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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))

Managed by
China Merchants Land Asset Management Co., Limited

(Stock Code: 1503)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020 AND RECORD DATE FOR DISTRIBUTION ENTITLEMENT

China Merchants Commercial Real Estate Investment Trust (“**China Merchants Commercial REIT**” or “**CMC REIT**”) is a real estate investment trust constituted by the trust deed (the “**Trust Deed**”) entered into between China Merchants Land Asset Management Co., Limited, the manager of China Merchants Commercial REIT (the “**REIT Manager**”), and DB Trustees (Hong Kong) Limited, the trustee of China Merchants Commercial REIT (the “**Trustee**”), on 15 November 2019. The units of China Merchants Commercial REIT (the “**Units**”, and each a “**Unit**”) were listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 10 December 2019 (the “**Listing Date**”).

FINANCIAL HIGHLIGHTS

Results for the period from 1 January 2020 to 30 June 2020 (“Reporting Period”)

	<i>RMB'000</i>
Revenue	177,906
Net property income	138,703
NPI Margin	78.0%
Profit after tax	45,621
Distributable income	81,932
Payout ratio	100%
Distribution per unit (DPU)	HK\$0.0809
Net assets per unit attributable to Unitholders	RMB3.33

	30 June	31 December	
	2020	2019	Difference
	<i>RMB'million</i>	<i>RMB'million</i>	
Total assets	7,656	8,078	-5.2%
Net assets attributable to Unitholders	3,751	3,787	-1.0%
Debt to total asset value	26.8%	23.4%	3.4%

MANAGEMENT DISCUSSION AND ANALYSIS

The revenue and occupancy rate of the five properties under China Merchants Commercial REIT was impacted by the novel coronavirus pneumonia (the “**COVID-19**”) pandemic, and decreased slightly during the Reporting Period. Total revenue of China Merchants Commercial REIT for the Reporting Period was approximately RMB177,906,000, a fall of approximately RMB12,831,000 from the revenue from the same period in 2019. As rent concessions were provided to several tenants, total rental income for China Merchants Commercial REIT weakened to approximately RMB151,204,000 as compared to approximately RMB160,341,000, the rental income from the same period in 2019.

The property operating expenses of China Merchants Commercial REIT for the Reporting Period were approximately RMB39,203,000. Property management expenses was approximately RMB21,656,000, which contributed to 55.2% of the property operating expenses; operations manager’s fee and other taxes contributed to 18.9% and 20.5% of the property operating expenses respectively. After deducting property operating expenses, net property income was approximately RMB138,703,000 for the Reporting Period.

China Merchants Commercial REIT recorded Distributable Income of approximately RMB81,932,000 for the six months ended 30 June 2020. The REIT Manager intends to distribute to the unitholders of China Merchants Commercial REIT (the “**Unitholders**”) 100% of the Distributable Income. The distribution to Unitholders for the Reporting Period will be HK\$0.0809 per unit (equivalent to approximately RMB0.0726 per unit), which represents an annualised distribution yield of 5.9%, based on the closing price of the Units on 30 June 2020 (being HK\$2.77).

Together with the Committed DPU from Listing Date to 31 December 2019 of HK\$0.0142 per Unit, the DPU for the period from Listing Date to 30 June 2020 is HK\$0.0951 per Unit, and the total distribution amount is approximately HK\$107,256,000.

Index inclusion signifies a key milestone

China Merchants Commercial REIT has been included in the MSCI China Small Cap Index, effective as of market close on 29 May 2020. This marks an important milestone to raise China Merchants Commercial REIT’s profile in the global capital markets and to enhance the trading liquidity.

Market Review

2020 will undoubtedly be a challenging year. The COVID-19 pandemic has significantly impacted the economic growth of both the world and China. However, with the implementation of the Chinese government’s strong anti-epidemic measures, economic order has been gradually restored in China, and supportive macroeconomic policies by the government at all levels has restored confidence in the real estate market. The strength of China’s economic recovery can be seen from the fact that China’s gross domestic product (GDP) grew by 3.2% in the second quarter, after a 6.8% contraction in the first quarter of 2020.

