THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your units in SF Real Estate Investment Trust ("**SF REIT**"), you should at once hand this circular, together with the accompanying proxy form, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

REIT 順豐房託

SF Real Estate Investment Trust
順豐房地產投資信託基金

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

(Stock Code: 2191)

Managed by
SF REIT Asset Management Limited

CIRCULAR TO UNITHOLDERS IN RELATION TO (1) MAJOR AND CONNECTED PARTY TRANSACTIONS RELATING TO ACQUISITION OF A MODERN LOGISTICS PROPERTY IN CHANGSHA; (2) CONTINUING CONNECTED PARTY TRANSACTIONS; AND (3) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser to the Manager

ALTUS CAPITAL LIMITED

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

SOMERLEY CAPITAL LIMITED

A notice convening the extraordinary general meeting of unitholders of SF REIT ("**EGM**") to be held at 11:00 a.m. on 22 June 2022 at Chatham Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong 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, please complete and return the accompanying proxy form to the unit registrar of SF REIT, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours (excluding any part of a day that is a public holiday) before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

> To protect the attending unitholders of SF REIT (the "**Unitholders**"), staff and other stakeholders from the risk of infection of coronavirus disease 2019 ("**COVID-19**"), SF 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.

7 June 2022

PRECAUTIONARY MEASURES FOR THE EGM

In order to safeguard the health and safety of Unitholders and other attendees and to minimise the risk of spreading of COVID-19, SF REIT Asset Management Limited (the "**Manager**"), as the manager of SF REIT, 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 Monday, 20 June 2022.

For any questions relating to the EGM, please contact the unit registrar of SF 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 (sfreit2191-ecom@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.

TABLE OF CONTENTS

TABLE OF CONTENTS

APPENDICES

INFORMATION IN RELATION TO THE PARTIES INVOLVED

SF REIT	SF Real Estate Investment Trust, 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	SF REIT Asset Management Limited (in its capacity as manager of SF REIT) Room 2002, 20/F Lee Garden Six, 111 Leighton Road Causeway Bay Hong Kong
Directors of the Manager	*Chairman and Non-executive Director:* WANG Wei *Executive Director and Chief Executive Officer:* Hubert CHAK *Non-executive Directors:* NG Wai Ting HO Chit LEONG Chong *Independent Non-executive Directors:* TAN Huay Lim HO Lap Kee, MH, JP CHAN Ming Tak, Ricky KWOK Tun Ho, Chester Michael Tjahja SUSANTO
Responsible Officers of the Manager	Hubert CHAK HONG Kam Kit, Eddie YEUNG Tak Him
Trustee	DB Trustees (Hong Kong) Limited (in its capacity as trustee of SF REIT) Level 60, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
Unit Registrar	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:* Mayer Brown 16th – 19th Floors Prince's Building 10 Chater Road Central, Hong Kong *As to PRC law:* King & Wood Mallesons 25th Floor, Guangzhou CTF Finance Centre No.6 Zhujiang East Road, Zhujiang New Town Tianhe District, Guangzhou Guangdong 510623, PRC
Legal Advisers to the Trustee	Baker & McKenzie 14th Floor, One Taikoo Place 979 King's Road Quarry Bay Hong Kong
Reporting Accountant	PricewaterhouseCoopers *Certified Public Accountants* *Registered Public Interest Entity Auditor* 22nd Floor, Prince's Building Central Hong Kong
Financial Adviser to the Manager	Altus Capital Limited 21 Wing Wo Street Central Hong Kong
Tax Adviser to the Manager	KPMG Advisory (China) Limited China Resources Tower 2666 Keyuan South Road Shenzhen 518052, PRC
Independent Financial Adviser to the Independent Board Committee, the Independent Unitholders and the Trustee	Somerley Capital Limited 20/F, China Building 29 Queen's Road Central Hong Kong
Market Consultant	Cushman & Wakefield Limited 27/F, One Island East Taikoo Place 18 Westlands Road Quarry Bay Hong Kong

Independent Property Valuer	Jones Lang LaSalle Corporate Appraisal and Advisory Limited 7/F, One Taikoo Place 979 King's Road Hong Kong
Building Consultant	Cushman & Wakefield International Property Adviser (Shanghai) Co., Ltd 42-43/F, Tower 2, Plaza 66 1366 Nanjing West Road Shanghai, PRC

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

"Accountant's Reports"	means (a) the accountant's report set out in Appendix 2A to this Circular in respect of the Target Company; and (b) the accountant's report set out in Appendix 2B to this Circular in respect of the Changsha Property Company.
"Acquisition"	means the proposed acquisition by SF REIT (through the Purchaser) of the Changsha Property from the Seller through the purchase of the Sale Share pursuant to the Sale and Purchase Deed.
"Acquisition Fee"	has the meaning ascribed to this term in section 6.2 headed "Fees and charges in relation to the Acquisition – Acquisition Fee" in the "Letter to the Unitholders" of this Circular.
"Acquisition Matters Requiring Approval"	means the matters which require the approval of Independent Unitholders at the EGM being the Acquisition and the transactions contemplated under the Sale and Purchase Deed, as more fully described in this Circular.
"Agreed Property Value"	has the meaning ascribed to this term in section 2.2.1 headed "The Acquisition – Key terms of the Sale and Purchase Deed – Consideration and payment terms for the Acquisition" in the "Letter to the Unitholders" of this Circular.
"Announcement"	means the announcement of SF REIT dated 2 June 2022 relating to, among other things, the Acquisition.
"Annual Distributable Income"	means, for a financial year, the amount calculated by the Manager (based on the audited financial statements of SF REIT for that financial year) as representing the consolidated audited net profit after tax of the SF REIT Group for that financial year as adjusted in accordance with the Trust Deed and excluding any additional discretionary distributions out of capital.
"Appraised Value"	means RMB550.4 million (equivalent to approximately HK$673.6 million), being the value of the Changsha Property as at 31 March 2022 as appraised by the Independent Property Valuer.

"associate"	has the meaning ascribed to this term in the REIT Code.
"Audit Committee"	means the audit committee of the Manager.
"Average Monthly Rental per Lease Space Metre"	means, in respect of a relevant period, the Gross Rental Income, inclusive of management fee, divided by the aggregate of leased area (in sq.m.) under the leases during each month in that relevant period.
"Base Fee Distributable Income"	means, in relation to any period, the amount of the Interim Distributable Income or the Annual Distributable Income (as applicable) calculated before accounting for the base fee and the variable fee payable to the Manager for that period.
"Board"	means the board of Directors.
"Building Consultant"	means Cushman & Wakefield International Property Adviser (Shanghai) Co., Ltd, an independent third party.
"Bulletin 7"	means the tax notice issued by the PRC State Administration of Taxation 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 (State Administration of Taxation Bulletin [2015] No. 7) (《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》 (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 notice or law on the PRC tax treatment of offshore indirect transfers of property of an "establishment or place" situated in the PRC, real estates 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 any applicable laws in the PRC against the avoidance of the PRC tax.

"Business Day"	means any day (excluding Saturdays, Sundays, public holidays in Hong Kong or the PRC 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"	means the British Virgin Islands.
"Changsha Intermediary Company"	means Changsha Fengtai (Hong Kong) Limited (長沙豐泰(香港)有限公司), a company incorporated in Hong Kong which is the direct owner of 100% equity interest in the Changsha Property Company, which in turn owns the Changsha Property.
"Changsha Property"	means the subject property of the Acquisition, particulars of which are provided in section 3.3 headed "The Changsha Property – Key information" in the "Letter to the Unitholders" of this Circular.
"Changsha Property Company"	means Changsha Jietai E-Commerce Industrial Park Asset Management Co., Ltd.* (長沙捷泰電商產業園管理有限公司), a company established in the PRC and the direct owner of the Changsha Property.
"Changsha SF Connected Tenants"	means the SF Connected Tenants under the Changsha SF Leases, which comprise Shenzhen Intra-city, Hunan SF Freight and Hunan SF Express as at the Latest Practicable Date.
"Changsha SF Lease Guarantee"	has the meaning ascribed to this term in section 9.3.1 headed "Continuing Connected Party Transactions – Fully-exempt Continuing Connected Party Transactions with the SFH Group – Changsha SF Lease Guarantee" in the "Letter to the Unitholders" of this Circular.
"Changsha SF Leases"	means the SF Leases in respect of the Changsha Property.
"Completion"	means completion of the Acquisition pursuant to the Sale and Purchase Deed, as more particularly described in section 2.2.3 headed "The Acquisition – Key terms of the Sale and Purchase Deed – Completion of the Acquisition" in the "Letter to the Unitholders" of this Circular.
"Completion Date"	means the date on which Completion takes place.

"Completion Statement"	means the completion statement regarding the Target Group as at the close of business on the Completion Date, which will be: (a) prepared by the Seller and reviewed by PricewaterhouseCoopers within three months following the Completion Date; and (b) agreed between the Seller, the Purchaser and the Manager (in its capacity as manager of SF REIT) within ten Business Days following the receipt of the statement by the Purchaser, and failing such agreement, PricewaterhouseCoopers shall perform the agreed procedures or review such completion statement in accordance with the Sale and Purchase Deed.
"Conditions"	has the meaning ascribed to this term in section 2.2.2 headed "The Acquisition – Key terms of the Sale and Purchase Deed – Conditions precedent under the Sale and Purchase Deed" in the "Letter to the Unitholders" of this Circular.
"connected person"	has the meaning ascribed to this term in the REIT Code.
"COVID-19"	means the coronavirus disease 2019.
"DBS Hong Kong"	has the meaning ascribed to this term in section 5.3 headed "Financing of the Acquisition – Extended Offshore Term Loan" in the "Letter to the Unitholders" of this Circular.
"Deed of Right of First Refusal"	means the deed of right of first refusal dated 29 April 2021 executed by SFH in favour of the Trustee (in its capacity as trustee of SF REIT) and the Manager (in its capacity as manager of SF REIT).
"Deposited Property"	means all the assets of SF REIT, including the Existing Properties held in SF REIT's portfolio and, after Completion, the assets of the Target Group.
"Director(s)"	means director(s) of the Manager.
"distribution centre"	means a logistics hub which contains facilities and equipment for the purpose of carrying out comprehensive logistics functions such as processing, packaging, warehousing, sorting and distributing, which is generally at large scale and customized for particular procedures of a logistics enterprise.
"DPU"	means distribution per Unit.

"EGM"	means the extraordinary general meeting of Unitholders convened by and referred to in the EGM Notice which is convened to consider and, if thought fit, pass the Ordinary Resolution to approve the Acquisition Matters Requiring Approval.
"EGM Notice"	means the notice as set out on pages N-1 to N-3 of this Circular in respect of the EGM to consider and, if thought fit, pass the Ordinary Resolution to approve the Acquisition Matters Requiring Approval.
"EGM Record Date"	means Wednesday, 22 June 2022, being the date by reference to which the eligibility of the Unitholders to participate in the EGM will be determined.
"Enlarged Group"	means collectively, SF REIT and, after Completion, the Target Group.
"Enlarged Portfolio"	means collectively, the Existing Properties and, after Completion, the Changsha Property.
"Estimated Completion Statement"	means the pro forma statement of financial position of the Target Group as at the close of business on the Completion Date, to be delivered by the Seller at least five Business Days prior to the Completion Date.
"Existing Properties"	means the properties currently held by SF REIT as at the Latest Practicable Date as described in the annual report of SF REIT for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021.
"Extended Offshore Term Loan"	has the meaning ascribed to this term in section 5.3 headed "Financing of the Acquisition – Extended Offshore Term Loan" in the "Letter to the Unitholders" of this Circular.
"Financing Structure"	has the meaning as set out under section 5.1 headed "Financing of the Acquisition – Financing Structure" in the "Letter to the Unitholders" of this Circular.

"First Amendment Deed"	has the meaning ascribed to this term in section 5.3 headed "Financing of the Acquisition – Extended Offshore Term Loan" in the "Letter to the Unitholders" of this Circular.
"Force Majeure Event"	has the meaning as set under section 3.8.2 headed "The Changsha Property – Lease agreements – Other key terms of the Changsha SF Leases" in the "Letter to the Unitholders" of this Circular.
"Gross Asset Value of the Deposited Property"	means the total assets as shown in SF REIT's latest published audited accounts, as adjusted for the amount of any distribution proposed in SF REIT's latest published audited accounts and any distribution declared since the issuance of SF REIT's latest published audited accounts and any change in an approved valuer's determination of the value of SF REIT's properties, based on its valuation report(s) published subsequent to the issuance of SF REIT's latest published audited accounts.
"Gross Floor Area" or "GFA"	means, in respect of the Changsha Property, the gross floor area of the Changsha Property being the area contained within the external walls of the building measured at each floor level, together with the area of each balcony in the building, which shall be calculated from the overall dimensions of the balcony (including the thickness of the sides thereof), and the thickness of external walls of the building excluding any floor space that is constructed or intended to be used solely for parking motor vehicles, loading or unloading of motor vehicles, or for refuse storage chambers, material recovery chambers, refuse chutes, refuse hopper rooms and other types of facilities provided to facilitate the separation of refuse, or for access facilities for telecommunications and broadcasting services, or occupied solely by machinery or equipment for any lift, air-conditioning or heating system or any similar service.
"Gross Lettable Area"	means, in respect of the Changsha Property, consists of that portion of the Gross Floor Area of the Changsha Property determined by the Changsha Property Company at any given time to be rentable.
"Gross Rental Income"	means rental income and management fee due from the tenants under their leases for space in the Changsha Property.

