, and Garden City Shopping Centre, an integrated commercial complex, contributed the most in terms of portfolio value and income. Following the outbreak of COVID-19, Grade A office showed significant resilience as evidenced by its gradual increase in average monthly rents while the shopping centre experienced a setback in 2020 but managed to increase its rental rate in 2021. The remaining properties of CMC REIT are Grade B office buildings and all are about the same size, accounting for about 13-16% of the total portfolio value each, and their average rents are relatively stable and even showed some improvement in 2021.

The Acquisition enables CMC REIT to extend its reach to another top tier city in the PRC. The Target Property, located in Guomao CBD of Beijing, comprises certain portion of the mix-use developments known as Onward Science & Trade Center (招商局航華科貿中心) where numerous premium and Grade A office buildings are clustered at the intersection of Jianguo Road (also known as the east extension of Changan Road) and the Third Ring Road. Guomao CBD is one of the most prestigious and key international business districts in the PRC and home to many notable domestic and multi-national corporations. The Target Property is accessible by bus and is within walking distance from Guomao Station, which is one of the busiest interchange stations in Beijing. Onward Science & Trade Center (招商局航華科貿中心) commenced operation in 1999 and the Target Property has largely completed refurbishment and renovation in 2021. It is expected that there will be a rental uplift in the next leasing cycle. Nevertheless, CMC REIT's pro forma DPU would have increased by 5.6% and 3.3% from RMB0.1511 to RMB0.1596 based on the New Facility and RMB0.1560 based on the Refinancing Facility, respectively, for the year ended 31 December 2021, due to the additional and stable income generated from the existing leases of the Target Property.

The Agreed Property Value is RMB2,700 million, which represents a discount of 1.1% to the Appraised Value and is equivalent to the value of the Target Property as agreed between the CMSK and its joint venture partner for the acquisition of 80% interest in the Vendor in November 2021. The Consideration will be financed by the New Facility and Refinancing Facility after repayment of the New Facility. As advised by the Manager, after the conditions precedent under Sale and Purchase Deed have been satisfied, Completion is expected to take place in the second quarter of 2022.

As regards the New Bank Facility and the Refinancing Facility, the illustrative interest rates are lower than the effective interest rate of CMC REIT's bank borrowings for the year ended 31 December 2021. The Gearing Ratio will be increased from 29.2% as at 31 December 2021 to 33.1% upon Completion. Following Completion, the NAV per Unit will be diluted slightly from RMB3.55 as at 31 December 2021 to RMB3.54 due to the one-off Total Fees and Charges as at 31 December 2021. Given the benefits brought by the Acquisition including the improved DPU, we consider the financial effects on the Gearing Ratio and the NAV to be acceptable.

Before Completion, the Vendor shall procure a member of the Vendor Group to provide an interest-free and unsecured loan to the Target Group to repay outstanding amounts under Mingyuan Dalian Bank Loan I & II, the terms of which we consider to be favourable to CMC REIT as they are interest-free and are not secured by the assets of the Group. Additional Operations and Property Management Transactions are expected upon Completion and therefore the related annual caps for 2022-2024 will be revised and the terms of them are carried out at arm's length and on normal commercial terms. Based on the above analysis, we consider the terms of the Matters Requiring Approval (collectively, the Transaction Matters Requiring Approval and the CCPT Matters Requiring Approval) are fair and reasonable and in the interests of CMC REIT and the Unitholders as a whole.

OPINION

Having taken into consideration the above reasons and factors and on the basis that, in particular, the Acquisition will improve CMC REIT's property portfolio, we consider that:

(i) The Transaction Matters Requiring Approval (including the Indebtedness to Vendor Group) are (a) in the ordinary and usual course of business of CMC REIT; (b) consistent with the investment objective and strategy of CMC REIT; and (c) on terms which are normal commercial terms, are at arm's length and are fair and reasonable and in the interests of CMC REIT, the Independent Unitholders and the Unitholders as a whole; and

(ii) The CCPT Matters Requiring Approval (including the Revised Annual Caps) are (a) in the ordinary and usual course of business of CMC REIT; (b) consistent with the investment objective and strategy of CMC REIT; and (c) on terms which are normal commercial terms, are at arm's length and fair and reasonable and in the interests of CMC REIT, the Independent Unitholders and the Unitholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend and we ourselves also recommend, Independent Unitholders to vote in favour of the relevant resolutions to approve the Matters Requiring Approval at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Jenny Leung
Director

Ms. Jenny Leung is a licensed person and responsible officer of Somerley Capital Limited registered with the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.

FINANCIAL INFORMATION OF CMC REIT

The financial information of CMC REIT for the past three financial years ended 31 December 2021 has been published in the reports as follows:

(1) the financial information of CMC REIT for the year ended 31 December 2021 is disclosed in the annual report of CMC REIT for the year ended 31 December 2021 published on 25 April 2022, from pages 121 to 218;

(2) the financial information of CMC REIT for the year ended 31 December 2020 is disclosed in the annual report of CMC REIT for the year ended 31 December 2020 published on 22 April 2021, from pages 115 to 206; and

(3) the financial information of CMC REIT for the year ended 31 December 2019 is disclosed in the annual report of CMC REIT for the year ended 31 December 2019 published on 17 April 2020, from pages 113 to 202.

The annual reports of CMC REIT for the years ended 31 December 2019, 2020 and 2021 have been published on the website of the Hong Kong Stock Exchange (www.hkex.com.hk) and the website of CMC REIT (http://www.cmcreit.com/en/ir_reports.php).

RECENT DEVELOPMENT AND FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

In 2021, CMC REIT achieved a double-digit increase in revenue, mainly contributed by the implementation of a proactive asset management strategy. The Manager has been working closely with the Operations Manager on asset enhancement initiatives of the Existing Properties. Such enhancement will improve the quality of the assets and bring up their market competitiveness, which is expected to unlock and maximize the value of the portfolio.

With the adoption of the enhanced measures on controlling COVID-19 in the PRC, the Manager anticipates that the rental market in Beijing will continue to be volatile in the short term. However, with the limited Grade-A office space supply in upcoming years, the Manager remains optimistic about the overall Beijing office market and believes that the rental market will gradually recover from the temporary impact from the aforesaid measures on controlling COVID-19.

As the capital of China, Beijing has a special and pivotal position in the national plan of building a new landscape of development. According to the 14th Five-Year Plan, Beijing will be supported to (i) develop into an international science and technology innovation centre; and (ii) accelerate the synergistic development of Beijing, Tianjin and Hebei. The Manager is of the view that the plan shall lead to an influx of both capital and people into Beijing and boost the demand for workspace.

Onward Science & Trade Center (招商局航華科貿中心) enjoys a most prestigious location in Beijing. It has also been refurbished during the last 3 years and the quality of the asset has been greatly improved. The acquisition of this quality asset represents CMC REIT's debut in Beijing and reduces the concentration risk associated with the current sole asset location. The Manager believes this acquisition will generate a stable income for CMC REIT and provide a better return to Unitholders.

Going forward, the Manager will continue to look for high-quality commercial properties in the PRC, with an aim to diversify and enlarge its investment property portfolio as well as enhance its steady and recurring rental income. The Manager will aim at further improving the quality of CMC REIT's portfolio and expanding its scale of assets as well.

The following is the text of a report set out in pages A2-1 to A2-35, received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF SA VENICE I AND ITS SUBSIDIARIES TO THE DIRECTORS OF CHINA MERCHANTS COMMERCIAL REAL ESTATE INVESTMENT TRUST

Introduction

We report on the historical financial information of SA VENICE I (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages A2-3 to A2-35, which comprises the consolidated statements of financial position of the Target Group as at 31 December 2019, 2020, 2021, the statements of financial position of the Target Company as at 31 December 2019, 2020, 2021, 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 Target Group for each of the three years ended 31 December 2021 (the "**Track Record Period**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages A2-3 to A2-35 forms an integral part of this report, which has been prepared for inclusion in the circular of China Merchants Commercial Real Estate Investment Trust (the "**Company**" or "**CMC REIT**") dated 14 June 2022 (the "**Circular**") in connection with the proposed acquisition of 51% equity interests in the Target Company.

Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2 to the Historical Financial Information, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of the Circular in which the Historical Financial Information is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

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 the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation 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 Target 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 Target Group's financial position as at 31 December 2019, 2020, 2021, of the Target Company's financial position as at 31 December 2019, 2020, 2021 and of the Target Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation 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 of Hong Kong Limited 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 A2-3 have been made.

Dividend

We refer to note 11 to the Historical Financial Information which contains information about the dividends declared and paid by the Target Company in respect of the Track Record Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
14 June 2022

HISTORICAL FINANCIAL INFORMATION OF SA VENICE I

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 Target Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standard Board (the "**IASB**") and were audited by us in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("**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

		Year ended 31 December		
		2019	**2020**	**2021**
	NOTES	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*6*	142,529	130,449	118,900
Property operating expenses	*7*	(26,772)	(27,369)	(36,511)
Gross profit		115,757	103,080	82,389
Changes in fair value of investment properties	*12*	245,000	(68,845)	2,656
Other income	*8*	7,004	10,063	14,609
Net exchange losses		(5,022)	(2,756)	(2,223)
Administrative expenses		(970)	(769)	(704)
Finance costs on bank borrowings		(6,871)	(12,884)	(10,818)
Profit before tax	*9*	354,898	27,889	85,909
Income taxes expenses	*10*	(97,309)	(33,915)	(26,487)
Profit (loss) for the year		257,589	(6,026)	59,422
Item that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of financial statements of a foreign operation:		(3,130)	5,900	4,927
Total comprehensive income (expense) for the year		254,459	(126)	64,349
Profit (loss) for the year attributable to:				
Owners of the Target Company		234,480	(5,418)	54,506
Non-controlling interests		23,109	(608)	4,916
		257,589	(6,026)	59,422
Total comprehensive income (expense) for the year attributable to:				
Owners of the Target Company		231,350	482	59,433
Non-controlling interests		23,109	(608)	4,916
		254,459	(126)	64,349

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	NOTES	As at 31 December 2019 RMB'000	2020 RMB'000	2021 RMB'000
Non-current assets				
Investment properties	12	2,694,898	2,665,000	2,700,000
Plant and equipment		221	204	154
Other receivables	13	191,980	234,753	216,913
Pledged bank deposits	14	207,210	127,580	50,070
		3,094,309	3,027,537	2,967,137
Current assets				
Trade and other receivables	13	130,601	126,709	91,007
Pledged bank deposits	14	–	129,700	81,530
Bank balances and cash	14	25,796	37,434	114,963
		156,397	293,843	287,500
Current liabilities				
Trade and other payables	15	64,723	69,753	71,524
Taxation payable		4,367	12,825	14,388
Amounts due to immediate holding company	16	2,325,546	2,318,788	2,316,398
Dividend payable		–	–	133,086
Bank borrowings	17	–	125,191	107,024
		2,394,636	2,526,557	2,642,420
Net current liabilities		(2,238,239)	(2,232,714)	(2,354,920)
Total assets less current liabilities		856,070	794,823	612,217
Non-current liabilities				
Bank borrowings	17	200,820	147,056	45,000
Deferred tax liabilities	18	661,901	654,544	642,731
		862,721	801,600	687,731
Net liabilities		(6,651)	(6,777)	(75,514)
Capital and reserves				
Share capital	19	–	–	–
Reserves		(202,231)	(201,749)	(263,275)
Equity attributable to owners of the Target Company		(202,231)	(201,749)	(263,275)
Non-controlling interests		195,580	194,972	187,761
Deficit		(6,651)	(6,777)	(75,514)

STATEMENTS OF FINANCIAL POSITION OF THE TARGET COMPANY

		As at 31 December		
		2019	**2020**	**2021**
	NOTES	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Investment in a subsidiary	*26*	–	–	–
Current assets				
Dividend receivable		–	–	120,959
Current liability				
Dividend payable		–	–	120,959
Net current asset		–	–	–
Net assets		–	–	–
Equity	*19*			
Share capital		–	–	–
Reserve		–	–	–
		–	–	–

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to the owners of the Target Company						
	Share capital *RMB'000* *(Note 19)*	Capital reserve *RMB'000*	Translation reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1 January 2019	–	(479,418)	657	45,180	(433,581)	172,471	(261,110)
Profit for the year	–	–	–	234,480	234,480	23,109	257,589
Other comprehensive expense for the year:							
– Exchange differences arising on translation of financial statements of a foreign operation	–	–	(3,130)	–	(3,130)	–	(3,130)
Total comprehensive (expense) income for the year	–	–	(3,130)	234,480	231,350	23,109	254,459
At 31 December 2019	–	(479,418)	(2,473)	279,660	(202,231)	195,580	(6,651)
Loss for the year	–	–	–	(5,418)	(5,418)	(608)	(6,026)
Other comprehensive income for the year:							
– Exchange differences arising on translation of financial statements of a foreign operation	–	–	5,900	–	5,900	–	5,900
Total comprehensive income (expense) for the year	–	–	5,900	(5,418)	482	(608)	(126)
At 31 December 2020	–	(479,418)	3,427	274,242	(201,749)	194,972	(6,777)
Profit for the year	–	–	–	54,506	54,506	4,916	59,422
Other comprehensive income for the year:							
– Exchange differences arising on translation of financial statements of a foreign operation	–	–	4,927	–	4,927	–	4,927
Total comprehensive income for the year	–	–	4,927	54,506	59,433	4,916	64,349
Dividend declared to non-controlling interests	–	–	–	–	–	(12,127)	(12,127)
Dividend declared *(Note 11)*	–	–	–	(120,959)	(120,959)	–	(120,959)
At 31 December 2021	–	(479,418)	8,354	207,789	(263,275)	187,761	(75,514)

Capital reserve represents the difference between the fair value and the carrying amount of the underlying assets and liabilities attributable to the interests in subsidiaries acquired by the Target Group during the year ended 31 December 2017.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
OPERATING ACTIVITIES			
Profit before tax	354,898	27,889	85,909
Adjustments for:			
Changes in fair value of investment properties	(245,000)	68,845	(2,656)
Depreciation of plant and equipment	123	17	50
Bank interest income	(5,872)	(7,237)	(12,786)
Finance costs	6,871	12,884	10,818
Unrealised exchange (gain) loss	(735)	(5,791)	2,859
Operating cash flow before movements in working capital	110,285	96,607	84,194
Increase in trade and other receivables	(26,429)	(13,994)	4,425
Increase in trade and other payables	(1,715)	8,901	(2,162)
Cash generated from operations	82,141	91,514	86,457
Income tax paid	(14,931)	(32,814)	(36,737)
NET CASH FROM OPERATING ACTIVITIES	67,210	58,700	49,720
INVESTING ACTIVITIES			
Placement of pledged bank deposits	(77,510)	(50,070)	–
Advances to immediate holding company	(75,000)	(51,430)	–
Advances to fellow subsidiaries	(13,000)	–	(43,000)
Addition to investment properties	(11,955)	(38,285)	(21,141)
Interest received	2,195	1,752	18,593
Repayment from immediate holding company	7,756	8,657	17,728
Repayment from fellow subsidiaries	415	23,838	68,000
Withdrawal of pledged bank deposits	–	–	125,680
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(167,099)	(105,538)	165,860

	Year ended 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
FINANCING ACTIVITIES			
Interest paid	(6,871)	(12,884)	(10,818)
Repayment of bank loans	–	(2,629)	(126,750)
New bank loans raised	75,000	74,056	6,527
Advances from fellow subsidiaries	7,000	–	–
Repayment to fellow subsidiaries	–	–	(7,000)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	75,129	58,543	(138,041)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(24,760)	11,705	77,539
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	50,826	25,796	37,434
Effect of foreign exchange rate change	(270)	(67)	(10)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR, represented by bank balances and cash	25,796	37,434	114,963

NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF SA VENICE I

1. GENERAL INFORMATION

The Target Company is a private limited company incorporated in the Cayman Islands. At the date of this report, its immediate holding company is Super Alliance Real Estate Partners L.P., an exempted limited partnership established in the Cayman Islands. One of its intermediate holding company is China Merchants Shekou Industrial Zone Holding Co., Ltd. ("**China Merchants Shekou**"), which is established in the PRC and listed on the Shenzhen Stock Exchange. The ultimate holding company of the Target Company is China Merchants Group Limited ("**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 Target Company's registered office is at 4th Floor, Harbour Place, 103 South Church Street, PO Box 10240, Grand Cayman KYI-1002, Cayman Islands.

The Target Company is an investment holding company. The principal activities of its subsidiaries are investing in an income-producing commercial property in Beijing, the People's Republic of China (the "**PRC**").

The functional currency of the Target Company is Renminbi ("**RMB**"), which is also the presentation currency of the Target Company.

2. BASIS OF PREPARATION OF THE HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in note 4 in accordance with IFRSs issued by the IASB. For the purpose of preparation of the Historical Financial Information, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

In preparing the Historical Financial Information, the directors of the Target Company have given careful consideration to the future liquidity of the Target Group in light of the fact that as of 31 December 2021, the Target Group's current liabilities exceeded its current assets by approximately RMB2,354,920,000. The consolidated financial statements of the Target Group have been prepared on a going concern basis because immediate holding company has agreed not to request the Target Group to repay any amount due to it, including amounts due to immediate holding company of RMB2,316,398,000 and dividend payable of RMB120,959,000, until the Target Group has the financial ability to do so. CMC REIT has also agreed not to request the Target Group to repay these amounts after its proposed acquisition of the Target Group until the Target Group has the financial ability to do so.

3. APPLICATION OF NEW AND AMENDMENTS TO IFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Target Group has consistently applied all amendments to IFRSs that are effective for the accounting period beginning on 1 January 2021 throughout the Track Record Period.

New and amendments to IFRSs in issue but not yet effective

The Target 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 and the related Amendments[3]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendment to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021[4]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to IAS 8	Definition of Accounting Estimates[3]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3]
Amendments to IAS 16	Property, Plant and Equipment - Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract[2]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018–2020[2]

1 Effective for annual periods beginning on or after a date to be determined.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after 1 January 2023.
4 Effective for annual periods beginning on or after 1 April 2021.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)*

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  i. The classification should not be affected by management intentions or expectations to settle the liabilities within 12 months; and

  ii. If the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date.

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying IAS 32 Financial Instruments: Presentation.

Based on the Target Group's outstanding liabilities as at 31 December 2021, the related terms stipulated in the agreements between the Target Group and the relevant lenders, the application of the amendments will not result in reclassification of the Target Group's liabilities.

Except for the amendments to IFRSs mentioned above, the directors of the Target Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared on the historical cost basis except for investment properties that 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 Target 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 this 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, 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 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 entity 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 of the Target Group incorporates the financial statements of the Target Company and entities controlled by the Target Company. Control is achieved where the Target 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 Target 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 Target Group obtains control over the subsidiary and ceases when the Target Group loses control of the entity or business. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date of the Target Group gains control until the date when the Target Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Target Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Target Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Target Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Target Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Target Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Revenue from contracts with customers

The Target 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 progress 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 Target Group's performance as the Target Group performs;

- the Target Group's performance creates or enhances an asset that the customer controls as the Target Group performs; or

- the Target Group's performance does not create an asset with an alternative use to the Target Group and the Target 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 distinct 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.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Target Group's performance in transferring control of goods or services.

As a practical expedient, if the Target Group has a right to consideration in an amount that corresponds directly with the value of the Target Group's performance completed to date for service contracts in which the Target Group bills a fixed amount for each month, the Target Group recognises revenue in the amount to which the Target Group has the right to invoice.

Carpark and advertising income are recognised over time in the period in which the services are rendered.

Leasing

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.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Target Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Target Group as a lessee

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Target Group; and
- an estimate of costs to be incurred by the Target Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets that meet the definition of investment property are presented within "investment properties" and are measured under fair value model.

The Target Group as lessor

Leases for which the Target Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental 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, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Refundable rental deposits

Refundable rental deposits received are accounted for under IFRS 9 *Financial Instruments* ("**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

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

The Target 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.

Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" because it excludes income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by 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 bases 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 those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from 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 arising on investments in subsidiaries, except where the Target Group is able to control the reversal of the temporary differences 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 profit 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 rate (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 Target 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 are recognised in profit or loss.

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.

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 exchanges prevailing on 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 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.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Target Group's operations are translated into the presentation currency of the Target Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

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 is measured at their fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

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 the profit or loss in the period in which the property is derecognised.

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. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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 or 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.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (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, when appropriate, a shorter period to the net carrying amount on initial recognition.

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 hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset 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.

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments. 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.

Impairment of financial assets subject of impairment assessment under IFRS 9

The Target Group performs impairment assessment under expected credit loss ("**ECL**") model on financial assets (including trade and other receivables, amounts due from related companies, pledged bank deposits and bank balances and cash) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

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 Target Group's historical credit loss experiences, 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 Target Group always recognises lifetime ECL for lease receivables. The ECL on these assets are assessed individually.

For all other financial instruments, the Target Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target 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.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Target 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 Target 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 since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- 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 Target Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Target Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Target Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default (i.e. no default history), ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Target Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

Definition of default

For internal credit risk management, the Target 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 Target Group, in full (without taking into account any collaterals held by the Target Group).

Irrespective of the above, the Target Group considers that default has occurred when a financial asset is more than 90 days past due unless the Target Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

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; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Write-off policy

The Target Group writes 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 Target 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.

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 estimated as the difference between all contractual cash flows that are due to the Target Group in accordance with the contract and all the cash flows that the Target 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 Target 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.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into 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 Target Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables, amounts due to immediate holding company and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Target 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 party.

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 are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liabilities derecognised and the consideration paid and payable is recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in note 4, the directors of the Target 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 judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Target Company have made in the process of applying the Target Group's accounting policies and that have the most significant effect on the amounts recognised in the Historical Financial Information.

Deferred taxation on investment properties

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the directors of the Target Company have reviewed the Target Group's investment property portfolio and concluded that the Target 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. Therefore, in determining the Target Group's deferred tax on investment properties, the directors of the Target 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 Target Group has recognised deferred tax on changes in fair value of investment properties using only PRC Enterprise Income Taxes ("**EIT**") rate at 25%.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets within the next twelve months.

Fair value measurements and valuation processes of investment properties

In estimating the fair value of the Target Group's investment properties, the Target Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Target Group establishes the appropriate valuation techniques and inputs to the model. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the directors of the Target Company.

Investment properties are stated at fair value at the end of each reporting period based on the valuation performed by the management. In determining the fair value, the management has based on a method of valuation which involves certain estimates as described in Note 12. Where the actual future market data (term yield or reversionary yield) varies, a material adjustment on the fair values of investment properties may arise. In performing the valuation, the management has exercised its judgment and is satisfied that the method of valuation is reflective of the current market conditions.

6. REVENUE

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Rental income	137,694	125,413	110,330
Carpark income	4,102	3,981	5,623
Others	733	1,055	2,947
Revenue from contracts with customers recognised overtime	4,835	5,036	8,570
	142,529	130,449	118,900

Revenue mainly represents the rental income received and receivable from leasing of investment properties situated in Beijing under operating leases with fixed rentals receivable monthly.

All services within the scope of IFRS 15 are for period of one year or less. The Target Group applied the practical expedient in IFRS 15 to recognise revenue in the amount that the Target Group has the right to invoice based on the terms of the relevant agreements in which the Target 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.

7. PROPERTY OPERATING EXPENSES

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Property management and repair and maintenance expenses	2,947	3,246	8,925
Operation related expenses	1,008	1,208	2,317
Agency fee	7,493	6,733	7,790
Other taxes	15,324	16,182	17,479
	26,772	27,369	36,511

8. OTHER INCOME

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Bank interest income	5,872	7,237	12,786
Compensation income *(note)*	246	2,826	1,823
Others	886	–	–
	7,004	10,063	14,609

Note: Compensation income represented compensation income received from our tenants from early termination of lease contracts.

9. PROFIT BEFORE TAX

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax has been arrived at after charging:			
Auditor's remuneration	140	233	161
Directors' remuneration	–	–	–
Depreciation of plant and equipment	123	17	50

The staff cost was borne by immediate holding company during the Track Record Period without recharge to the Target Group.

10. INCOME TAX EXPENSES

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
The income tax expenses (credit) comprise of:			
Withholding tax	–	–	16,293
EIT			
– Current year	15,922	11,376	21,669
– (Over) under provision in prior years	–	(72)	338
Under provision of land appreciation tax ("**LAT**") in prior years	–	29,968	–
	15,922	41,272	38,300
Deferred tax *(Note 18)*	81,387	(7,357)	(11,813)
	97,309	33,915	26,487

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the statutory EIT rate of the subsidiaries incorporated in the PRC is 25%. Further, 10% withholding income tax is generally imposed on dividends relating to profits earned by the PRC entity that are owned by non-PRC entities within the Target Group.

LAT was levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties received in prior years less deductible expenditures including cost of land use right, borrowing costs and the relevant property development expenditures. During the year ended 31 December 2020, the local tax authority had approved the final tax charge and an under-provision of RMB29,968,000 was incurred and settlement had been made.

No provision for Hong Kong Profits Tax has been provided as the Target Group has no estimated assessable profits in Hong Kong during the Track Record Period.

The taxation charge for the Track Record Period can be reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	354,898	27,889	85,909
Tax at the domestic income tax rate of 25%	88,725	6,972	21,477
Tax effect of expenses not deductible for tax purposes	2,648	1,626	685
Tax effect of income not taxable for tax purposes	(76)	(73)	–
LAT — in prior years	–	29,968	–
Tax effect of LAT	–	(7,492)	–
(Over) under provision of EIT in prior years	–	(72)	338
Dividend withholding tax expense	5,732	2,834	3,987
Others	280	152	–
	97,309	33,915	26,487

11. DIVIDEND

During the year ended 31 December 2021, a final dividend of RMB120,959,000 in respect of prior years was declared to the shareholder of the Target Company. No dividend was paid or declared by the Target Company for the rest of the Track Record Period.

12. INVESTMENT PROPERTIES

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	2,437,943	2,694,898	2,665,000
Additions	11,955	38,947	32,344
Fair value changes for the year	245,000	(68,845)	2,656
At 31 December	2,694,898	2,665,000	2,700,000

The investment properties located in Beijing, the PRC are measured using fair value model. The Group leases out various offices and retail stores under operating leases with rentals payable monthly. During the Track Record Period, the leases typically run for an initial period of 1 to 10.5 years.