Property Overview

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

New Times Plaza, a Grade A office building with an aggregate Gross Floor Area (“**GFA**”) of 87,337 sq.m. located adjacent to the Sea World commercial area and Prince Bay the heart of Shekou;

Cyberport Building, Technology Building and Technology Building 2, three office building complexes repurposed from industrial use with an aggregate GFA of 124,545 sq.m. located in Shekou Net Valley, a business hub for high-tech companies and startups which has been earmarked by the Nanshan Government for promoting and developing emerging industries;

Garden City Shopping Centre, the first large-scale comprehensive commercial complex integrating shopping, dining, lifestyle and entertainment facilities in Shekou. The complex has an aggregate GFA of 50,496.9 sq.m..

Particulars of the Properties

	Occupancy rate		Gross rental income	Valuation	Gross rentable area sq.m.
	As at 30 June 2020	As at 30 June 2019	during the Reporting Period RMB'000	as at 30 June 2020 RMB million	
New Times Plaza	89.5%	74.5%	56,103	2,061	67,600.0
Cyberport Building	68.8%	79.9%	16,116	1,039	40,441.3
Technology Building	97.1%	85.5%	20,603	868	41,546.3
Technology Building 2	86.9%	89.8%	17,448	1,082	43,093.5
Garden City Shopping Centre	73.1%	79.6%	40,934	1,559	57,321.8
Total Property Portfolio	83.2%	81.0%	151,204	6,609	250,002.9

The occupancy rate of the overall properties portfolio increased from 81.0% as at 30 June 2019 to 83.2% as at 30 June 2020, representing an increase of 2.1 percentage points. Due to approximately RMB15 million rent concession provided to tenant, the rental income declined 5.7% comparing the same period of last year.

As at 30 June 2020, revaluation of the Properties was carried out by Cushman & Wakefield Limited, an independent property valuer and CMC REIT's principal valuer, and the revalued market value was approximately RMB6,609 million.

Lease Expiry Profile of the Properties

The following table sets out the tenant expiries of the Properties shown as a percentage of their gross rental area and as a percentage of monthly rental income as of June 2020:

Expiry Period	Percentage of Gross Rental Area	Percentage of Monthly Rental Income
Year ending 31 December 2020	17.3%	23.8%
Year ending 31 December 2021	19.9%	29.0%
Year ending 31 December 2022	20.5%	25.1%
Year ending 31 December 2023	14.7%	13.3%
Year ending 31 December 2024 and beyond	10.8%	8.8%
Vacant	16.8%	0.0%
Total	100%	100%

New Times Plaza

Affected by the ongoing pandemic and the oversupply of new high-end office buildings in Shenzhen, the office building market was faced a number of adverse factors in the first half of the year. Despite such unfavourable conditions, the REIT Manager has managed to retain the high quality tenants in the building by improving the quality of the property, providing value-added services and implementing flexible leasing strategies. At 89.5%, the occupancy rate of the property remains above the market average, and the tenants' satisfaction levels are also higher than those at competing properties. In the second half of the year, we will continue with our renovation and asset enhancement initiative, improving the quality and image of the property. These enhancements will act as a solid foundation for further operational efficiencies and hence add value to the asset.

Cyberport Building

The occupancy rate of the property is 68.8%. While occupancy is lower due to the downturn of the market and the pandemic, we are taking the opportunity to reposition the property, and are upgrading and renovating several vacant spaces. Older fittings that are less likely to satisfy tenants' expectations were replaced while large-area units were subdivided into smaller units to cater to the latest market demand, boosting unit rental price. Furthermore, marketing, promotion and tenant retention programs via multiple channels are being carried out simultaneously, and we plan to rapidly rent out our vacant spaces after the renovation is completed.

Technology Building

In the first half of this year, the occupancy rate of Technology Building remained at a high level of 97.1%. Its rental levels remained stable and were not affected by the pandemic. We have implemented flexible measures aimed to avoid tenant loss and to ensure that operation was not affected, and at the same time improving our relationship with tenants. Tenants whose operations were seriously affected during the pandemic were given the option to either switch to lower-rent spaces or reduce their contracted lease area. In addition, the REIT Manager will attempt to proactively approach in advance and retain tenants nearing the end of their leases. Meanwhile, in order to shorten downtime, the REIT Manager will also incentivize high-quality tenants to expand their rental area.