"Guangdong Shunxin"	means Guangdong Shunxin Freight Co., Ltd.* (廣東順心快運有限公司), a limited company established in the PRC, which is an indirect non wholly-owned subsidiary of SFH.
"HIBOR"	means 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$"	means Hong Kong dollar(s), the lawful currency of Hong Kong.
"Hong Kong"	means the Hong Kong Special Administrative Region of the People's Republic of China.
"Hong Kong Government"	means the Government of Hong Kong.
"Hunan SF Freight"	means Hunan S.F. Freight Co., Ltd.*（湖南順豐快運有限公司）, a limited company established in the PRC which is an indirect non wholly-owned subsidiary of SFH and a Changsha SF Connected Tenant.
"Hunan SF Express"	means Hunan S.F. Express Co., Ltd*（湖南順豐速運有限公司）, a limited company established in the PRC which is an indirect wholly-owned subsidiary of SFH and a Changsha SF Connected Tenant.
"IFRS"	means International Financial Reporting Standards.
"Independent Board Committee"	means the independent committee established by the Board to advise the Independent Unitholders on the Acquisition Matters Requiring Approval, comprising Mr. TAN Huay Lim, Mr. CHAN Ming Tak, Ricky, Mr. HO Lap Kee, MH, JP, Mr. KWOK Tun Ho, Chester and Mr. Michael Tjahja SUSANTO, being all of the INEDs, as members.
"Independent Financial Adviser"	means Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee, the Independent Unitholders and the Trustee on the Acquisition Matters Requiring Approval.

"Independent Property Valuer"	means Jones Lang LaSalle Corporate Appraisal and Advisory Limited, being the principal valuer of SF REIT.
"Independent Unitholder(s)"	means Unitholder(s) other than those who have a material interest in the relevant resolution 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)"	means independent non-executive Director(s).
"Initial Term Expiry Date"	has the meaning ascribed to this term in section 3.8.1 headed "The Changsha Property – Lease agreements – Duration" in the "Letter to the Unitholders" of this Circular.
"Initial Share Consideration"	has the meaning ascribed to this term in section 2.2.1 headed "The Acquisition – Key terms of the Sale and Purchase Deed – Consideration and payment terms for the Acquisition" in the "Letter to the Unitholders" of this Circular.
"Intercompany Payables"	means collectively, the Onshore Payable and the Reorganisation Payable.
"Interim Distributable Income"	means, for any distribution period, the amount calculated by the Manager (based on the interim unaudited financial statements of SF REIT for that distribution period) as representing the consolidated net profit of SF REIT for that distribution period, after provision for tax as adjusted in accordance with the Trust Deed and excluding any additional discretionary distributions out of capital.
"Investor"	has the meaning ascribed to it in section 4.1 headed "Reorganisation – Holding structure of the Changsha Property prior to Reorganisation" in the "Letter to the Unitholders" of this Circular.
"Latest Practicable Date"	means Tuesday, 31 May 2022, being the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information contained in this Circular.
"lease"	means a lease in respect of a premise within the Changsha Property granted to a tenant and "leases" shall be construed accordingly.

"Listing Rules"	means the Rules Governing the Listing of Securities on the Stock Exchange.
"Long Stop Date"	means 31 August 2022, or such other date as agreed by the Purchaser and the Seller in writing.
"Mainland China"	means the PRC but excluding, for the purposes of this Circular, Hong Kong, Taiwan and the Macao Special Administrative Region of the PRC.
"Manager"	means SF REIT Asset Management Limited, in its capacity as manager of SF REIT, a company incorporated under the laws of Hong Kong and directly wholly-owned by Sunny Sail and indirectly wholly-owned by SFH as at the Latest Practicable Date.
"Market Consultant"	means Cushman & Wakefield Limited, an independent third party.
"Market Consultant Report"	means the report prepared by the Market Consultant set out in Appendix 6 to this Circular.
"Market Rental Package"	has the meaning ascribed to this term in section 3.8.1 headed "The Changsha Property – Lease agreements – Duration" in the "Letter to the Unitholders" of this Circular.
"Mingde Holding"	means Shenzhen Mingde Holding Development Co., Ltd.* (深圳明德控股發展有限公司), a company established in the PRC, which directly holds approximately 55% of the equity interest of SFH and is owned by Mr. WANG Wei, a Director, as to 99.9% as at the Latest Practicable Date.
"Occupancy Rate"	means, in respect of the Changsha Property, the Gross Lettable Area occupied by tenants as a percentage of the total Gross Lettable Area of the Changsha Property.
"Offering Circular"	means the offering circular dated 5 May 2021 issued by SF REIT in connection with the initial public offering and listing of the Units on the Main Board of the Stock Exchange.
"Offshore Facility Agreement"	has the meaning ascribed to this term in section 5.3 headed "Financing of the Acquisition – Extended Offshore Term Loan" in the "Letter to the Unitholders" of this Circular.

"Offshore Loans"	has the meaning ascribed to this term in section 5.3 headed "Financing of the Acquisition – Extended Offshore Term Loan" in the "Letter to the Unitholders" of this Circular.
"Offshore Term Loan"	has the meaning ascribed to this term in section 5.3 headed "Financing of the Acquisition – Extended Offshore Term Loan" in the "Letter to the Unitholders" of this Circular.
"Onshore Facility Agreement"	has the meaning ascribed to this term in section 5.2 headed "Financing of the Acquisition – Onshore Term Loan" in the "Letter to the Unitholders" of this Circular.
"Onshore Lender"	has the meaning ascribed to this term in section 5.2 headed "Financing of the Acquisition – Onshore Term Loan" in the "Letter to the Unitholders" of this Circular.
"Onshore Payable"	means the amount owing from the Changsha Property Company to Shenzhen SF Taisen (being a direct wholly-owned subsidiary of SFH), which will stand at approximately RMB267.2 million (equivalent to approximately HK$327.0 million) immediately prior to Completion.
"Onshore Repayment Amount"	has the meaning ascribed to this term in section 2.2.1 headed "The Acquisition – Key terms of the Sale and Purchase Deed – Consideration and payment terms for the Acquisition" in the "Letter to the Unitholders" of this Circular.
"Onshore Term Loan"	has the meaning ascribed to this term in section 5.2 headed "Financing of the Acquisition – Onshore Term Loan" in the "Letter to the Unitholders" of this Circular.
"Operations Management Agreement"	means the operations management agreement dated 1 March 2022 and entered into by the Changsha Property Company with the Operations Manager relating to the provision of the Operations Management Services.
"Operations Management Fee"	has the meaning ascribed to this term in section 3.9.3 headed "The Changsha Property – Management strategy – The Operations Management Agreement" in the "Letter to the Unitholders" of this Circular.

"Operations Management Services"	has the meaning ascribed to this term in section 3.9.3 headed "The Changsha Property – Management strategy – The Operations Management Agreement" in the "Letter to the Unitholders" of this Circular.
"Operations Manager"	means Changsha Hongjie Industrial Park Operation Management Co., Ltd. * (長沙市宏捷產業園運營管理有限公司), a company established in the PRC. As at the Latest Practicable Date, the Operations Manager is an indirect wholly-owned subsidiary of SFH. As SFH is owned as to approximately 55% by Mingde Holding, a company established in the PRC, which is in turn owned as to 99.9% by Mr. WANG Wei, a Director, and SFH also indirectly owns the Manager and a Substantial Unitholder of SF REIT (being the Seller), the Operations Manager is an associate of the Manager, the Seller (being a Substantial Unitholder) and a Director and therefore a connected person of SF REIT.
"Ordinary Resolution"	means 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.
"Other Acquisition Fees and Expenses"	has the meaning ascribed to this term in section 6.3 headed "Fees and charges in relation to the Acquisition – Other Acquisition Fees and Expenses" in the "Letter to the Unitholders" of this Circular.
"Phase 1 Land Parcel"	has the meaning ascribed to this term in section 3.1 headed "The Changsha Property – Description" in the "Letter to the Unitholders" of this Circular.
"Phase 2 Land Parcel"	has the meaning ascribed to this term in section 3.1 headed "The Changsha Property – Description" in the "Letter to the Unitholders" of this Circular.
"PRC or China"	means The People's Republic of China.
"PRC Government"	means the central government of the PRC and all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them.

"PRC Legal Advisers"	means King & Wood Mallesons, an independent third party.
"Property Companies"	means the special purpose vehicles each of which is a subsidiary of SF REIT and a direct owner of an Existing Property.
"Proposed Annual Caps"	has the meaning ascribed to this term in section 9.2.1 headed "Continuing Connected Party Transactions – Non-exempt Continuing Connected Party Transactions with the SFH Group – Operations Management Agreement" in the "Letter to the Unitholders" of this Circular.
"Purchaser"	means Golden Bauhinia Logistics Holdings Limited (金紫荊物流控股有限公司), a BVI business company incorporated in the BVI and an indirect wholly-owned subsidiary of SF REIT.
"REIT"	means real estate investment trust.
"REIT Code"	means the Code on Real Estate Investment Trusts published by the SFC as amended, supplemented or otherwise modified for the time being.
"Renewed Changsha SF Leases"	has the meaning ascribed to this term in section 3.8.1 headed "The Changsha Property – Lease agreements – Duration" in the "Letter to the Unitholders" of this Circular.
"Reorganisation"	has the meaning ascribed to this term in section 4.1 headed "Reorganisation – Holding structure of the Changsha Property prior to Reorganisation" in the "Letter to the Unitholders" of this Circular.

"Reorganisation Payable"	means (a) the amount owing from the Changsha Intermediary Company to Shenzhen Fengtai, which will stand at approximately RMB230.6 million (equivalent to approximately HK$282.2 million) immediately prior to Completion, being the amount of the consideration outstanding for the transfer of 99% equity interest in the registered capital of the Changsha Property Company to the Changsha Intermediary Company under the Reorganisation; and (b) the amount owing from the Changsha Intermediary Company to SF Holding, which will stand at approximately RMB2.3 million (equivalent to approximately HK$2.8 million) immediately prior to Completion, being the amount equivalent to the consideration outstanding for the transfer of 1% equity interest in the registered capital of the Changsha Property Company to the Changsha Intermediary Company under the Reorganisation.
"Reorganisation Repayment Amount"	has the meaning ascribed to this term in section 2.2.1 headed "The Acquisition – Key terms of the Sale and Purchase Deed – Consideration and payment terms for the Acquisition" in the "Letter to the Unitholders" of this Circular.
"RMB"	means Renminbi, the official currency of the PRC.
"Sale and Purchase Deed"	means the sale and purchase deed dated 2 June 2022 and entered into by and among the Purchaser, the Manager (in its capacity as manager of SF REIT), the Seller and SF Holding (as guarantor) for the acquisition of the Sale Share by the Purchaser.
"Sale Share"	means the sole issued share of the Target Company.
"Second Amendment Deed"	has the meaning ascribed to this term in section 5.3 headed "Financing of the Acquisition – Extended Offshore Term Loan" in the "Letter to Unitholders" of this Circular.
"Seller" or "SF Fengtai"	means SF Fengtai Industrial Park Holdings Limited (順豐豐泰產業園控股有限公司), a BVI business company incorporated in the BVI which is a Substantial Unitholder of SF REIT holding 35% of the issued Units and the direct owner of the Target Group, which in turn owns the Changsha Property.
"SF Connected Tenants"	means the tenants or licensees of the SF Leases.