Valuation process and methodologies

The Target Group has adopted income approach — income capitalisation method to arrive the valuation of investment properties as at 31 December 2019, 2020 and 2021.

The income capitalisation method adopted by the directors of the Target Company has taken into account the assessment by qualified professional property valuers on the net rental income of a property derived from its existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases, which has 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.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The fair value hierarchy at the end of each reporting period of the investment properties of the Group are at Level 3. There were no transfers into or out of Level 3 during the year.

The following table gives information about how the fair values of the investment properties are determined, as well as the fair value hierarchy into which the fair value measurements are categorised (Level 1 to 3) based on the degree to which the key inputs to the fair value measurements is observable.

Fair value hierarchy	Valuations Technique and key inputs	Significant unobservable inputs	Data of unobservable inputs As at 31 December 2019	2020	2021	Relationship of unobservable inputs to fair value
Level 3	Income capitalisation method with term yield, reversionary yield, monthly term rental and reversionary rental as the key inputs	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 buildings	3.5%–4.75%	3%–4%	3.5%–4%	Slight increase in the term yield would result in significant decrease in the fair value.
		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	4%–5.25%	3.5%–4.5%	4%–4.5%	Slight increase in the reversionary yield would result in significant decrease in the fair value.
		Monthly term rental as stated in the existing rental agreements *(note)*	RMB300 to RMB1,088 per sq.m.	RMB217 to RMB514 per sq.m.	RMB240 to RMB400 per sq.m.	Slight decrease in the monthly term rental would result in slight decrease in the fair value.
		Reversionary rental is based on net floor area using direct market comparables and taking into account of time, location, frontage and size of the properties	RMB418 to RMB706 per sq.m.	RMB396 to RMB524 per sq.m.	RMB403 to RMB533 per sq.m.	Slight decrease in the reversionary rental would result in slight decrease in the fair value.

Note: Existing rental agreements represent tenancy agreements, including renewal agreements, which are signed before the end of the year.

All investment properties of the Target Group were pledged to banks to secure the general banking facilities granted to the Target Group at 31 December 2019, 2020 and 2021.

13. TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables aged with 3 months *(Note i)*	–	4,452	6,617
Deferred rental receivable	28,839	35,603	29,015
	28,839	40,055	35,632
Other receivables:			
– Amounts due from immediate holding company *(Note ii)*	191,980	234,753	216,913
– Amounts due from fellow subsidiaries *(Note ii)*	98,083	74,245	49,245
– Others	3,679	12,409	6,130
	293,742	321,407	272,288
Less: Amounts due from immediate holding company that expected to be received after one year:	(191,980)	(234,753)	(216,913)
	101,762	86,654	55,375
Total	130,601	126,709	91,007

Notes:

(i) Trade receivables represent lease receivables which are generally required to be settled by tenants within 30 days upon issuance of demand note. No trade receivable of the Target Group is past due.

(ii) The non-trade amounts are unsecured, interest-free and repayable on demand. As at 31 December 2019, amounts due from immediate holding company of RMB9,396,000 (2020 and 2021: Nil) are denominated in United States dollars ("**US$**").

14. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances and cash comprises cash and short-term bank deposits, with original maturity date less than three months and carry variable interest rates ranged from 0.3% – 0.4% per annum as at 31 December 2019, 2020 and 2021, respectively.

The pledged bank deposits as at 31 December 2019, 2020 and 2021 carry fixed interest rates ranged from 3%–4%, 2%–4% and 2%–4% per annum, respectively.

Analysis of bank balances and cash denominated in currency other than the functional currency of the entities of the Target Group to which they relate:

	As at 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
United States dollars	14,130	4,137	4,009

15. TRADE AND OTHER PAYABLES

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables due to a fellow subsidiary and aged are 3 months but within 1 year	2,842	2,459	2,617
Other payables:			
– Other tax payables	110	2,499	26
– Rental receipt in advance	2,549	7,372	8,028
– Amounts due to non-controlling interests *(note)*	17,959	16,797	16,391
– Amounts due to fellow subsidiaries *(note)*	7,000	7,000	–
– Rental deposit received from tenants	34,087	31,168	31,821
– Construction payables	–	–	11,203
– Accruals and other payables	176	2,458	1,438
	64,723	69,753	71,524

Note: The non-trade amounts are unsecured, interest-free and repayable on demand. At the end of each reporting period, amounts due to non-controlling interests are denominated in Hong Kong dollars ("**HK$**").

16. AMOUNTS DUE TO IMMEDIATE HOLDING COMPANY

The amounts are unsecured, interest-free and repayable on demand.

Analysis of amounts due to immediate holding company denominated in currency other than the functional currency of the entities of the Target Group to which they relate:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
US$	92,512	86,527	84,438
HK$	12,787	12,013	11,659

17. BANK BORROWINGS

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Secured bank borrowings	200,820	272,247	152,024
Less: amounts classified as current liabilities	–	(125,191)	(107,024)
Amounts classified as non-current liabilities	200,820	147,056	45,000
The maturity of the bank borrowings are as follows:			
Within one year	–	125,191	107,024
More than one year but not exceeding two years	125,820	102,056	45,000
More than two years but not exceeding five years	75,000	45,000	–
	200,820	272,247	152,024

The Group's RMB denominated bank borrowings were subject to fixed-rate interest, in which the effective interest rates on the Target Group's bank borrowings as at 31 December 2019, 2020 and 2021 ranged from 3.75%–6.08%, 3.70%–6.08% and 3.70%–6.08% per annum, respectively.

18. DEFERRED TAXATION

The following is the major deferred tax liabilities recognised and movements thereon during each reporting period:

	Dividend withholding tax	**Change in accelerated tax depreciation and fair value of investment properties**	**Timing difference on revenue recognition**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019	4,966	575,548	–	580,514
Charge to profit or loss *(Note 10)*	5,732	67,788	7,867	81,387
At 31 December 2019	10,698	643,336	7,867	661,901
Charge (credit) to profit or loss *(Note 10)*	2,834	(10,672)	481	(7,357)
At 31 December 2020	13,532	632,664	8,348	654,544
(Credit) charge to profit or loss *(Note 10)*	(12,306)	1,932	(1,439)	(11,813)
At 31 December 2021	1,226	634,596	6,909	642,731

At 31 December 2019, 2020 and 2021, the Target Group had unused tax losses of approximately RMB6,749,000, RMB6,340,000 and RMB6,151,000 available to offset against future profits, respectively. No deferred tax asset has been recognised due to the unpredictability of future profits streams, and the tax losses may be carried forward indefinitely.

19. SHARE CAPITAL AND RESERVE

Authorised share capital of the Target Company at 1 January 2019, 2020, 2021 and 31 December 2021:

1 ordinary share of United States dollars ("**US$**") 0.1 each

As at 1 January 2019, 2020, 2021 and 31 December 2021, the Target Company has issued 1 ordinary share of US$0.1 that had not yet paid. During the year ended 31 December 2021, the share capital had been fully paid.

Reserve of the Target Company	**Retained profits** *RMB'000*
At 1 January 2019, 2020 and 2021	–
Profit and total comprehensive income for the year	120,959
Dividend declared	(120,959)
At 31 December 2021	–

20. RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

The table below details changes in Target 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 Target Group's consolidated statements of cash flows as in financing activities.

	Dividend payable *RMB'000*	**Amounts due to immediate holding company** *RMB'000*	**Amounts due to non-controlling interests** *RMB'000*	**Amounts due to fellow subsidiaries** *RMB'000*	**Bank borrowings** *RMB'000*	**Interest payable** *RMB'000*
At 1 January 2019	–	2,325,301	16,136	–	125,820	–
Financing cash flows	–	–	–	7,000	75,000	(6,871)
Finance costs incurred	–	–	–	–	–	6,871
Exchange difference	–	245	1,823	–	–	–
At 31 December 2019	–	2,325,546	17,959	7,000	200,820	–
Financing cash flows	–	–	–	–	71,427	(12,884)
Finance costs incurred	–	–	–	–	–	12,884
Exchange difference	–	(6,758)	(1,162)	–	–	–
At 31 December 2020	–	2,318,788	16,797	7,000	272,247	–
Financing cash flows	–	–	–	(7,000)	(120,223)	(10,818)
Finance costs incurred	–	–	–	–	–	10,818
Dividend declared	133,086	–	–	–	–	–
Exchange difference	–	(2,390)	(406)	–	–	–
At 31 December 2021	133,086	2,316,398	16,391	–	152,024	–

21. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in the Historical Financial Information, the Target Group entered into the following transactions with its fellow subsidiaries during the Track Record Period:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Rental income	1,998	3,476	4,919
Management fee expense	6,874	6,802	5,639
Property management expense	684	1,071	1,491

22. CAPITAL RISK MANAGEMENT

The Target Group manages its capital to ensure that the entities 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 Target Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Target Group consists of debt, which includes amounts due to immediate holding company, fellow subsidiaries and non-controlling interests and bank borrowings as disclosed in Notes 15, 16 and 17, net of cash and cash equivalents.

The directors of the Target Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risk associated with the capital, and will take appropriate actions to balance its overall capital structure.

23. FINANCIAL INSTRUMENTS

The Target Group

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Financial assets at amortised cost	526,748	620,573	525,468
Financial liabilities at amortised cost	2,588,430	2,650,917	2,664,978

The Target Company

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Financial asset			
Financial asset at amortised cost	–	–	120,959
Financial liability at amortised cost	–	–	120,959

Financial risk management objectives and policies

Financial instruments of the Target Group include trade and other receivables, trade and other payables, bank balances and cash, pledged bank deposits, amounts due from (to) related companies and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with 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 Target Group's cash flow interest rate risk relates primarily to variable-rate bank balances while its fair value interest rate risk relates primarily to its fixed-rate bank borrowings and pledged bank deposits. The Target Group currently does not have policy on cash flow hedges of interest rate risk. The management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The directors of the Target Company considered that interest rate risk of bank balances is insignificant.

Currency risk

The Target Group has foreign currency denominated amounts due from (to) related companies and bank balances and cash, which expose the Target Group to foreign currency risk. The management has closely monitored foreign exchange exposure and will undertake necessary procedures to mitigate the currency risk.

The carrying amounts of the Target Group's foreign currency denominated monetary assets and monetary liabilities at the end of each reporting period mainly consist of HK$ and US$:

	Assets			Liabilities		
	2019	**2020**	**2021**	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
US$	23,526	4,137	4,009	92,512	86,527	84,438
HK$	–	–	–	30,746	28,810	28,050

Sensitivity analysis

The following table details the Target Group's sensitivity to a 5% increase and decrease in RMB, the functional currency of respective group entities, against US$ and HK$ which represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes outstanding US$ and HK$ denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rate. A positive number below indicates an increase in post-tax profit or a decrease in post-tax loss where RMB strengthens 5% against US$ and HK$ and vice versa.

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Profit (loss) for the year	3,740	4,170	4,068

Credit risk

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Target Group has concentration of credit risk in respect of amounts due from immediate holding company and fellow subsidiaries. In order to minimise the credit risk on these amounts, the directors of the Target Company continuously monitors the credit quality and financial conditions of immediate holding company and fellow subsidiaries of the Target Group and the level of exposure to ensure that follow up action is taken to recover overdue debts. Under such circumstances, the directors of the Target Company consider that the Target Group's credit risk in respect of these balances is insignificant.

Other than above concentration of credit risk and credit risk on liquid funds which are deposited with several banks with high credit ratings, the Target Group has no significant concentration of credit risk.

The Target Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	**Description**	**Trade 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 settles 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	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating that 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 Target Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The tables below detail the credit risk exposures of the Target Group's financial assets which are subject to ECL assessment:

	Notes	**Internal credit rating**	**External credit rating**	**12-month or lifetime ECL**	**Gross carrying amount**		
					2019	**2020**	**2021**
					RMB'000	*RMB'000*	*RMB'000*
Amounts due from related parties	*13*	Low risk	N/A	12m ECL	290,063	308,998	266,158
Pledged bank deposits and bank balances	*14*	N/A	Prime 1 – Prime 2	12m ECL	233,006	294,714	246,563
Trade receivables	*13*	Low risk	N/A	Lifetime ECL	–	4,452	6,617
Other receivables	*13*	Low risk	N/A	12m ECL	3,679	12,409	6,130

Liquidity risk

In managing the liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Target Group's operations and mitigate the effects of unexpected fluctuations in cash flows with reference to the available banking facilities and financial support.

The following table details the remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average interest rate	On demand or 1–30 days	31–90 days	91–365 days	1–2 years	2–5 years	Total undiscounted cash flows	Carrying amount
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2019								
Trade and other payables	–	62,064	–	–	–	–	62,064	62,064
Amounts due to immediate holding company	–	2,325,546	–	–	–	–	2,325,546	2,325,546
Bank borrowings	5%	872	1,744	7,847	135,007	77,813	223,283	200,820
		2,388,482	1,744	7,847	135,007	77,813	2,610,893	2,588,430
31 December 2020								
Trade and other payables	–	59,882	–	–	–	–	59,882	59,882
Amounts due to immediate holding company	–	2,318,788	–	–	–	–	2,318,788	2,318,788
Bank borrowings	5%	1,143	2,285	134,207	107,887	46,526	292,048	272,247
		2,379,813	2,285	134,207	107,887	46,526	2,670,718	2,650,917
31 December 2021								
Trade and other payables	–	63,470	–	–	–	–	63,470	63,470
Amounts due to immediate holding company	–	2,316,398	–	–	–	–	2,316,398	2,316,398
Dividend payable	–	133,086	–	–	–	–	133,086	133,086
Bank borrowings	5%	537	1,074	112,279	46,526	–	160,416	152,024
		2,513,491	1,074	112,279	46,526	–	2,673,370	2,664,978

Fair value of financial instruments

The fair values of financial asset and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Target Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information of the Target Company approximate their fair values.

24. OPERATING LEASES

The Target Group as a lessor

A number of the investment properties held have committed tenants for the next 1 to 10.5 years.

Minimum lease payments receivable on leases are as follows:

	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Within one year	127,420	114,680	109,073
In the second year	106,160	98,929	100,063
In the third year	94,586	93,356	88,118
In the fourth year	93,051	84,036	52,949
In the fifth year	84,182	50,487	47,904
After five years	222,643	164,083	90,285
	728,043	605,571	488,392

25. COMMITMENTS

At the end of the reporting period, the Target Group had the following commitments contracted for but not provided in the consolidated financial statements in respect of:

	Year ended 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Renovation on investment properties	46,959	15,564	–

26. PLEDGE OF ASSETS

The Target Group's borrowings had been secured by the pledge of the Target Group's assets and the carrying amounts of the respective assets are as follows:

	As at 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Investment properties	2,694,898	2,665,000	2,700,000
Pledged bank deposits	207,210	257,280	131,600
	2,902,108	2,922,280	2,831,600

27. PARTICULARS OF SUBSIDIARIES

At the date of this report, the Target Company has direct and indirect equity interests in the following subsidiaries:

Name of subsidiary	Place/date of incorporation/ establishment	Issued and fully paid share capital	Equity interest attributable to the Target Group as at 31 December 2019	2020	2021	Principal activities
SA Venice II *(note)*	Cayman Islands 12 June 2018	US$1	100%	100%	100%	Investment holding
Vast Joint Limited	The British Virgin Islands 11 May 2012	US$1	100%	100%	100%	Investment holding
Hong Kong Washeung Properties (Beijing) Limited ("**Washeung Properties**")	Hong Kong 8 September 1994	HK$1,000,000	80%	80%	80%	Investment holding
Ming Yuan Property (Hua Bei) Corporation Limited ("**Ming Yuan Property**")	Panama 16 December 1992	US$20,000	90%	90%	90%	Investment holding
Onward Science & Trade Center Company Limited ("**Onward Science & Trade Center**")	PRC 27 June 1994	US$66,000,000	91%	91%	91%	Property investment

Note: The entity is directly owned by the Target Company, and its share capital has been fully paid during the year ended 31 December 2021.

28. DETAILS OF A NON-WHOLLY OWNED SUBSIDIARY OF THE TARGET GROUP THAT HAS MATERIAL NON-CONTROLLING INTERESTS

Summarised consolidated financial information of Washeung Properties that has material non-controlling interests is set out below. The summarised consolidated financial information below represents amounts before intra-group eliminations and included the results and performance of Ming Yuan Property and Onward Science & Trade Center which are consolidated by Washeung Properties. 50% interests in Ming Yuan Property and 45% in Onward Science & Trade Center are effectively held by Washeung Properties, the remaining 50% interests in Ming Yuan Property are held by SA Venice II, and 10% and 45% interests in Onward Science & Trade Center are effectively held by Vast Joint Limited and SA Venice II respectively.

	As at 31 December 2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	3,094,309	3,027,537	2,967,137
Current assets	156,397	293,843	287,500
Current liabilities	2,394,636	2,526,557	2,642,420
Non-current liabilities	862,721	801,600	687,731
Equity attributable to owners of the Target Company	(202,231)	(201,749)	(263,275)
Non-controlling interests	195,580	194,972	187,761

	Year ended 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Revenue	142,529	130,449	118,900
Profit and total comprehensive income attributable to owners of the Target Company	231,350	482	59,433
Profit (loss) and total comprehensive income (expense) attributable to non-controlling interests	23,109	(608)	4,916
Profit (loss) and total comprehensive income (expense) for the year	254,459	(126)	64,349
Dividends paid to non-controlling interests	–	–	12,127
Net cash inflow from operating activities	67,210	58,700	49,720
Net cash (outflow) inflow from investing activities	(167,099)	(105,538)	165,860
Net cash inflow (outflow) from financing activities	75,129	58,543	(138,041)
Net cash (outflow) inflow	(24,760)	11,705	77,539

29. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Group have been prepared in respect of any period subsequent to the end of the Track Record Period.

This appendix summarises the management discussion and analysis of the Target Group for the years ended 31 December 2019, 2020 and 2021. The following financial information is based upon and should be read in conjunction with the Accountant's Report set out in Appendix 2 to this Circular (Accountant's Report).

FINANCIAL OVERVIEW

Statement in relation to financial position

The Manager confirms that, as at the Latest Practicable Date, there had not been any material adverse change in the financial or trading position of the REIT since the date that the latest published audited accounts of CMC REIT were made up to (being 31 December 2021).

Revenue

Target Group's revenue for the financial years ended 31 December 2019, 2020 and 2021 consisted of rental income generated with respect to the Target Property from commercial and office rental income, car park income and others. The following table sets forth a breakdown of Target Group's revenue for the periods indicated:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Rental income	137,694	125,413	110,330
Car park income	4,102	3,981	5,623
Others	733	1,055	2,947
	142,529	130,449	118,900

1. *Rental income*

Rental income includes the amounts paid by tenants of the Property under their tenancies for office and commercial space. The leases generally have a term of 3 to 5 years. In addition, consistent with market practice, rent-free periods are usually granted on tenancies. Generally, rental income from office space (after taking into account any rent-free periods) is recognized on a straight-line basis over the term of the tenancy. Others represent advertising income arising from advertising space rental.

1.1. *Effective rent and occupancy rates*

The Target Group's rental income is affected by the Property's rental rates and occupancy rates, which in turn are affected by various factors such as (i) general macroeconomic trends in the PRC in general and in particular Beijing; (ii) supply of new properties similar to the Property in Beijing; (iii) the age, condition and specifications of the Property as compared to other similar properties in Beijing; (iv) the transportation infrastructure, as well as amenities and other supporting facilities, in the vicinity of the Property; and (v) the quality of building management services in respect of the Property.

The following table sets forth information on the effective rent as at the end of such month. Effective rent is calculated based on rental receivables per sq.m. divided by the contracted leasing period:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Effective rent	306.2	327.2	323.1

The following table sets forth the occupancy rates of the Property as at the end of such month, calculated based on leased gross rentable area over total gross rentable area. There was a drop in occupancy rate in 2021 year end mainly because (i) a professional service tenant and a real estate tenant early terminated their tenancy agreements in 2021, accounting for 6.9% and 6.8% of Gross Rentable Area respectively, and (ii) an automobile tenant has moved out the building in 2021 upon expiration of its lease, which occupied 3.6% of Gross Rentable Area.

	Year ended 31 December		
	2019	**2020**	**2021**
Occupancy Rate	83.1%	78.8%	66.9%

The Target Group's trend of decreasing rental income is mainly due to the drop in occupancy rate, largely arising from (i) the Target Property undergoing major refurbishments, and (ii) the impact of the COVID-19.

2. ***Penalty income***

Penalty income consists of the fee arising from the early termination of the lease and other miscellaneous items.

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Penalty Income	246	2,825	1,823

Operating expenses

The operating expenses of Target Group consist primarily of: (1) property management fees; (2) operation related expenses and reimbursements; (3) agency fee; and (4) other taxes.

The following table sets out a breakdown of the Target Group's operating expenses for the periods indicated:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Property management expenses	2,947	3,246	8,925
Operations related expenses and reimbursements	1,008	1,208	2,317
Agency Fee	7,493	6,733	7,790
Other taxes	15,324	16,182	17,479
	26,772	27,349	36,511

The Target Group's operating expenses:

(a) increased by approximately RMB0.5 million, or 2.2%, from RMB26.8 million for the year ended 31 December 2019 to RMB27.3 million for the year ended 31 December 2020; and

(b) increased by approximately RMB9.2 million, or 33.5%, from RMB27.3 million for the year ended 31 December 2020 to RMB36.5 million for the year ended 31 December 2021.

The operating expenses increased in 2021 mainly due to a one-off maintenance and asset enhancement fee of RMB6.8 million incurred in 2021.

Employees' remuneration and policy

During the year ended 31 December 2021, the Target Company had one employee and paid a total remuneration of approximately RMB421,120. The remuneration policy for the employee has been determined by the general partner of the Vendor taking into consideration the performance, experience and operational capacity of the employee. As at 31 December 2019, 2020 and 2021, there has been no material change to the remuneration policy. As of the Latest Practicable Date, there are no employees within the Target Group.

Change in fair value of investment properties

Investment properties of the Target Property comprise office, commercial and car park units that are held for long-term rental yields or for capital appreciation or both. The investment properties were revalued as at ended 31 December 2019, 2020 and 2021 by an independent firm of professional qualified surveyors. Gains or losses arising from changes in fair value are recorded in the combined statement of comprehensive income for the relevant period (see part 12 of Appendix 2).

The Target Group's change in fair value of investment properties:

(a) as at 31 December 2020, the fair value of investment properties was approximately RMB2,665.0 million. There was a decrease in the fair value of investment properties of approximately RMB68.8 million for the year ended 31 December 2020 compared to an increase of approximately RMB245.0 million for the year ended 31 December 2019. The substantial increase in 2019 was due to significant increase of the property effective rent. The increase in 2019 is because a professional service tenant has expanded its office by 14% and hence drove up the rent. The minor decrease in 2020 mainly arose from the drop in market rent due to the COVID-19 impact;

(b) as at 31 December 2021, the fair value of investment properties was approximately RMB2,700.0 million. There was a slight increase from the year ended 31 December 2020.

Interest income

Interest income of the Target Group is generated from bank deposits.

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Bank interest income	5,872	7,237	12,786

The Target Group's interest income increased by approximately RMB1.3 million and RMB5.6 million respectively from RMB5.9 million for the year ended 31 December 2019 to RMB7.2 million for the year ended 31 December 2020, and RMB12.8 million for the year ended 31 December 2021. The increase was mainly due to the increase of deposits outstanding.

Finance expense

Finance expense of the Target Group consists of interest expense on bank borrowings.

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Interest expense on bank borrowings	6,871	12,884	10,818

The Target Group's finance expense:

(a) increased by 87.5% from RMB6.9 million for the year ended 31 December 2019 to approximately RMB12.9 million for the year ended 31 December 2020; and

(b) decreased by 16.0% from RMB12.9 million for the year ended 31 December 2020 to RMB10.8 million for the year ended 31 December 2021.

The changes above to the Target Group's finance expense were due to the change of bank loan outstanding.

Income tax expense

Tax expense of the Target Group comprises current and deferred tax.

1. Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Target Group operates and generate taxable income.

2. Deferred income tax

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

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

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Withholding tax	–	–	16,293
Current income tax	15,922	11,376	21,669
(Over) under provision in prior years	–	(72)	338
Land appreciation tax in prior years	–	29,968	–
Deferred tax	81,387	(7,357)	(11,813)
Total income tax expenses	97,309	33,915	26,487

For the year ended 31 December 2019, the Target Group recorded an income tax expense of approximately RMB97.3 million, mainly consisting of two parts, RMB15.9 million generated from operating profit and RMB81.4 million generated from deferred tax, mainly due to the increase in fair value of investment property.

For the year ended 31 December 2020, the Target Group recorded a total income tax expense of approximately RMB33.9 million, mainly due to a one-off land appreciation tax, which is not recurring.

For the year ended 31 December 2021, the Target Group recorded a total income tax expense of RMB26.5 million, mainly generated from withholding tax related to dividends paid to offshore subsidiary.

Total comprehensive income for the period

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Total comprehensive income	254,459	(126)	64,349

The Target Group's profit and total comprehensive income for the period:

(a) decreased by RMB254.6 million from RMB254.5 million for the year ended 31 December 2019 to RMB-0.1 million; and

(b) increased by RMB64.4 million from RMB-0.1 million for the year ended 31 December 2020 to RMB64.3 million for the year ended 31 December 2021.

The fluctuations of the Target Group's profit / loss in each of the years /periods referred to above were primarily attributable to the foregoing reasons as discussed above.

Amounts due from immediate holding company

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from immediate holding company	191,980	234,753	216,913

As at 31 December 2019, 2020 and 2021, the amounts due from immediate holding company is RMB192.0 million, RMB234.8 million and RMB216.9 million. The purposes of such amount due from immediate holding company is to provide cash support for its ultimate holding company. It is of a non-trade nature, and is unsecured, interest-free, and repayable on demand. As stated in paragraph 2.5.7(d) of the Circular, such balance will be repaid by immediate holding company before the Completion.

Pledged Bank Deposits and Bank Balances and Cash

As at 31 December 2019, 2020 and 2021, the Target Group had cash and cash equivalents amounting to RMB233.0 million, RMB294.7 million and RMB246.6 million, respectively. As at 31 December 2019, 2020 and 2021, the amount of onshore bank deposit pledged as security for bank borrowings was nil, RMB257.3 million and RMB131.6 million respectively.