Technology Building 2

Technology Building 2 maintained an occupancy rate of 86.9% in the first half of the year. The REIT Manager accomplished the renewal of more than 8,000 square meters, and secured nearly 2,000 square meters of new rentals to replace the 4,000 square meters of that was vacated in the first half year in order to maintain the stable operation of the property. In addition, the REIT manager is actively exploring how the property can be enhanced overall by improving the quality of facilities, the surrounding environment and commercial ancillary support, and expect the property to become a benchmark in Shekou after market normality returns and the new subway begins operating.

Garden City Shopping Centre

During the pandemic, the number of shoppers dropped down to 10% of normal, and the tenants were under great pressure. In view of the situation above, the REIT Manager strictly conducted anti-pandemic measures to enhance the safety of the shopping environment. Based on the varying degrees of impact on retail businesses, we helped to rebuild tenant's confidence in the mall by taking different measures. In the meanwhile, we executed various promotion activities to attract customers and improve the shopping atmosphere, and by the end of June had managed

to help footfall recover to 75% of before. By expanding online sales channels, we reduced the revenue pressure on tenants. The occupancy rate is 73.1% as at 30 June 2020. In the second half of the year, the REIT Manager plans to reposition the mall and thereafter carry out the corresponding enhancement and renovations.

Future Strategies

The unexpected outbreak of the novel coronavirus in the first half of 2020 has severely weakened the economies of all countries and cast a shadow over the process of globalization. Although the epidemic has slowed down in some countries or regions recently, it seems unlikely that the epidemic will disappear completely worldwide in a short period, and it will take a long time before the world fully recovers. Still, governments around the world are actively taking stimulus measures to support their economies, including extremely low interest rates. Future interest rates are expected to remain extremely low for a long period. China has kept the epidemic under control well through strong decisive measures. Its economy has returned to positive growth in the second quarter and will become an important engine for global economic growth in the second half of the year.

The REIT Manager of China Merchants Commercial REIT has set for itself the concept of ‘stability as priority’ and ‘seek for development from stability’, and intends to gradually develop the REIT by ‘walking on two legs’. On one hand, despite of a mildly decrease of revenue caused by the epidemic, we have made good progress on property enhancements and renovation, as well as preparing a clear timetable which provides a basis for further growth in the future. On the other hand, we actively seek to acquire high-quality properties, either through injection from the China Merchant Group or externally. Furthermore, we are considering to include other cities in our investment region to improve and strengthen our ability to generate steady income.

In the second half year of 2020 and the following 2 to 3 years, the uncertainty of the epidemic’s abatement, rising geopolitical tensions and the prevalence of the trade protectionism will have a continuous negative impact on the global economy. Fortunately, the properties of China Merchants Commercial REIT are located in the Greater Bay Area. With its stable political and economic environment, it remains great potential for sustainable development, providing stability for our income. The low interest rate and external uncertainty in the future is a good opportunity for acquisition and development. The REIT Manager is still optimistic about the CMC REIT’s medium to long-term growth prospects and will make use of the resource advantages of the China Merchant Group, low financing costs and professional property and investment management to fully capitalize on all kinds of growth opportunities.

Prevention of Novel Coronavirus Pneumonia

The COVID-19 pandemic has significantly impacted the world in 2020. With the implementation of the Chinese government's strong anti-pandemic measures, the economy has been gradually restored in China. During the pandemic period, the REIT Manager strictly followed the hygiene requirements and instructions of the government. We registered each entering person and required them to wear masks and measured their temperature. Meanwhile, we regularly carried out disinfection and cleaning of the buildings and facilities and stockpiled the anti-pandemic materials. The anti-pandemic measures achieved remarkable results and we managed to maintain '0' infection cases. At present, most of tenants have returned to normal operation, and Garden City Shopping Centre has resumed the number of shoppers back to 75% as normal. The REIT Manager provided approximately RMB15 million in rent concession to tenants and maintained a good relationship with tenants by flexibly adjusted leasing strategies and providing anti-pandemic materials to tenants in need. At the same time, we regularly maintained the facilities and equipment, adjusted the structure of some units, so as to prepare for the rebound of economic activity after the pandemic. In the second half of the year, depending on the pandemic situation, the REIT Manager may provide further rental concessions to tenants of retail properties to overcome these difficult times together.