"SF Continuing CPTs"	means the Operations Management Agreement and the Changsha SF Leases and the transactions contemplated thereunder.
"SF Holding"	means SF Holding Limited (順豐控股有限公司), a company incorporated in Hong Kong and a direct wholly-owned subsidiary of Shenzhen SF Taisen.
"SF Lease Annual Caps"	has the meaning ascribed to this term in section 9.2.2 headed "Continuing Connected Party Transactions – Non-exempt Continuing Connected Party Transactions with the SFH Group – Changsha SF Leases" in the "Letter to the Unitholders" of this Circular.
"SF Lease Continuing CPTs Waiver"	has the meaning ascribed to this term in section 9.2.2 headed "Continuing Connected Party Transactions – Non-exempt Continuing Connected Party Transactions with the SFH Group – Changsha SF Leases" in the "Letter to the Unitholders" of this Circular.
"SF Leases"	means the leases, tenancies or licences entered into by or renewed by the relevant member of the SF REIT Group (as landlords) with the connected persons of SF REIT (as tenants or licensees) from time to time.
"SF Leasing Framework Agreement"	has the meaning ascribed to this term in section 9.2.2 headed "Continuing Connected Party Transactions – Non-exempt Continuing Connected Party Transactions with the SFH Group – Changsha SF Leases" in the "Letter to the Unitholders" of this Circular.
"SF REIT"	means SF Real Estate Investment Trust, a Hong Kong collective investment scheme constituted as a unit trust authorised under section 104 of the SFO subject to applicable conditions from time to time (whose Units are listed on the Stock Exchange) and the companies controlled by it, as the context requires.
"SF REIT Group"	means SF REIT and its subsidiaries.
"SFC"	means the Securities and Futures Commission of Hong Kong.
"SFH"	means S.F. Holding Co., Ltd. (順豐控股股份有限公司), a company established in the PRC, and whose shares are listed on the Shenzhen Stock Exchange (stock code: 002352.SZ).

"SFH Group"	means SFH and its subsidiaries.
"SFO"	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time).
"Share Consideration"	has the meaning ascribed to this term in section 2.2.1 headed "The Acquisition – Key terms of the Sale and Purchase Deed – Consideration and payment terms for the Acquisition" in the "Letter to the Unitholders" of this Circular.
"Shenzhen Fengtai"	means Shenzhen Fengtai E-Commerce Industrial Park Asset Management. Co., Ltd.*（深圳市豐泰電商產業園資產管理有限公司）, a company established in the PRC and a direct wholly-owned subsidiary of Shenzhen SF Taisen.
"Shenzhen Intra-city"	means Shenzhen SF Intra-city Logistics Co., Ltd.* (深圳市順豐同城物流有限公司), a limited company established in the PRC, which is an indirect non wholly-owned subsidiary of SFH and a Changsha SF Connected Tenant.
"Shenzhen SF Taisen"	means Shenzhen SF Taisen Holdings Group Co., Ltd.*（深圳順豐泰森控股（集團）有限公司）, a company established in the PRC and a direct wholly-owned subsidiary of SFH.
"SPV" or "special purpose vehicle"	means a special purpose vehicle that is owned and controlled by SF REIT in accordance with the REIT Code and the Trust Deed.
"sq.m."	means square metre.
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited.
"Substantial Unitholder"	has the same meaning as "substantial holder" as defined under the REIT Code.
"Sunny Sail"	means Sunny Sail Holding Limited (陽帆控股有限公司), a company incorporated in the Cayman Islands and a direct wholly-owned subsidiary of SF Holding.
"Target Company"	means Changsha Industrial Park Limited (長沙產業園有限公司), a BVI business company incorporated in the BVI which is the direct owner of the Changsha Intermediary Company and the indirect owner of the Changsha Property Company, which in turn directly owns the Changsha Property.

"Target Group"	means collectively, the Target Company, the Changsha Intermediary Company and the Changsha Property Company.
"Target Group Adjusted NAV"	has the meaning ascribed to this term in section 2.2.1 headed "The Acquisition – Key terms of the Sale and Purchase Deed – Consideration and payment terms for the Acquisition" in the "Letter to the Unitholders" of this Circular.
"Tax Advisers"	means KPMG Advisory (China) Limited, an independent third party.
"Third Party Leases"	means the leases entered into between the Changsha Property Company, as owner of the Changsha Property, and independent third parties of the SFH Group and the SF REIT Group, as tenant or licensee of the Changsha Property.
"Total Consideration"	has the meaning ascribed to this term in section 2.2.1 headed "The Acquisition – Key terms of the Sale and Purchase Deed – Consideration and payment terms for the Acquisition" in the "Letter to the Unitholders" of this Circular.
"True-up Payment"	has the meaning ascribed to this term in section 2.2.1 headed "The Acquisition – Key terms of the Sale and Purchase Deed – Consideration and payment terms for the Acquisition" in the "Letter to the Unitholders" of this Circular.
"Trust Deed"	means the trust deed constituting SF REIT dated 29 April 2021 and entered into between the Trustee and the Manager, as may be amended and supplemented from time to time.
"Trustee"	means DB Trustees (Hong Kong) Limited, in its capacity as trustee of SF REIT. All references to the Trustee in this Circular are, as the context may require, to the Trustee acting on behalf of SF REIT and on the instructions of the Manager.
"Trustee's Additional Fee"	has the meaning ascribed to this term in section 6.4 headed "Fees and Charges in relation to the Acquisition – Trustee's Additional Fee" in the "Letter to the Unitholders" of this Circular.
"Unit"	means one undivided unit in SF REIT.

"Unitholder"	means any person registered as holding a Unit on the register of Unitholders.
"Unit Registrar"	means Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
"Valuation Report"	means the valuation report in respect of the Changsha Property prepared by the Independent Property Valuer, which is set out in Appendix 5 to this Circular.
"VAT"	means value-added tax.
"%"	means per cent or percentage.

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

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

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.

This Circular has been issued in the English language with a separate Chinese language translation. If there is any conflict in the Circulars between the meaning of Chinese words or terms in the Chinese language version and English words in the English language version, the meaning of the English words shall prevail.

For the purpose of this Circular, unless otherwise indicated, conversion of RMB into HK$ is calculated at the period-end closing exchange rate on 31 December 2021 of RMB1 to HK$1.2238. This exchange rate is for illustration purposes only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at that rate or any other rate at all.

* *For identification purposes only.*

The expected time and dates in the timetable for the Acquisition below and in this Circular are indicative only and may be subject to change. Any such change will be announced in a separate announcement by the Manager as and when appropriate.

All time and date references contained in this Circular shall refer to Hong Kong local time and dates.

Event	**Date and Time**
Despatch of this Circular with notice and proxy form for the EGM	Tuesday, 7 June 2022
Latest date and time for lodging transfer documents of Units to qualify for the attendance and voting at the EGM	Monday, 20 June 2022 at 4:30 p.m.
Closure of register of Unitholders to determine the eligibility of Unitholders to attend and vote at the EGM	Tuesday, 21 June 2022 to Wednesday, 22 June 2022 (both days inclusive)
Latest date and time for lodging proxy forms for the EGM	Monday, 20 June 2022 at 11:00 a.m.
EGM Record Date	Wednesday, 22 June 2022
Announcement of poll results of the EGM	Wednesday, 22 June 2022
If the approvals sought at the EGM are obtained:	
Drawdown under the Onshore Term Loan	Expected to be immediately before or at Completion
Drawdown under the Extended Offshore Term Loan	Expected to be immediately before or at Completion
Completion	The day falling five Business Days after the date of the fulfilment and/or waiver (where applicable) of the conditions of Completion, or such other date agreed by the relevant parties in writing

Further announcement(s) will be made in relation to those events which are scheduled to take place after the EGM as and when appropriate in accordance with applicable regulatory requirements.

Completion of the Acquisition is subject to and conditional upon, among others, Independent Unitholders' approval being obtained at the EGM, and accordingly, may or may not take place. Unitholders and prospective investors of SF REIT are therefore advised to exercise caution when dealing in the Units.

SF Real Estate Investment Trust
順豐房地產投資信託基金

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

(Stock Code: 2191)

Managed by
SF REIT Asset Management Limited

Directors of the Manager:
Chairman and Non-executive Director:
WANG Wei

Executive Director and Chief Executive Officer:
Hubert CHAK

Non-executive Directors:
NG Wai Ting
HO Chit
LEONG Chong

Independent Non-executive Directors:
TAN Huay Lim
HO Lap Kee, MH, JP
CHAN Ming Tak, Ricky
KWOK Tun Ho, Chester
Michael Tjahja SUSANTO

Registered Office:
Room 2002, 20/F
Lee Garden Six, 111 Leighton Road
Causeway Bay
Hong Kong

7 June 2022

To: Unitholders of SF REIT

Dear Sir/Madam,

(1) MAJOR AND CONNECTED PARTY TRANSACTIONS RELATING TO ACQUISITION OF A MODERN LOGISTICS PROPERTY IN CHANGSHA;
(2) CONTINUING CONNECTED PARTY TRANSACTIONS; AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING

1 INTRODUCTION

Reference is made to the Announcement of SF REIT dated 2 June 2022 relating to, among other things, the Acquisition.

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

2 THE ACQUISITION

2.1 Overview of the Acquisition

On 2 June 2022, SF REIT (through the Purchaser) entered into the Sale and Purchase Deed with the Seller and SF Holding (as guarantor), pursuant to which the Purchaser agreed to purchase the Changsha Property (through the acquisition of the Sale Share representing the sole issued share in the Target Company) from the Seller. The Target Company indirectly holds 100% of the Changsha Property Company (which directly owns the Changsha Property) through the Changsha Intermediary Company.

The Changsha Property is a modern logistics property strategically located in Changsha. Further details regarding the Changsha Property are contained in section 3 headed "The Changsha Property" of this letter in this Circular. As at the Latest Practicable Date: (i) SFH, which wholly-owns the Manager and a Substantial Unitholder of SF REIT (being the Seller which holds 35% of the issued Units), is an associate of the Manager and the Seller, and therefore a connected person of SF REIT within the meaning of Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code); (ii) the Seller is a Substantial Unitholder, and an associate of the Manager (by virtue of it being indirectly wholly-owned by SFH), and therefore is a connected person of SF REIT within the meaning of Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code); and (iii) the Seller, being wholly-owned by SFH, which is in turn owned as to approximately 55% by Mingde Holding (being a company owned as to 99.9% by Mr. WANG Wei (being a Director)), is an associate of a Director, and therefore a connected person of SF REIT within the meaning of Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code). Accordingly, the Acquisition is a connected party transaction of SF REIT and, since the applicable percentage ratios exceed 5%, the Acquisition is subject to the announcement, circular, reporting and Independent Unitholders' approval requirements under Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code).

Furthermore, as the highest applicable percentage ratio in respect of the Acquisition exceeds 25% but is less than 100%, the Acquisition constitutes a major transaction of SF REIT and is subject to the notification, announcement, circular, accountant's report and Unitholders' approval requirements under Chapter 10 of the REIT Code and Chapter 14 of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code).

2.2 Key terms of the Sale and Purchase Deed

On 2 June 2022, Golden Bauhinia Logistics Holdings Limited (a SPV wholly-owned by SF REIT) as the Purchaser and the Manager entered into the Sale and Purchase Deed with SF Fengtai Industrial Park Holdings Limited as the Seller and SF Holding as the guarantor for the Acquisition.

Pursuant to the Sale and Purchase Deed, among other things: (i) the Purchaser agreed to purchase, and the Seller agreed to sell, the Sale Share representing the sole issued share in the Target Company, which through the Changsha Intermediary Company indirectly holds 100% of the Changsha Property Company (which in turn directly owns the Changsha Property) and (ii) the Purchaser agreed to procure the repayment of the Intercompany Payables.

The principal terms of the Sale and Purchase Deed are summarised as follows:

2.2.1 Consideration and payment terms for the Acquisition

The consideration for the acquisition of the Changsha Property (the "**Total Consideration**") is equal to the sum of: (1) the Share Consideration (for the acquisition of the Sale Share); and (2) the Intercompany Payables.

The "**Share Consideration**" shall be paid by the Purchaser to the Seller, and is equal to the sum of: (a) the Agreed Property Value; and (b) the Target Group Adjusted NAV as set out in the Completion Statement.

The "**Agreed Property Value**" of RMB540.0 million (equivalent to approximately HK$660.9 million) was arrived at on an arm's length basis after taking into account the Appraised Value of RMB550.4 million (equivalent to approximately HK$673.6 million) as at 31 March 2022 as appraised by the Independent Property Valuer. The Agreed Property Value represents a discount of approximately 1.9% to the Appraised Value.

The "**Target Group Adjusted NAV**" shall be equal to: (i) all assets of the Target Group (other than the Changsha Property); minus (ii) all liabilities of the Target Group (including the Intercompany Payables but excluding the deferred tax liabilities arising from the revaluation of the Changsha Property), in each case as at Completion as shown in the Completion Statement. Since the Changsha Property will be acquired by SF REIT by way of acquisition of the Sale Share, taking into account the present intention of the Manager for SF REIT to hold the Changsha Property for long-term investment purposes, the Manager's Tax Advisers consider that it is very unlikely that the abovementioned deferred tax liabilities of approximately RMB8.8 million (equivalent to approximately HK$10.8 million) will crystallise upon future disposal. Please refer to note 21 to the financial information set out in Appendix 2B to this Circular in relation to such deferred tax liabilities. Therefore, no account has been taken of such liabilities in the calculation of the Target Group Adjusted NAV. For illustrative purposes only, based on the Accountant's Reports set out in Appendix 2A and Appendix 2B to this Circular and the Intercompany Payables which will remain outstanding immediately before Completion (being approximately RMB500.1 million (equivalent to approximately HK$612.0 million)), the illustrative Target Group Adjusted NAV is approximately negative RMB546.9 million (equivalent to approximately negative HK$669.3 million), and is mostly attributable to: (i) cash and cash equivalents of approximately RMB2.2 million (equivalent to approximately HK$2.7 million) as at 31 December 2021; and (ii) amounts due to related parties of RMB500.1 million (equivalent to approximately HK$612.0 million), which consist mainly of the abovementioned Intercompany Payables which will remain outstanding immediately before Completion of approximately RMB500.1 million (equivalent to approximately HK$612.0 million). The Intercompany Payables represent the aggregate amounts outstanding under (i) the Onshore Payable owing from the Changsha Property Company to Shenzhen SF Taisen; and (ii) the Reorganisation Payable owing from the Changsha Intermediary Company to Shenzhen Fengtai and SF Holding, which will only become outstanding after 31 December 2021 as a result of the Reorganisation and therefore is not reflected in the Accountant's Reports set out in Appendix 2A and Appendix 2B to this Circular which show the audited balance sheets of the Target Company and the Changsha Property Company as at 31 December 2021.