All the cash and cash equivalents held by the Target Group were denominated in RMB.

Amounts due to immediate holding company

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due to immediate holding company	2,325,546	2,318,788	2,316,398

As at 31 December 2019, 2020 and 2021, the amounts due to immediate holding company were RMB2,325.6 million, RMB2,318.8 million and RMB2,316.4 million, respectively. Such amounts due to immediate holding company represents an interest-free loan from the Vendor to the Target Company's subsidiary, the Cayman Subsidiary, with the borrowing amount used as capital injection for offshore and onshore subsidiaries.

Indebtedness

(a) Indebtedness of the Group

As at the close of business on 30 April 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular, the Group had in place aggregate secured loan facilities with outstanding amounts of approximately RMB2,277 million, comprising of the Existing CMC REIT Group Offshore Facility entered into by the Purchaser for purposes of the acquisition of the existing properties and the Existing CMC REIT Group Onshore Facility entered for the renovation and improvement works of the Existing Properties.

The Existing CMC REIT Group Offshore Facility is secured by bank accounts for receiving dividends, all the assets and shares of Frontier Shekou, the Existing Group Companies (BVI) and the Existing Group Companies (Hong Kong) and the shares of certain of the Existing Group Companies (PRC); and the Existing CMC REIT Group Onshore Facility is secured by certain of the Existing Properties, bank accounts for receiving rentals in respect of certain of the Existing Properties and rent receivables and future rent receivables in respect of certain of the Existing Properties. In addition, the Trustee, Frontier Shekou, the Existing Group Companies (BVI) and Existing Group Companies (Hong Kong) have provided guarantees for the Existing CMC REIT Group Offshore Facility.

Save as disclosed above and apart from intra-group liabilities, the Group did not have any loan capital issued and outstanding, nor had the Group agreed to issue any loan capital, bank overdrafts and liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities, as at the close of business on the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular.

(b) Indebtedness of the Target Group

At the close of business on 30 April 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular, the Target Group had bank borrowings of RMB151.7 million, of which RMB32.4 million was secured by the Target Property, and the remaining RMB119.3 million was secured by cash pledges from the Target Group. In addition, Onward Science & Trade Center Company Limited (招商局航華科貿中心有限公司), a subsidiary of the Target Group has provided guarantees for the bank borrowings of the Target Group. The Target Group had amounts due to immediate holding company of RMB2,319.2 million, amounts due to non-controlling interests of RMB16.9 million and dividend payable of RMB133.0 million. The amounts due to immediate holding company, amounts due to non-controlling interests and dividend payable are unsecured and unguaranteed.

Save as disclosed above and apart from intra-group liabilities, the Target Group did not have any loan capital issued and outstanding, nor had the Target Group agreed to issue any loan capital, bank overdrafts and liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities, as at the close of business on the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular.

Borrowings and credit facilities

The maturity of the bank borrowings are as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	–	125,191	107,024
More than one year but not exceeding two years	125,820	102,056	45,000
More than two years but not exceeding five years	75,000	45,000	–
	200,820	272,247	152,024

The Target Group has 3 bank loans as at 31 December 2021. The total balance of the bank loans is RMB152.0 million, all of which are denominated in RMB and secured. All of the Target Group's bank borrowings were denominated in RMB.

The Target Group's RMB denominated bank borrowings were subject to fixed-rate interest, in which the effective interest rates on the Target Group's bank borrowings as at 31 December 2019, 2020 and 2021 ranged from 3.75%–6.08%, 3.70%–6.08% and 3.70%–6.08% per annum, respectively.

As at 31 December 2019, 2020 and 2021, the Target Group did not have other committed borrowing facilities.

Capital structure

As at 31 December 2019, 2020 and 2021, the issued capital of the Target Company was 1 ordinary share of US$0.1 and was unpaid. Subsequent to the reporting period, the share capital has been fully paid.

Charge on Assets

As at 31 December 2019, 2020 and 2021, the Target Group had investment property with carrying value of RMB2,694.9 million, RMB2,665 million and RMB2,700.0 million, as securities for the Target Group's bank borrowings.

Liquidity and Capital Resources

The Target Group financed its operations and working capital requirements primarily through a combination of interest-free borrowing from ultimate holding companies and bank borrowings.

The liability increases in 2021 mainly attribute to RMB133 million dividend payable accrual.

The net liabilities position as at 31 December 2021 is attributable to a RMB2,316 million interest-free loan from the Vendor, which constitutes the major liability and results in a net liabilities position. There are no going concern issues for the Target Group. The immediate holding company has agreed not to request the Target Group to repay any amount due to it, until the Target Group has sufficient financial resources in repayment. CMC REIT has also agreed not to request the Target Group to repay these amounts after its proposed acquisition of the Target Group until the Target Group has sufficient financial resources in repayment.

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Total assets	3,250,706	3,321,380	3,254,637
Total liabilities	3,257,357	3,328,157	3,330,151
Net liabilities	(6,651)	(6,777)	(75,514)
Total equity	(6,651)	(6,777)	(75,514)
Total equity and liabilities	3,250,706	3,321,380	3,254,637

Gearing Ratio

As at 31 December 2019, 31 December 2020 and 31 December 2021, the Target Group's gearing ratio (calculated as a percentage of total debt divided by total assets) was 6.2%, 8.2% and 4.7%, respectively. Total interest-bearing debt is equal to the Target Group's total borrowings.

Working Capital

Taking into account the presently available financial resources of the Enlarged Group, including funds internally generated and from available banking facilities, the cash flow impact of the Acquisition, the New Facility and the Refinancing Facility, the directors of the Manager are of the opinion that the working capital available to the Enlarged Group is sufficient for its requirements for at least twelve (12) months from the date of this Circular.

Foreign Currency and Hedging

The Target Group has foreign currency denominated amounts due from (to) related companies and bank balances and cash, which expose the Target Group to foreign currency risk. The management has closely monitored foreign exchange exposure and will undertake necessary procedures to mitigate the currency risk. The Target Group did not have any hedging policies or any financial instruments for hedging purpose.

The carrying amounts of the Target Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period mainly consist of HK$ and US$:

	Assets			Liabilities		
	2019	**2020**	**2021**	**2019**	**2020**	**2021**
	'000	*'000*	*'000*	*'000*	*'000*	*'000*
US$	23,526	4,137	4,009	92,512	86,527	84,438
HK$	–	–	–	30,746	28,810	28,050

Contingent Liabilities

As at 31 December 2019, 2020 and 2021, the Target Group did not have any material contingent liabilities.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

For the years ended 31 December 2019, 2020 and 2021, there were no material acquisitions and disposals of subsidiaries, associates and joint ventures.

Significant Investments

For the years ended 31 December 2019, 2020 and 2021, there were no significant investments held by the Target Group.

Future Plans for Material Investments or Capital Assets

As at 31 December 2019, 2020 and 2021, respectively, save for the decoration to the Target Property, the Target Group did not have any future plans for material investments or capital assets. The investments in decoration for the years ended 31 December 2019, 2020 and 2021 are approximately RMB12 million, RMB39 million and RMB32 million.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The unaudited pro forma financial information of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**") set out in below section has been prepared by the Manager in accordance with paragraph 4.29 of the Listing Rules and is solely for the purpose of illustrating the effects of the proposed Acquisition on the Group's financial position as at 31 December 2021 or on 1 January 2021 for the unaudited pro forma statement of profit or loss and other comprehensive income for the year ended 31 December 2021 as if the Acquisition had been completed on 31 December 2021 and 1 January 2021.

The Unaudited Pro Forma Financial Information is prepared based on (i) the audited condensed consolidated statement of financial position of the Group as at 31 December 2021 and the audited consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2021 which has been extracted from the published annual report of the Group for the year ended 31 December 2021; (ii) the audited consolidated statement of financial position as at 31 December 2021 and audited consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021 which have been extracted from the accountants' reports thereon set out in Appendix 2 to this Circular, after making certain pro forma adjustments that are (i) directly attributable to the Acquisition; and (ii) factually supportable, as further described in the accompanying notes.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. As a result of the hypothetical nature of the Unaudited Pro Forma Financial Information, it may not give a true picture of the actual financial position of the Enlarged Group that would have been attained had the proposed Acquisition been completed on 31 December 2021 and 1 January 2021. Furthermore, the Unaudited Pro Forma Financial Information does not purport to predict the Enlarged Group's future financial position. The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group, included in Appendix 1 to this Circular, and that of the Target Group, as set out in Appendix 2 to this Circular, and other financial information included elsewhere in this Circular.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE ENLARGED GROUP AS AT 31 DECEMBER 2021

	The Group	Target Group	Pro forma adjustments				The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
Non-current assets							
Investment properties	6,746,000	2,700,000	15,214	13,415	7,591	(36,220)	9,446,000
Property, plant and equipment	425	154					579
Other receivables	–	216,913	(216,913)				–
Pledged bank deposit	–	50,070					50,070
	6,746,425	2,967,137					9,496,649
Current assets							
Trade and other receivables	10,171	91,007	(29,015)				72,163
Amounts due from related companies	73,280	–					73,280
Pledged deposits	–	81,530					81,530
Bank balances and cash	734,089	114,963	183,913	(13,415)	(7,591)		1,011,959
	817,540	287,500					1,238,932
Total assets	**7,563,965**	**3,254,637**					**10,735,581**
Current liabilities							
Trade and other payables	105,926	71,524					177,450
Amounts due to immediate holding company	–	2,316,398	(1,062,339)				1,254,059
Amounts due to related companies	15,528	–					15,528
Distribution payable/dividend payable	136,392	133,086					269,478
Tax payable	15,172	14,388					29,560
Secured bank borrowings	2,209,875	107,024	1,234,513				3,551,412
	2,482,893	2,642,420					5,297,487

	The Group	Target Group	Pro forma adjustments				The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
Non-current liabilities, excluding net assets attributable to unitholders							
Secured bank borrowings	–	45,000	(45,000)				–
Deferred tax liabilities	1,074,088	642,731	(641,505)			(9,055)	1,066,259
Total non-current liabilities, excluding net assets attributable to unitholders	**1,074,088**	**687,731**					**1,066,259**
Total liabilities, excluding net assets attributable to unitholders	**3,556,981**	**3,330,151**					**6,363,746**
Non-controlling interest	–	187,761	204,255	–	–	(14,560)	377,456
Net assets (liabilities) attributable to unitholders	**4,006,984**	**(263,275)**	**263,275**	**–**	**–**	**(12,605)**	**3,994,379**

Notes:

1. The balances are extracted from the audited consolidated statement of financial position of CMC REIT as at 31 December 2021 as set out in CMC REIT's published annual report for the year ended 31 December 2021.

2. The balances are extracted from the audited consolidated statement of financial position of the Target Group as at 31 December 2021 as set out in Appendix 2 to the Circular.

3. For the purpose of the preparation of the unaudited pro forma financial information, the Manager considers that the Target Group is not a business applying the concentration test in International Financial Reporting Standards 3 "Business Combination" ("**IFRS 3**") and accordingly such acquisition is not accounted for as an acquisition of business but as an acquisition of assets pursuant to IFRS 3. Accordingly, the corresponding pro forma adjustments of the consideration is adjusted to the investment properties. The final allocation of the purchase price is subject to change at the Completion Date, pending amongst others, the respective fair values of the relevant assets and liabilities of the Target Group as at the Completion Date.

The pro forma adjustment to the investment properties is calculated as follows:

	RMB'000
Cash Consideration *(note a)*	1,341,537
Add:	
Net liabilities attributable to the Target Group	263,275
Deferred tax liabilities arose from the accelerated tax depreciation and the changes in fair value of the investment properties *(note b)*	(634,596)
Fair value adjustment on deferred rental receivable and related deferred taxation *(note c)*	22,106
Non-controlling interest *(note d)*	204,255
Assigned Payables	(1,181,363)
Pro forma adjustment to investment properties	15,214

Note a:

The Cash consideration for the Acquisition is RMB1,341,537,000 and subject to adjustment of final payment as defined in the Sale and Purchase agreement which will be financed by the New Facility as set out in the "Financing of the Acquisition" section. The final Consideration is subject to change as the Completion Date, pending amongst others, the respective fair values of the relevant assets and liabilities of the Target Group as the Completion Date.

The initial Cash consideration is calculated as follows:

	RMB'000
Net liabilities attributable to the Target Group	(263,275)
Less:	
Investment properties attributable to the Target Group (91% of investment properties)	2,457,000
Property, plant and equipment attributable to the Target Group (91% of property, plant and equipment)	140
Add:	
Assignable Payable (100% of the amounts due to immediate holding company)	2,316,398
Deferred tax liability in relation to accelerated tax depreciation and change in fair value of investment properties (91% of deferred tax liability in relation to accelerated tax depreciation and change in fair value of investment properties)	577,482
Adjusted Net asset value of the Target Group subject to the Acquisition	173,465
Proportion of ownership interests and voting rights to be acquired	51%
Initial Adjusted NAV	88,467
Add:	
46.41% of the Agreed Property Value	1,253,070
Cash consideration	1,341,537

Note b:

For the purpose of preparation of the unaudited pro forma financial information, the deferred tax liabilities recognized by the Target Group as at 31 December 2021 in respect of taxable temporary difference of RMB634,596,000 that arose from the accelerated tax depreciation and the changes in fair value of the investment properties is reversed as the Group does not recognise these taxable temporary differences arising from the initial recognition of the investment properties in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting profit or loss nor taxable profit pursuant to International Accounting Standards 12 "Income Taxes" ("**IAS 12**").

Note c:

For the purpose of preparation of unaudited pro forma financial information, the deferred rental receivable of RMB29,015,000 and corresponding deferred tax liabilities recognized by the Target Group as at 31 December 2021 in respect of taxable temporary difference of RMB6,909,000 that arose from timing difference on revenue recognition are reversed as the deferred rental receivable and corresponding deferred tax liabilities do not meet the definition of assets and liabilities.

Note d:

	RMB'000	
Net liabilities of Target Group	(75,514)	
Add:		
Deferred liabilities in relation to accelerated tax depreciation and change in fair value of investment properties	634,596	
Amount due to immediate holding company	2,316,398	
Adjusted Net assets of Target Group	2,875,480	
Proportion of ownership interests and voting rights held by non-controlling interests	44.59%	
Non-controlling interest	1,282,177	**<A>**
Amount due to immediate holding company	(2,316,398)	
Proportion of ownership interests and voting rights held by non-controlling interests	49%	
Non-controlling interest	(1,135,035)	**<B>**
Deferred liabilities in relation to accelerated tax depreciation and change in fair value of investment properties	634,596	
Proportion of ownership interests and voting rights held by non-controlling interests	9%	
Non-controlling interest	57,113	**<C>**
Total	204,255	**<A>+<B>+<C>**

Note e:

As mentioned in paragraphs 2.5.7(b) and 2.5.7(c) of the Circular respectively, onshore decoration loan of RMB33,000,000 under current liabilities will be settled by Target Group's bank balances and cash while remaining secured bank borrowings of RMB74,024,000 and RMB45,000,000 under current liabilities and non-current liabilities respectively will be settled by the immediate holding company.

The pro forma adjustment to the amount due to the immediate holding company is calculated as follows:

	RMB'000
Assigned Payables	(1,181,363)
Add:	
Secured bank borrowings under current liabilities to be settled by the immediate holding company	74,024
Secured bank borrowings under non-current liabilities to be settled by the immediate holding company	45,000
	(1,062,339)

Note f:

Adjustment to secured bank borrowings under current liabilities equals to the cash consideration of RMB1,341,537,000 financed by the New Facility minus the bank borrowing of RMB107,024,000 due to the assumed settlement of the bank borrowings by immediate holding company, as mentioned in note e.

Adjustment to secured bank borrowings of RMB45,000,000 under non-current liabilities is due to the assumed settlement of the bank borrowings by immediate holding company, as mentioned in paragraph 2.5.7(b) of the Circular.

Note g:

As mentioned in paragraph 2.5.7(d) of the Circular, other receivables of RMB216,913,000 from the immediate holding company is settled in cash by the immediate holding company of the Target on completion date.

4. The adjustment represents the payment of acquisition fee to the Manager of China Merchants Commercial Real Estate Investment Trust of approximately RMB13,415,000 which is 1% on the Consideration of RMB1,341,537,000 pursuant to the Trust Deed, which are directly attributable to the Acquisition and will be settled by the bank balances and cash of the Group.

5. The adjustment represents the payment of professional fee expenses relating to the Acquisition amounting to RMB7,591,000 which are directly attributable to the Acquisition and will be settled by the bank balances and cash of the Group.

6. The adjustment represents the changes in fair value of investment properties of the Target Group as at 31 December 2021 and the corresponding deferred tax effect calculated at applicable enterprise income tax rate.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2021

	The Group	Target Group	Pro forma adjustments							The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 7	*Note 8*	*Note 9*	*Note 10*	*Note 11*	*Note 12*	*Note 13*	*Note 14*	*Note 15*	
Revenue	432,831	118,900								551,731
Property operating expenses	(112,527)	(36,511)			2,171					(146,867)
Net property income	320,304	82,389								404,864
Exchange gains (losses)	64,530	(2,223)								62,307
Other income, gains and losses	11,444	14,609								26,053
Changes in fair value of investment properties	81,507	2,656	11,607							95,770
Manager's fee	(18,934)	–						(258)		(19,192)
Trust and other expenses	(13,034)	(704)				(675)				(14,413)
Finance costs	(59,252)	(10,818)					(6,054)			(76,124)
Profit before tax and distribution to unitholders	386,565	85,909								479,265
Income taxes	(118,864)	(26,487)	(2,902)		(543)		(2,704)	503		(150,997)
Profit for the year, before distribution to unitholders	267,701	59,422								328,268
Distribution to unitholders	(170,403)	–							(9,606)	(180,009)
Profit for the year, after distribution to unitholders	97,298	59,422								148,259
Other comprehensive income – item that may be reclassified subsequently to profit or loss										
Exchange differences arising on translation of financial statements of foreign operation:	–	4,927								4,927
Total comprehensive income for the year, after transactions with unitholders	97,298	64,349								153,186

	The Group	Target Group	Pro forma adjustments							The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 7	*Note 8*	*Note 9*	*Note 10*	*Note 11*	*Note 12*	*Note 13*	*Note 14*	*Note 15*	
Profit for the year, before distribution to unitholders attributable to										
– Unitholders	267,701	54,506	4,039	(26,708)	755	(675)	(13,107)	1,054		287,565
– Non-controlling interest	–	4,916	4,666	26,708	873		4,349	(809)		40,703
	267,701	59,422								328,268
Number of units in issue	1,127,819,549	–								1,127,819,549
Basic earnings per unit	0.24	–								0.29
Income available for distributable to unitholders	170,403	42,310							(32,704)	180,009
Distributable Per unit	0.1511									0.1596

Notes:

7. The amounts represent the financial results of CMC REIT for the year ended 31 December 2021, which are extracted from the audited consolidated statement of comprehensive income of CMC REIT as at 31 December 2021 as set out in CMC REIT's published annual report for the year ended 31 December 2021.

8. The amounts derived from the audited consolidated statement of comprehensive income of the Target Group for the year ended 31 December 2021 as set out in Appendix 2 to the Circular.

9. The adjustment represents the fair value changes of investment properties of the Target Group for the year and the corresponding deferred tax effect calculated at applicable enterprise income tax rate.

	RMB'000
Fair value of investment properties of the Target Group as at 31 December 2021 *(note a)*	2,700,000
Fair value changes of investment properties of the Target Group in 2021	(2,656)
Fair value of investment properties of the Target Group as at 1 January 2021 prior to the acquisition *(note b)*	(2,665,000)
Pro forma adjustment to investment properties when the Acquisition completed as at 1 January 2021 *(note c)*	(20,737)
Fair value changes of investment properties of the Target Group for the year	11,607

Note a:

The balances are extracted from the audited consolidated statement of financial position of the Target Group as at 31 December 2021 as set out in Appendix 2 to the Circular.

Note b:

The balances are extracted from the audited consolidated statement of financial position of the Target Group as at 31 December 2020 as set out in Appendix 2 to the Circular.

Note c:

For the purpose of the preparation of the unaudited pro forma financial information, the Manager considers that the Target Group is not a business applying the concentration test in IFRS 3 and accordingly such acquisition is not accounted for as an acquisition of business but as an acquisition of assets pursuant to IFRS 3. Accordingly, the corresponding pro forma adjustments of the consideration is adjusted to the investment properties. The final allocation of the purchase price is subject to change at the Completion Date, pending amongst others, the respective fair values of the relevant assets and liabilities of the Target Group as at the Completion Date.

	RMB'000
2020 Cash consideration *(note c-1)*	1,373,215
Add:	
Net liabilities attributable to unitholders of Target Group	201,749
Deferred tax liabilities arose from the accelerated tax depreciation and the changes in fair value of the investment properties *(note c-2)*	(632,664)
Fair value adjustment on deferred rental receivable and related deferred taxation *(note c-3)*	27,255
Non-controlling interest *(note c-4)*	233,764
Assigned Payables	(1,182,582)
Pro forma adjustment to investment properties	20,737

Note c-1:

The Cash consideration as at 31 December 2020 for the Acquisition is determined to be RMB1,373,215,000 (being the sum of (1) the initial Consideration of RMB1,341,537,000 and (2) the adjustment of final payment as defined in the Sale and Purchase agreement of RMB31,678,000). The adjusted NAV is subject to change as the Completion Date, pending amongst others, the respective fair values of the relevant assets and liabilities of the Target Group as the Completion Date.

Note c-2:

For the purpose of preparation of the unaudited pro forma financial information, the deferred tax liabilities recognized by the Target Group as at 1 January 2021 in respect of taxable temporary difference of RMB632,664,000 that arose from the accelerated tax depreciation and the changes in fair value of the investment properties is reversed as the Group does not recognise these taxable temporary differences arising from the initial recognition of the investment properties in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting profit or loss nor taxable profit pursuant to IAS 12.

Note c-3:

For the purpose of preparation of unaudited pro forma financial information, the deferred rental receivable of RMB35,603,000 and corresponding deferred tax liabilities recognized by the Target Group as at 1 January 2021 in respect of taxable temporary difference of RMB8,348,000 that arose from timing difference on revenue recognition are reversed as the deferred rental receivable and corresponding deferred tax liabilities do not meet the definition of assets and liabilities.

Note c-4:

	RMB'000	
Net liabilities of Target Group	(6,777)	
Add:		
Deferred liabilities in relation to accelerated tax depreciation and change in fair value of investment properties	632,664	
Amount due to immediate holding company	2,318,788	
Adjusted Net assets of Target Group	2,944,675	
Proportion of ownership interests and voting rights held by non-controlling interests	44.59%	
Non-controlling interest	1,313,030	**<A>**
Amount due to immediate holding company	(2,318,788)	
Proportion of ownership interests and voting rights held by non-controlling interests	49%	
Non-controlling interest	(1,136,206)	**<B>**
Deferred liabilities in relation to accelerated tax depreciation and change in fair value of investment properties	632,664	
Proportion of ownership interests and voting rights held by non-controlling interests	9%	
Non-controlling interest	56,940	**<C>**
Total	233,764	**<A>+<B>+<C>**

10. Adjustments to reflect 49% of the profit of RMB54,506,000 for the year distributable to non-controlling interest as if the acquisition had taken place as at 1 January 2021.

11. Adjustments to reflect expenses which would be charged by the Manager or Operations Manager for the management of the Target Property in accordance with the Trust Deed or other relevant agreements and the corresponding income tax effect calculated at applicable enterprise income tax rate. These expenses comprise:

    (a) the payment of management fee to the Property Manager of RMB5,945,000, which is calculated at 5% per annum of the gross property revenue of the Target Property pursuant to the agreement entered into between the Manager of CMC REIT and operations manager; and

    (b) the reversal of property management fee of RMB8,925,000, incurred by the Target Group during the period since such property management has been taken up by the operations manager and the existing management fee agreement of the Target Group would be terminated upon the acquisition; and

    (c) the payment to Operations Manager of RMB808,600, which is calculated at 2.5% per annum of the capital expenditure for refurbishment and renovation of the investment properties held by the Target Group.

12. Pursuant to the Trust Deed, CMC REIT will pay the Trustee a fee of 0.025% per annum of the carrying value of the Target Property amounting to RMB2,700,000,000. After taking into account the effect of the Acquisition, should the terms in the Trust Deed remain unchanged, an additional trustee fee of RMB675,000 for the year ended 31 December 2021 would be charged.

13. The adjustment represents the net impact of (1) finance costs incurred by CMC REIT for the drawdown of the New Facility for the Acquisition and (2) the reversal of finance costs on the bank borrowings of the Target Group due to the assumed settlement of the bank borrowings by immediate holding company before 1 January 2021 and the corresponding income tax effect calculated at applicable enterprise income tax rate.

	RMB'000	
Finance cost of the New Facility @1-m HIBOR + 1% of RMB1,300,000,000	14,355	
Finance cost of the New Facility @ 1-m HIBOR + 0.9% of RMB41,537,262	417	
Finance cost of the New Facility arrangement fee @ 0.15% of RMB1,341,537,262	2,012	
Finance cost of the New Facility commitment fee @ 0.15% of RMB58,462,738	88	
Reversal of finance costs on the secured bank borrowings of the Target Group	(10,818)	**<A>**
	6,054	
The corresponding tax effect of the adjustment calculated at applicable enterprise income tax rate	2,704	**<A>x25%**

14. The reversal of Manager's performance fee of RMB258,000, which is calculated at 10% per annum of the net property income of the Target Property pursuant to the Trust Deed, and the corresponding income tax effect calculated at applicable enterprise income tax rate.