Renovation and Enhancement of Five Properties

Since taking the responsibility of management, the REIT Manager has been actively exploring ways to enhance the competitiveness of the properties while keeping the characters and vitality of the properties. Our properties enhancement initiative will be start with New Times Plaza in the second half of the year. To enhance the 'look and feel' of the property to tenants, the lobby, public areas of the standard floor, toilets, furnishing, lighting system, signage and intelligence system will be the focus of renovation. For Technology Building, Technology Building 2 and Cyberport Building, we will renovate the reception area, elevator lobby and corridors in the fourth quarter. We will customize "small and beautiful" spaces for start-ups and small and medium-sized enterprises by adjusting the layout of shared functional areas, to realize "move-in without preparation", so as to increase the rentable area, rent per sq.m. and increase rental income. Garden City Shopping Centre is scheduled to complete the business re-position within this year, and begin renovation in 2021. Normal operations will be maintained during the construction period. We will relocate the elevators, air conditioning and other equipment so as to increase the overall rentable area. By adjusting the tenant mix to cater to both young and old, and improving lighting, decorations, and intelligent systems, we aim to build Garden City Shopping Centre into a commercial complex for the entire community to increase the shopping experience of consumers. Meanwhile, we will take advantage of the new subway line to improve the mall's market positioning and profit. Apart from that, taking the feedbacks of consumers into consideration, we will improve our property services in order to boost consumer satisfaction.

FINANCIAL REVIEW

Distribution

Pursuant to the DPU Commitment (as defined in the offering circular of China Merchants Commercial REIT dated 28 November 2019 (the “**Offering Circular**”)), Eureka Investment Company Limited (“**Eureka**”), being the holding company of the Vendor (as defined in the Offering Circular), has undertaken to make a cash payment to the Trustee (in its capacity as trustee of China Merchants Commercial REIT) for the benefit of China Merchants Commercial REIT if the Annualised Provisional DPU (as defined in the Offering Circular) is less than the Annualised Committed DPU for the Relevant Period (as defined in the Offering Circular), so that in such circumstances the annualised distribution per Unit of China Merchants Commercial REIT for the Relevant Period shall be equal to the Annualised Committed DPU. The Annualised Committed DPU for the period from Listing Date to 31 December 2019 and 12 months ending 31 December 2020 is HK\$0.2360 per Unit, respectively.

The distribution for the period from the Listing Date to 31 December 2019 and the interim distribution for the six months ending 30 June 2020 (“**First Distribution**”) will be paid together to entities regarded as Unitholders as at the record date (as described in detail under the heading of “**Record date for distribution entitlement**”). As such, those who are not regarded as Unitholders on the record date have no entitlement to receive any distributions for the First Distribution. Distribution payable to Unitholders is paid in Hong Kong dollar. The exchange rate of the DPU for the Reporting Period was the average central party rate as announced by the People’s Bank of China for the five business days preceding the date of this announcement.

Record date for distribution entitlement

For the purpose of determining the distribution entitlement for the First Distribution, the register of holders of the CMC REIT will be closed from 2 September 2020 to 4 September 2020, both days inclusive, and the record date will be on 4 September 2020. In order to qualify for the First Distribution, all unit certificates with 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 not later than 4:30 p.m. on 1 September 2020. The payment of First Distribution will be made to Unitholders on 25 September 2020.

Capital Structure

As at 30 June 2020, the total asset value of China Merchants Commercial REIT was RMB7,656 million, which includes RMB994 million of cash. Such cash includes RMB637 million which has been earmarked to repay the Unassigned Frontier Payables (as defined in the Offering Circular) and has been repaid in July 2020.

The gearing ratio of China Merchants Commercial REIT (representing a ratio of total net borrowings of RMB2,049 million to total asset value of RMB7,656 million) was approximately 26.8%, which is lower than the permitted limit of 45% as required by the Code on Real Estate Investment Trusts (the “**REIT Code**”). The total net borrowings of RMB2,049 million represent 29.2% of the total gross asset value if the Unassigned Frontier Payables and the cash earmarked to repay the Unassigned Frontier Payables are disregarded.

Pursuant to the onshore facility agreement and offshore facility agreement entered into between the banks and the PRC Property Companies (as defined in the Offering Circular) in November 2019, China Merchants Commercial REIT has obtained onshore loan facility and offshore loan facility of RMB100 million and RMB2,400 million, respectively. As at 30 June 2020, China Merchants Commercial REIT has drawn down an amount of RMB2,061 million from the abovementioned loan facility, which is secured and will mature by the end of 2022. The secured term loans bears interest at a fixed rate of 2.75% - 4.5% per annum.