The illustrative Total Consideration is approximately RMB493.2 million (equivalent to approximately HK$603.6 million), calculated based on the illustrative Target Group Adjusted NAV (being approximately negative RMB546.9 million (equivalent to approximately negative HK$669.3 million)) which resulted in the illustrative Share Consideration being approximately negative RMB6.9 million (equivalent to approximately negative HK$8.4 million) and the Purchaser's obligation to procure the repayment of the Intercompany Payables (which will stand at approximately RMB500.1 million (equivalent to approximately HK$612.0 million) immediately before Completion).

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

(A) at Completion, the Purchaser shall pay to the Seller an amount equal to the "**Initial Share Consideration**" of: (1) the Agreed Property Value of RMB540.0 million (equivalent to approximately HK$660.9 million); plus/minus (2) the Target Group Adjusted NAV as set out in the Estimated Completion Statement;

(B) at Completion, the Purchaser shall procure the repayment by the Changsha Property Company of the amount outstanding under the Onshore Payable as at the Completion Date in RMB (the "**Onshore Repayment Amount**");

(C) at Completion, the Purchaser shall procure the repayment by the Changsha Intermediary Company of the amount outstanding under the Reorganisation Payable as at the Completion Date in RMB (the "**Reorganisation Repayment Amount**"); and

(D) within ten Business Days after agreement or determination of the Completion Statement:

(i) if the Target Group Adjusted NAV as set out in the Completion Statement is higher than the Target Group Adjusted NAV as set out in the Estimated Completion Statement, the Purchaser shall pay the difference to the Seller; and

(ii) if the Target Group Adjusted NAV as set out in the Completion Statement is lower than the Target Group Adjusted NAV as set out in the Estimated Completion Statement, the Seller shall repay the difference to the Purchaser,

with such difference payable by the Purchaser or the Seller being the "**True-up Payment**".

If the Initial Share Consideration is a negative figure, the Seller shall pay to the Purchaser at Completion a sum equal to such negative figure (as if it were a positive figure for this purpose) as consideration for the Purchaser in substance acquiring a negative equity of the Target Company.

The Manager shall publish further announcement(s) regarding the Initial Share Consideration, the Onshore Repayment Amount, the Reorganisation Repayment Amount and the True-up Payment as soon as practicable after such amounts have been determined.

2.2.2 Conditions precedent under the Sale and Purchase Deed

Completion of the Acquisition is subject to and conditional upon satisfaction of the following conditions (collectively, the "**Conditions**"):

(a) RMB267.2 million (equivalent to approximately HK$327.0 million) being available for drawdown under the Onshore Term Loan (which will be utilised by the Changsha Property Company to repay the Onshore Payable), and there being no material breach by the relevant member of the Target Group of any documents executed pursuant to the Onshore Term Loan;

(b) HK$259.0 million (equivalent to approximately RMB211.6 million) being available for drawdown under the Extended Offshore Term Loan (which will be utilised by the Changsha Intermediary Company to repay the Reorganisation Payable), and there being no material breach by the relevant member of the SF REIT Group of any documents executed pursuant to the Extended Offshore Term Loan;

(c) there being no material damage to the Changsha Property, no compulsory acquisition or resumption of the Changsha Property and no notice of such intention received from any government authority on or before Completion;

(d) there being no material breach of the warranties of the Seller and SF Holding under the Sale and Purchase Deed; and

(e) the resolution approving the Acquisition Matters Requiring Approval having been passed by Independent Unitholders at the EGM.

To the extent permitted by the REIT Code, the Listing Rules and other applicable laws, rules and regulations, the Purchaser may waive either in whole or in part at any time by notice in writing to the Seller any of the Conditions (except for Condition (e)).

The Manager would only consider waiving Conditions (c) and/or (d) (through the Purchaser), if:

(a) the material damage or material breach concerned is (i) quantifiable and (ii) practicable remedial measures are available to mitigate such breach or damage; and

(b) such waiver, in the view of the Manager, would not (i) be detrimental to the interest of Unitholders; and (ii) contravene the REIT Code, the Listing Rules and other applicable laws, rules and regulations.

Unless the parties to the Sale and Purchase Deed agree otherwise in writing, if any of the Conditions have not been fulfilled or waived (if applicable) on or before the Long Stop Date (being 31 August 2022, or such other date as agreed by the Purchaser and the Seller in writing), then the Purchaser shall not be bound to proceed with the purchase of the Sale Share and the Seller shall not be bound to proceed with the sale of the Sale Share, and the Sale and Purchase Deed shall terminate.

2.2.3 Completion of the Acquisition

Pursuant to the terms of the Sale and Purchase Deed, Completion shall take place on the day falling five Business Days after the date on which all the Conditions have been fulfilled (or waived, if applicable), or such other date as may be agreed by the Purchaser and the Seller in writing. As soon as practicable following Completion, the Manager will issue an announcement to inform Unitholders that Completion has occurred. Upon Completion, the Target Company will become a wholly-owned subsidiary of SF REIT.

2.2.4 Termination of the Sale and Purchase Deed

If Completion has not taken place due to the failure of the Seller or the Purchaser (as the case may be) to satisfy its completion obligations under the Sale and Purchase Deed, the Purchaser or the Seller (as the case may be) may by written notice terminate the Sale and Purchase Deed.

The Manager shall publish an announcement as soon as practicable if the Purchaser or the Seller (as the case may be) terminates the Sale and Purchase Deed by written notice due to the failure of the Seller or the Purchaser (as the case may be) to satisfy its completion obligations under the Sale and Purchase Deed.

2.2.5 *Representations, warranties, indemnities and covenants in the Sale and Purchase Deed*

2.2.5.1 Representations and warranties

The Sale and Purchase Deed contains customary representations and warranties (including fundamental warranties relating to title to the Sale Share and to the Changsha Property, and other warranties relating to tax and compliance with all applicable laws, rules and regulations by the members of the Target Group in conducting their respective businesses) to be made by the Seller in respect of the members of the Target Group and the Changsha Property.

The maximum aggregate liability of the Seller and SF Holding in respect of claims under the warranties shall not exceed the amount equal to the Total Consideration. Such claims shall only be recoverable from the Seller and SF Holding if (a) the amount of each of such claims exceeds RMB0.5 million; and (b) the aggregate amount recoverable in respect of all of such claims exceeds RMB5 million, in which case the Seller and SF Holding will be liable for the entire amount.

The Sale and Purchase Deed also provides for a limitation period of three years after the Completion Date for claims under the warranties (other than those claims relating to fundamental warranties in respect of the title to the Sale Share and to the Changsha Property and tax warranties, in which case the limitation period is seven years after the Completion Date).

Taking into consideration: (a) the abovementioned representations and warranties coverage (including the abovementioned liability caps and limitation periods) which the Manager considers, and the Independent Financial Adviser concurs, to be fair and reasonable as they are in line with normal commercial terms expected in similar transactions; (b) the unconditional and irrevocable guarantee provided by SF Holding as to the due and punctual payment of all amounts payable by the Seller under the Sale and Purchase Deed and due and punctual performance and observance by the Seller of all its obligations, commitments, undertakings, warranties and indemnities under or pursuant to the Sale and Purchase Deed (please refer to section 2.2.6 below); (c) the satisfactory results of the Manager's due diligence review in respect of the Target Group and the Changsha Property; and (d) the PRC's Legal Advisers' opinions as set out in sections 3.6.1, 3.6.2 and 3.6.3 below, the Manager is satisfied that the abovementioned representations and warranties are considered to be sufficient in the circumstances and the interests of SF REIT and Unitholders are adequately protected.

2.2.5.2 Indemnities and covenants

The Sale and Purchase Deed also contains customary indemnities from the Seller and SF Holding, both of whom have irrevocably undertaken to indemnify, on a joint and several basis, SF REIT, the Trustee, the Manager, the Purchaser and each member of the Target Group, to the fullest extent permissible by law, for any liabilities, losses, damages, fines, fees, charges, penalties, premiums, expenses and costs (on a full indemnity basis) which any one of them may incur, suffer or sustain as a result of or in connection with the following matters:

(i) delay in payment instalments by the Changsha Property Company before Completion in the acquisition of land use rights of the Changsha Property;

(ii) delay in commencement and completion of construction works in respect of the Changsha Property by the Changsha Property Company before Completion;

(iii) any unauthorised decoration and modification works in respect of the Changsha Property undertaken by the Changsha Property Company before Completion;

(iv) use and leasing out of the underground car parking spaces and equipment rooms of the Changsha Property by the Changsha Property Company before Completion; and

(v) failure of the Changsha Property Company to register the existing leases in respect of the Changsha Property within the time limit prescribed by the relevant laws and regulations of the PRC before Completion.

The liabilities of the Seller and SF Holding in respect of any claim made against any indemnity (including a claim under an indemnity arising out of or in connection with a fact or circumstance which may also give rise to a claim under any warranty) shall not be subject to the liability caps and the limitation periods in respect of claims under warranties as set out above, except that (a) the maximum liability of the Seller and SF Holding in respect of any claim made against any indemnity shall be limited to the amount equal to the Total Consideration; and (b) such claim shall be subject to a limitation period ending upon the expiry of the land use rights pertaining to the Changsha Property.

In addition, the Sale and Purchase Deed contains tax covenants in respect of events occurring on or before Completion and the PRC Enterprise Income Tax payable by the Seller in respect of the Acquisition. Any claim made against any tax covenant in respect of events occurring on or before Completion shall be limited to the amount equal to the Total Consideration and be subject to a limitation period of seven years after the Completion Date.

Taking into consideration: (a) the abovementioned indemnities and covenants coverage (including the abovementioned limitation caps and limitation periods) which the Manager considers, and the Independent Financial Adviser concurs, to be fair and reasonable as they are in line with normal commercial terms expected in similar transactions; (b) the unconditional and irrevocable guarantee provided by SF Holding as to the due and punctual payment of all amounts payable by the Seller under the Sale and Purchase Deed and due and punctual performance and observance by the Seller of all its obligations, commitments, undertakings, warranties and indemnities under or pursuant to the Sale and Purchase Deed (please refer to section 2.2.6 below); (c) the satisfactory results of the Manager's due diligence review in respect of the Target Group and the Changsha Property; and (d) the PRC Legal Advisers' opinions as set out in sections 3.6.1, 3.6.2 and 3.6.3 below, the Manager is satisfied that the abovementioned indemnities and covenants are considered to be sufficient in the circumstances and the interests of SF REIT and Unitholders are adequately protected.

2.2.6 Guarantee of the Seller's obligations under the Sale and Purchase Deed

SF Holding (as guarantor) has unconditionally and irrevocably guaranteed to the Purchaser the due and punctual payment of all amounts payable by the Seller under the Sale and Purchase Deed and due and punctual performance and observance by the Seller of all its obligations, commitments, undertakings, warranties and indemnities under or pursuant to the Sale and Purchase Deed.

2.2.7 The Seller's tax obligations

As advised by the Manager's Tax Advisers, the obligation to pay the PRC Enterprise Income Tax under Bulletin 7 for the Acquisition is borne by the Seller.

The Manager understands from its Tax Advisers that in respect of the Acquisition: (i) the Seller will first report to the relevant PRC tax authority the information in relation to the Acquisition in accordance with Article 9 of Bulletin 7 and discuss with such authority the draft tax calculation; (ii) the relevant PRC tax authority will then review the figures submitted by the Seller and inform the Seller of the amount of tax payable thereafter; and (iii) the Seller will then complete the tax filing and settle the tax payable accordingly. As advised by the Manager's Tax Advisers, it generally takes one to three months for the relevant PRC tax authority to complete the Bulletin 7 tax filings.