Calculation of manager's fee for Target Group

	RMB'000	
Base fee		
Profit for the year, before distribution to unitholders	54,506	
Adjustment of profit sharing to non-controlling interest *(note 10)*	(26,708)	
Adjustment of management fee of the Target Group upon completion *(note 11)*	755	
Adjustment of reversal of finance costs on the secured bank borrowings of the Target Group *(note a)*	3,765	
Changes in fair value of investment properties	(2,656)	
Non-cash finance cost	–	
Exchange gains (losses)	2,223	
Depreciation	50	
Deferred tax	(11,813)	
	20,122	
@10%	2,012	**<A>**

Calculation of manager's fee for the Group

	RMB'000	
Adjustment of trustee fee paid by the Group upon Completion *(note 12)*	(675)	
Adjustment of the finance cost of the New Facility paid by the Group upon completion *(note 13)*	(16,872)	
	(17,547)	
@10%	(1,754)	**<B>**
Total adjustment of manager's fee	258	**<A>+<B>**
The corresponding tax effect of the adjustment calculated at applicable enterprise income tax rate	503	**<A> x 25%**

Note a:

	RMB'000	
Reversal of finance costs on the secured bank borrowings of the Target Group *(note 13)*	10,818	
Proportion of ownership interests and voting rights held by the unitholders	46.4%	
	5,020	**<A>**
Applicable enterprise income tax rate	25%	
The corresponding tax effect of the adjustment	1,255	**<B>**
	3,765	**<A>–<B>**

15. The adjustment represents the additional distribution to unitholders after the Acquisition, which is based on 100% of the income available for distribution for the Target Group pursuant to CMC REIT's distribution policy. Income available for distributable to unitholders in respect of the Enlarged Group is determined in accordance with the Trust Deed and the final result announcement of CMC REIT for the year ended 31 December 2021, that is the consolidated profit after income tax before transactions with unitholders attributable to unitholders for the year ended 31 December 2021, after adjusting unrealised property revaluation gains and losses, deferred tax charges/credits in respect of property valuation movements, commercial building allowances/capital allowances, withholding tax on retained profits to be distributed and other tax losses or other deduction claimed, non-cash foreign exchange gains or losses, depreciation and amortisation in respect of a Real Estate directly or indirectly owned by the Trust, and its ancillary machinery, equipment and other fixed assets, differences between financial costs recognised on the financial statements and in interest paid and payable in accordance with contractual obligations, allowance for expected credit losses in respect of the expected uncollectable lease receivables and reversal of overprovision of withholding tax arising on undistributed earnings of subsidiaries in prior year.

    The distribution per unit of the Group for the year ended 31 December 2021 is disclosed in the published annual results announcement of the Group for the year ended 31 December 2021.

    The calculation of distribution per unit of the Enlarged Group is arrived at on the basis of the total distributable income after additional items of the Target Group of RMB42,310,000 plus the pro forma adjustments mentioned in notes (9) to (14) above and on the basis that 1,127,819,549 units were in issue as at 31 December 2021.

16. The pro forma adjustments mentioned in note 10 are not expected to have a continuing effect on the Group while notes 9, 11 to 14 are expected to have a continuing effect.

17. No adjustments have been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2021.

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of inclusion in this circular, in respect of the unaudited pro forma financial information of the Enlarged Group.

Deloitte. 德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To 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 (the "**CMC REIT**") and its subsidiaries (hereinafter collectively referred to as the "Group") by China Merchants Land Asset Management Co., Limited (the "**Manager**" of CMC REIT) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of financial position as at 31 December 2021, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021 and related notes as set out on pages A4-1 to A4-13 of the circular issued by the Company dated 14 June 2022 (the "**Circular**"). The applicable criteria on the basis of which the Manager has compiled the unaudited pro forma financial information are described on pages A4-1 to A4-13 of Appendix 4 of the Circular.

The unaudited pro forma financial information has been compiled by the Manager to illustrate the impact of the proposed acquisition of 51% equity interests in SA Venice I by CMC REIT on the Group's financial position as at 31 December 2021 and the Group's financial performance for the year ended 31 December 2021 as if the transactions had taken place at 31 December 2021 and 1 January 2021 respectively. As part of this process, information about the Group's financial position as at 31 December 2021 and the Group's financial performance for the year ended 31 December 2021 has been extracted by the Manager from the Group's consolidated financial statements for the year ended 31 December 2021, on which an audit report has been published.

Manager's Responsibilities for the Unaudited Pro Forma Financial Information

The Manager is 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**") 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, 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 Manager has compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in 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 transactions 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 as at 31 December 2021 or 1 January 2021 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 Manager 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 14 June 2022

The following is the text of a letter and valuation report prepared for the purpose of incorporation in this circular received from Cushman & Wakefield Limited, an independent property valuer, in connection with its opinion of market value in existing state of the Target Property in the PRC as at 31 March 2022.

CUSHMAN & WAKEFIELD
戴德梁行

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

14 June 2022

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)
60/F International Commerce Centre,
1 Austin Road West,
Kowloon,
Hong Kong

Dear Sirs,

Re: China Merchants Commercial Real Estate Investment Trust (the "China Merchants Commercial REIT") Valuation of Certain Units of Onward Science & Trade Center (招商局航華科貿中心) located at 108, 108A, 108B, 110, 112, 116, 118, 118A and 118B Jianguo Road, Chaoyang District, Beijing, the People's Republic of China

Instructions, Purpose & Valuation Date

We refer to the instructions from China Merchants Land Asset Management Co., Limited (the "**REIT Manager**") for us to prepare market valuation of the Target Property located in the People's Republic of China (the "**PRC**") (as detailed in the attached valuation report). We confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Target Property as at 31 March 2022 (the "**Valuation Date**").

Target Property

The Target Property comprises the following units of the development known as Onward Science & Trade Center (招商局航華科貿中心):

(a) 15 office/multi-function units (being Grade A offices) and 3 commercial units of the 34-storey office building at 118 Jianguo Road, Chaoyang District, Beijing, PRC known as "China Merchants Tower" (the "**China Merchants Tower**");

(b) 1 commercial unit (1st to 4th floor, 101) of the 4-storey commercial building at 108A Jianguo Road, Chaoyang District, Beijing, PRC known as "AIA NPA Center" ("**AIA NPA Center**");

(c) 1 commercial unit (1st floor, 101) of the connecting podium at 118A Jianguo Road, Chaoyang District, Beijing, PRC ("**01-04 Connecting Podium**"), connecting China Merchants Tower and Taiping Financial Centre;

(d) 1 commercial unit (1st to 3rd floor, 101) of the 3-storey commercial building at 116 Jianguo Road, Chaoyang District, Beijing, PRC known as "China Merchants Bank Building" ("**China Merchants Bank Building**");

(e) 2 commercial units (3rd floor, 301 and 4th floor, 401) of the 18-storey office building at 112 Jianguo Road, Chaoyang District, Beijing, PRC known as "China HP Building" ("**China HP Building**"); and

(f) 528 underground car park spaces and 3 underground commercial units variously located at the office building at 108 Jianguo Road, Chaoyang District, Beijing, PRC known as "Hengqin Life Tower" ("**Hengqin Life Tower**"), AIA NPA Center, the serviced apartment at 108B Jianguo Road, Chaoyang District, Beijing, PRC known as "Inner Peace" ("**Inner Peace**"), the commercial building at 110 Jianguo Road, Chaoyang District, Beijing, PRC known as "ICBC Building" ("**ICBC Building**"), China HP Building, China Merchants Bank Building, China Merchants Tower, 01-04 Connecting Podium and the office building at 118B Jianguo Road, Chaoyang District, Beijing, PRC known as "Taiping Financial Centre" ("**Taiping Financial Centre**").

China Merchants Tower, AIA NPA Center, the 01-04 Connecting Podium, China Merchants Bank Building, China HP Building, Hengqin Life Tower, Inner Peace, ICBC Building and Taiping Financial Centre collectively constitute the development known as Onward Science & Trade Center (招商局航華科貿中心).

Basis of Valuation

Our valuation of the Target Property represents its market value which in accordance with HKIS Valuation Standards 2020 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 Target Property, we have complied with the requirements in accordance with Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, 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 2020.

Valuation Assumptions

Our valuation of the Target Property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of value available only to a specific owner or purchaser.

In the course of our valuation of the Target Property situated in the PRC, with reference to the PRC Legal Opinion of the REIT Manager's PRC legal advisors, JunHe LLP (君合律師事務所), we have prepared our valuation on the basis that transferable land use rights in respect of the Target Property 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 title and the interest in the Target Property. In valuing the Target Property, we have prepared our valuation on the basis that the owner have enforceable title to the Target Property and have free and uninterrupted right to use, occupy or assign the Target Property for the whole of the unexpired terms as granted.

No allowances have been made in our valuation for any charges, mortgages or amounts owing on the Target Property nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Target Property is free from encumbrances, restrictions and outgoings of any onerous nature which could affect its value.

We are not aware of any significant overseas taxes expected to be charged in respect of the Target Property.

Method of Valuation

In valuing the Target Property, we have adopted the Income Capitalisation Method and cross-checked by the Market Comparison Method. Income Capitalisation Method is appropriate for valuation of the Target Property held for investment.

Income Capitalisation Method

Income Capitalisation Method estimates the value of the Target Property on a market basis by capitalising the existing rental of all lettable units of the Target Property for the 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 rights under which the Target 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 the Target Property.

Market Comparison Method

For cross-checking of the valuation arrived from Income Capitalisation Method, we have also made reference to comparable sales evidence of Target Property 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, tenancy details, site and floor areas, site and floor plans, number of units, interests attributable to the owner 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 Target Property 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 Beijing Office valuation team, Melody Chen (Msc, Bsc, 3 years' property valuation experience in the PRC) has inspected the exterior and, where possible, the interior of the Target Property in October 2021. No structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are, however, not able to report that the Target Property are free of rot, infestation or other structural defects. No test was carried out on any of the services. Our valuations are prepared on the assumption that these aspects are satisfactory. Unless otherwise stated, we have not carried out detailed on-site measurements to verify the site and floor areas of the Target Property and we have assumed that the areas shown on the documents handed to us are correct.

Currency

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

Remarks

The existing use of the Target Property is 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 and a standard Tenancy 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 substantial shareholders of the scheme and their respective associates and are considered independent in every respect set out in paragraph 6.5 of the REIT Code. Mr. Philip C Y Tsang has no actual or potential conflict of interest and is able to provide objective and unbiased valuations for the Target Property.

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 market data, 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 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: Mr. Philip C Y Tsang is Registered Professional Surveyor who has over 29 years' experience in the valuation of properties in the PRC.

VALUATION REPORT

Target Property held for investment in the PRC

Target Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2022
Certain units of the development known as Onward Science & Trade Center (招商局航華科貿中心) located at 108, 108A, 108B, 110, 112, 116, 118, 118A and 118B Jianguo Road, Chaoyang District, Beijing, the PRC	China Merchants Tower, AIA NPA Center, the 01-04 Connecting Podium, China Merchants Bank Building, China HP Building, Hengqin Life Tower, Inner Peace, ICBC Building and Taiping Financial Centre collectively constitute the development known as Onward Science & Trade Center (招商局航華科貿中心). Completed in 1998, Onward Science & Trade Center is an office development erected on a parcel of land with a total site area of 42,566.00 sq m. According to the information provided by the REIT Manager, the Target Property comprises certain units of Onward Science & Trade Center for ancillary commercial, office and carpark uses. The Target Property has a total Gross Floor Area of 48,370.26 sq m with details as follows:	As at the Valuation Date, portion of the Target Property with a total Gross Rentable Area of approximately 27,108.72 sq m has been leased under various tenancies, yielding a total monthly rent of approximately RMB8,860,000, exclusive of management fee and value-added tax. The remaining part of the Target Property was vacant or owner occupied. (Please see Note 3 below.)	RMB2,730,000,000 (RENMINBI TWO BILLION SEVEN HUNDRED THIRTY MILLION) (Based on the said total monthly rent as at the Valuation Date, the estimated net property yield of the Target Property is approximately 3.9%.)

Portion	Approximate Gross Floor Area *(sq m)*	Approximate Gross Rentable Area *(sq m)*
Commercial (Level 1 to Level 4 of China HP Building, China Merchants Bank Building, AIA NPA Center and 01-04 Connecting Podium excluding Level 4 of China Merchants Tower)	15,020.24	15,020.24
Multi-function/ Office (Level 4, Level 9 to Level 14, Levels 18, 19, 29, 30 and Level 32 to Level 34 of China Merchants Tower)	21,856.81	21,856.81
Commercial (Basement mezzanine level of Target Property**)	3,946.94	3,946.94
528 car parking spaces in basement**	7,546.27	N/A
Total:	**48,370.26**	**40,823.99**

Target Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2022
	Note: The Gross Floor Area relates to Real Estate Title Certificate; the Gross Rentable Area relates to rent receivable. ** variously located at Hengqin Life Tower, AIA NPA Center, Inner Peace, ICBC Building, China HP Building, China Merchants Bank Building, China Merchants Tower, the 01-04 Connecting Podium and Taiping Financial Centre The Target Property is located at Jianguo Road, Chaoyang District, Beijing, which is a central business district. The immediate locality is developed mainly with office and commercial buildings. Accessibility to the Target Property is reasonably good. Public transport facilities such as buses and taxis are available along Jianguo road and East 3rd Ring Zhong Road and the Beijing Metro — GuoMao Station is within easy reach of the Target Property. According to the REIT Manager, the Target Property is planned for commercial, office and car parking uses; there is no breach of environmental regulation(s); there are no investigations, notices, pending litigation, breaches of law or title defect(s) which may affect the value of the Target Property; there is no plan for major construction, renovation, improvement or development of the Target Property; and there is no plan to change the use of or dispose of the Target Property. The land use rights of the Target Property have been granted for respective terms due to expire on 28 August 2034 for commercial use; and 28 August 2044 for office and car parking use.		

Notes:

(1) According to 6 Real Estate Ownership Certificates listed below, the title ownership of the Target Property has been vested in Onward Science & Trade Center Company Limited* (招商局航華科貿中心有限公司) (the "**PRC Subsidiary**"), for respective terms due to expire on 28 August 2034 for commercial use; and 28 August 2044 for office and car parking use, with details as follows:

Certificate No.	Issue Date	Use	Gross Floor Area *(sq m)*
0110616	26 August 2016	Commercial, office, multi-functional use	24,434.12
0123247	22 September 2016	Commercial	3,073.00
0123246	22 September 2016	Commercial, office	6,143.20
0123244	22 September 2016	Commercial	2,671.94
0123245	22 September 2016	–	554.79
0123183	22 September 2016	Car park (7,546.27 sq m) Unspecified (3,946.94 sq m)	11,493.21
		Total:	**48,370.26**

(2) According to Business Licence No. 911100006000226254 dated 23 November 2017, the PRC Subsidiary was established as a limited company with a registered capital of USD66,000,000 for a valid operating period until 26 June 2044.

(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	27,108.72	66.4%
Vacant and Owner occupied	13,715.27	33.6%
– owner occupied*	2,526.76	6.2%
– vacant	11,188.51	27.4%
Total:	**40,823.99**	**100.0%**

Lease Commencement Profile

Year	**Approximate Gross Rentable Area** *(sq m)*	**% of Total**	**Monthly Rental** *(RMB)*	**% of Total**	**No. of Tenancies**	**% of Total**
2018	10,982.10	26.9%	3,695,827.42	41.7%	9	26.5%
2019	8,701.07	21.3%	3,238,007.15	36.5%	6	17.6%
2020	683.25	1.7%	214,212.02	2.4%	5	14.7%
2021	5,269.41	12.9%	1,267,804.38	14.3%	11	32.4%
2022	1,472.89	3.6%	444,183.75	5.0%	3	8.8%
Vacant and owner occupied*	13,715.27	33.6%	–	–	–	–
Total:	**40,823.99**	**100.0%**	**8,860,034.72**	**100%**	**34**	**100.0%**

Lease Expiry Profile

Expiry Date	**Approximate Gross Rentable Area** *(sq m)*	**% of Total**	**Monthly Rental** *(RMB)*	**% of Total**
2022/12/31	843.01	2.1%	267,465.35	3.0%
2023/12/31	3,745.65	9.2%	843,664.55	9.5%
2024/12/31	10,514.47	25.8%	3,381,805.60	38.2%
2026/12/31	2,211.92	5.4%	658,770.57	7.4%
2027/12/31	1,360.17	3.3%	411,763.33	4.6%
2029/12/31	8,433.50	20.7%	3,296,565.32	37.2%
Vacant and owner occupied*	13,715.27	33.6%		
Total:	**40,823.99**	**100.0%**	**8,860,034.72**	**100.0%**

* 2,141.58 sq m of owner-occupied area has been licensed temporarily by the PRC Subsidiary to a connected person of China Merchants Commercial REIT for a monthly licence fee of RMB237,463.05.

Lease Duration Profile

Year	**Approximate Gross Rentable Area** *(sq m)*	**% of Total**	**Monthly Rental** *(RMB)*	**% of Total**	**No. of Tenancies**	**% of Total**
More than 2 years and up to 3 years	3,545.37	8.7%	761,534.48	8.6%	13	38.2%
More than 3 years and up to 4 years	467.85	1.1%	147,385.10	1.7%	2	5.9%
More than 4 years and up to 5 years	1,184.70	2.9%	374,073.06	4.2%	2	5.9%
More than 5 years and up to 6 years	5,033.28	12.3%	1,557,240.10	17.6%	5	14.7%
More than 6 years and up to 7 years	8,444.02	20.7%	2,723,236.66	30.7%	6	17.6%
More than 9 years and up to 10 years	5,895.42	14.4%	2,323,974.56	26.2%	3	8.8%
More than 10 years and up to 11 years	2,538.08	6.2%	972,590.76	11.0%	3	8.8%
Vacant and owner occupied	13,715.27	33.6%	–			
Total:	**40,823.99**	**100.0%**	**8,860,034.72**	**100.0%**	**34**	**100.0%**

(4) According to the advice of the PRC Legal Adviser, certain premises of the development where the Target Property is located have exceeded approved plans, being:

(i) the 4th floor of China Merchants Bank Building, which has been leased to tenants;

(ii) the 5th floor of AIA NPA Center, which is vacant; and

(iii) other areas, in respect of which the PRC Subsidiary has previously paid fines for such non-conforming use and parts of which have now been leased to tenants.

Our valuation is based on the gross floor area indicated on the Real Estate Title Ownership Certificates Nos. 0110616, 0123244, 0123245, 0123246, 0123247 and 0123183 (不動產權證書) issued in respect of the Target Property, which gross floor area includes the area of the 4th floor of China Merchants Bank Building as well as the other areas mentioned in paragraph 4(iii) above in respect of which the PRC Subsidiary has previously paid fines. In respect of the 5th floor of AIA NPA Center, as it is not included in the Real Estate Ownership Certificates (不動產權證書) issued in respect of the Target Property, we have not taken into account such area and disregarded the rental income (if any) generated by the 5th floor of AIA NPA Center.

In addition, according to the PRC legal opinion, the PRC Subsidiary has leased out certain public areas of the development to tenants for private use but has not provided any resolutions of the owners of the relevant building of the development where such public areas are located in general meeting approving such pleasing of public areas. These areas do not form part of the Target Property, are not included in the Real Estate Ownership Certificates (不動產權證書) issued in respect of the Target Property and we have disregarded the rental income (if any) generated by such public areas.

(5) According to the advice of the PRC Legal Adviser:

(i) Real Estate Ownership Certificates (不動產權證書) have been issued in respect of the 48,370.26 sq.m. of gross floor area of the Target Property owned by the PRC Subsidiary;

(ii) the PRC Subsidiary has legally obtained the state-owned land use rights in respect of the Target Property and it is the registered legal user of the land use rights and the registered legal owner of the building ownership rights underlying the Target Property. The PRC Subsidiary has legal ownership of the Target Property and can legally and beneficially own, use, occupy, transfer and lease out the Target Property in accordance with the relevant PRC laws and the relevant land grant contract (subject to the terms of mortgages and existing Leases). The PRC Legal Adviser of the Manager has also advised that the PRC Subsidiary is the sole owner of the building ownership rights underlying the Target Property and that such rights are free from encumbrances other than the Property Mortgage;

(iii) the PRC Subsidiary can, during the term of the relevant land use right, legally and beneficially own, use, occupy, transfer (including sell, exchange or transfer by way of gift), lease out or mortgage the Target Property or use it for other legal economic activities, in accordance with the relevant PRC laws and the relevant land grant contract grant contract free from encumbrances other than the Property Mortgage (subject to the terms of mortgages and existing Leases). Based on the above advice of the PRC Legal Adviser, the Manager is of the view, and the PRC Legal Adviser agrees, that CMC REIT will (through the PRC Subsidiary) have good, marketable, legal and beneficial title to the Target Property upon Completion; and

(iv) the Target Property is subject to a mortgage in favour of China Minsheng Banking Corp., Ltd. Shanghai Free Trade Zone Branch (中國民生銀行股份有限公司上海自貿試驗區分行) in connection with a loan of RMB3,000,000,000, a mortgage in favour of China Minsheng Banking Corp., Ltd. Hong Kong Branch in connection with a loan of RMB500,000,000 and a mortgage in favour of China Minsheng Banking Corp., Ltd. Shanghai Branch (中國民生銀行股份有限公司上海分行) in connection with a loan of RMB94,000,000, and apart from the said mortgages the Target Property is free from encumbrances.

(6) 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
Business Licence	Yes

(7) In valuing the Target 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:

Income Capitalisation Method

Use	Average Monthly Market Rent as of 31 March 2022 *(RMB/sq m)*	Term Yield	Reversionary Yield
Office	415	4.00%	4.50%
Commercial	319-542	4.00%	4.50%
Car Parking Spaces	1,590	3.50%	4.00%

* Monthly market rent is exclusive of management fee and value-added tax.

We have adopted Market Comparison Method to select the relevant rent comparable. We have made reference to some rent comparable to the Property and nearby development. The rent comparable selected by us are exhaustive. In arriving at the key assumptions, appropriate adjustments and analysis are considered to the differences in several aspects including but not limited to time, location and physical characteristics between the Target Property and the comparable properties. The general basis of adjustment is if the Property is better than the comparable property, an upward adjustment is made. Alternatively, if the Property is inferior or less desirable than the comparable properties, a downward adjustment is made.

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 1.41 billion in 2021. China's economy has experienced rapid growth in the past two decades. Despite of the volatile global economic environment and COVID-19, China's strong economic growth is evidenced by its nominal GDP growth rate with a significant CAGR of 7.5% in 2015-2021. According to the National Bureau of Statistics of China and the World Bank, over the past 7 years, China's GDP growth has remained healthy, with GDP value increasing from RMB68,886 billion in 2015 to RMB114,367 billion in 2021, representing a CAGR of approximately 7.5%, exceeding the world level. By the end of the fourth quarter of 2021, China's economy continues to bounce back from virus slump, leads the charge for a global recovery with a GDP Year-on-Year increase of 8.1%.

BEIJING CITY OVERVIEW

Beijing is the capital of the People's Republic of China located on the North China Plain. It is China's political, economic and cultural centre as well as the centre for international communications. Beijing is universally acknowledged for its history and culture. It is also recognized as a modern international metropolis with great perspectives. As one of the core cities in the China's Mega City Clusters, the Beijing-Tianjin-Hebei region (Jing-Jin-Ji), Beijing is playing a strategically important role in the development of financial service, information technology, trade and logistics.

BEIJING OFFICE MARKET

There are several office submarkets in Beijing, including CBD, East 2nd Ring Road, Financial Street, Lufthansa, Zhongguancun, Olympic Game Village, Wangjing-Jiuxian Bridge, Li'ze, etc. Nearly 60% of the Grade A office buildings are located at CBD, Lufthansa, East 2nd Ring and Financial Street submarkets.

The Central Business District (CBD) in Chaoyang District has the largest supply of Grade A office buildings in Beijing. Many domestic and multinational corporates, especially those from the finance sector, choose this area as their priority presence. The Financial Street submarket in Xicheng District, one of the core submarkets, where many financial corporations base, is having an absolute dominant position in the Beijing Grade A office market. The East 2nd Ring submarket in Dongcheng District possess many early office projects in the Beijing office market, such as Henderson Centre and the COFCO Plaza. At that time, these office buildings became the best office location options for multinational companies. Nowadays, due to the extension of airport highway and the construction of Dongzhimen traffic hub, the attraction of the E2R submarket has been greatly enhanced. E2R is an important gathering place for multinational companies in Beijing.

Continued market activity and demand saw overall market rents stabilise, achieving modest increases after ten consecutive quarters of declines. Grade A office rents in CBD experienced a large quarterly increase, reaching around 2.3%, rose to approximately RMB360 per sq m per month in Q4 2021, and the net absorption reached 71,476 sq m, which led the vacancy in CBD to further drop to 11.1%. With the property market recovering steadily, it is expected that CBD's net absorption will continue in upward trend. Coupled with limited new supply over the next three years, the vacancy rate in CBD is expected to gradually fall while the average rent level should continue to remain positive.

BEIJING RETAIL OVERVIEW

The prime shopping center in Beijing are mainly distributed in 11 areas, including OGV, CBD, Chaowai, Lufthansa, Sanlitun, Wangfujing, Wangjing, Xi'dan, Zhongguancun, Shilipu-Qingnian Road and Xuanwumen-Chongwenmen. Attributable to the shortage of land supply and the urban population control, the retail market of some non-core areas is becoming active, such as Fengtai, Fangshan, Daxing and Tongzhou, which has become the primary expansion areas in recent years. Most of the retail developments are neighborhood shopping mall, which enrich consumer choices for local residents.

The high-quality retail projects in Beijing are mainly focus in the core submarkets, especially in the CBD, Sanlitun and Wangfujing submarkets. The rental level of core submarket has dominated the regional submarket. Supported by stable market demand, the citywide rental of high-quality shopping malls did not see major fluctuations, stabilising at around RMB2,400 per sq m per month in Q4 2021. The project volume under adjustment accounts for a small proportion of the city's stock, and has little impact on the city's overall vacancy rate remaining at approximately 10%. With effective control and normalisation of the pandemic, Beijing's shopper footfall and retail consumption levels have now largely returned to normal, with many shopping malls completing a round of tenant mix adjustments. Business expansion in Q3 2021 gradually shifted from the catering, children's, and entertainment sectors to fashion and lifestyle sectors. The retail market also continued to develop the city's first-store economy, with core submarkets such as Sanlitun and CBD the preferred locations. As of Q4 2021, for CBD submarket, the rent level prevailingly ranged from RMB800 to RMB2,000 per sq m per month. CP centre was completed at end of 2021 and brought approximately 40,000 sq m of new supply to the CBD's retail stock. Due to a land supply shortage in the core submarkets and short of new supply in the short term, stable growth of retail market in CBD is expected.