Net Assets Attributable to Unitholders

As at 30 June 2020, net assets attributable to Unitholders amounted to RMB3,751 million or RMB3.33 per Unit.

CORPORATE GOVERNANCE

With the objectives of establishing and maintaining high standards of corporate governance, policies and procedures have been put in place to promote the operation of China Merchants Commercial REIT in a transparent manner and with built-in checks and balances. The REIT Manager has adopted a Compliance Manual which sets out corporate governance policies as well as the responsibilities and functions of each key officer. The Compliance Manual also clearly defines reporting channels, workflows, and specifies procedures and forms designed to facilitate the compliance of the REIT Manager with various provisions of the Trust Deed, the Securities and Futures Ordinance, the Code on Real Estate Investment Trusts and other relevant rules and regulations. During the period under review, the REIT Manager has in material terms complied with the provisions of the Compliance Manual. The corporate governance policies of the Trust have been adopted having due regard to the requirements under Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, with necessary changes as if those rules were applicable to REITs.

EMPLOYEES

China Merchants Commercial REIT is an externally managed trust and does not employ any staff.

NEW UNITS ISSUED

During the Reporting Period, there were no new Units issued.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Period, there was no sale or redemption of Units by China Merchants Commercial REIT or its wholly-owned and controlled entities.

PUBLIC FLOAT OF THE UNITS

Based on the information that is publicly available and as far as the REIT Manager is aware, not less than 25% of the outstanding units in issue of China Merchants Commercial REIT were held in public hands as of 30 June 2020.

SUMMARY OF ALL SALE AND PURCHASE OF REAL ESTATE

China Merchants Commercial REIT did not enter into any real estate sales and purchases during the Reporting Period.

REVIEW OF FINANCIAL RESULTS

The unaudited interim results of China Merchants Commercial REIT for the Reporting Period have been reviewed by the Disclosures Committee and Audit Committee of the REIT Manager in accordance with their respective terms of reference, in conjunction with the external auditors of China Merchants Commercial REIT.

PUBLICATION OF INTERIM REPORT

The interim report of China Merchants Commercial REIT for the six months ended 30 June 2020 will be published on the respective websites of the Stock Exchange at www.hkexnews.hk and China Merchants Commercial REIT at www.cmcreit.com, and will be despatched to Unitholders on or before 31 August 2020.

By order of the Board

China Merchants Land Asset Management Co., Limited
(as manager of China Merchants Commercial Real Estate Investment Trust)

Mr. HUANG Junlong

Chairman of the REIT Manager

Hong Kong, 17 August 2020

As of the date of this announcement, the non-executive Directors of the REIT Manager are Mr. HUANG Junlong, Mr. YU Zhiliang and Ms. LIU Ning, the executive Director of the REIT Manager is Mr. GUO Jin and the independent non-executive Directors of the REIT Manager are Mr. LIN Hua, Mr. LIN Chen and Ms. LAU Sze Wan, Serena.

FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	<i>NOTES</i>	<i>RMB'000</i> <i>(unaudited)</i>
Revenue	4	177,906
Property operating expenses	5	<u>(39,203)</u>
Net property income		138,703
Exchange loss		(25,541)
Other income	6	5,211
Decrease in fair value of investment properties		(5,294)
Manager's fee	7	(9,103)
Trust and other expenses		(3,356)
Finance costs	8	<u>(29,604)</u>
Profit before tax and distribution to unitholders	9	71,016
Income taxes	10	<u>(25,395)</u>
Profit for the period, before distribution to unitholders		45,621
Distribution to unitholders		<u>(81,932)</u>
Loss for the period, after distribution to unitholders		<u>(36,311)</u>
Total comprehensive expense for the period, after transactions with unitholders		<u>(36,311)</u>
Basic earnings per unit	11	<u>RMB0.04</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