Pursuant to the Sale and Purchase Deed, the Seller shall, at its own expense: (a) as soon as reasonably practicable after the Completion Date (in any event not later than 30 days after the Completion Date (or such other time as may be agreed by the Purchaser and the Seller in writing after consultation with the relevant PRC tax authority)), truly, accurately and completely, report all necessary information on the entry into of the Sale and Purchase Deed and the transactions contemplated thereunder to the relevant PRC tax authority in accordance with Article 9 of Bulletin 7 and inform or procure to inform the relevant PRC tax authority that Completion has occurred; and (b) as soon as reasonably practicable after determination of the True-up Payment (in any event not later than 30 days after the date on which the True-up Payment is determined (or such other time as may be agreed by the Purchaser and the Seller in writing after consultation with the relevant PRC tax authority)), inform or procure to inform the relevant PRC tax authority of the relevant payment as an adjustment to the Initial Share Consideration.

The Seller shall provide the Purchaser with a copy of any and all of its written submission to the relevant PRC tax authority in respect of the Acquisition, and a receipt in writing (受理單/回執) (if any) issued by the relevant PRC tax authority evidencing the submission or other evidence as agreed by the Purchaser and the Seller in writing after taking into account the requirements of the relevant PRC tax authority evidencing the submission, as soon as reasonably practicable after the relevant submission has been made. The Seller shall promptly follow up with the relevant PRC tax authority in respect of its assessment to and payment of PRC tax on the Acquisition, submit all documents requested by the relevant PRC tax authority to be submitted by the Seller in connection with the Acquisition, and promptly keep the Purchaser informed of the foregoing (including providing the Purchaser with copies of all correspondences with the relevant PRC tax authority and all documents issued by the relevant PRC tax authority).

The Seller has also covenanted and undertaken in the Sale and Purchase Deed to, among other things, settle and pay in full the PRC Enterprise Income Tax payable by it arising out of or relating to the Acquisition within the time period required by applicable law, rules and regulations as applied by the relevant PRC tax authority.

As advised by the Manager's Tax Advisers, according to Bulletin 7, if a non-resident enterprise makes an indirect transfer of the equity in a PRC resident enterprise, the income from such indirect transfer of equity sourced from the PRC (i.e. the capital gain) may be levied PRC Enterprise Income Tax.

Based on the experience of the Manager's Tax Advisers with the PRC tax authorities, it was assessed that no capital gain is expected to arise under Bulletin 7 for the Seller (which is incorporated in the BVI and a non-resident enterprise for PRC tax purpose) by virtue of the indirect transfer of the Changsha Property Company as a result of the Acquisition. The Manager's Tax Advisers are of the view that there appears to be no capital gain because the aggregate transfer price adopted for the transfer of the equity interest in the Changsha Property Company to the Changsha Intermediary Company under the Reorganisation (i.e. the tax cost, being the amount of the Reorganisation Payable) is attributed to the Total Consideration (i.e. the consideration for the indirect transfer of the Changsha Property Company as a result of the Acquisition) on a dollar-for-dollar basis, which is on a no-gain basis.

As no capital gain is expected to arise under Bulletin 7 for the Seller, the Manager's Tax Advisers confirm that there is no need for the Purchaser to withhold any PRC Enterprise Income Tax payable by the Seller under Bulletin 7 arising out of the Acquisition.

The Manager's Tax Advisers further confirmed that, in any event, the obligation on the part of the Purchaser to withhold PRC Enterprise Income Tax payable by the Seller under Bulletin 7 arising out of the Acquisition will be waived once the Seller reports to the relevant PRC tax authority the information in relation to the Acquisition in accordance with the abovementioned arrangements under the Sale and Purchase Deed.

In view of the above and the advice from its Tax Advisers, the Manager is of the view that the protection provided by the Seller in respect of tax obligations under the PRC Enterprise Income Tax Law and Bulletin 7, including the abovementioned Seller's covenants and undertakings and the unconditional and irrevocable guarantee from SF Holding, is sufficient and that the interest of Unitholders are adequately protected.

3 THE CHANGSHA PROPERTY

3.1 Description

The Changsha Property is located at No. 102, Hexin Road, Huangxing Town, Changsha City, Hunan Province, the PRC and has total Gross Lettable Area of approximately 120,055 sq.m. and comprises five components which consist of the following facilities: (i) a ramp-up two-storey distribution centre; (ii) a three-storey warehouse with two underground levels; (iii) two single-storey warehouses; (iv) a nine-storey office building; and (v) three ancillary buildings. The Changsha Property comprises two land parcels, being the phase 1 land parcel (with total land area of approximately 117,333 sq.m.) (the "**Phase 1 Land Parcel**") and the phase 2 land parcel (with total land area of approximately 52,512 sq.m.) (the "**Phase 2 Land Parcel**"). The Changsha Property is equipped with built-to-suit facilities, such as automatic sorting, cold storage and supply chain support facilities, to house the needs of its various logistics tenants. Upon Completion, SF REIT will (through the Target Group) hold 100% of the Changsha Property. A simplified chart showing the expected holding structure of the Changsha Property immediately after Completion is contained in section 4.4 headed "Reorganisation – Holding structure of the Changsha Property after Completion" of this letter in this Circular.

3.2 Location

The Changsha Property is located at Changsha Linkong Economic Development Zone, which is a typical airport and high-speed rail linkage area within the Hunan Province. The vicinity is in close proximity to major infrastructure including the airport, Beijing – Hong Kong – Macau Expressways, the Ring Expressway, Changliu Expressway, Changsha South Railway Station, and Hunan Changsha Hongxing Agricultural and Sideline Products Market. Set out below is the map showing the location of the Changsha Property.

Location of the Changsha Property

Source: Market Consultant

The Changsha Property is also located in a logistics service base that effectively serves Changsha and the central region of China. To support the development of logistics sector in Changsha, there were a series of favorable policies released by the PRC Government. For details, please refer to Appendix 6 headed "Market Consultant Report" in this Circular.

3.3 Key information

The following table sets out certain key information relating to the Changsha Property as at 31 March 2022, except where otherwise specified:

Address:	No. 102, Hexin Road, Huangxing Town, Changsha City, Hunan Province, the PRC
Year of completion[(1)]:	Between 2019 and 2021
Expiry of land use rights[(2)]:	30 December 2066 and 28 February 2068
Occupancy Rate:	98.9%
Average Monthly Rental per Lease Space Metre:	RMB30.0 (equivalent to HK$36.7)
Gross Floor Area:	113,467 sq.m.
Gross Lettable Area[(3)]:	120,055 sq.m.
Number of tenants:	21
Number of leases:	43
Contribution of the top five tenants:	Gross Lettable Area: 104,620 sq.m. 87.1% of total Gross Lettable Area 88.6% of total monthly Gross Rental Income for the month ended 31 March 2022
Contribution of the Changsha SF Connected Tenants (including Guangdong Shunxin)[(4)]:	68.4% of the total Gross Lettable Area 68.4% of total monthly Gross Rental Income for the month ended 31 March 2022
Appraised Value[(5)]:	RMB550.4 million (equivalent to approximately HK$673.6 million)
Total cost of the Changsha Property (being the original land acquisition cost and the construction cost attributable to the development of the Changsha Property to the Changsha Property Company) as at 31 December 2021:	RMB532.5 million (equivalent to approximately HK$651.7 million)

Notes:

(1) Year of completion refers to the completion year stated in the real estate ownership certificates in respect of the aboveground levels of the Changsha Property.

(2) According to the Interim Regulations of the People's Republic of China on the Assignment and Transfer of the Right to the Use of State Owned Land in Cities and Towns (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》), when the term of the land use right expires (being 30 December 2066 for the Phase 1 Land Parcel and 28 February 2068 for the Phase 2 Land Parcel), the land user may apply for renewal. According to the land transfer contracts of the Phase 1 Land Parcel and the Phase 2 Land Parcel, 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. The PRC Legal Advisers have therefore advised that the land user has the right to apply for extending the land use right in accordance with PRC laws and administrative regulations and the land transfer contracts. The PRC Legal Advisers confirmed that they do not foresee any material legal impediment for the Changsha Property Company to make such application and the Changsha Property Company to obtain such extended land use right if the application is filed within the prescribed time limit, the land does not involve social public interest and the requirements of the relevant PRC laws and regulations will be met.

(3) According to the approved building plan and information provided by the Manager, the Gross Lettable Area of the Changsha Property includes the areas of facilities and structures (such as material handling system that are partially or completely not required to be recorded on the title certificates) which can be used and leased out. As a result, the Gross Lettable Area of the Changsha Property is higher than its Gross Floor Area in this circumstance.

(4) Guangdong Shunxin was a Changsha SF Connected Tenant as at 31 March 2022, and therefore, the contribution of the Changsha SF Connected Tenants as at 31 March 2022 included the same from Guangdong Shunxin. As at the Latest Practicable Date, all leases of Guangdong Shunxin in respect of the Changsha Property have been transferred to a SF Connected Tenant and Guangdong Shunxin ceased to be a SF Connected Tenant.

(5) As determined by the Independent Property Valuer in its valuation report dated 31 March 2022 (see Appendix 5 headed "Valuation Report on the Changsha Property" to this Circular).

3.4 Operating statistics

3.4.1 Tenant profile and details of tenancy mix

The table below sets out details of the overall tenant diversification of the Changsha Property, in terms of sub-sector by reference to the tenant's Gross Lettable Area as a percentage of the leased Gross Lettable Area as at 31 March 2022, and the percentages of their respective contributions to the Gross Rental Income as a percentage of the total Gross Rental Income for the month ended 31 March 2022:

Sector	**Gross Lettable Area as a percentage of the leased Gross Lettable Area for the month ended 31 March 2022** *(%)*	**Gross Rental Income as a percentage of the total Gross Rental Income for the month ended 31 March 2022** *(%)*
Logistics	77.8	76.6
Food and Beverage	11.4	15.7
Technology	10.6	7.5
Others	0.2	0.2
Total	100.0	100.0

3.4.2 Schedule of tenancy expirations

According to the Valuation Report, the following table sets forth details of the percentage of expiries in respect of the leases of the Changsha Property as at 31 March 2022, which are scheduled to take place during the periods indicated below:

Period	Gross Lettable Area of leases expiring as a percentage of leased Gross Lettable Area[(2)] (%)	Gross Rental Income of leases expiring as a percentage of total Gross Rental Income[(2)] (%)
Year ending 31 December 2022[(1)]	49.3	48.1
Year ending 31 December 2023[(1)]	9.7	11.7
Year ending 31 December 2024[(1)]	30.6	26.4
Year ending 31 December 2025	9.3	13.8
Vacant	1.1	–
Total	100.0	100.0

Notes:

(1) As at 31 March 2022, approximately 68.4% in terms of leased Gross Lettable Area, or 68.4% in terms of Gross Rental Income for the month ended 31 March 2022 of these expiring leases are already in the process of negotiating renewal agreements.

(2) The figures were computed assuming that there is no exercise of any lease renewal rights and the leases terminate after their fixed lease terms.

3.4.3 Top 5 tenants by Gross Lettable Area as at 31 March 2022

The following table sets forth details of the top 5 tenants by Gross Lettable Area as at 31 March 2022:

No.	Sector	Tenancy expiry dates	Gross Lettable Area[(2)] *(sq.m)*	Proportion of Gross Lettable Area[(2)] *(%)*	Monthly Gross Rental Income[(2)] *(RMB/ month)*	Proportion of monthly Gross Rental Income[(2)] *(%)*
1.	Logistics[(3)]	Sep 2022 – Nov 2022[(1)]	45,347	37.8	1,308,882	36.7
2.	Logistics[(3)]	Jun 2022 – Apr 2024[(1)]	22,974	19.1	722,818	20.3
3.	Logistics[(3)]	Sep 2022 – Aug 2023[(1)]	13,606	11.3	400,375	11.2
4.	Food & Beverages	Nov 2024 – Jan 2025	12,116	10.1	515,654	14.5
5.	Technology	Aug 2024 – Nov 2024	10,577	8.8	211,722	5.9

Notes:

(1) As at 31 March 2022, all of the tenancies are already in the process of negotiating renewal agreements.

(2) If tenancy agreements for different premises are entered into by different entities belonging to the same group, they are treated as a single tenant, and the relevant figures are combined for the purpose of this table.

(3) These tenants are the Changsha SF Connected Tenants as of 31 March 2022 (being subsidiaries of SFH and including Guangdong Shunxin).

3.4.4 Rental yield

Based on the Appraised Value and audited financial information of the Changsha Property Company as set out in Appendix 2B to this Circular, the rental yield of the Changsha Property (as calculated by dividing the rental income of the Changsha Property Company by the Appraised Value) is 5.7% for the year ended 31 December 2021.

3.4.5 Delinquency rates

No provision was made for unpaid rents and there were no major rental delinquencies or dispute in respect of the Changsha Property for the years ended 31 December 2019, 2020 and 2021.

3.5 Property valuation

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the current principal valuer of SF REIT, has been appointed as the Independent Property Valuer to appraise the market value of the Changsha Property for the purpose of the Acquisition. The Appraised Value (as appraised by the Independent Property Valuer as at 31 March 2022) was RMB550.4 million (equivalent to approximately HK$673.6 million). The Agreed Property Value is RMB540.0 million (equivalent to approximately HK$660.9 million), representing a discount of approximately 1.9% to the Appraised Value.