* *Retail Asking Rental Range is based on ground floor rent in prime locations in major shopping centers, excluding management, promotional and other fees; the overall average rent is the best location for the first floor of the benchmarking projects in the core submarkets.*

The following is the reproduction of the text of a letter received from Knight Frank Petty Limited, the Market Consultant, for the purpose of inclusion in this Circular.

The Directors of China Merchants Land Asset Management Co., Limited
Room 2603-06
Shun Tak Centre China Merchants Tower
168-200 Connaught Road Central
Sheung Wan
Hong Kong

Date of issue: 14 June 2022

Dear Sirs

Market Report – Beijing CBD Office Market Industry Report

Further to your instructions, we are pleased to provide our report for the captioned subject. We bring to your attention the important comments within our report. If you have any queries regarding this report, please let us know as soon as possible.

1. BEIJING MARKET OVERVIEW

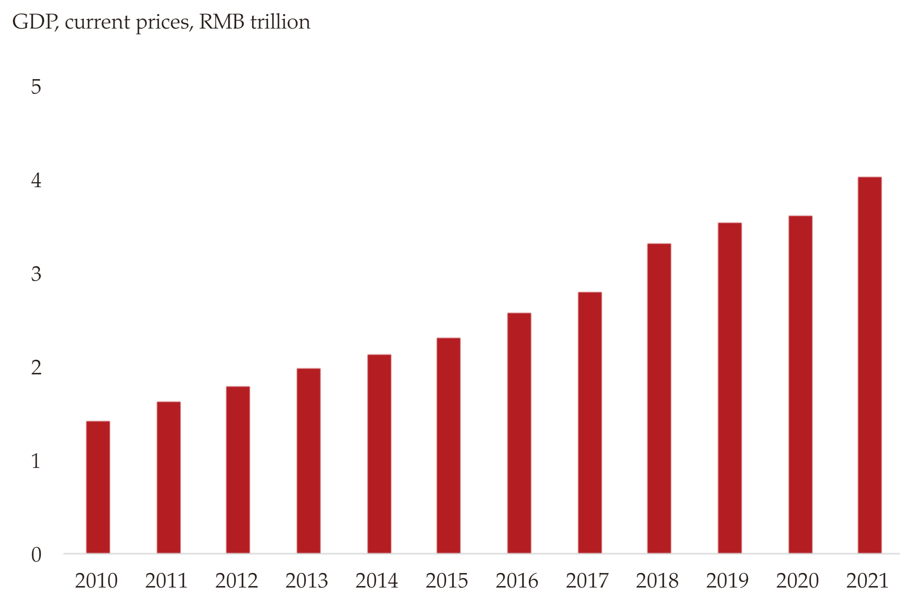
Macroeconomy

1.1 Beijing is the capital of China and the country's political, cultural and international exchange centre. Beijing is one of the four municipalities directly under the central government. Along with Shanghai, Tianjin and Chongqing, the capital city enjoys similar economic and administrative powers as a province.

1.2 In 2020, Beijing's economic performance was affected by the outbreak of the COVID-19 with strict preventive measures in place. According to the National Bureau of Statistics of China, GDP of Beijing amounted to approximately RMB3.61 trillion in 2020, increased by 1.2% year on year (YoY) compared to RMB3.54 trillion in 2019, compared with the national growth rate at 2.3%. While many Chinese mainland cities started to recover from the pandemic, the sudden spike of COVID-19 infections in June and December in Beijing caused further dents.

1.3 Entering 2021, the capital's economic conditions have gradually improved. Beijing's GDP reached RMB4.03 trillion in 2021, increased by 11.4% YoY. The growth was slightly higher than the overall national level of 8.1% YoY over the same period.

Beijing GDP

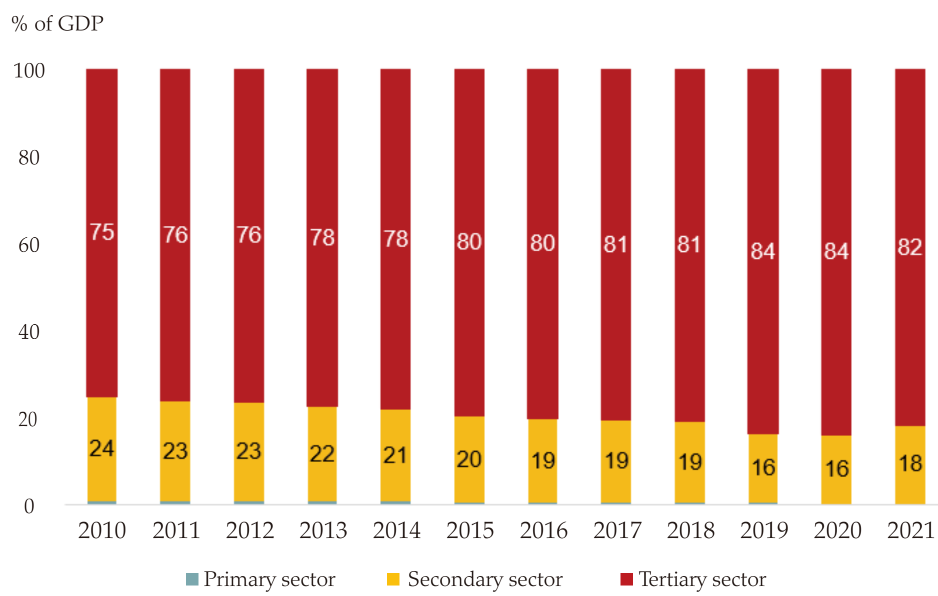


Source: National Bureau of Statistics of China, Knight Frank Research

1.4 Beijing's economy has always been comparatively service oriented. The share of the service sector in terms of GDP reached nearly 82% in 2021, which was the highest among all cities in China. This is partly resulted from the relocation of some of the manufacturing industries to the neighbouring districts in order to improve air quality and the congestion level of the city's infrastructure. Economic sectors that are of great importance to the city and have been promoted by the municipal government in recent years are financial intermediation, IT services and scientific research and development.

1.5 In the past decade, the importance of Beijing's service sector (tertiary sector) on the economy was on the rise. Since 2015, the service sector has accounted for at least 80% of the city's GDP. Financial services, information technology services, and scientific research and technical services, were the three largest sectors, comprising 19.9%, 15.3%, and 8.3% of the GDP respectively in 2020.

Beijing Composition of GDP (%)

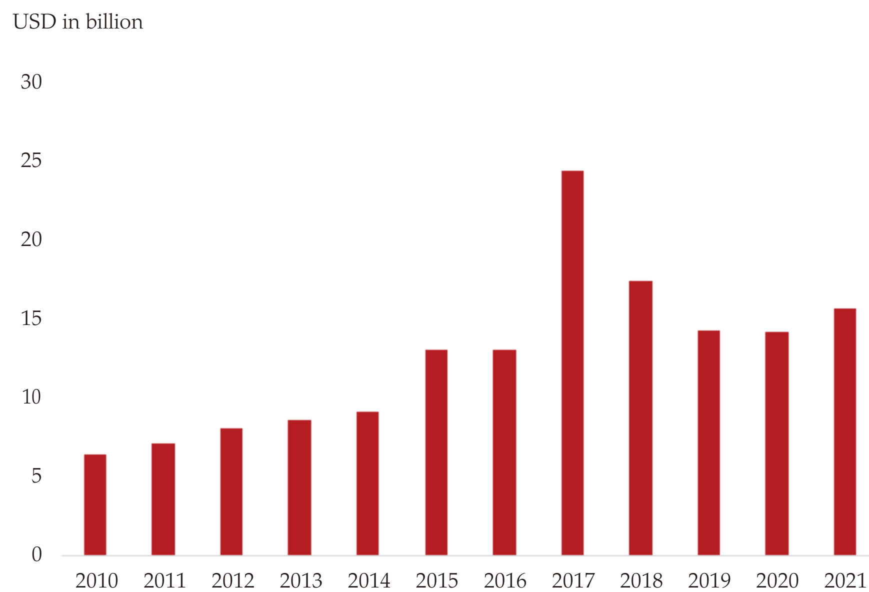


Source: National Bureau of Statistics of China, Knight Frank Research

1.6 As an important window for China's opening-up to the global market, Beijing has rapid development of international economic and trade cooperation. In the "five-year period" of 2017-2021, the actual utilization of foreign investment in Beijing reached USD85.5 billion, which increased by 65.6% compared to the previous five-year period.

1.7 As of the end of 2020, over 165 countries/ regions and a total of over 45,000 foreign-invested enterprises have been established in Beijing. Meanwhile, Beijing has accommodated 35,000 foreign resident institutions, over 4,000 regional headquarters and R&D centres, and 55 Fortune 500 company headquarters.

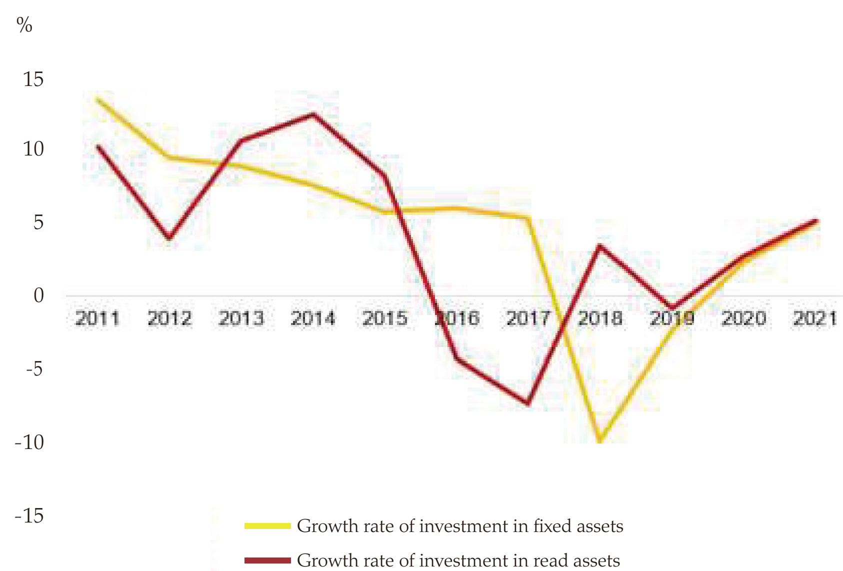
Foreign direct investment in Beijing



Source: National Bureau of Statistics of China, Knight Frank Research

1.8 The fixed assets investment in Beijing achieved a compound annual growth rate (CAGR) of 9.4% during the period from 2011 to 2017 and reached RMB894.8 billion in 2017, before dropping in 2018 and 2019 by 9.9% YoY and 2.4% YoY respectively. In 2020, fixed assets investment and investment in real estate have rebounded from the trough, picked up by 2.2% and 2.6% YoY, respectively. In 2021, fixed assets investment recorded a 4.9% YoY growth, while investment in real estate increased by 5.1% YoY.

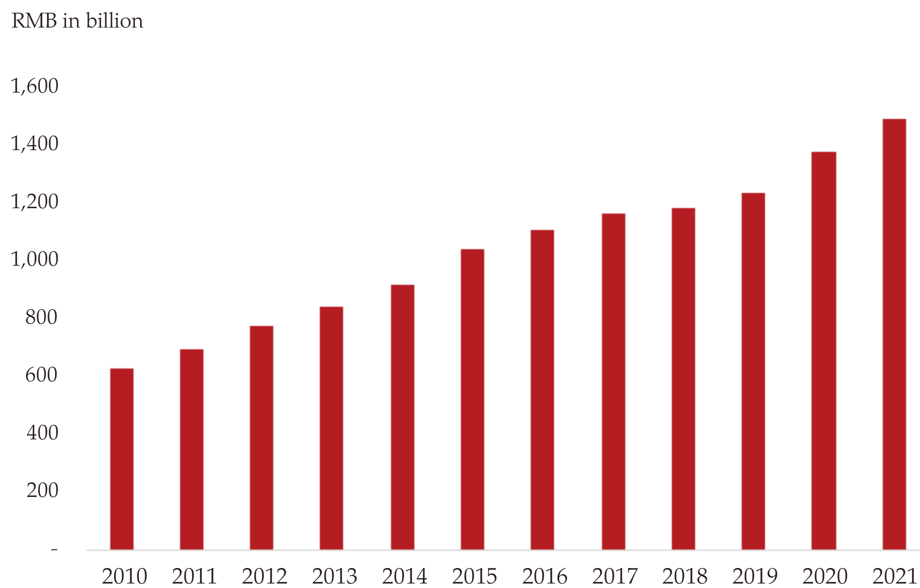
Fixed assets and real estate investment in Beijing (YoY growth)



Source: National Bureau of Statistics of China, Knight Frank Research

1.9 Beijing is an attractive city for brand debuts, with over 180 debut stores in 2020. In terms of the types of debut stores, the majority is from the retail sector and the food and beverage sector, constituting around 42% and 40% respectively. The total retail sales of consumer goods in Beijing reached RMB1.49 trillion in 2021, increased by 8.4% YoY, according to the Beijing Municipal Bureau of Statistics. Among which, the commodity retail sales up 7.1% YoY, while the income from catering increased by 27.5% YoY. The total retail sales of consumer goods in Beijing increased from RMB1.1 trillion in 2016 to RMB1.49 trillion in 2021 with a CAGR of 6.2%.

Retail sales of consumer goods in Beijing



Source: Beijing Municipal Bureau of Statistics, Knight Frank Research

City planning and positioning

1.10 Beijing has been strategically positioned as the capital city, following the direction of open, inclusive, balanced and win-win economic globalisation. Beijing has been given full plan to the function as an international exchange centre, explored in depth the new mode of opening-up led by the service industry, and achieved remarkable development results in creating a "new high ground, new pattern, new engine and new mechanism" for opening-up.

1.11 As the capital of China and an important gateway to the globe, Beijing has a special and pivotal position in the national plan of building a new landscape of development. The "Outline of the 14th Five-Year Plan for National Economic and Social Development and the Long-Range Objectives Through the Year 2035" was released in March 2021, providing important guidance and strong support for the planning of Beijing's work in the next five years.

Planning of Beijing in the coming five years

Source: Outline of the 14th Five-Year Plan for National Economic and Social Development and the Long-Range Objectives Through the Year 2035

1.12 Looking into the "14th Five-Year Plan" period, Beijing will focus on building a new pattern of opening-up, taking initiative to open-up more and to promote further development and advancing high-quality development with a high level of openness.

1.13 Following the "4x4" framework, the initiatives adopted for the new round of opening-up will focus on "new high ground, new engine, new platform and new mechanisms", and highlight 16 key tasks. Furthermore, more initiatives in financial services, digital economy and trade, culture tourism, professional services and other areas will be introduced to promote the further opening-up of Beijing.

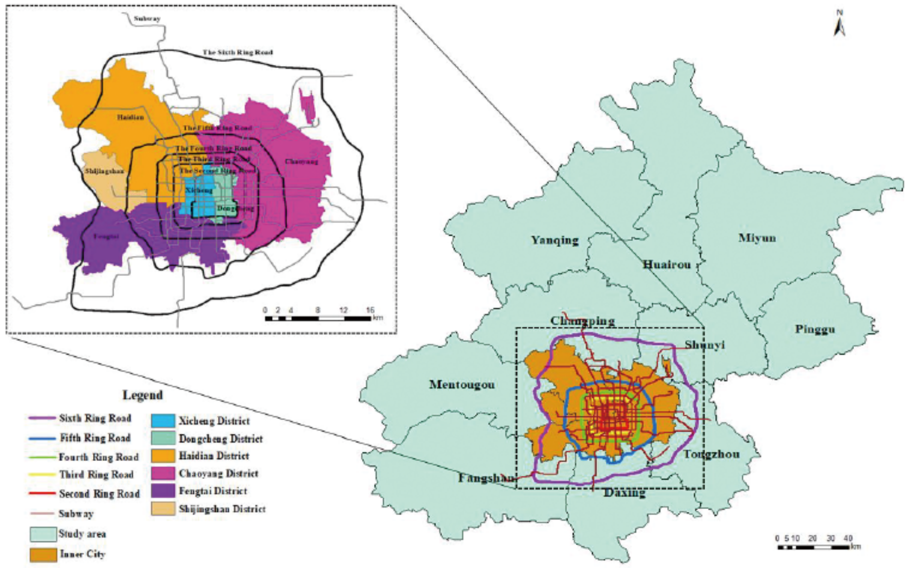
Key tasks of Beijing highlighted in the 14th Five-Year Plan

New high ground	New Engine
• Comprehensively expand the opening-up of the service industry on the basis of "pilot free trade zone" • Build a high-standard and high quality free trade area • Create a comprehensive bonded zones with diversified characteristics • Step up the innovation of Zhongguancun National Independent Innovation Demonstration Zone in opening-up	• Further expand the opening-up of the financial industry • Deepen the opening-up of digital economy and trade • Deepen the integration and opening-up of culture and tourism • Vigorously push forward the opening-up and reform the professional service industry
New Platform	**New Mechanism**
• Build a service trade exhibition platform with global influence • Build a strong platform for opening-up with the two airports serving as hubs • Build a high-level platform for exchange and cooperation on scientific and technological innovation • Hold high-level financial street forum	• Strengthen the protection and application mechanism of intellectual property • Keep the "dual-track"of investment smooth and unimpeded • Make sure to provide better services to international talents

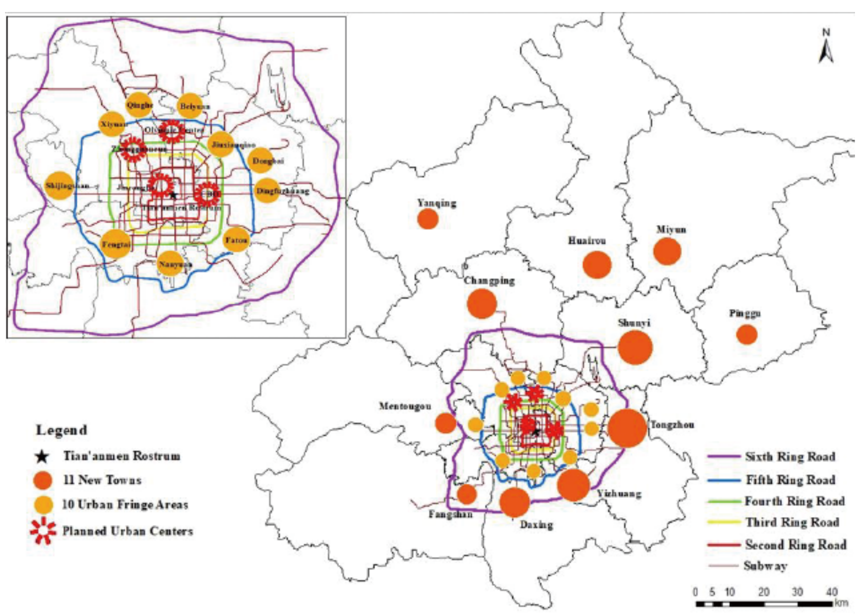
Beijing master plan

1.14 Beijing consists of 16 administrative districts and has six ring roads. There are six administrative districts within the Sixth Ring Road, namely Xicheng, Dongcheng, Chaoyang, Haidian, Shijingshan, and Fengtai. Typically, these districts are considered the inner city of Beijing. The economic conditions and infrastructure development of the six inner districts are better than those of the other districts. As a result, more than 55% of Beijing's population concentrates in these districts, which presents a significant challenge to the urban functions of the traditional inner city, especially the core area within Fifth Ring Road.

Map of Beijing



Urban planning zones of Beijing



Source: Urban Master Plans of Beijing

1.15 To disperse pressure from the core of the inner city, Beijing has planned to develop four inner urban centres within Fifth Ring Road. In addition, ten urban fringe areas around Fifth Ring Road and 11 new towns outside Sixth Ring Road have been identified as key development areas for dispersing the population from the inner city. According to the 2016–2035 Urban Master Plan of Beijing, the total population of the six inner districts would be reduced by 15% by the end of 2020. To meet this target, the urban functions of these urban fringe areas and new towns will be significantly improved.

1.16 Beijing has implemented the new strategic spatial layout of "one core, two axes and multiple modules". This is announced in the "Special Plan for Advancing the Construction of Beijing's Function as an International Interaction Center", which was released by the Beijing Municipal Government on 27 September 2020. "One core" refers to Beijing inner city which is an important carrying area for state affairs and diplomacy, while the "two axes" are the concentrated carrying areas for international financial management, international conference and exhibition and other comprehensive services concentrated bearing area.

Sectors that are planned for development in different districts

Yanqing - Badaling World Horticulture Expo module
- International culture and tourism

Huairou Science city module
- International communication, international exchanges of culture and science

Shunyi Capital airport module
- Promote the construction of the second and third phases of the New China International Exhibition Center

Haidian - Zhongguancun "Three hills and five gardens" module
- Gathering of international high-end talents and starting up of high-tech enterprises

Chaoyang Embassy module
- push forward the construction of the fourth embassy cluster

Tongzhou City sub-center module
- Remove non-capital functions, agglomeration of international high-end factors

Daxing International airport module
- International business and finance, international organisation functions

Infrastructure development in Beijing

1.17 Beijing has a comprehensive transportation network that meets its transportation demands by railways, highways, expressways and air transportation routes. There are 24 subway lines including 2 tram lines currently in operation that connect various districts in the city. Besides, some new stations of Metro Line 14 opens at the end of 2021, which improves the transportation connectivity of the Lize area. A total of 30 subway lines are targeted to operate in 2025.

1.18 Apart from the Beijing Capital International Airport, the Beijing Daxing New Airport has been completed in 2019. The Intercity Railway Connector between the two airports is currently under construction, of which the Phase 1 is scheduled to complete in 2023.

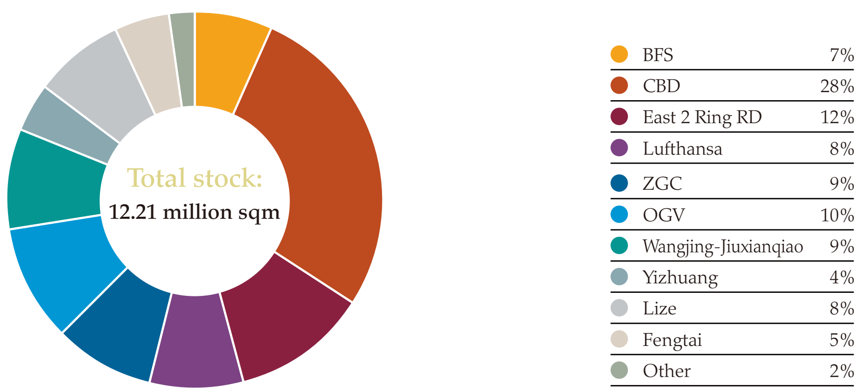
Beijing metro network

2. BEIJING OFFICE MARKET

Market overview

2.1 As a global metropolis in China, Beijing is where many state-owned enterprises and multinational companies set up their headquarters in, driving the stable development of the Beijing office markets. Tenants are mainly from the technology, media and telecommunication (TMT), financial services, professional services, real estate, consumer goods, and healthcare sectors. The total Grade-A office property stock in Beijing amounted to 12.21 million sqm as of the end of 2021. In terms of the distribution by district, majority of the Grade-A office stock is located at CBD (also known as "Guomao CBD"), which constitute 28% of the total stock in the city. It is followed by East 2nd Ring Road area (12%), Zhongguancun (ZGC) (9%), Olympic Games Village (OGV) area (10%) and Wangjing-Jiuxianqiao area (9%).

Beijing Grade-A office property stock by submarkets

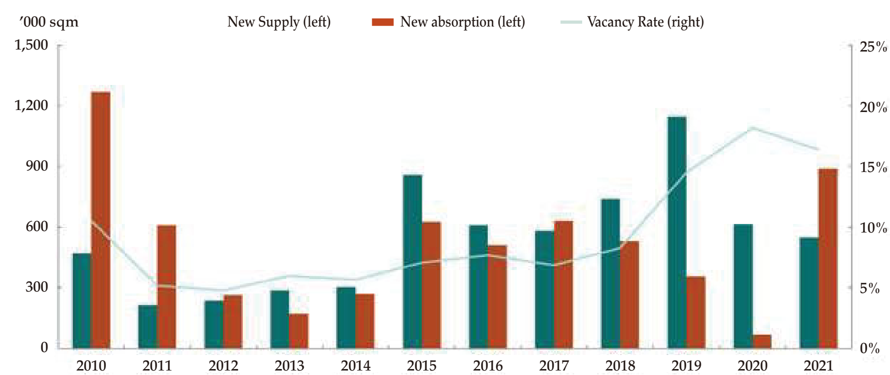


Source: Knight Frank Research

2.2 With a considerable amount of new buildings entering the market, the new supply of Grade-A office property increased at a CAGR of 23% from 611,000 sqm in 2016 to 1.1 million sqm in 2019. In 2020, office new supply has decreased to a total of 615,000 sqm, due to the disruption and uncertainties arising from COVID-19. A total of seven Grade-A office developments are completed in the city in 2021. Majority of these buildings were originally due for completion in 2020 but were delayed. Two new projects are in the emerging district Lize, with a total gross floor area of 306,716 sqm. The total new supply in Beijing reached 550,000 sqm in 2021.

2.3 The average net absorption of Grade-A office was 558,000 sqm per year during the period from 2016 to 2018. It was subsequently fell to 359,000 sqm in 2019 due to the ongoing trade tensions between China and the US. Amid the outbreak of COVID-19, the leasing market turned quiet with net absorption dropped to 68,000 sqm in 2020. Amid the improving economic conditions, demand for Grade-A office has rebounded since early 2021. In 2021, net absorption of Grade-A office totaled 889,000 sqm.