		As at 30 June 2020 <i>RMB'000</i> (unaudited)	As at 31 December 2019 <i>RMB'000</i> (audited)
Non-current assets			
Investment properties		6,609,000	6,609,000
Property, plant and equipment		617	291
		6,609,617	6,609,291
Current assets			
Trade and other receivables	12	29,272	748
Amounts due from related companies		23,405	6,206
Bank balances and cash		993,607	1,461,377
		1,046,284	1,468,331
Total assets		7,655,901	8,077,622
Current liabilities			
Trade and other payables	13	81,707	83,852
Amounts due to related companies		662,354	1,277,199
Distribution payable		96,303	14,371
Secured bank borrowings	14	520	–
Tax payables		13,134	44,279
		854,018	1,419,701
Non-current liabilities, excluding net assets attributable to unitholders			
Secured bank borrowings	14	2,048,894	1,887,632
Deferred tax liabilities		1,001,999	982,988
		3,050,893	2,870,620
Total non-current liabilities, excluding net assets attributable to unitholders		3,050,893	2,870,620
Total liabilities, excluding net assets attributable to unitholders		3,904,911	4,290,321
Net assets attributable to unitholders		3,750,990	3,787,301
Number of units in issue ('000)		1,127,820	1,127,820
Net asset value per unit	15	RMB3.33	RMB3.36

DISTRIBUTION STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	<i>RMB'000</i> (unaudited)
Profit for the period, before distribution to unitholders	45,621
Adjustments:	
Decrease in fair value of investment properties	5,294
Non-cash finance costs	2,400
Exchange loss	25,541
Depreciation	31
Deferred tax	19,011
Overprovision of withholding tax	<u>(15,966)</u>
Total distributable income to unitholders (note ii)	<u>81,932</u>
Payout ratio (note i)	<u>100%</u>
Distributions per unit (“DPU”)	
Proposed interim distribution per unit to be paid (note ii)	<u>RMB0.0726</u>

Notes:

- (i) Pursuant to the Trust Deed, the total distributable income is profit for the period, before distribution to unitholders as adjusted to eliminate the effects of Adjustments (as set out in the Trust Deed) which have been recorded in the condensed consolidated statement of profit or loss and other comprehensive income statement for the relevant period. China Merchants Commercial Real Estate Investment Trust (“**China Merchants Commercial REIT**”) is required to distribute to unitholders not less than 90% of its distributable income of each financial period. The manager intends to distribute to the Unitholders an amount of 100% of annual total distributable income of China Merchants Commercial REIT for each relevant period from 10 December 2019 (“**Listing Date**”) to 31 December 2022, and at least 90% of the total annual distributable income for each financial year thereafter.
- (ii) The proposed interim distribution per unit of RMB0.0726 for the six months ended 30 June 2020 is calculated based on the interim distribution to be paid to unitholders of RMB81,932,000 for the period and 1,127,819,549 units in issue as at 30 June 2020.

- (iii) Pursuant to the DPU commitment deed entered into among, Eureka Investment Company Limited (“**Eureka**”), China Merchants Commercial REIT and DB Trustees (Hong Kong) Limited (the “**Trustee**”), Eureka has undertaken to make a payment to the Trustee for the benefit of China Merchants Commercial REIT if the annualised provisional DPU is less than the annualised committed DPU for the relevant periods as set out below:

Relevant period	Annualised committed DPU
Listing Date to 31 December 2019	HK\$0.2360 per unit
12 months ending 31 December 2020	HK\$0.2360 per unit
12 months ending 31 December 2021	HK\$0.2541 per unit
12 months ending 31 December 2022	HK\$0.2614 per unit

The final DPU for the period from Listing Date to 31 December 2019 after taking into account the effect of the distribution commitment is HK\$0.0142 (equivalent to RMB0.0127). Pursuant to the Trust Deed, the distribution for the period from and including the Listing Date to 31 December 2019 and the interim distribution for the six months ended 30 June 2020 (details set out in note ii) will be paid together to individuals regarded as unitholders on the record date of the interim distribution for the six months ended 30 June 2020. The first distribution will be made no later than 30 November 2020. All distributions will be paid in Hong Kong dollars.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. GENERAL

China Merchants Commercial REIT is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and its units are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “**HKSE**”). China Merchants Commercial REIT is governed by the deed of trust dated 15 November 2019, as amended from time to time (the “**Trust Deed**”), entered into between China Merchants Land Assets Management Co., Limited (the “**Manager**”) and the Trustee, and the Code on Real Estate Investment Trusts (the “**REIT Code**”) issued by the Securities and Futures Commission of Hong Kong.