In arriving at the Appraised Value, the Independent Property Valuer has made use of the income capitalisation method. The income capitalisation method estimates the value of property or assets on a market basis by taking into account the fully leased net rental income of the property. This technique considers both the current passing rental income from existing tenancies and the potential future reversionary income at market level by capitalising both at appropriate rates. For further details on the methods and bases of the valuation of the Changsha Property, please refer to Appendix 5 headed "Valuation Report on the Changsha Property" to this Circular.

As stated in the letter from the Independent Financial Adviser, based on the grounds set out therein and having reviewed and discussed with the Independent Property Valuer on their valuation model and list of comparables and term/reversionary yields adopted, the Independent Financial Adviser considers that the bases and assumptions adopted to arrive at the Appraised Value are fair and reasonable and in line with market practice. For further detail, please refer to section 3.2 of the letter from the Independent Financial Adviser headed "Valuation bases and assumptions". Having considered the letter from the Independent Financial Adviser, the Manager also concurs with the view of the Independent Financial Adviser that the bases and assumptions adopted to arrive at the Appraised Value are fair and reasonable and in line with market practice.

The Appraised Value, which is arrived at with reference to the income generating ability of the Changsha Property, does not take into account the other assets and liabilities of the Target Group and is not equivalent to the value of the Target Group. However, as the Acquisition is conducted by way of the purchase of the Sale Share, the Total Consideration also takes into account other assets and liabilities of the Target Group. Accordingly, the Total Consideration will be different from the Appraised Value. Given the Agreed Property Value is at a discount to the Appraised Value, the Manager considers such amount to be fair and reasonable. For further details regarding the determination of the Total Consideration, please refer to section 2.2.1 headed "The Acquisition – Key terms of the Sale and Purchase Deed – Consideration and payment terms for the Acquisition" of this letter in this Circular.

Property value reconciliation

The table below sets forth the reconciliation of the investment property of the Changsha Property Company as at 31 December 2021 as set out in Appendix 2B headed "Accountant's Report of the Changsha Property Company" to this Circular, with the Appraised Value (as appraised by the Independent Property Valuer as at 31 March 2022) as stated in Appendix 5 headed "Valuation Report on the Changsha Property" to this Circular.

	RMB million	*HK$ million Equivalent*
Investment property as at 31 December 2021	550.1	673.2
Add: Fair value change	0.3	0.4
Appraised Value as at 31 March 2022	550.4	673.6

3.6 Due diligence review

The Manager has conducted, and is satisfied with the results of, due diligence in respect of the Changsha Property and the Target Group, and no material irregularities or non-compliance issues have been noted as at the Latest Practicable Date. 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), the Listing Rules and the Manager's compliance manual.

The due diligence conducted in respect of the Changsha Property has identified the matters as set out in sections 3.6.1 to 3.6.3 which are not considered by the Manager to be material irregularities or non-compliance reasons based on the reasons as mentioned in sections 3.6.1 to 3.6.3 and 3.7.

The Building Consultant has also carried out an inspection and a survey of the Changsha Property. Such inspection revealed that both the building and structural fabrics, and the building services installations of the Changsha Property have been maintained in a good condition with only minor rectification works required to be carried out.

3.6.1 Ownership and title certificates

The PRC Legal Advisers have advised that the Changsha Property Company has legally obtained the state-owned land use rights and is the sole registered legal user of the land use rights in respect of the Changsha Property. The PRC Legal Advisers have also advised that the Changsha Property Company is the sole owner of the property ownership rights of the aboveground levels underlying the Changsha Property free of encumbrances and the real estate ownership certificates（不動產權證書）issued in respect of the Changsha Property. The PRC Legal Advisers are of the view that (a) the Changsha Property Company has the legal ownership of the aboveground levels of the Changsha Property and can legally and beneficially own, use, occupy, transfer and lease out the aboveground levels of the Changsha Property; and (b) SF REIT will hold good, marketable, legal and beneficial title to the aboveground levels of the Changsha Property through the Target Group upon Completion.

The PRC Legal Advisers, however, noted that the real estate ownership certificates of the Changsha Property have not covered the underground car parking spaces and equipment rooms of the Changsha Property. In response to the PRC Legal Advisers' due diligence enquiries, the Development and Utilization Department of Changsha County Natural Resources Bureau（長沙縣自然資源局開發利用科）confirmed that the Changsha Property Company is currently unable to apply for a real estate ownership certificate for the underground car parking spaces and equipment rooms as the prevailing local policy has not provided for such application. As advised by the PRC Legal Advisers, the Development and Utilization Department of Changsha County Natural Resources Bureau（長沙縣自然資源局開發利用科）is a competent authority to give the abovementioned confirmation. Based on the search conducted in the official website of the Natural Resources Bureau of Changsha County（長沙縣自然資源局）and as confirmed by the Changsha Property Company, as at the Latest Practicable Date, the Changsha Property Company is not subject to any rectification or penalties or fines ordered by the Natural Resources Bureau of Changsha County（長沙縣自然資源局）.

The PRC Legal Advisers are of the view that (a) the Changsha Property Company is entitled to apply for a real estate ownership certificate in respect of the underground car parking spaces and equipment rooms as and when the relevant policy allows for such application in due course subject to the requirements of the relevant PRC laws and regulations and the PRC Legal Advisers do not foresee any material legal impediment for such application and the Changsha Property Company to obtain such real estate ownership certificate if the requirements of the relevant PRC laws and regulations and local policies will be met; (b) the risk of the underground car parking spaces and equipment rooms being formally requisitioned and repossessed as a result of the absence of real estate ownership certificate covering such areas is low subject to the existing PRC regulations and policies; (c) the Changsha Property Company can legally occupy, use and lease out the underground car parking spaces and equipment rooms and derive and receive income therefrom, and the absence of real estate ownership certificate in respect of the underground car parking spaces and equipment rooms would not adversely affect the Changsha Property Company's right in this regard; and (d) there is no material legal impediment for the remittance of the dividends on the retained earnings of the Changsha Property Company, provided that such remittance is legally permissible and complies with the procedures required by the applicable PRC laws and regulations relating to foreign exchange and the withholding tax provisions under the PRC Enterprise Income Tax Law.

The average monthly revenue derived from the car parking spaces (including those located at both aboveground and underground levels) and the underground equipment rooms in respect of the Changsha Property during the period from May 2021 (being the month during which the developments of the Phase 2 Land Parcel were completed) to March 2022 amounted to approximately RMB21,000 (equivalent to approximately HK$25,000), representing approximately 0.6% of the average monthly revenue derived from the Changsha Property by the Changsha Property Company during the same period.

Please refer to paragraph 20 of Appendix 7 headed "Risk Factors" to this Circular for the risk associated with the abovementioned absence of real estate ownership certificate in respect of the underground car park spaces and equipment rooms.

In view of the foregoing and the indemnity provided by the Seller and SF Holding in respect of any potential loss concerning the Changsha Property Company's use and leasing out of the underground car parking spaces and equipment rooms of the Changsha Property, the Manager does not consider such issue posing a material risk to SF REIT or giving rise to any material adverse impact to the operation and financial conditions of SF REIT.

Based on the abovementioned views of the PRC Legal Advisers, the Manager is of the view that the SF REIT will have good, marketable, legal and beneficial title to the Changsha Property as a whole through the Target Group upon Completion, subject to the first priority mortgage over the Changsha Property in favour of the Onshore Lender to secure the Onshore Term Loan and the existing tenancies of the Changsha Property.

According to the Interim Regulations of the People's Republic of China on the Assignment and Transfer of the Right to the Use of State Owned Land in Cities and Towns (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》), when the term of the land use right expires (being 30 December 2066 for the Phase 1 Land Parcel and 28 February 2068 for the Phase 2 Land Parcel), the land user may apply for renewal. According to the land transfer contracts of the Phase 1 Land Parcel and the Phase 2 Land Parcel, 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. The PRC Legal Advisers have therefore advised that the land user has the right to apply for extending the land use right in accordance with PRC laws and administrative regulations and the land transfer contracts. The PRC Legal Advisers confirmed that they do not foresee any material legal impediment for the Changsha Property Company to make such application and the Changsha Property Company to obtain such extended land use right if the application is filed within the prescribed time limit, the land does not involve social public interest and the requirements of the relevant PRC laws and regulations will be met.

3.6.2 Non-registration of lease agreements

As at the Latest Practicable Date, the Changsha Property Company was unable to register all of the 43 lease agreements (including all lease agreements with the SF Connected Tenants) in respect of the Changsha Property with the relevant land and real estate administration bureau, primarily due to the administrative burden resulted from the complex registration procedures. As advised by the PRC Legal Advisers, according to the Administrative Measures for Leasing of Commodity Housing (《商品房屋租賃管理辦法》), where the Changsha Property Company fails to make correction within the stipulated period, a fine of RMB1,000 to RMB10,000 shall be imposed on the Changsha Property Company for non-registration of lease agreements, and the maximum aggregate amount of penalty payable by the Changsha Property Company in respect of such unregistered lease agreements is approximately RMB0.4 million.

As advised by the PRC Legal Advisers, non-registration of the abovementioned lease agreements does not affect the Changsha Property Company's legal title to the aboveground levels of the Changsha Property, or the rights or entitlements of the Changsha Property Company to lease out the Changsha Property to tenants, or the validity or the binding effect of the lease agreements. As at the Latest Practicable Date, the Changsha Property Company has not received a request from any government authority of the PRC to complete the registration formalities or been penalised for the non-registration of the lease agreements. Please refer to paragraph 21 of Appendix 7 headed "Risk Factors" to this Circular for the risk associated with the non-registration of the lease agreements.

Having regard to the above and the indemnity provided by the Seller and SF Holding which covers any penalties, liabilities, losses, damages, fines, fees, charges, premiums, expenses and costs (on a full indemnity basis) sustained, incurred or suffered as a result of the non-registration of lease agreements, the Manager does not consider this issue posing a material risk to SF REIT or giving rise to any material adverse impact to the operation and financial conditions of SF REIT.

3.6.3 Other minor irregularities

The PRC Legal Advisers' due diligence revealed certain minor irregularities (i.e. delay in certain payment instalments in the acquisition of land use rights of the Changsha Property, delay in commencement and completion of construction works, and some unauthorised decoration and modification works) at the acquisition and construction phases of the Changsha Property. Based on the advice of the PRC Legal Advisers, the Manager estimates that SF REIT's maximum exposure arising from the abovementioned minor irregularities after Completion amounts to RMB0.9 million. In response to the PRC Legal Advisers' due diligence enquiries, the Natural Resources Bureau of Changsha County（長沙縣自然資源局）issued a written confirmation on 25 March 2022 that the Changsha Property Company conducted its business and operations and acquired the land use rights of the Changsha Property in compliance with the relevant laws and regulations of the PRC regarding land and planning management, and the industry management section of the Bureau of Housing and Urban-Rural Development of Changsha County（長沙縣住房和城鄉建設局行業管理科）issued a written confirmation on 24 March 2022 that it had not identified any illegal construction by the Changsha Property Company within Changsha County from 1 March 2019 to 24 March 2022. The PRC Legal Advisers confirmed that the Natural Resources Bureau of Changsha County（長沙縣自然資源局）and the industry management section of the Bureau of Housing and Urban-Rural Development of Changsha County（長沙縣住房和城鄉建設局行業管理科）are competent authorities to issue the above confirmations.

Having regard to the above, the PRC Legal Advisers are of the view that these issues present no material adverse impact on the ownership of the Changsha Property by the Changsha Property Company. The Independent Property Valuer has considered the abovementioned issues and is of the view that such issues would not affect (i) the ownership of the Changsha Property held by the Changsha Property Company based on the aforesaid PRC Legal Advisers' views or (ii) the Independent Property Valuer's opinions regarding the Appraised Value as set out in the Valuation Report.

In view of the foregoing and the indemnity provided by the Seller and SF Holding which covers any penalties, liabilities, losses, damages, fines, fees, charges, premiums, expenses and costs (on a full indemnity basis) sustained, incurred or suffered as a result of the aforesaid identified minor irregularities, the Manager does not consider these issues posing a material risk to SF REIT or giving rise to any material adverse impact to the operation and financial conditions of SF REIT.