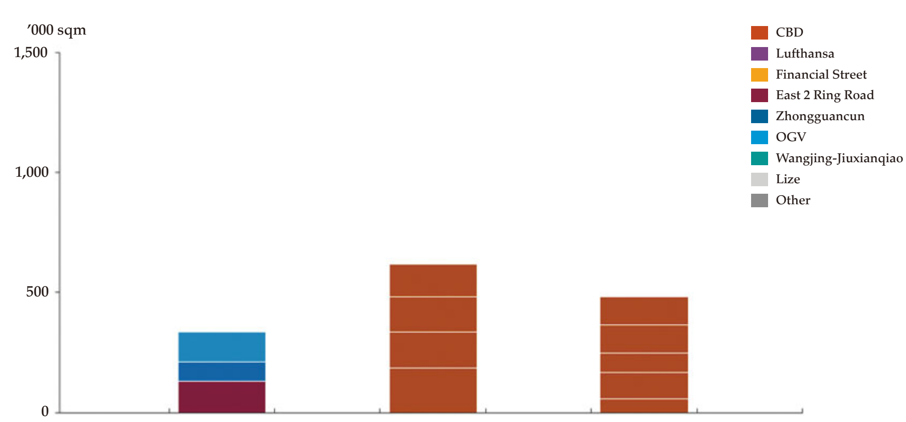
Beijing Grade-A office supply, absorption and vacancy rate



Source: Knight Frank Research

2.4 From 2022 to 2024 onwards, there will be only around 1.47 million sqm of Grade-A office supply entering the market, namely 340,000 sqm, 630,000 sqm and 500,000 sqm in the following three consecutive years. The high supply pressure is expected to be alleviated, which would underpin the long-term office market growth.

Beijing office future supply



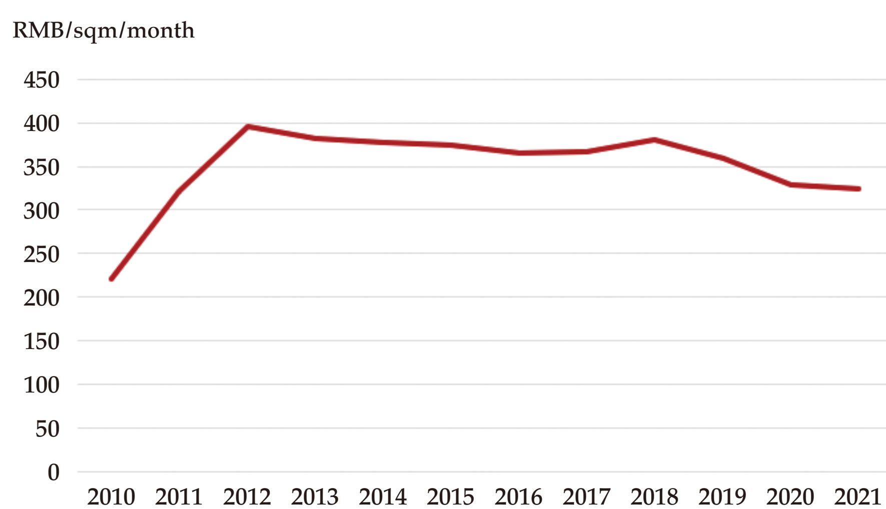
Source: Knight Frank Research

2.5 From 2016 to 2018, the Beijing Grade-A office property market was underpinned by a balanced supply-demand environment, with the office rent increased by 4.1% over the period. In 2019 to 2020, the Beijing office property market was impacted by the economic slowdown and ongoing trade tensions between China and the US, as well as the subsequent outbreak of COVID-19. During the period, there was also a large amount of office supply that totalled 2.5 million sqm entered the market. This resulted in the vacancy rate of the overall Beijing office market to increase to 18.2% in 2020 from 8.3% in 2017. At the same time, the overall rent dropped by 10.2% over the three years to RMB329 per sqm per month in 2020.

2.6 Since early 2021, the Beijing office property market has stabilised from the downtrend, thanks to the receding impact of the pandemic and the rebound of domestic economy. With leasing activities gaining traction, the new office buildings were gradually being filled up. Despite the large amount of new supply, Beijing's overall Grade-A office vacancy rate has dropped to 14.6% by the end of 2021 from 18.2% in 2020. Meanwhile, the downward adjustment of Beijing Grade-A office rent has narrowed to merely 1.5% YoY to RMB324 per sqm per month in Q4 2021.

2.7 Looking ahead, the Beijing Grade-A office market is expected to turn active in 2022 amid the recovery of domestic economy. In particular, the technology and ecommerce sectors will drive demand for office lettings. Vacancy rate will remain at around 16% to 18% as the new letting is likely to absorb majority of the new supply. The economic recovery will continue to uplift market sentiment. Coupled with the fact that the current rent stays at relatively low level, it is expected to pick up by around 2% to 3% in 2022.

Beijing Grade-A office rent



Source: Knight Frank Research

Government policy

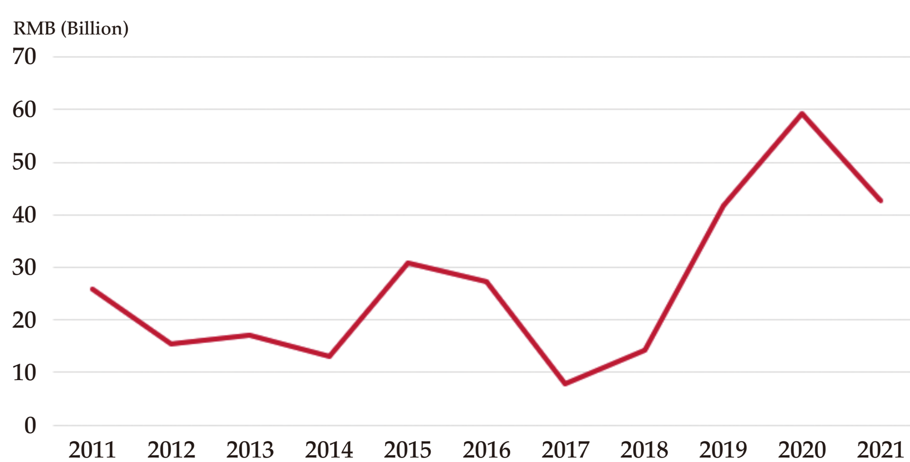
2.8 The government policy, which is one of the determinants of real estate supply and demand, is critical for the development of the office market. From the supply perspective, the major policy direction that is affecting the Beijing market is the limit on core supply where restrictions are placed on commercial development in the city centre. This policy aims to improve the liveability at the core of the city which would also ensure a healthy supply of commercial property.

2.9 On the demand side, there are also policies that underpin a stable demand for office property. Since 2019, the removal of multiple barriers to foreign investment in the service industry, especially in the financial sector, will support a recovery in demand from overseas occupiers. In 2021, the Chinese government has announced to set up a stock exchange in Beijing and build it into a major base for innovative small- and medium-sized enterprises (SMEs). These policies will drive office demand, especially for the Beijing Financial Street and CBD, from financial institutions and SMEs.

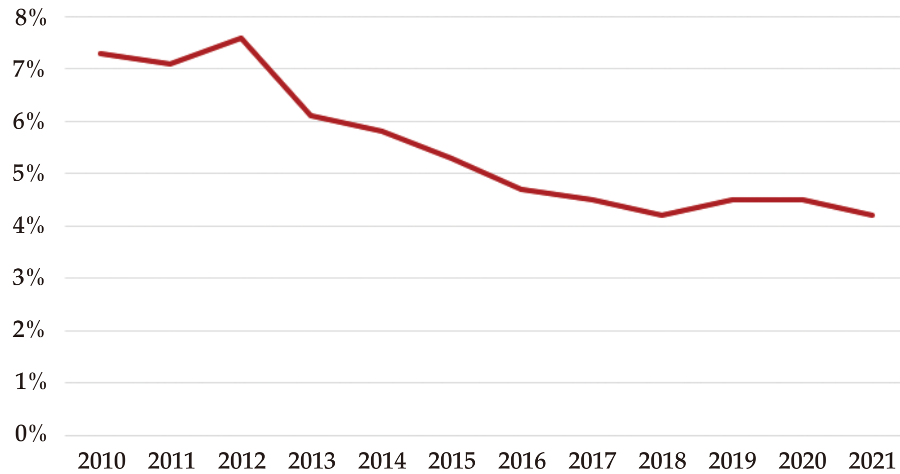
Office investment market

2.10 The total amount of office property investment in Beijing increased rapidly in the past five years from around RMB8 billion in 2017 to RMB43 billion in 2021 with a CAGR of 40%. Meanwhile, the Grade-A office yield of Beijing stayed at the levels between 4.2% and 4.5% over the same period.

Beijing office transaction volume by value



Beijing Grade-A office market yield



Source: Knight Frank Research

2.11 In 2020, investors continued to be active in closing deals in Beijing, undeterred by the COVID-19 outbreak. This resulted in the relatively high investment volume and they included a few significant deals. For example, GIC, a sovereign wealth fund of the Government of Singapore, acquired LG Twin Towers Beijing for RMB8 billion. Besides, China Three Gorges Corporation (CTG), a state-owned private investor, purchased Beijing Mix Plaza for RMB6.2 billion.

2.12 In 2021, the overall performance of Beijing's investment market was stable. Both domestic and foreign investors were actively seeking investment opportunities. For 2021, the amount of office property investment in Beijing totaled RMB43 billion, which has exceeded the level of in 2019 (RMB42 billion) before the pandemic kicks in. Meanwhile, the Grade-A office yield of the overall Beijing market was 4.2% to 4.5% in 2021.

2.13 As a highly attractive destination, Beijing attracted domestic capital as well as overseas investors even as downward economic pressure persisted in the past years. In the 5-year period from 2017 to 2021, the top buyer of Beijing's office property is GIC, who purchased six properties totaled RMB26.2 billion during the period. It is followed by SDP Investments and Hexie Health Insurance, who are domestic investors from Shanghai and Chengdu. In terms of top sellers, they include domestic investors Sino-Ocean Group and Financial Street Holding Company, as well as SK Group from South Korea.

Significant office property transactions in Beijing

Date	Development	Buyer	Seller	Amount *(RMB Billion)*
May 2021	SK Tower (Buildings A&B)	Hexie Health Insurance	SK Group	9.1
Dec 2021	Z6 Tower	GIC, HKMA, KIC	Sino-Ocean Group	8.9
Apr 2020	LG Twin Towers Beijing	GIC	LG Corporation	8.0
Mar 2020	Beijing Mix Plaza	China Three Gorges Corporation (CTG)	Anar Group	6.2
Nov 2019	Beijing AZIA Tower	GIC	Beijing Capital Land Ltd	6.1
Mar 2019	Ocean Office Park Beijing	ICBC	Sino-Ocean Group	5.7
Aug 2019	Pangu Plaza (Building 5)	BBMG Corporation	Beijing Pangushi Invt	5.2
Feb 2020	Hopson International Building North Tower	AEW Capital, Hony Capital	Smooth Park, Hopson Development Hldg	4.5
Aug 2020	U-Show Plaza	SDP Investments, AEW Capital, GIC	Gome Retail Holdings	4.0
Jan 2020	Vanke Times Square Wangjing	GIC	China Vanke	4.0

Source: Knight Frank Research/RCA

Top 5 buyers in the Beijing office market in the past five years

Rank	Buyers	Location	Consideration *(RMB Billion)*	No. of Properties
1	GIC	Singapore	26.2	6
2	SDP Investments	Shanghai, China	11.5	2
3	Hexie Health Insurance	Chengdu, China	9.1	1
4	AEW	Boston, MA, USA	8.5	2
5	Carlyle Group	Washington, DC, USA	7.5	1

Top 5 sellers in the Beijing office market in the past five years

Rank	Sellers	Location	Consideration *(RMB Billion)*	No. of Properties
1	Sino-Ocean Group	Beijing, China	19.4	9
2	Financial Street Holding Company	Beijing, China	10.6	74 (most were sold in strata title units)
3	SK Group	Seoul, Korea	9.1	1
4	China Vanke	Shenzhen, China	8.5	4
5	LG Corporation	Seoul, Korea	8.0	1

Source: Knight Frank Research/RCA

2.14 Looking ahead, the impact of the COVID-19 on the office investment market will gradually recede. With the uplift of investment sentiment, transaction volume is expected to increase. Besides, the 14th five-year plan has given guidance for the direction of urbanisation and city renewal, which will underpin the growth of office property value. More investors are expected to be interested in Beijing's en-bloc office buildings.

3. BEIJING CBD OFFICE MARKET

Market overview

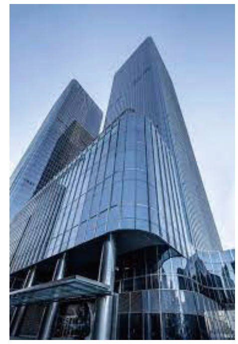
3.1 Demand for the Beijing CBD (or known as "Guomao CBD") Grade-A offices is driven by a wide range of industries, including the finance and insurance, professional services, TMT and manufacturing industries. Domestic companies are a steady source of demand for CBD Grade-A office property. The area holds the largest amount of Grade-A office stock in the city, which totalled 3.4 million sqm as at the end of 2021, and accounting for 28% of the Beijing's total Grade-A office space of 12.2 million sqm.

Map of Beijing CBD office distribution

1	CWTCPIII A	21	Office Park
2	CWTCPIII B	22	Gemdale Plaza
3	Yintai Centre	23	Tailang Financial Plaza
4	China Centre Place	24	Beijing IFC
5	World Financial Centre	25	Jiaming Centre
6	Parkview Green	26	Borui Plaza
7	Fortune Financial Centre	27	Borui Plaza II
8	Emperor Group Centre	28	The Exchange
9	China World Trade Office I	29	Landgent Centre
10	China World Trade Office II	30	Vantone Centre
11	PICC Office Tower	31	HNA Holding Building
12	Kerry Centre	32	Kaisa Plaza
13	New China Insurance Tower	33	China Merchant Tower
14	LG Tower		
15	SK Tower		
16	Ocean International Centre I		
17	Ocean International Centre II		
18	Prosper Centre West Tower		
19	Prosper Centre East Tower		
20	China Overseas Plaza		

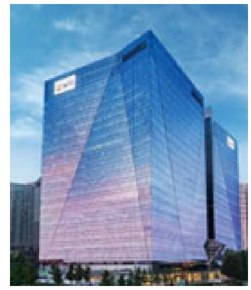
Source: Knight Frank Research

Overview of significant Grade A buildings in Beijing CBD


Building Name	**China Life Financial Centre**	**CP Center**	**China World Trade Office II**
Total Office GFA (sq m)	119,000	180,000	55,500
Completion Year	2019 Q2	2019 Q4	1999 Q3
Vacant Rate As At 2021 Q4	28%	20%	0%


Building Name	**CWTC PIII A**	**CWTC PIII B**	**Yintai Centre**
Total Office GFA (sqm)	120,000	62,000	74,000
Completion Year	2011 Q3	2017 Q2	2007 Q3
Vacant Rate As At 2021 Q4	5%	0%	2%

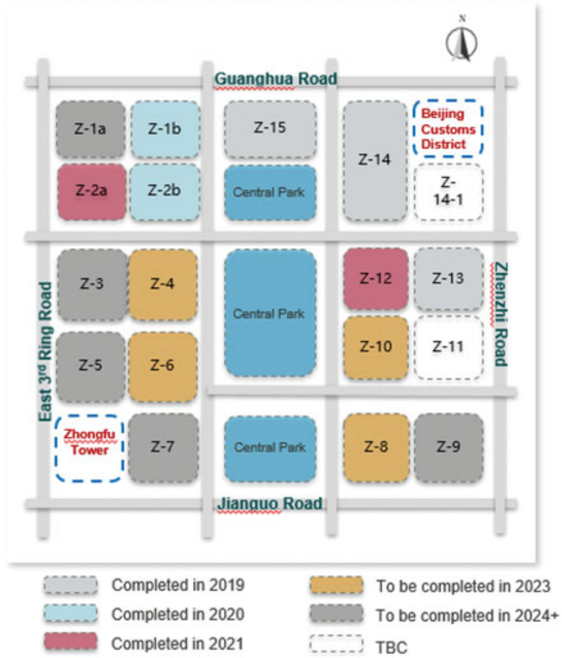


Building Name	**China Centre Place**	**World Financial Centre**	**Fortune Financial Centre**
Total Office GFA (sqm)	200,000	182,164	164,700
Completion Year	2007 Q1	2008 Q2	2013 Q3
Vacant Rate As At 2021 Q4	2.6%	1.6%	5%

Building Name	**Parkview Green**	**Emperor Group Centre**	**Kerry Centre**
Total Office GFA (sqm)	82,000	52,000	83,000
Completion Year	2011 Q4	2016 Q4	1998 Q2
Vacant Rate As At 2021 Q4	20%	0%	1.2%

Source: Knight Frank Research

Map of Zhongfu Plot



Plot Code	Building Name	Total GFA (sqm)	Estimated Completion
Z-15	CITIC Tower	350,000	
Z-13	China Life Financial Centre	120,000	2019
Z-14	Charoen Pokphand Centre (CP Centre)	180,000	
Z-1b	Tsinghua University Project	120,000	2020
Z-2b	Samsung Tower	100,000	
Z-12	Tai Kang Tower	140,000	2021
Z-2a	Sunshine Insurance Group	90,000	
Z-4	Min Sheng Bank	140,000	
Z-6	Sino Ocean/HSBC	190,000	2023
Z-8	China Investment Securities/CITIC	150,000	
Z-10	Fangzheng/China Unicom/CITIC/Anbang	150,000	
Z-5	Anbang/Hexie Health/Standard Life	120,000	
Z-9	Anbang/Taoli Investment	120,000	
Z-3	Vantone/CICC	120,000	2024+
Z-1a	CIFCO Group	60,000	
Z-7	Beijing Taiwan Club	80,000	
Z-11/ Z-14-1	TBC		

Source: Knight Frank Research

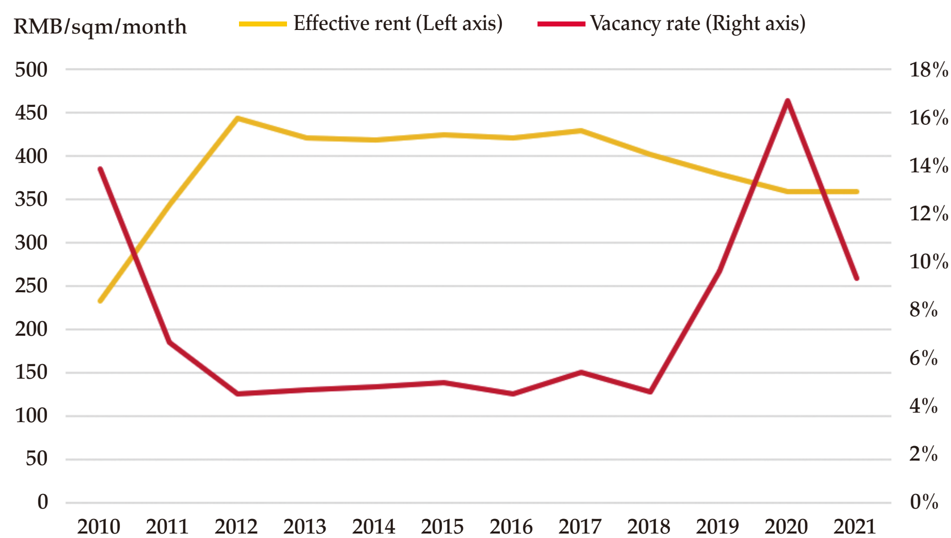
3.2 There will be no new supply in CBD in 2022, while a total of 630,000 sqm of office space will be completed in 2023. In 2023, the building developed by Sino-ocean and HSBC will contribute a total GFA of 190,000 sqm while the development owned by China Investment Securities will supply a total GFA of 150,000 sqm to the overall market.

3.3 With a fully developed transportation network, CBD Grade A office property holds a strong edge in Beijing's highly competitive leasing market. The vacancy rate of CBD Grade-A office remained at low levels between 4.5% and 5.4% during 2016 to 2018, until increased to 9.6% in 2019 due to the downbeat market. In 2020, the pandemic outbreak and economic downturn depressed leasing demand, resulting in the vacancy rate of CBD Grade A office surged to 16.7%. Since early 2021, the office leasing activities in CBD rebounded, thanks to the rising demand from companies looking to take advantage of the more favourable leasing environment. Vacancy rate has gradually dropped to 9.3% by the end of 2021.

3.4 Grade-A office rent in CBD stayed at around RMB420 to RMB429 per sqm per month during 2015 to 2017, before dropped by 6.3% YoY to RMB402 per sqm per month in 2018 due to the deleveraging policy and upgrade of Sino-US trade friction. This led to a tightened financial environment and undermined market confidence. The Grade-A office rent in CBD continued its downtrend until 2020 given the soft demand environment. The CBD Grade-A office market remained resilient even at a challenging environment, with its rental adjustment (-5.4%) relatively lower than the overall Beijing level (-8.4%) in 2020. Entering 2021, the active leasing market has balanced the large amount of supply, resulting in the stable rents ranging between RMB340 per sqm per month and RMB450 per sqm per month in Q4.

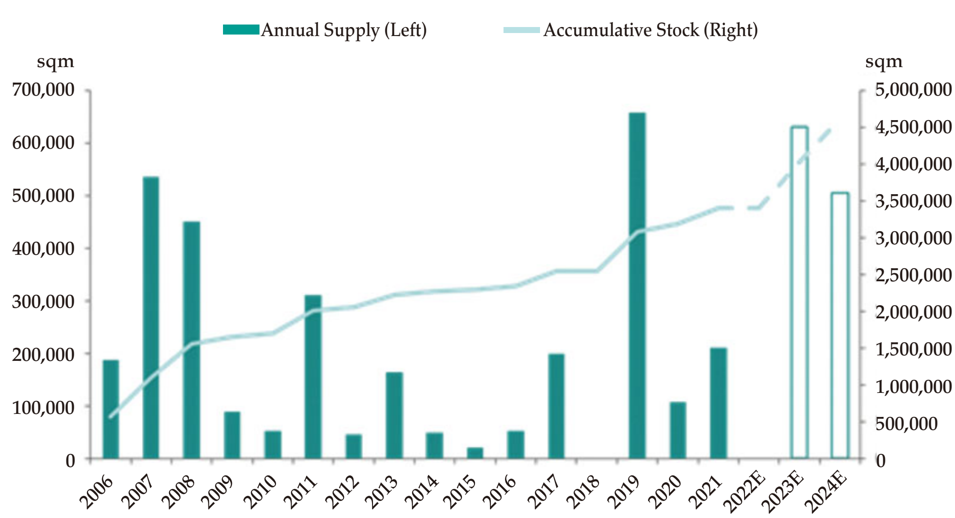
3.5 In 2022, leasing activity of CBD Grade-A office is expected to increase amid the recovery of domestic economy. Business expansion will underpin demand for office lettings. Vacancy rate will remain at around 9% to 11% as the new letting is likely to absorb majority of the new supply. The economic recovery will drive market sentiment to rise, which would support a rebound of office rents by around 2% to 3% in 2022.

Beijing CBD Grade-A office vacancy and rental



Source: Knight Frank Research

Beijing CBD Grade-A office supply and stock



Source: Knight Frank Research

Completion	Property Name	Total GFA *(sqm)*
2023	Min Sheng Bank Z4	140,000
2023	Sino Ocean/HSBC Z6	190,000
2023	Fangzheng/China Unicom/CITIC/Anbang Z10	150,000
2023	China Investment Securities/CITIC Z8	150,000
2024+	Anbang/Taoli Investment Z9	120,000
2024+	Anbang/Hexie Health/Standard Life Z5	120,000
2024+	Vantone/CICC Z3	120,000
2024+	CIFCO Group Z1a	60,000
2024+	Beijing Taiwan Club Z7	80,000

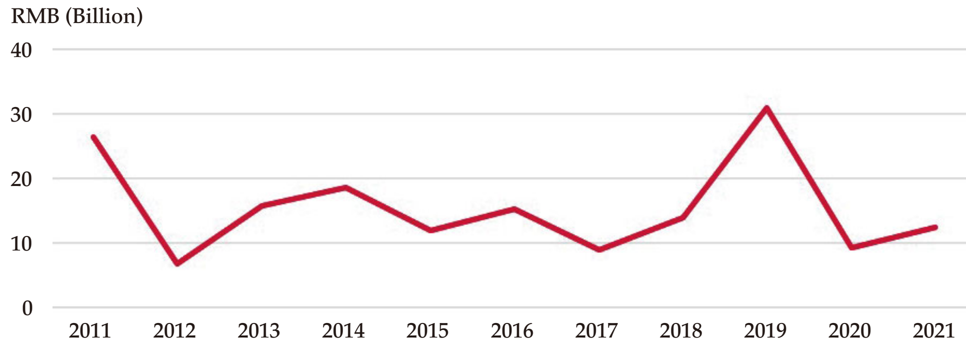
Source: Knight Frank Research

Office investment market

3.6 The total amount of office property investment in Beijing CBD increased from RMB1.6 billion in 2017 to RMB22 billion in 2021 with a CAGR of 68%. Similar to the overall Beijing office investment market, investors continued to be active in closing deals in Beijing CBD in 2020, despite COVID-19 outbreak. For instance, Hexie Health Insurance acquired SK Tower (Buildings A&B) from SK Group for RMB9.1 billion. GIC, a sovereign wealth fund of the Government of Singapore, acquired LG Twin Towers Beijing for RMB8 billion.

3.7 In the 5-year period from 2017 to 2021, the top buyer of Beijing CBD's office property is GIC, who purchased four properties in CBD totaled RMB22.4 billion during the period. It is followed by Hexie Health Insurance and Building Dream Star, who are both domestic investors from Chengdu and Shenzhen. In terms of top sellers, they include domestic company Sino-Ocean Group as well as two Korean firms SK Group and LG Corporation based in Seoul.