The principal activity of China Merchants Commercial REIT is investment holding and its subsidiaries own and invest in income-producing commercial properties in Shekou, Shenzhen with the objective of producing stable and sustainable distributions to unitholders and to achieve long term growth in the net asset value per unit. The address of the registered office of the Manager and the Trustee, is Room 2603 to 2606, 26/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong and Level 52, International Commerce Centre, 1 Austin Road, West Kowloon, Hong Kong, respectively.

The condensed consolidated financial statements are presented in Renminbi (“**RMB**”), which is the same as the functional currency of China Merchants Commercial REIT.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the HKSE and with International Accounting Standard 34 (“**IAS 34**”) “Interim Financial Reporting” and the relevant disclosure requirements set out in Appendix C of the REIT Code issued by the Securities Futures Commission of Hong Kong.

The condensed consolidated financial statements for the six months ended 30 June 2020 are the first interim financial statements of China Merchants Commercial REIT, therefore no comparative figures for the condensed consolidated statement of profit or loss and other comprehensive income and condensed consolidated statement of cash flows are presented.

The outbreak of Covid-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Group. The Group has arranged rental concessions to certain tenants due to the outbreak of the Covid-19. As such, the performance of the Group were affected in different aspects, including reduction in revenue.

3. PRINCIPAL ACCOUNTING POLICES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange of goods.

Other than changes in accounting policies resulting from application of amendments to International Financial Reporting Standards (“**IFRSs**”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group’s annual financial statements for the period from 15 November 2019 (the date of establishment) to 31 December 2019.

Application of amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the International Accounting Standards Board (the “**IASB**”), for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in IFRS Standards and the amendments to IFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

Revenue recognition

	<i>RMB'000</i> (unaudited)
Rental income from office buildings and a shopping centre	<u>151,204</u>
Management fee income	17,245
Carpark income	3,410
Others	<u>6,047</u>
Revenue from contracts with customers recognised over time	<u>26,702</u>
	<u>177,906</u>

Segment information

The Group determines its operating segments based on the reports reviewed by the Manager, being the chief operating decision maker (the “**CODM**”), that are used to make strategic decisions. The Group’s reportable segments are classified as (i) office buildings; and (ii) shopping centre, which are based on the types of properties held by the Group. Office buildings segment aggregates the operating segments, each being an individual office building, namely New Times Plaza, Cyberport Building, Technology Building and Technology Building 2, on the basis that the similar economic characteristic and nature of services provided. There is no aggregation of operating segment for shopping centre segment.

4. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the period ended 30 June 2020 (unaudited)

	Office buildings RMB'000	Shopping centre RMB'000	Total RMB'000
Segment revenue	<u>124,863</u>	<u>53,043</u>	<u>177,906</u>
Segment results	<u>103,380</u>	<u>35,182</u>	138,562
Exchange loss			(25,541)
Other income			58
Manager's fee			(9,103)
Trust and other expenses			(3,356)
Finance costs			<u>(29,604)</u>
Profit before tax and distribution to unitholders			71,016
Income taxes			<u>(25,395)</u>
Profit for the period, before distribution to unitholders			<u>45,621</u>

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit before tax earned by each segment without allocation of exchange loss, certain other income and other unallocated operating expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

5. PROPERTY OPERATING EXPENSES

	<i>RMB'000</i> (unaudited)
Advertising and promotion	1,630
Agency fee	87
Property management expenses	21,656
Operations manager's fee	7,394
Other taxes	8,056
Others	380
	<hr/>
	39,203
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6. OTHER INCOME

	<i>RMB'000</i> (unaudited)
Interest income	4,471
Others	740
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	5,211
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7. MANAGER'S FEE

Pursuant to the Trust Deed, the Manager is entitled to receive 10% per annum of the base fee distribution income for the six months ended 30 June 2020 as remuneration. Base fee distributable income is the amount of the total distributable income to unitholders calculated before accounting for the Base fee payable for the period.

	<i>RMB'000</i> (unaudited)
Manager's fee:	
In the form of cash	9,103
	<hr/>

8. FINANCE COSTS

	<i>RMB'000</i> (unaudited)
Interest expense on bank borrowings	27,204
Amortisation of upfront payments	2,400
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	29,604
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9. PROFIT BEFORE TAX AND DISTRIBUTION TO UNITHOLDERS

	<i>RMB'000</i> (unaudited)
Profit before tax and distribution to unitholders has been arrived at after charging:	
Auditors' remuneration	1,358
Trustee's remuneration	694
Principal valuer's fee	91
Bank charges	271
	<hr/>

10. INCOME TAXES

	<i>RMB'000</i> (unaudited)
Current tax	
PRC Enterprise Income Tax	
Current period	21,569
Underprovision in prior period	781
Withholding tax	
Overprovision in prior period	(15,966)
Deferred tax	
Current period	19,011
	<hr/>
	25,395
	<hr/>

No provision for Hong Kong Profits Tax has been provided as the Group has no estimated assessable profits in Hong Kong in the current period.