3.7 Indemnity

Pursuant to the Sale and Purchase Deed, the Seller and SF Holding irrevocably undertake to indemnify, on a joint and several basis, SF REIT, the Trustee, the Purchaser, the Target Group, and the Manager, to the fullest extent permissible by law, for any liabilities, losses, damages, fines, fees, charges, penalties, premiums, expenses and costs (on a full indemnity basis) which any one of them may incur, suffer or sustain as a result of the matters described in sections 3.6.1 to 3.6.3 of this letter. Any claim under the abovementioned indemnity will be subject to a maximum liability limit of the amount equal to the Total Consideration and a limitation period ending upon the expiry of the land use rights pertaining to the Changsha Property. As any potential penalties and loss payable arising from the matters described in sections 3.6.1 to 3.6.3 of this letter would be covered under the indemnity provided by the Seller and SF Holding and having regard to the PRC Legal Advisers' and the Independent Property Valuer's opinions, the Manager is of the view that such matters are immaterial and are not reasonably expected to have a material and adverse impact on the ownership of the Changsha Property by the Changsha Property Company and on the operation and financial conditions and business of SF REIT. The Manager considers the aforementioned indemnity to be sufficient and that the interest of Unitholders are adequately protected. Please refer to paragraph 15 of Appendix 7 headed "Risk Factors" to this Circular for the risk associated with the abovementioned indemnity.

3.8 Lease agreements

3.8.1 Duration

Each of the Changsha SF Leases entered into by the Changsha Property Company with the Changsha SF Connected Tenants subsisting as at the Completion Date is for an initial term of approximately 4 years and 8 months, which has commenced on 1 May 2022 and will expire on 31 December 2026 (the "**Initial Term Expiry Date**"). As at the Latest Practicable Date, the Changsha SF Connected Tenants comprise Shenzhen Intra-city, Hunan SF Freight and Hunan SF Express. As each of the Changsha SF Connected Tenants is a subsidiary of SFH (being the holding company of the Manager and the Seller (being a Substantial Unitholder) and being owned as to approximately 55% by Mingde Holding, a company owned as to 99.9% by Mr. WANG Wei (being a Director)), each of the Changsha SF Connected Tenants is an associate of the Manager, a Substantial Unitholder and a Director and therefore a connected person of SF REIT within the meaning of Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code).

Under the terms of the Changsha SF Leases, the Changsha SF Connected Tenants shall have an option to renew the relevant Changsha SF Leases on substantially the same terms (apart from rent, which are to be determined by reference to the market rental package (the "**Market Rental Package**"), property management fee and rental deposit) for a further term of up to five years (such renewed Changsha SF Leases being the "**Renewed Changsha SF Leases**"). To exercise such option to renew, a Changsha SF Connected Tenant shall give written notice to the Changsha Property Company no later than six months prior to the Initial Term Expiry Date, in which case the parties shall negotiate the terms for the renewal and, thereafter, enter into the Renewed Changsha SF Lease no later than three months prior to the Initial Term Expiry Date. Renewal of the Changsha SF Leases is subject to the relevant requirements under the REIT Code and Listing Rules.

The term of the Third Party Leases of the Changsha Property generally ranges from one to five years. As at 31 March 2022, more than half of the Third Party Leases were for a term of at least three years. The Third Party Leases in respect of the Changsha Property generally provide the tenants an option to renew for a further term to be agreed by the Changsha Property Company and the relevant tenants.

3.8.2 Other key terms of the Changsha SF Leases

Rent and Rental Deposit

The rent payable under the Changsha SF Leases is fixed for each year of the term, with an agreed yearly increment taking into account the market rent suggested by a professional independent valuer. Each of the Changsha SF Connected Tenants (which comprise Shenzhen Intra-city, Hunan SF Freight and Hunan SF Express as at the Latest Practicable Date) has agreed to pay rent in advance on the first day of every three months to the Changsha Property Company in accordance with the terms of the relevant Changsha SF Lease.

Each of the Changsha SF Connected Tenants is required to provide at the start of the initial term and maintain at all times during the relevant Changsha SF Lease's term a rental deposit equivalent to the aggregate of two months' rent and property management fees. Such rental deposits are retained by the Changsha Property Company free of interest to the Changsha SF Connected Tenants.

When entering into a new Changsha SF Lease or where a Changsha SF Connected Tenant exercises its option to renew the relevant Changsha SF Lease by serving a written notice to the Changsha Property Company, the Changsha SF Connected Tenant and the Changsha Property Company shall jointly appoint an independent professional property valuer or valuation surveyor to conduct a rent review to determine the Market Rental Package for the renewal term, including the amounts of the rent and annual rental increment, and furnish to the parties the Market Rental Package no later than five months before the end of the initial term.

The basis for determination of the Market Rental Package shall be, among other things, the then current open market rent at the commencement date of the renewal term which would be paid by a willing tenant to a willing landlord for similar premises in a similar development. On the basis of the Market Rental Package, the parties shall enter into the Renewed Changsha SF Lease no later than three months before the end of the initial term.

The Changsha SF Connected Tenants shall also maintain the level of rental deposit as revised by the Market Rental Package and, if applicable, pay to the Changsha Property Company such additional sum as may be required as a result of any upward revision to the rental deposits.

Management fees and other expenses

Under the Changsha SF Leases, the Changsha SF Connected Tenants are generally responsible for the payment of outgoings such as property management fees and is responsible for the maintenance of the newly added decoration facilities and installed engineering equipment by the lessees, while the landlord is responsible for the maintenance of the leased place and the original facilities and equipment provided by the lessor.

Restriction to assignment and sublet

The Changsha SF Tenants are generally not permitted to assign or sublet the premises without the consent of the Changsha Property Company as landlord.

Force Majeure

In the event that the premises or any part of it is rendered uninhabitable, unusable or inaccessible by fire, water, storm, typhoon, earthquake, subsidence of the ground, act of God, force majeure or any calamity or cause beyond the parties' control (save for epidemics or pandemics in all cases) (each a "**Force Majeure Event**") for at least a month other than as a result of the act or default of the Changsha SF Connected Tenants, the Changsha SF Connected Tenants are entitled to rent abatement proportionate to the area rendered uninhabitable, unusable or inaccessible until the premises shall have been restored or reinstated. Where the premises continue to be uninhabitable, unusable or inaccessible and not restored or reinstated within six months of the occurrence of the Force Majeure Event, the Changsha SF Connected Tenants may at any time before the same are so repaired and reinstated terminate the relevant Changsha SF Leases by written notice, without prejudice to the Changsha Property Company's rights and remedies in respect of any antecedent breach by the SF Connected Tenants.

Termination

The Changsha Property Company may, without any liability, unilaterally terminate a Changsha SF Lease and re-enter the premises at any time by serving a three-months' notice in writing to the relevant Changsha SF Connected Tenant, or in the event that, among other things:

(a) the Changsha SF Connected Tenant is wound up;

(b) the whole or part of the rent, management charges, charges for chilled/condensing water supply and electricity supply or any other sum required to be paid are in arrears for 30 days;

(c) there is a material change of control in the Changsha SF Connected Tenant;

(d) the Changsha Property Company has been served a notice or order by any government authority requiring it to rectify any non-conformity with respect to the use of the premises or any part thereof and the Changsha Property Company cannot reach an agreement with the relevant SF Connected Tenant on compliance with such notice or order; or

(e) SF REIT is required to re-comply with, among other things, the approval requirements concerning its connected party transactions with respect to the REIT Code or the Listing Rules but such approval is not obtained.

In addition to terminating the Changsha SF Leases and re-entering the premises, the Changsha Property Company may also forfeit the rental deposits and SF REIT (through the Changsha Property Company) may also call on the Changsha SF Lease Guarantee (in case of Hunan SF Express), in the event of a payment or other default under the relevant Changsha SF Lease. For further details regarding the terms of the SF Lease Guarantee, please refer to section 9.3.1 headed "Continuing Connected Party Transactions – Fully-exempt Continuing Connected Party Transactions with the SFH Group – Changsha SF Lease Guarantee" of this letter in this Circular.

Each of the Changsha SF Leases subsisting as at the Completion Date is covered under and consistent with the terms of the SF Leasing Framework Agreement, as well as the terms of the SF Lease Continuing CPTs Waiver, and the transactions under the Changsha SF Leases (together with those under other SF Leases in respect of the Existing Properties) are expected not to exceed the SF Lease Annual Caps. Therefore, the transactions under the Changsha SF Leases will be subject to the reporting and annual review requirements under Chapter 14A of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code) but exempt from the announcement, circular and Independent Unitholders' approval requirements under Chapter 14A of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code). For details regarding the terms of the SF Leasing Framework Agreement, the SF Lease Continuing CPTs Waiver and the SF Lease Annual Caps, please refer to section 9.2.2 headed "Continuing Connected Party Transactions – Non-exempt Continuing Connected Party Transactions with the SFH Group – Changsha SF Leases" of this letter in this Circular.

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the current principal valuer of SF REIT, has confirmed that: (i) the rental/licence fees in respect of the Changsha SF Leases are at or higher than prevailing market levels as at their respective agreement dates; (ii) the other commercial terms in the Changsha SF Leases are on normal commercial terms; and (iii) the terms of the Changsha SF Leases are fair and reasonable. The Manager is also of the view that the Changsha SF Leases are in the interests of SF REIT and its Unitholders as a whole.

3.8.3 Other key terms of the Third Party Leases

The Third Party Leases in respect of the Changsha Property generally follow a standard form for the Changsha Property.

At the time of entering into a lease, tenants of the Changsha Property are generally required to pay a non-interest bearing rental deposit equal to one to three months' rent and management service income. Rent is payable quarterly or semi annually.

Under the Third Party Leases, if the premises or a substantial part of it are rendered unfit for use or inaccessible by force majeure or by any cause other than the result of the negligence or fault of the tenants, the tenants are generally entitled to rent abatement until the premises shall again be rendered fit for occupation and in some leases, either the landlords or the tenants are entitled to terminate the lease if the premises are not reinstated after a certain period of time.

The Third Party Leases generally give the landlord the right to terminate the Third Party Leases upon the occurrence of certain events, such as non-payment of rent or breach of covenants by the tenants. In addition, the tenants are required to use the premises for the permitted purposes only and otherwise in accordance with all applicable laws and regulations in the PRC. Except where the landlord fails to deliver the premises to the tenants within generally 30 days from the commencement of the lease or provide the agreed repair and maintenance rendering the tenants unable to use the premises in respect of the Third Party Leases of the Changsha Property, tenants do not generally have the right of early termination under the Third Party Leases.

3.9 Management strategy

3.9.1 Overall strategy

On Completion, the Manager intends to continue with the same key objectives and principal investment strategies for SF REIT. Certain aspects of these strategies are described below:

(a) *Attracting new tenants and exploring the expansion needs of existing tenants*

The Manager will proactively explore ways to expand the prospective tenant base by enhancing the overall attractiveness and marketability of SF REIT's properties working closely with the property managers and operations managers. For example, the Manager may procure that asset enhancement works be carried out so as to meet the expansion needs of existing tenants or demand for space by new tenants, and/or provide any other value-added services they require. The Manager will also, leveraging on the knowledge and experience of the SFH Group in carrying out asset enhancement works, identify premises that can be better utilised or remodelled for the purposes of improving the yield for the relevant property, and supervise the carrying out of such works. The Manager is also able to leverage on the well-established customer base and network of SFH, which consists of large-scale and renowned PRC and global enterprises, to explore and source potential new tenants.

(b) Improving rental rates while maintaining high occupancy rates

The Manager will actively manage lease renewals and new leases through: (i) advancing lease negotiations with tenants whose leases are due for expiry; (ii) identifying and rectifying leases which have passing rents that are below market levels; (iii) actively marketing (together with the property managers and operations managers) to secure new tenants for impending vacant space; and (iv) managing rental arrears to minimise bad debts.

(c) Minimising property expenses

The Manager will seek to minimise property expenses without compromising quality of services provided to the tenants so as to further improve the net property income. The Manager will work with the property managers and operations managers to explore ways to improve the cost structure, such as minimising property expenses of cleaning, security, electricity and maintenance expenses, and improve the overall operational efficiency of SF REIT's properties.

3.9.2 Operations Manager

The Operations Manager is Changsha Hongjie Industrial Park Operation Management Co., Ltd. * (長沙市宏捷產業園運營管理有限公司) with registered address at e-commerce Office Center, Fengtai Industrial Park, No. 102 Hexin Road, Huangxing Town, Changsha City, Hunan Province, the PRC, which was established in the PRC on 12 August 2019. The Operations Manager entered into the Operations Management Agreement with the Changsha Property Company on 1 March 2022, pursuant to which the Operations Manager agreed to provide (by itself or outsourcing) operations and property management services in respect of the Changsha Property to the Changsha Property Company, subject to the oversight and supervision of the Manager (acting on behalf of the Changsha Property Company) and in accordance with the principles set out therein. As the Operations Manager is an indirect wholly-owned subsidiary of SFH (being the holding company of the Manager and the Seller (being a Substantial Unitholder) and being owned as to approximately 55% by Mingde Holding, a company owned as to 99.9% by Mr. WANG Wei (being a Director)), the Operations Manager is an associate of the Manager, a Substantial Unitholder and a Director and therefore a connected person of SF REIT within the meaning of Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code). The transactions under the Operations Management Agreement therefore constitute continuing connected party transactions of SF REIT upon Completion.