Beijing CBD office transaction volume by value



Source: Knight Frank Research/RCA

Significant office property transactions in Beijing CBD

Date	Development	Buyer	Seller	Amount *(RMB Billion)*
May 2021	SK Tower (Buildings A&B)	Hexie Health Insurance	SK Group	9.1
Dec 2021	Z6 Tower	GIC, HKMA, KIC	Sino-Ocean Group	8.9
Apr 2020	LG Twin Towers Beijing	GIC	LG Corporation	8.0
Mar 2019	Ocean Office Park Beijing	ICBC	Sino-Ocean Group	2.7

Source: Knight Frank Research / RCA

Top 5 buyers in the past five years in Beijing CBD

Rank	Buyers	Location	Consideration *(RMB Billion)*	No. of Properties
1	GIC	Singapore	22.4	4
2	Hexie Health Insurance	Chengdu, China	9.1	1
3	Building Dream Star	Shenzhen, China	4.2	1
4	Baixiang Trading	Beijing, China	1.1	1
5	AD Bank of China	Beijing, China	0.9	1

Top 5 sellers in the past five years in Beijing CBD

Rank	Sellers	Location	Consideration *(RMB Billion)*	No. of Properties
1	Sino-Ocean Group	Beijing, China	14.6	3
2	SK Group	Seoul, Korea	9.1	1
3	LG Corporation	Seoul, Korea	8.0	1
4	ICBC	Beijing, China	5.0	1
5	Soho China	Beijing, China	4.3	5

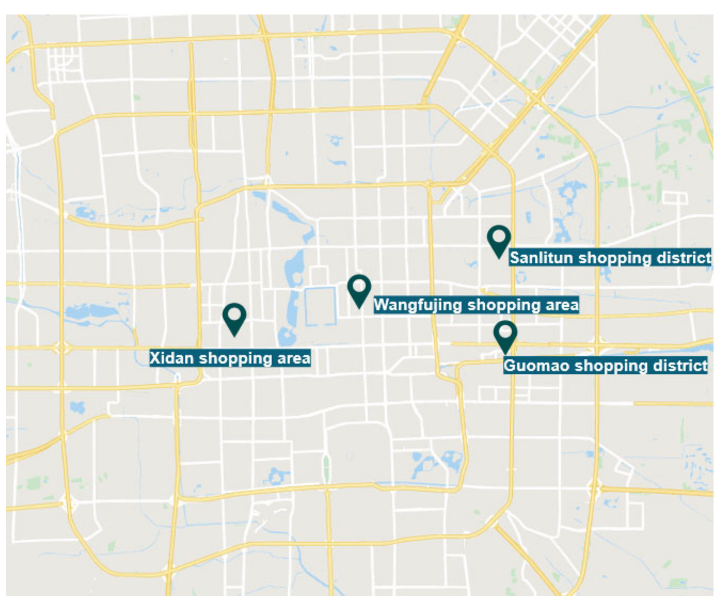
Source: Knight Frank Research/RCA

4. BEIJING RETAIL MARKET

Market overview

4.1 Beijing is one of the largest and most important prime retail markets in China. With Beijing's vibrant commercial development, the city attracts many international brands and luxury retailers to set up their operations as the first port of call to make inroads to other local markets.

4.2 In Beijing, Chaoyang, Dongcheng and Xicheng districts are home to several major shopping districts. Important shopping areas in Chaoyang District include: the Guomao shopping area — including China World Mall and Yintai Centre; the Sanlitun shopping area — including Taikoo Li and the Parkview Green, SKP, SKP-S, Chaoyang Joy City and Hopson One Beijing. In Dongcheng District, there is the Wangfujing shopping area — including WF Central, apm and Oriental Xintiandi. In Xicheng District, there is the Xidan shopping area — including Xidan Joy City and Galeries Lafayette Beijing, and the Financial Street Shopping Centre.



Source: Knight Frank Research

4.3 Beijing's retail market was under enormous pressure in 2020 due to the outbreak of COVID-19. Nonetheless, the market has been recovering steadily with the quick containment of the virus, and the strong macroeconomic fundamentals supported a relatively positive market sentiment. According to the Beijing Municipal Bureau of Statistics, the total retail sales of consumer goods in Beijing reached RMB1.49 trillion in 2021, up by 8.4% year on year (YoY). Among which, consumption of food and beverage enjoyed massive growth, up 27.5% YoY and reached RMB113.5 billion.

4.4 Amid the pandemic, F&B retailers remained active, supported by shopping mall's leasing strategies to introduce more western food and bars to cater to demand from young people. A number of coffee and tea brands expanded quickly and added new outlets in popular regional malls in recent quarters.

4.5 Beijing's major shopping centres include China World Mall, Taikoo Li Sanlitun, Beijing apm and Xidan Joy City. Their consumer profile and major retail mix is as the following:

Major Shopping Centres	Location	Developers	Consumer profile	Major retailers present
China World Mall (GFA 50,000 sqm)	Guomao shopping area	China Shi Mao Investment Co., Ltd. and Kerry Industrial Co., Ltd.	White-collars of the multinational companies in the CBD area, expatriates and middle-high income local residents	Balenciaga, Burberry, MCM, Saint Laurent, I.T., Maje, Sandro, COS, Max Mara, Y-3, DVF, Kenzo
Taikoo Li Sanlitun (GFA 120,000 sqm)	Saniltun shopping area	Swire Properties	Expatriates and local shoppers with an international outlook seeking fashion and lifestyle brands	I.T., Apple, Starbucks, Uniqlo, COS, Alexander McQueen, Balenciaga, Moncler, Lanvin
Beijing apm (GFA 90,000 sqm)	Wangfujing shopping area	Sun Hung Kai Properties	Expatriates, tourists and local shoppers with interest in mid-market fashions	Apple, Michael Kors, Sandro, Maje

Major Shopping Centres	Location	Developers	Consumer profile	Major retailers present
WF Central (GFA 150,000 sqm)	Wangfujing shopping area	HongKong Land	Expatriates, tourists and local shoppers with interest in premium brands	Audemars Piguet, Breguet, Bottega Veneta, Chopard, Chaumet, Dior, Ermenegildo Zegna, Fendi, Gucci
Xidan Joy City (GFA 115,000 sqm)	Xidan shopping area	COFCO	Local young consumers with middle income from the surrounding area	Apple, Zara, Gap, and Michael Kors

Source: Knight Frank Research

4.6 The latest addition of premium retail properties to the market were Taikoo Li West zone (30,000 sqm) and Fengtai Joy Breeze (50,000 sqm). As of Q4 2021, total shopping mall stock in Beijing reached 11.3 million sqm. The overall vacancy was about 7-10%. About 487,000 sqm of new shopping mall supply, mostly in decentralised areas, is expected to deliver in 2022. Selected future projects are shown in the below table.

Major future retail properties supply

Development	Location	Developer	Retail GFA *(sqm)*
New Everbright Centre Art Park	Tongzhou	EBA Investments	110,000
Paradise Walk	Daxing	Longfor Group	110,000
Grand Canal Place	Tongzhou	Sino-Ocean Group	100,000
The Mixc, Yaojiayuan	Chaoyang	CR Land	85,000
Lize Sky Mall	Fengtai	Beijing Hualian Group	82,000

Source: Knight Frank Research

4.7 Despite the pandemic, the strong macroeconomic fundamentals supported a relatively positive market sentiment and leasing demand for the Beijing retail properties. Retailers from the F&B sector were particularly active since the second half of 2021. Landlords, especially those of premium commercial projects have gradually raised their expectations with an eye on achieving sustained growth in the second half of the year.

4.8 In Q4 2021, the average ground floor rents of prime shopping mall in Beijing recorded a slight quarterly increase of 0.4%, reaching RMB750-1,000 per sqm per month. Given the strong leasing demand, it has provided opportunities for the landlords to review their existing tenant mix. More lifestyle-oriented and new-to-market brands operated their flagship stores in Q4. Looking ahead, we expect that Changping District, Tongzhou District and the Lize Financial Business District will enjoy huge potential in commercial properties development given the support of the government. The Beijing Municipal Commerce Bureau released its annual work plan in Q1 2021, proposing to promote the construction of commercial complexes in Huilongguan and Longze areas in Changping District and near Universal Studios in Tongzhou District.

4.9 Thanks to the prime locations, the average retail rent in CBD also recorded a 0.4% increase on a quarterly basis, sustaining around RMB400-700 per sqm per month in Q4 2021. Under stable consumption demand, occupancy rates of retail properties maintained at over 80%.

Beijing CBD retail rent and occupancy in Q4 2021

Property Name	Property Address	Total GFA *(sqm)*	Total NLA *(sqm)*	No. of Level	Monthly Rent (N) RMB/sqm/month (exclude Anchor Tenant) Ground floor	Average	Occupancy
Oriental Plaza	No. 1 East Chang An Avenue, Dongcheng District, Beijing	132,584	69,921	3 (UG, LG and Podium)	1,450 (UG)	830-950	97%
Beijing APM	No. 138 Wangfujing Avenue, Dongcheng District, Beijing	90,790	51,995	B1 to L6	1,480	560-700	92%

Property Name	Property Address	Total GFA *(sqm)*	Total NLA *(sqm)*	No. of Level	Monthly Rent (N) RMB/sqm/month (exclude Anchor Tenant) Ground floor	Average	Occupancy
Beijing Emperor Group Centre	No. 12 Jianwai Main Street Ding, Chaoyang District, Beijing	20,812	14,101	B4 to L3	700	280-400	92%

Source: Knight Frank Research/market sources

4.10 Due in part to the policy of "One Policy for One Retail Store", many traditional shopping malls in Beijing are undergoing a revitalisation in their business. About 15 traditional commercial complexes in 22 shopping districts will be refurbished and upgraded under a three-year renovation plan starting from 2021. For instance, the Beijing Cuiwei Department Store, located in Gongzhufen, closed its block A for upgrading in Q1 2021 as part of the first batch of pilot projects under the "One Policy for One Retail Store" plan. In 2021, a total of 16 shopping malls and 22 commercial areas have been completed its renovation and upgrading.

4.11 On the macro policy front, as part of its 14th five-year plan and 2035 vision, Ministry of Commerce announced in July 2021 that Beijing, Shanghai, Guangzhou, Tianjin and Chongqing have been shortlisted as model cities to take the lead in developing consumption markets of international standards focused on promoting high-quality imported goods, nurturing domestic brands, and further enhancing regional consumption upgrading. With this, Beijing's government already laid out plans to attract more international brands, increase the number of duty-free shops, allow more categories of duty-free goods and increase duty-free shopping quota per consumer.

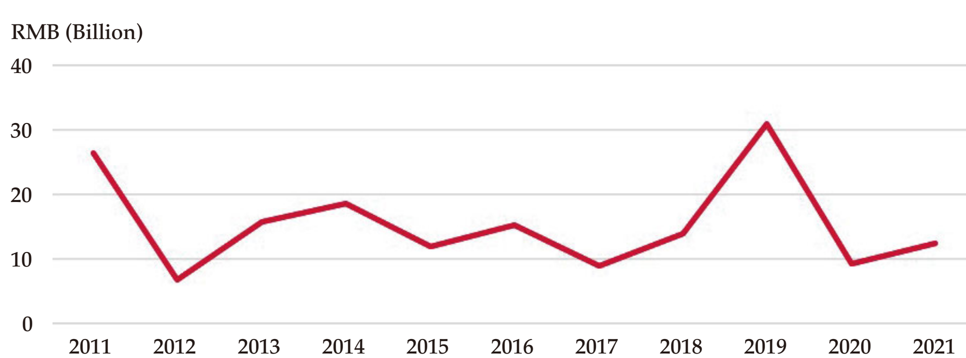
4.12 Furthermore, the Beijing Municipal Commerce Bureau issued several guidelines in October 2020 to promote the development of first stores of commercial brands in Beijing. Commercial brands who set up their first store or flagship shop in Beijing will be able to enjoy subsidies on rent, renovation fees, event expenses, etc. The "First-store economy" has encouraged more foreign brands to set foot in Beijing. According to the government's data, a total of 901 first shops of commercial brands debut in Beijing over the year, 1.8 times more than the whole of last year.

4.13 Looking ahead, as supported by the government's policy, coupled with an increase in population and local residents' improving consumption power, the local consumption market in Beijing should continue to expand. This is expected to boost retailers' market sentiment, enhance their confidence on business expansion in Beijing and accelerate leasing activity in the coming years. This would underpin a stable rental level for the overall Beijing retail market. In the CBD, the limited supply will keep the vacancy rate staying at relatively low levels and hence maintain healthy development of the market.

Retail investment market

4.14 Supported by several big-ticket transactions including the sale of Zhongguancun Times Square and Aegean Shopping Mall Beijing, the transaction value rose to RMB31 billion in 2019. However, under the outbreak of COVID-19 and weak market sentiment, the activity level in the investment market dropped significantly in 2020, leading to a yearly drop of 70.4% in total value. As the economic condition in China is recovering, the market also showing the signal of rebounding, the value in 2021 recorded RMB12.4 billion, rose 34.7% YoY.

Beijing retail transaction volume by value



Source: Knight Frank Research/RCA

Significant retail property transactions in Beijing CBD

Date	**Development**	**Buyer**	**Seller**	**Amount** *(RMB Billion)*
Nov 2021	Raffles City	Ping An Insurance	CapitaLand Investment	6.8
Oct 2019	Zhongguancun Times Square	Everbright Group	Guangyao Dongfang Group	6
Oct 2019	Aegean Shopping Mall Beijing	GoHigh Capital	Shuangquan Real Estate	3
Feb 2021	Huaxi Live Wukesong	CIFI Group	Bloomage International	2.2
Dec 2020	Beijing Tongzhou Phase 2	Primero Investment Holdings	Shun Tak	2.2
Apr 2020	Jinghang Plaza	Beitou Group & Aegean Group	Greentown China	1.6

Source: Knight Frank Research/RCA

Top 5 buyers in the past five years in Beijing CBD

Rank	Buyers	Location	Consideration *(RMB Billion)*	No. of Properties
1	ByteDance	Beijing, China	9.0	1
2	Ping An Insurance	Shenzhen, China	6.8	1
3	Everbright Group	Beijing, China	6.0	1
4	GoHigh Capital	Beijing, China	5.9	3
5	Yuanjing Mingde	Beijing, China	4.2	1

Top 5 sellers in the past five years in Beijing CBD

Rank	Sellers	Location	Consideration *(RMB Billion)*	No. of Properties
1	Beijing Zhongkun Investment	Beijing, China	9	1
2	CapitaLand Investment	Singapore	6.8	1
3	Guangyao Dongfang Group	Beijing, China	6	1
4	Gaw Capital	Hong Kong, China	4.2	1
5	Beijing Tiantai	Beijing, China	3.2	2

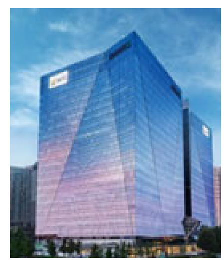
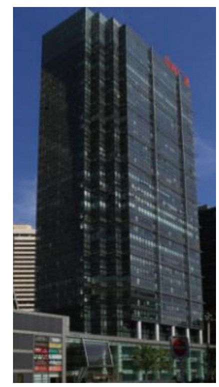
Source: Knight Frank Research/RCA

5. COMPETITION ANALYSIS

5.1 We identify the key competitive projects to the Target Property, both in terms of geographic location and office grading. We also analyse their scale of office area, operation performance, rents and market appeal.

5.2 Based on the rationale mentioned above, the identified competitors to the Target Property include:

- World Financial Centre
- China Overseas Plaza
- China World Trade Office II
- Kerry Centre

Building Name	World Financial Centre	China Overseas Plaza
Grade	A	A
Location	No.1 East 3rd Ring Middle Road, Chaoyang District	Guanghua Dongli No.8, Chaoyang District
Submarket	CBD	CBD
Total Office GFA (sq.m.)	182,164	151,000
Completion Year	2008 Q2	2009 Q2


Building Name	China World Trade Office II	Kerry Centre
Grade	A	A
Location	No.1, Jianguomen Outer Street, Chaoyang District	No. 1 Guanghua Road, Chaoyang District
Submarket	CBD	CBD
Total Office GFA (sq.m.)	60,000	83,000
Completion Year	1999 Q3	1998 Q2

5.3 Among these comparable office buildings, although the Target Property was built decades ago, it has been undergoing major refurbishment and renovation since 2019 and this was largely completed at the end of 2021. The Target Property has relatively modern and higher quality finishes after the refurbishment. The common area, lobby and outdoor landscape has been renovated and such enhancement has greatly improved market appeal and tenant experience. The modern office is of more attractiveness in the market and shall be able to cater to demand from quality tenants.

6. OVERVIEW OF TARGET PROPERTY AND SWOT ANALYSIS

Overview of Target Property

6.1 China Merchants Bank Building, China HP Building, Hengqin Life Tower, Inner Peace, ICBC Building and Taiping Financial Centre collectively constitute the development known as Onward Science & Trade Center (招商局航華科貿中心). Onward Science & Trade Center is a 320,000 sq.m. integrated property development, consisting of 4 office towers and 2 apartment buildings as well as the podium. The development was completed in 1998 and begun operations by 1999. The development has been partially sold by the PRC Subsidiary over the years, resulting in dispersed ownership between itself and other owners.

6.2 The Target Property is located at Guomao CBD, Chaoyang district, Beijing, which is one of the most prestigious business districts in Beijing. Guomao CBD is a top pick workplace to a lot of well-known professional company, including finance and insurance, professional services, TMT and manufacturing industries.

6.3 The table below sets out a summary of certain key information on the Target Property as at 31 March 2022, unless otherwise indicated:

Portion	Approximate Gross Floor Area (sq.m.)	Approximate Gross Rentable Area (sq.m.)	Expiry of Land Use Right
Commercial (Level 1 to Level 4 of China HP Building, China Merchants Bank Building, AIA NPA Center and 01-04 Connecting Podium, excluding Level 4 of China Merchants Tower)	15,020.24	15,020.24	28 August 2034

Portion	Approximate Gross Floor Area (sq.m.)	Approximate Gross Rentable Area (sq.m.)	Expiry of Land Use Right
Multi-function/Office (Level 4, Level 9 to Level 14, Levels 18, 19, 29, 30 and Level 32 to Level 34 of China Merchants Tower)	21,856.81	21,856.81	28 August 2044
Commercial (Basement mezzanine level of Target Property**)	3,946.94	3,946.94	28 August 2044
528 car parking spaces in basement**	7,546.27	N/A	28 August 2044
Total:	**48,370.26**	**40,823.99**	

Average rent (RMB/sq.m./month) for the month of March 2022(2)	RMB326.83 (based on gross rented area)
Occupancy rate as at 31 March 2022	66.4%
Total monthly rent as at 31 March 2022	RMB8,860,000, representing an estimated net property yield of 3.9%
Appraised Value as at 31 March 2022	RMB2,730,000,000

** Variously located at Hengqin Life Tower, AIA NPA Center, Inner Peace, ICBC Building, China HP Building, China Merchants Bank Building, China Merchants Tower, the 01-04 Connecting Podium and Taiping Financial Centre

SWOT Analysis of Target Property

Strength of Target Property

6.4 Solid office demand underpinned by Beijing strong economy and positioning.

Beijing is the capital of China and the country's political, cultural and international exchange centre. In 2021, the capital's economic conditions have recovered and increased by 11.4% YoY, reached RMB4.03 trillion. The share of the service sector in terms of GDP reached nearly 82% in 2021, which was the highest among all cities in China. As the capital of China and an important gateway to the globe, Beijing is one of the most favorable cities for company to set up their offices. The economy and positioning of Beijing has greatly underpinned the demand for offices. From 2010 to 2021, the office rental on citywide level has increased by 47%, representing an CAGR of 4%.

6.5 Beijing CBD is one of the most famous and top pick business district to tenants.

Beijing CBD, with well-established infrastructure and mature ancillary facilities, is one of the most developed business district in Beijing, The area holds the largest amount of Grade-A office stock in the city, which totalled 3.4 million sq.m. as at the end of 2021, and accounting for 28% of the Beijing's total Grade-A office space. The cluster of enterprises and retailers have built Beijing CBD into one of the most favorable workplace for domestic and international tenants.

6.6 Newly refurbished office levelled the market competitiveness.

As advised by the Manager, the Target Property has been undergoing major refurbishment and renovation since 2019 and this was largely completed at the end of 2021. The common area, lobby and outdoor landscape has been renovated and such enhancement has greatly improved the tenant experience. The brand new office is of more competitiveness within the market and shall be able to cater to the high quality tenants' need.

6.7 Prestigious location with easy accessibility by Metro.

The Target Property is within the core of Beijing CBD, at the intersection of two main roads in Beijing, Jiangguo Road and East 3rd Ring Road. It is directly accessible by metro station, Guomao station, the interchange station of Line 1 and Line 10. The Target property enjoy the prestigious location and easy accessibility.

Weakness of Target Property

6.8 Disperse ownership.

The Target Property is part of the development of Onward Science & Trade Center (招商局航華科貿中心), which is not within a single building tower. Such disperse ownership might bring up some inconveniences in the operation and management.

Opportunities of Target Property

6.9 Drive up office demand in relation to favorable policy and city planning

In 2021, the Chinese government has announced to set up a stock exchange in Beijing and build it into a major base for innovative small- and medium-sized enterprises (SMEs). These policies will drive office demand, especially for the Beijing Financial Street and CBD, from financial institutions and SMEs.

In addition, 14th Five-Year Plan for National Economic and Social Development and the Long-Range Objectives Through the Year 2035 was released in March 2021. It targets to build Beijing into an international science and technology innovation center, accelerate the synergistic development of Beijing, Tianjin and Heibei. The plan could also attract more high-tech enterprises globally and companies in the Tianjin and Heibei to relocate to Beijing, and hence boost the demand for office.

6.10 Rental uplift of the Target Property after the existing tenants expire

The average rent of Target Property is lower than the market rental level in CBD, and as the refurbishment being completed, we are in view of that, on market practices, such leases below market rent could revert to market rent and hence provide a better performance.

Threats of Target Property

6.11 Pandemic and trade friction impact

Due to Covid-19 and Sino-US trade friction, the Beijing office vacancy rate has increased citywide, and the vacancy rate in CBD has also marginally increased compared to 2018. Although the vacancy rate has dropped marginally in 2021, the current vacancy rate has already exerted pressure on the rental within CBD.

6.12 Competition within CBD

As observed from the market, the office properties within CBD are similar to each other. The competition within CBD area might inevitably turns into the price competition, which could curb the growth of rent of the Target Property and lower the retention rate of the existing tenants.

6.13 New supply in the future

Albeit there is no new supply in 2022 within CBD, there still will be 4 office towers coming to the market in 2023, accounting for 630,000 sq.m.. The new entrants could exert further pressure on the CBD and the Target Property.

An investment in real estate involves risks. Unitholders should consider carefully, together with all other information contained in this Circular, the risk factors described below before deciding to vote on the EGM Resolutions in respect of the Matters Requiring Approval.

RISKS RELATING TO CHINA MERCHANTS COMMERCIAL REIT

1. 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 of the REIT (including the Target Property) in an effective and efficient manner or the REIT Manager decides to terminate operations management agreements (including the Operations Management Agreement) or property management agreements (including the Property Management Agreement) before expiration or decides not to renew such agreements upon expiration

The entities directly owning the properties of the REIT (including the PRC Subsidiary in relation to the Target Property) have entered or will enter into operations management agreements (including the Operations Management Agreement) with the Operations Manager for the provision of certain dedicated property management services in respect of the properties of the REIT (including the Target Property) including, among other things, leasing, marketing and tenancy management services.

In addition, the entities directly owning the properties of the REIT (including the PRC Subsidiary in relation to the Target Property) have also entered or will enter into property management agreements (including the Property Management Agreement) 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 of the REIT (including the Target Property).

The failure of the Operations Manager and the Property Manager to manage the properties of the REIT (including the Target Property) effectively and efficiently will adversely affect the underlying value of the properties of the REIT (including the Target Property) 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 CMC REIT's relationship with the Operations Manager and Property Manager could hinder its abilities to manage CMC REIT's operations and its property portfolio.

In the event of early termination or non-renewal of the relevant operations management agreements (including the Operations Management Agreement) and/or the relevant property management agreements (including the Property Management Agreement), subject to market conditions then prevailing, the PRC Subsidiary 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 agreements 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 Target Property directly and CMC REIT could face a substantial disruption to its operations and an increase in costs incurred for management of the properties of the REIT (including the Target Property) and for certain corporate and administrative services.

2. CMC REIT may face risks associated with debt financing and the debt covenants in the facility agreements which could limit or adversely affect CMC REIT's operations

CMC 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 property and require a forced sale of the mortgaged property, or foreclose on its interests in the entities that own the property 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 CMC 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 entities directly owning the properties of the REIT (including the PRC Subsidiary in relation to the Target Property) to CMC REIT and from CMC 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 CMC REIT's facility agreements may require CMC REIT to comply with certain financial covenants. CMC 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 CMC REIT will always be able to meet these covenants.

Failure of CMC 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. CMC 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, CMC 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.

3. Pandemics, geopolitical tensions and other macro factors may negatively affect property investments

Macro factors such as COVID-19 and other pandemics, geopolitical tensions, and other global or regional developments affecting investor confidence, all of which are beyond the Manager's control, may materially and adversely affect the economy, infrastructure and livelihood of tenants in the PRC. In particular, the outbreak of COVID-19 across the world may result in prolonged measures to contain the spread of COVID-19, such as regulatory lock-downs, quarantines of people, suspension of operations or delayed resumption of work and production, and global travel restrictions imposed by the PRC and/or other regions. COVID-19 could potentially affect tenant's ability to pay rent and impact rental income of the Target Property. The insolvency or downturn in the business of retail and office tenants of the Target Property may also reduce the demand for the office space, commercial units and carpark space in the Target Property, which would result in vacancies or reductions in leased space, as well as potential oversupply. In addition, market uncertainty can lead to potential volatility in real estate prices as well as the RMB exchange rate. This may negatively impact the distributable income of CMC REIT and valuation of the Target Property.

4. RMB is not freely convertible. There are significant restrictions on the remittance of RMB into and out of the PRC, and the ability of the PRC Subsidiary to remit RMB to Hong Kong and the ability of CMC REIT to make distributions may be subject to future limitations imposed by the PRC government

The PRC Subsidiary receives all of its revenue in RMB, and RMB is not freely convertible at present. The PRC government continues to regulate conversion between RMB and foreign currencies, including the HKD, despite significant relaxation over the years of the PRC government's control over routine foreign exchange transactions on the current account. The ability to make payments to the Panama Subsidiary and BVI Subsidiary may be restricted by applicable laws and regulations that may restrict the repatriation in RMB out of the PRC.

The Manager's PRC Legal Adviser has advised that there is no legal impediment on the remittance of dividends on retained earnings of the PRC Subsidiary out of the PRC to the Panama Subsidiary and BVI Subsidiary, provided that such remittance is made and tax-levied in accordance with the procedures set out under the relevant PRC laws and regulations, including but not limited to those laws on foreign investment, tax and foreign exchange and that such remittance is not made in breach of the terms of the New Facility.