Pursuant to the rules and regulations of the British Virgin Islands (“BVI”), the Group is not subject to any income tax in the BVI.

Under the Law of the People's Republic of China on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the statutory income tax rate of the PRC subsidiaries is 25% for the current period.

11. BASIC EARNINGS PER UNIT

The calculation of the basic earnings per unit before distribution to unitholders is based on the profit for the period, before distribution to unitholders with the weighted average number of units in issue during the period of 1,127,819,549 units.

There were no dilutive potential units during the period ended 30 June 2020, therefore the diluted earnings per unit has not been presented.

12. TRADE AND OTHER RECEIVABLES

	30 June 2020 <i>RMB'000</i> (unaudited)	31 December 2019 <i>RMB'000</i> (audited)
Trade receivables	23,494	348
Deferred rent receivables	5,778	–
Deposit	–	400
	<u>29,272</u>	<u>748</u>

Trade receivables represent lease receivables. Lease receivables under rental of office buildings and shopping centre are generally required to be settled by tenants within 30 days upon issuance of demand note.

The following is an ageing analysis of trade receivables, presented based on the date of demand note:

	30 June 2020 <i>RMB'000</i> (unaudited)	31 December 2019 <i>RMB'000</i> (audited)
Within 1 month	7,611	188
More than 1 months but within 3 months	11,284	–
Over 3 months	4,599	160
	<u>23,494</u>	<u>348</u>

13. TRADE AND OTHER PAYABLES

	30 June 2020 <i>RMB'000</i> (unaudited)	31 December 2019 <i>RMB'000</i> (audited)
Trade payables	<u>447</u>	<u>859</u>
Other tax payables	8,507	1,800
Rental receipt in advance	601	1,883
Receipt on behalf of tenants	12,226	12,519
Rental deposit received from tenants	53,047	57,679
Interest payable	2,203	2,178
Accruals and other payables	<u>4,676</u>	<u>6,934</u>
	<u>81,260</u>	<u>82,993</u>
	<u>81,707</u>	<u>83,852</u>

The credit period granted by suppliers to the Group ranges from 30 to 90 days during the period. The following is an aged analysis of trade payables presented based on the invoice date at the end of each reporting period:

	30 June 2020 <i>RMB'000</i> (unaudited)	31 December 2019 <i>RMB'000</i> (audited)
Within 1 month	–	621
More than 1 month but within 3 months	–	21
Over 3 months	<u>447</u>	<u>217</u>
	<u>447</u>	<u>859</u>

14. SECURED BANK BORROWINGS

	30 June 2020 <i>RMB'000</i> (unaudited)	31 December 2019 <i>RMB'000</i> (audited)
Secured bank borrowings	2,061,214	1,901,832
Loan front-end fee	(11,800)	(14,200)
	<u>2,049,414</u>	<u>1,887,632</u>

The maturity of the secured bank borrowings is as follows:

Within one year	520	–
More than one year but not exceeding two years	520	–
More than two years but not exceeding five years	<u>2,048,374</u>	<u>1,887,632</u>
	<u>2,049,414</u>	<u>1,887,632</u>

15. NET ASSET VALUE PER UNIT

The net asset value per unit is calculated by dividing the net assets attributable to unitholders as at 30 June 2020 of RMB3,750,990,000 (31 December 2019: RMB3,787,301,000) by the number of units in issue of 1,127,819,549 units as at 30 June 2020 (31 December 2019: 1,127,819,549).

16. NET CURRENT ASSETS

At 30 June 2020, the Group's net current assets, calculated as current assets less current liabilities, amounted to RMB192,266,000 (31 December 2019: RMB48,630,000).

17. TOTAL ASSETS LESS CURRENT LIABILITIES

At 30 June 2020, the Group's total assets less current liabilities amounted to RMB6,801,883,000 (31 December 2019: RMB6,657,921,000).