There is no assurance that the PRC government will continue to gradually liberalise the level of control over cross-border RMB remittance in the future or that new PRC regulations restricting RMB remittance into or out of the PRC will not be promulgated in the future which have the effect of restricting the remittance of RMB into or out of the PRC. If, due to the relevant PRC laws and regulations and/or administrative reasons, there is any delay in the remittance of RMB indirectly from the PRC Subsidiary to CMC REIT and/or the conversion of RMB to HKD, there could be a delay in the timing of repayment of distributions to the Unitholders. Further, if the PRC Subsidiary is not able to repatriate funds out of the PRC in RMB, CMC REIT's ability to pay distributions to the Unitholders will be affected.

5. Decreases in property values as a result of the revaluation of the properties could result in a decrease in the annual consolidated net profit of CMC REIT for that year and may also trigger certain events of default which may lead to adverse consequences under certain facility agreement

The Existing Properties (and, after the Acquisition, the Target Property) are subject to regular revaluation as required under the REIT Code. Under CMC REIT's accounting policy as currently required under the REIT Code and by applicable HKFRS, any decrease in the valuation of its investment property could result in non-cash charges to the statement of comprehensive income, and may give rise to a substantial decline in annual consolidated net profit. Under the Trust Deed, the Annual Distributable Income (as defined in the Trust Deed) for a financial year is the amount calculated by the Manager (based on the audited financial statements of CMC REIT for that financial year) as representing the consolidated audited net profit after tax of CMC REIT and the Special Purpose Vehicles and all distribution received and receivable by CMC REIT from any Minority-owned Property for that financial year, taking into account the Adjustments, and, for the avoidance of doubt, excludes any additional discretionary distributions out of capital. While the Manager may (but is not obliged to as they are not Adjustments) include in its annual distribution amounts referable to any unrealised property revaluation losses, as any unrealised property revaluation, will reduce CMC REIT's total gross asset value, the Manager's ability to do so is subject to, and may be constrained by, compliance with the gearing ratio prescribed by the REIT Code, which currently limits CMC REIT's borrowings to no more than 50.0% of CMC REIT's total gross asset value.

In the event a property revaluation results in a reduction in gross asset value, CMC REIT's borrowings as a proportion of total gross asset value may rise above the applicable borrowing limit requirement, and trigger certain events of default which may lead to adverse consequences under certain facility agreements.

6. Fluctuations in the value of RMB could affect the amount of distributions to Unitholders

CMC REIT receives all of its revenue in RMB, which will have to converted to HKD for payment to the Unitholders. A substantial portion of CMC REIT's borrowings are denominated in HKD. Any decrease in value of the RMB may adversely affect accounting profit for CMC REIT and will adversely affect the value of distributions paid in HKD and CMC REIT's Unit price.

7. Changes in market interest rates may adversely affect the property market and could negatively affect CMC REIT's ability to pay interest on its bank borrowings

Investment in real estate involves the risk that subsequent changes in market interest rates may adversely affect the value of the property in question. There is therefore a risk that changes in market interest rates may adversely affect the value of the Existing Properties (and, after the Acquisition, the Target Property) and the value of CMC REIT's investments.

Increase in market interest rates will increase the finance cost of the New Facility, the Refinancing Facility and CMC REIT's existing bank borrowings which charge floating interest rate. Increased finance costs would negatively impact CMC REIT's reported profit, distributable income and DPU.

RISKS RELATING TO THE TARGET PROPERTY

8. CMC 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 Target Property will be re-let at rental rates equal to or above the current average rental rates. Further, when the tenants of the Target Property decide not to renew their tenancy agreements or decide to terminate early, CMC 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 CMC REIT than current tenancy terms. If the rental rates for the Target Property decrease, or CMC REIT's existing tenants do not renew their tenancy agreements or CMC REIT does not re-let a significant portion of the spaces for which tenancy agreements are scheduled to expire, CMC REIT's business, financial condition, results of operations, cash flow and cash available for distributions to Unitholders could be materially and adversely affected.

9. The loss of key tenants or any breach of their obligations under the tenancy agreements may have an adverse effect on CMC 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 Target Property, the failure of the sub-tenants to pay rent; and (v) material losses in excess of insurance proceeds. CMC REIT's claims for unpaid rent against a bankrupt tenant may not be paid in full. In addition, CMC 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, CMC 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 Target Property and thus CMC REIT's business, financial condition, results of operations and prospects.

10. The Target Property is 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 Subsidiary 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 Target Property

The Property are directly held by the PRC Subsidiary 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 Target Property will expire on 28 August 2034 in respect of the above-ground commercial portions of the Target Property and 28 August 2044 in respect of the multi-function/office portions, basement mezzanine commercial portions and basement car parking spaces of the Target Property. For details, please refer to section 5.1.2 headed "Information on the Target Property" — "The Property" — "Key Information" and section 5.3 "Information on the Target Property" — "Ownership" in this 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. As none of the land use rights granted by the PRC Government similar to those granted for the Target Property has, as at the Latest Practicable Date, run its full term, there is no precedent to provide an indication of the amount of the land grant premium which the PRC Subsidiary 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 Target Property upon the expiry thereof.

In certain circumstances, the PRC government may, where it considers it to be in the public interest, terminate land use rights and expropriate the land before the expiration of the term. In the event of any compulsory expropriation 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 Target Property is subsequently expropriated by the PRC Government, the level of compensation paid to CMC REIT pursuant to this basis of calculation may be less than the price which CMC REIT has paid or would have paid for the Target Property. In addition, the PRC government has the right to terminate long-term land use rights and withdraw early the land in the event the PRC Subsidiary fails to observe or perform certain terms and conditions pursuant to the land use rights grant contracts, in which case CMC REIT may not be entitled to any compensation.

If the PRC Government charges a high land grant premium or imposes additional or less favourable conditions, the operations and business of the PRC Subsidiary, and in turn the business, financial condition and results of operations of CMC REIT, could be materially and adversely affected.

In the event that no application for extension of land use rights for the Target Property is made, or the application is not approved, the land use rights, together with the building and auxiliaries thereon, must be returned to the PRC government for no consideration when the term of land use rights expires and the PRC Subsidiary would lose the entire value of the Target Property. In that case, operations and business of the PRC Subsidiary, and in turn the business, financial condition and results of operations of CMC REIT, could be materially and adversely affected.

11. The land which the Target Property occupies 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 CMC 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 Target Property is subsequently resumed by the PRC Government, the level of compensation paid to CMC REIT pursuant to this basis of calculation may be less than the price which CMC REIT has paid or would have paid for such property.

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 CMC 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 CMC REIT.

12. The Appraised Value is based on various assumptions and the price at which CMC REIT is able to sell the Target Property may be different from the Appraised Value or the initial acquisition price of the Target Property

The Independent Property Valuer's Valuation Report is contained in Appendix 5 to this Circular. In conducting its valuation of the Target Property, the Independent Property Valuer primarily adopted an income capitalisation method and market comparison method. The valuation was based on certain assumptions, such as the capitalised value of the reversion market rental, capitalised value of the vacant portion and the lack of structural defects.

There can be no assurance that the assumptions are accurate measures of the market or that the Target Property was valued accurately. Further, the Appraised Value of the Target Property 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 CMC REIT may sell the Target Property in the future may be lower than the Appraised Value or the initial acquisition price of the Target Property. These factors may have a material adverse effect on the business, financial condition, results of operations and prospects of CMC REIT.

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

The representations, warranties and indemnities given by the Vendor and the Warrantor (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 in respect of any breach under the warranties must be made within three years from the Completion Date (other than claims relating to fundamental warranties and tax, which must be made within seven years from the Completion Date). In addition, the aggregate maximum liability of the Vendor and Warrantor (as co-warrantors) in respect of all claims under the representations and warranties shall not exceed the Consideration. Accordingly, there is no assurance that any breaches by the Vendor and/or Warrantor of such representations, warranties and indemnities can be identified and claimed against within such limitation periods or that CMC REIT will be compensated for all losses or liabilities suffered or incurred as a result of such breaches.

14. The Target Property's success depends on the ability of the Manager to cooperate with the Vendor in operating the Target Group and the Target Property. Failure to cooperate in an efficient and effective manner could have a material adverse effect on the value of the Target Property and CMC REIT's results of operations

CMC REIT is acquiring a 51% interest in the Target Company and an effective 46.41% in the Target Property, with the remaining 49% interest in the Target Company being retained by the Vendor. The Shareholders' Agreement sets out their Agreement as to operation of the Target Group and the Target Property.

Failure of the shareholders of the Target Company to cooperate may adversely affect the underlying value of the Target Property and CMC REIT's results of operations. Disputes between the shareholders may also lead to legal proceedings that result in damage to CMC REIT's reputation, incurrence of substantial costs and the diversion of resources and management's attention. Serious disputes may lead to CMC REIT prematurely disposing its interest in the Target Company. Also, there can be no assurance that the Vendor will not commit a default under the Shareholders' Agreement.

The Manager has sought to mitigate such risks by limiting the reserve matters which require the Vendor's approval, although the occurrence of any of the foregoing risks could still arise and adversely affect CMC REIT's expected financial return on its 51% interest in the Target Company (and an effective 46.41% interest in the Target Property).

15. The Target Property is subject to concentration risk. The departure of major tenants at the Target Property may have a material adverse effect on CMC REIT's business, financial condition and results of operations

The top ten tenants of the Target Property account for approximately 94.2% of total monthly rent as at 31 March 2022. The departure of major tenants at the Target Property could materially reduce CMC REIT's rental income if CMC REIT is unable to find replacement tenants or if CMC REIT leases the space at a lower rate than applicable to the departing tenant, which could have a material adverse effect on CMC REIT's business. financial condition and results of operations.

16. The Manager does not have any prior experience with owning, operating and managing properties in Beijing

The current portfolio of CMC REIT includes 5 assets in Shenzhen, being 1 shopping mall, 1 grade A office and 3 grade B office. The experience of the Manager in managing offices in Shenzhen might not be applicable in Beijing. Prior to the Acquisition, the Manager has had no experience with owing, operating and managing properties in Beijing. As the market varies in different cities in China, there is no assurance that the Manager has a thorough understanding of the local market and will be successful in managing the Target Property.

Any failure by the Manager to understand and adapt to the property market in Beijing may have a material adverse effect on CMC REIT's business, financial condition and results of operations.

RISKS RELATING TO THE REAL ESTATE INDUSTRY AND THE PRC

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

The real estate industry is subject to extensive governmental regulations. As with other property owners in the PRC, CMC 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 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.

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 CMC 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 CMC 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 CMC REIT's business prospects or cause CMC REIT to incur additional costs, CMC REIT's business, financial condition, results of operations and prospects may be adversely affected.

18. The ability of CMC 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 CMC REIT's distributions to Unitholders

CMC REIT operates principally through companies established in the PRC directly holding the properties of the REIT and relies on dividend payments and other payments and/or distributions from the such PRC companies for its income and cash flows to satisfy its payment obligations and to make distributions to Unitholders.

Under PRC law, a PRC company (such as the PRC Subsidiary) is only permitted to declare and repatriate dividends on retained profits, if any, as determined in accordance with PRC accounting standards and regulations. The profits available for distribution by the PRC Subsidiary are determined in accordance with CAS. Such profits available for distribution by such entities may differ from the profits available for distribution by CMC REIT, which will be determined using HKFRS. CAS and HKFRS differ 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 enterprises and deferred tax thereon. Thus, the amount of profit which is available for distribution by the PRC Subsidiary 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 CMC REIT to the Unitholders under HKFRS pursuant to its distribution policy.

In addition, PRC companies are required to set aside a certain amount of their retained profits each year, if any, to fund certain statutory 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 companies directly holding the properties of the REIT can declare will be limited, thereby potentially reducing the amount of cash that can be used for distribution to Unitholders.

The ability of the PRC companies (including the PRC Subsidiary) to make distributions may also be restricted by applicable laws and regulations (that may restrict the repatriation in RMB or other currencies of rental and other income by such PRC Enterprises out of the PRC). See the section above "RMB is not freely convertible. There are significant restrictions on the remittance of RMB into and out of the PRC, and the ability of the PRC companies (including the PRC Subsidiary to remit RMB to Hong Kong and the ability of CMC REIT to make distributions may be subject to future limitations imposed by the PRC government".

19. CMC 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.

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 CMC REIT's investments as it may experience difficulty in remitting profits generated from the PRC companies directly holding the properties of the REIT or residual income from liquidation of such companies to overseas. In addition, in accordance with the laws and regulations of the PRC, the PRC companies directly holding the properties of the REIT 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 companies directly holding the properties of the REIT 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 such PRC companies and the business, financial condition, results of operations and prospects of CMC REIT could be materially and adversely affected.

20. CMC REIT may be adversely affected by the illiquidity of property investments

Property investments are relatively illiquid, particularly investments in high value properties such as those in which CMC REIT has already invested or intends to invest, including the Target Property. Such illiquidity may affect CMC REIT's ability to vary its investment portfolio or liquidate part of the Target Property in response to changes in economic, property market or other conditions. For example, CMC REIT may be unable to liquidate its assets on short notice or may be forced to agree to a substantial reduction in the price that may otherwise by sought for such assets, to ensure a quick sale. In addition, CMC REIT may face difficulties in securing timely and commercially favourable financing in asset-based lending transactions secured by real property due to the illiquid nature of real property assets. These factors could have an adverse effect on CMC REIT's business, financial condition or results of operations, with a consequential adverse effect on CMC REIT's ability to make expected distributions to Unitholders.

1. DISCLOSURE OF INTERESTS IN UNITS

Interests held by the Manager and the Directors and chief executive

The REIT Code requires connected persons of CMC REIT to disclose their interests in Units. In addition, certain provisions of Part XV of the SFO in relation to disclosure of interests are deemed, pursuant to the Trust Deed, to apply to the Manager itself and the Directors and the chief executive of the Manager, and persons interested in units (including short positions).

The interests and short positions of the Directors and the chief executive of the Manager in the Units recorded in the register maintained by the Manager under Schedule 3 of the Trust Deed are set out below:

INTERESTS HELD BY DIRECTORS AND CHIEF EXECUTIVES OF THE REIT MANAGER

Name of director	Number of Units	Approximate percentage of Interests *(%)*
Huang Junlong	Nil	–
Guo Jin	160,000	0.01
Liu Ning	Nil	–
Yu Zhiliang	160,000	0.01
Lin Hua	Nil	–
Lin Chen	Nil	–
Wong Yuan Chin, Tzena	Nil	–

Note:

(1) The percentages expressed herein are based on the total number of issued Units of 1,127,819,549 as at the Latest Practicable Date.

Unitholdings of substantial holders

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Manager, persons (other than a Director or chief executive of the Manager) who had interests or short positions in the Units and underlying Units which would fall to be disclosed to CMC REIT under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Manager under Schedule 3 of the Trust Deed were as follows:

INTERESTS OF SUBSTANTIAL UNITHOLDERS

Name of substantial unitholder	Capacity in which Units are held	Interests in Units	Approximate percentage of Interests (%)
China Merchants Group Limited	Through controlled corporation	400,332,310 (L)*	35.49
China Merchants Shekou Industrial Zone Holdings Company Limited	Through controlled corporation	400,332,310 (L)*	35.49
EUREKA INVESTMENT COMPANY LIMITED	Beneficial owner	400,332,310 (L)*	35.49
HSBC International Trustee Limited	Trustee	146,798,000 (L)*	13.02
CWL Assets (PTC) Limited	Trustee	146,198,000 (L)*	12.96
K. Wah Properties (Holdings) Limited	Through controlled corporation	146,198,000 (L)*	12.96
Polymate Co., Ltd.	Through controlled corporation	146,198,000 (L)*	12.96
Premium Capital Profits Limited	Beneficial owner	146,198,000 (L)*	12.96
Star II Limited	Through controlled corporation	146,198,000 (L)*	12.96
Pacific Asset Management Co., Ltd.	Investment manager	137,192,000 (L)*	12.16

* (L) – Long position

Note:

(1) The percentages expressed herein are based on the total number of issued units of 1,127,819,549 as at the Latest Practicable Date.

Unitholdings of other Connected Persons

Save as disclosed above, the Manager is not aware of any connected persons of CMC REIT who are interested (or deemed to be interested) in any Units as at the Latest Practicable Date.

Save as disclosed in this Circular and as at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Manager:

(i) no person (other than a Director) is interested (or deemed to be interested) in Units, or holds any short position in the Units, which were required to be disclosed to the Manager and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO; and

(ii) none of the Directors of chief executives of the Manager had any interests or short positions in the Units of CMC REIT or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be disclosed to the Manager and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, which the Trust Deed deems to apply to the Manager itself and the Directors and chief executive of the Manager.

2. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS AND IN COMPETING BUSINESSES

Save as disclosed in this Circular, as at the Latest Practicable Date:

(a) none of the Directors had any direct or indirect interest in any assets which have been, since the date that the latest published audited accounts of CMC REIT were prepared, acquired or disposed of by (or leased to) or are proposed to be acquired or disposed of by (or leased to) the Enlarged Group;

(b) none of the Directors was materially interested in any contract or arrangement entered into by the Enlarged Group and subsisting at the date of this Circular which was significant in relation to the Enlarged Group's business; and

(c) none of the Directors or any of their associates had interests in a business which competes or is likely to compete, either directly or indirectly, with CMC REIT's business, or had or may have had any other conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

3. EXPERTS AND CONSENTS

Each of the Reporting Accountant, the Tax Adviser, the Independent Financial Adviser, the PRC Legal Adviser, the Independent Property Valuer and the Market Consultant has given and has not withdrawn its written consent to the inclusion of its name in this Circular. Each of the Reporting Accountant, the Independent Financial Adviser, the Independent Property Valuer and the Market Consultant has also given their consent to the inclusion of their respective report in this Circular, in the form and context in which they are appear.

The following are the qualifications of the experts who have been named in this Circular or have given opinion or advice which are contained in this Circular.

Deloitte Touche Tohmatsu	Certified Public Accountants
Zhonghui Victory Grand (Beijing) Certified Tax Agent Ltd.	Tax Adviser
Somerley Capital Limited	A corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
JunHe LLP	PRC Legal Adviser
Cushman & Wakefield Limited	Independent Property Valuer
Knight Frank Petty Limited	Market Consultant

As at the Latest Practicable Date, none of the experts had any interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the experts had any direct or indirect interest in any assets which have been, since the date to which the latest published audited financial statements of CMC REIT were made up (being 31 December 2021), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to the Enlarged Group.

4. DIRECTORS' SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with any member of the Group which does not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. LITIGATION

As at the Latest Practicable Date, none of CMC REIT, the Manager, the Trustee (in its capacity as the trustee of CMC REIT), the Purchaser or the Target Group Companies were involved in any litigation or claims of material importance and no litigation or claims of material importance, by or against CMC REIT, the Manager, the Trustee (in its capacity as the trustee of CMC REIT), the Purchaser or the Target Group Companies, was pending or threatened.

6. MATERIAL CONTRACTS

Save as disclosed in CMC REIT's announcements to Unitholders, and save for the documents referred to in paragraphs 10(a) and 10(b) below, the Enlarged Group has not entered into any other material contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date in this Circular. Please refer to section 2.5 headed "Sale and Purchase Deed" and section 2.6 headed "Shareholders' Agreement" in this Circular for further details regarding the Sale and Purchase Deed and Shareholders' Agreement, respectively.

7. DOCUMENTS ON DISPLAY

The following documents will be available on (i) the website of the SFC (http://www.sfc.hk); (ii) the website of the Stock Exchange (www.hkexnews.hk); and (iii) the website of CMC REIT (http://www.cmcreit.com) from the date of this Circular up to and including the date of the EGM:

(a) the Sale and Purchase Deed (and the attachments thereto, and all material contracts relating to the Acquisition mentioned in this Circular);

(b) the Shareholders' Agreement;

(c) the commitment letter for the provision of the New Facility;

(d) the loan agreements for the loan constituting the Indebtedness to Vendor Group, being the loan from a member of the Vendor Group to the Panama Subsidiary in the amount of the outstanding principal and accrued interest under the Mingyuan Dalian Bank Loan I and the Mingyuan Dalian Bank Loan II;

(e) the Amended and Restated Operations and Property Management Framework Agreement;

(f) the letter from the Independent Board Committee;

(g) the letter from the Independent Financial Adviser;

(h) the Accountant's Report of the Target Group from Deloitte Touche Tohmatsu as set out in Appendix 2 to this Circular;

(i) the report on the pro forma financial information of the Enlarged Group from Deloitte Touche Tohmatsu as set out in Appendix 4 to this Circular;

(j) the Independent Property Valuer's Property Valuation Report;

(k) the Market Consultant's Report; and

(l) the written consents referred to in section 3 headed "Experts and Consents" of this Appendix.

The Trust Deed will also be available for inspection at the registered office of the Manager for so long as CMC REIT continues to be in existence.

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 authorized under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

(Stock Code: 01503)

Managed by
China Merchants Land Asset Management Co., Limited

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the unitholders (the "**Unitholders**") of CMC Real Estate Investment Trust ("**CMC REIT**") will be held at Small Connaught Room, Mandarin Oriental, 5 Connaught Road, Central, Hong Kong on 30 June 2022 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without modifications, the resolutions below.

Words and expressions that are not expressly defined in this notice of extraordinary general meeting shall bear the same meaning as that defined in the unitholder circular dated 14 June 2022 (the "**Circular**").

ORDINARY RESOLUTIONS

1. "**THAT** approval (where relevant, shall include approval by way of ratification) be and is hereby given for the Transaction Matters Requiring Approval, being:

   (a) the Acquisition and the transactions contemplated under the Sale and Purchase Deed (including the Indebtedness to Vendor Group) as more fully described in the Circular and on the terms and conditions set out in the Sale and Purchase Deed; and

   (b) the execution of the Shareholders' Agreement and the transactions contemplated thereunder as more fully described in the Circular and on the terms and conditions set out in the Shareholders' Agreement,

   in each case, as more fully set out in the Circular.

   AND THAT authorisation be granted to the Manager, any director of the Manager, the Purchaser and any authorised signatory of the Purchaser to complete and to do all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager, the Purchaser or such authorised signatory of the Purchaser, as the case may be, may consider expedient or necessary or in the interest of CMC REIT to give effect to all matters in relation to the Transaction Matters Requiring Approval generally."

2. "**THAT**, conditional upon Ordinary Resolution no. 1 being passed:

   (a) the Amended and Restated Operations and Property Management Framework Agreement, the Operations and Property Management Transactions under the Amended and Restated Operations and Property Management Framework Agreement and the proposed annual caps applicable thereto for the three years ending 31 December 2022, 2023 and 2024, be and are hereby approved, confirmed and ratified; and

   (b) the Manager, any Director, the Trustee and any authorised signatory of the Trustee be and are hereby severally authorised to complete and do all such acts and things (including executing the Amended and Restated Operations and Property Management Framework Agreement and all such documents as may be required) as the Manager, such Director, the Trustee and/or such authorised signatory of the Trustee, as the case may be, may consider desirable, expedient or necessary or in the interest of CMC REIT to implement or give effect to all matters contemplated and/or authorised in paragraph (a) of this resolution."

By order of the board of Directors of
China Merchants Land Asset Management Co., Limited
(as manager of CMC Real Estate Investment Trust)
Huang Junlong
Chairman of the Manager

Hong Kong, 14 June 2022

Registered Office:
Room 2603 to 2606, 26/F, China Merchants Tower, Shun Tak Centre
Nos. 168-200 Connaught Road Central
Hong Kong

Notes:

(i) A Unitholder is entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and, on a poll, vote in his/her stead. The person appointed to act as a proxy need not be a Unitholder.

(ii) In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the registered office of the Unit Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof. Completion and return of the proxy will not preclude you from attending and voting in person should you so wish. In the event that you attend the meeting or adjourned meeting (as the case may be) after having lodged a form of proxy, the form of proxy will be deemed to have been revoked.

(iii) Where there are joint registered Unitholders of a unit, any one of such Unitholders may vote at the meeting either personally or by proxy in respect of such unit as if he/she were solely entitled thereto, but if more than one of such Unitholders is present at the meeting personally or by proxy, that one of such Unitholders so present whose name stands first on the Register of Unitholders in respect of such unit shall alone be entitled to vote in respect thereof.

(iv) In order to determine which Unitholders will qualify to attend and vote at the EGM, the Register of Unitholders will be closed from 27 June 2022 to 30 June 2022, both days inclusive, during which period no transfer of units will be registered. For those Unitholders who are not on the Register of Unitholders, in order to be qualified to attend and vote at the EGM, all unit certificates accompanied by the duly completed transfer forms must be lodged with the unit registrar of CMC REIT in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 24 June 2022.

(v) **In order to safeguard the health and safety of Unitholders and other attendees and to minimise the risk of spreading of COVID-19, the Manager will implement the following precautionary measures for the EGM (or any adjournment thereof):**

(a) compulsory body temperature screening/check at the entrance of the EGM venue;

(b) compulsory wearing of face masks at all times;

(c) scanning of the "LeaveHomeSafe" venue QR code;

(d) complying with the requirements of the "Vaccine Pass Direction"[#] ;

(e) maintaining a safe distance between seats to ensure social distancing;

(f) no refreshments or drinks will be served; and

(g) no souvenirs will be provided.

[#] "Vaccine Pass Direction" is defined under the Prevention and Control of Disease (Vaccine Pass) Regulation (Cap. 599L of the Laws of Hong Kong)

The Manager reserves the right to deny entry into the EGM venue if any person (i) refuses to comply with any of the precautionary measures referred to in (a) to (g) above; (ii) has a body temperature of over 37.4 degree Celsius; or (iii) is subject to health quarantine prescribed by the Government of Hong Kong or has close contact with any person under quarantine.

(vi) **IMPORTANT REMINDER: Subject to the development of COVID-19, the Manager may be required to change the EGM arrangements at short notice and may issue further announcement as appropriate. Unitholders are advised to check CMC REIT's website (https://www.cmcreit.com/) for any update of latest arrangement of the EGM.**

As at the date of this notice, the Board comprises:

Non-executive Directors:	*Huang Junlong (Chairman), Yu Zhiliang and Liu Ning*
Executive Director:	*Guo Jin*
Independent Non-executive Directors:	*Lin Hua, Lin Chen and Wong Yuan Chin, Tzena*