3.9.3 The Operations Management Agreement

Pursuant to the Operations Management Agreement, the Operations Manager has agreed to provide (by itself or outsourcing), among other things, the following services with respect to the Changsha Property (being the "**Operations Management Services**") for an initial term from 1 March 2022 to 31 December 2023 (which may be extended by parties' agreement upon expiry of the initial term):

(a) leasing and marketing management services including:

(i) managing the signing of new and renewed leases and act as the leasing agent in participating in negotiation of terms with tenants;

(ii) implementing the marketing, advertising and publicity strategies of the Manager in respect of the Changsha Property including the annual budget and objectives;

(iii) finding potential tenants, tenant evaluation, monitoring the financial status of tenants, rent collection, tenant relationship management, handling renewals of leases and providing integrated value-added solutions to tenants;

(iv) implementing the rental policy formulated by the Manager from time to time, and seeking the advice and approval of the Manager before granting any preferential treatment to tenants other than the aforementioned rental policy; and

(v) assessing the state of the Changsha Property and reporting to the Manager regularly.

(b) in the case where the Changsha Property Company has not yet engaged a property management company or needs to change the property management company, assisting the Changsha Property Company in selecting the property management company (if applicable);

(c) property management services (including maintenance and management of the premises and public facilities, cleaning and security, greening, decoration and renovation management, carpark management, cultural activities management, fire safety and public order maintenance services), and if the Changsha Property Company has engaged a third party for the aforementioned property management services, the Changsha Property Company will authorise the Operations Manager to manage such third party's provision of property management services;

(d) assisting the Changsha Property Company in applying, maintaining and renewing all necessary certificates, licences and permits for the operation of the Changsha Property, and ensuring compliance with applicable PRC laws and regulations;

(e) supervising the use of the Changsha Property by the tenants and demanding rent and other receivables from the tenants (if any);

(f) supervising and coordinating all renovation works (including general refurbishment and large-scale renovation) at the Changsha Property and assisting the Changsha Property Company and the Manager to formulate asset enhancement and remodelling plans;

(g) implementing the asset enhancement and remodelling plans in respect of the Changsha Property as approved by the Manager, including the design, request for tender, construction and quality inspection, and supervising the day-to-day maintenance and upkeep of the Changsha Property;

(h) assisting the Changsha Property Company in collecting operation income and other income;

(i) providing financial services such as financial accounting, financial analysis, tax and settlement services to the Changsha Property Company;

(j) ensuring adequate and valid business insurance coverage in respect of the Changsha Property Company; and

(k) other operation services which are assigned in writing to the Operations Manager by the Changsha Property Company from time to time.

The Operations Manager has agreed to establish a ringfenced team for the purpose of performing the leasing and marketing management services set out in (a) above. Such team will be dedicated to the Changsha Property only and shall maintain strict confidentiality regarding all investment, lease terms and rent of the Changsha Property. The team shall be made up of personnel whose performance are measured by reference to certain metrics of SF REIT or the Changsha Property, effectively aligning the interest of the Operations Manager with those of SF REIT and the Unitholders.

Under the Operations Management Agreement, the Operations Manager is entitled to receive from the Changsha Property Company an amount equivalent to 2% of the sum of the monthly rental income and property management fee of the Changsha Property Company (the "**Operations Management Fee**") together with VAT payable on a monthly basis. Such Operations Management Fee is determined based on arms' length negotiation, and is no less favourable than the fees which independent third party operators would charge in comparison for provision of similar services. The Operations Manager will bear its operating costs and expenses and be subject to the ongoing supervision of the Manager.

The Manager will maintain overall supervision and monitoring of the performance of the Operations Manager, which include inspecting the books and records kept by the Operations Manager. Under the Operations Management Agreement, the Operations Manager is required to submit to the Manager monthly reports as an internal control procedure.

The Changsha Property Company may terminate the appointment of the Operations Manager in the event that the Operations Manager ceases to carry on business or there is a change in the ownership or control of the Operations Manager (except within the group of companies of which the Operations Manager is a member). The Changsha Property Company may also terminate the appointment of the Operations Manager in relation to the Changsha Property under the management of the Operations Manager in the event of the sale of the Changsha Property Company or the Changsha Property.

The key personnel of the Operations Manager have at least five years of experience in managing real estate. As advised by the PRC Legal Advisers, save for the business licence (企業法人營業執照) which had been obtained by the Operations Manager at its establishment and updated following subsequent changes, the Operations Manager does not currently need any licences to perform the Operations Management Services pursuant to the arrangements under the Operations Management Agreement according to the relevant PRC laws and regulations. The Manager is of the view that the Operations Manager has sufficient experience and is fit and proper to provide the Operations Management Services. The Operations Manager is capable of performing, and shall perform, its duties in relation to SF REIT independently and in the best interests of SF REIT and Unitholders.

3.9.4 Arrangements to Mitigate Conflicts of Interest

The Manager has the general power of management over the assets of SF REIT and has delegated the day-to-day property management functions to the Operations Manager. Given the Operations Manager is indirectly wholly-owned by SFH and it also manages and services other properties held by SFH in the PRC, the Manager has put in place the following arrangements to mitigate potential conflicts of interest in relation to the management of the Changsha Property:

(a) Segregation of sensitive operational functions

As the Operations Manager also provides services to properties and entities of SFH, the Manager in mitigating potential conflicts has segregated certain sensitive operational functions, namely leasing and marketing functions, to be performed by a dedicated and ringfenced team within the Operations Manager which shall be made up of personnel whose performance will be measured by reference to its efforts in the management of the Changsha Property only, effectively aligning the interest of the Operations Manager with those of SF REIT and Unitholders.

For the non-sensitive day-to-day property management functions for the Changsha Property, such as daily maintenance, cleaning and security, these will continue to be outsourced to third party property management service providers and/or carried out by the non-ringfenced teams at the Operations Manager, who may provide similar services to properties held by the SFH Group (if currently applicable) and outsource such services to other service providers.

Notwithstanding this, the Operations Manager shall remain accountable to the Changsha Property Company, and subject to the oversight and supervision of the Manager in respect of these outsourced or sub-delegated services. The Operations Manager may provide similar day-to-day property management services to the properties held by SFH, but the Manager is of the view that given the nature of such services, this arrangement is unlikely to give rise to material business conflict concerns.

(b) "Chinese Walls", information technology system, reporting lines and segregated office space

To protect sensitive and confidential information with respect to the Changsha Property, the Operations Manager will (i) implement measures such as "Chinese Walls", information technology systems with access rights control and clear reporting lines to protect sensitive property management information pertaining to the Changsha Property, such as the details of leases, from being used by SFH entities to the detriment of SF REIT; and (ii) in respect of the Manager and the ringfenced teams of the Operations Manager, operate out of an office space physically separated from the other companies of the SFH Group to further preserve the confidentiality of such information.

3.10 Competition

The Changsha Property is located at Changsha Linkong Economic Development Zone, which is a typical airport and high-speed rail linkage area within the Hunan Province. The vicinity is in close proximity to major infrastructure. According to the Market Consultant Report, the Changsha Property is situated at a convenient location with great accessibility connecting the Changsha Property and the urban centre, and even other districts.

The attractiveness of Changsha has attracted a number of investors and developers to the market and Changsha's market demand for logistics real estate has been continuously increasing over the past five years. The supply boom of warehouses has brought Changsha a great amount of supply in the recent two years, thus leading to the rise of vacancy rate in the relevant period. According to the Market Consultant Report, there will be at least four more logistics warehouses to be completed in the coming years in the neighbouring sub-districts, which may bring potential competition to the Changsha Property.

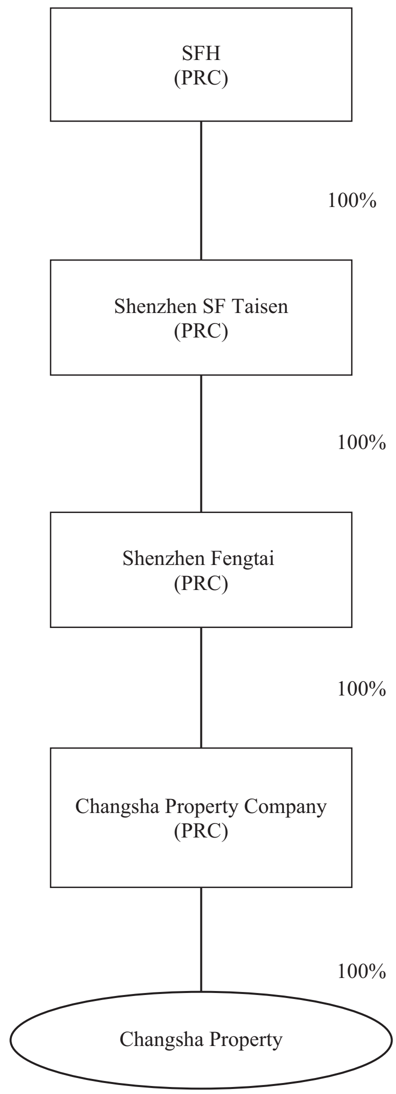
The Market Consultant has prepared the Market Consultant Report analysing, among other things, the competitive conditions of the Changsha Property. For details, please refer to Appendix 6 headed "Market Consultant Report" to this Circular.

In determining whether the Changsha Property meets the investment policy and criteria for selection, the Manager has taken various factors into consideration, including (i) yield requirements; (ii) quality and geographical location of asset; (iii) occupancy rate; (iv) potential growth; (v) diversification and enlargement of SF REIT's current portfolio; and (vi) continuous support from SFH. For details, please refer to section 7 headed "Reasons for and Benefits of the Acquisition" in this Circular.

4 REORGANISATION

4.1 Holding structure of the Changsha Property prior to Reorganisation

The below simplified chart illustrates the shareholding and corporate structure in respect of the Changsha Property immediately prior to the Reorganisation:



Prior to the signing of the Sale and Purchase Deed, the SFH Group undertook a series of transactions which principally involved the following:

(a) the incorporation of the Target Company and the Changsha Intermediary Company;

(b) the contribution of 1% of the equity interest to the Changsha Property Company by an individual investor who is an independent third party of the SFH Group and the SF REIT Group (the "**Investor**");

(c) the transfer of 99% of the equity interest in the Changsha Property Company by Shenzhen Fengtai to the Changsha Intermediary Company; and

(d) the transfer of 1% of the equity interest in the Changsha Property Company by the Investor to the Changsha Intermediary Company.

(Steps (a) to (d) above are collectively referred to as the "**Reorganisation**").

4.2 Main steps of the Reorganisation

The main steps for the Reorganisation are summarised below:

(a) Incorporation of the Target Company and the Changsha Intermediary Company

The Target Company was incorporated in the BVI on 30 November 2021 and is authorised to issue a maximum of 50,000 shares of a single class of no par value, of which one share was initially allotted on 30 November 2021 to Sunny Sail, which transferred such share to the Seller on 17 February 2022.

The Changsha Intermediary Company was incorporated in Hong Kong with limited liability on 28 December 2021. Upon incorporation, one fully paid share of HK$1.00 of the Changsha Intermediary Company was allotted and issued to the Target Company.

(b) Contribution of 1% of the equity interest to the Changsha Property Company by the Investor

Pursuant to the capital increase agreement entered into among the Investor, Shenzhen Fengtai and the Changsha Property Company dated 6 April 2022, the Investor agreed to make a capital contribution of approximately RMB2.3 million (equivalent to approximately HK$2.8 million) in the Changsha Property Company, among which approximately RMB1.9 million (equivalent to approximately HK$2.3 million) is contributed to the registered capital with the rest accounted as capital reserve of the Changsha Property Company. The capital contribution was determined pursuant to arm's length commercial negotiation between the parties and having regard to the valuation performed by an independent valuer in the PRC in accordance with the applicable valuation principles generally adopted in the PRC.

Upon completion of the above capital increase on 8 April 2022, the Changsha Property Company was converted from a limited liability company into a Sino-foreign equity joint venture company and owned as to 99% by Shenzhen Fengtai and 1% by the Investor.

(c) Transfer of 99% of the equity interest in the Changsha Property Company by Shenzhen Fengtai to the Changsha Intermediary Company

Pursuant to the equity transfer agreement entered into between Shenzhen Fengtai and the Changsha Intermediary Company dated 27 April 2022, Shenzhen Fengtai agreed to transfer to the Changsha Intermediary Company 99% of the equity interest in the Changsha Property Company at the consideration of approximately RMB230.6 million (equivalent to approximately HK$282.2 million). The consideration was determined pursuant to arm's length commercial negotiation between the parties and having regard to the valuation performed by an independent valuer in the PRC in accordance with the applicable valuation principles generally adopted in the PRC, and will be settled by the Changsha Intermediary Company at Completion. The amount of the presently unsettled consideration for the abovementioned transfer (being part of the Reorganisation Payable) is treated as a liability of the Target Group for the purpose of determining the Total Consideration. Such unsettled consideration will be settled using the internal resources of SF REIT and the drawdown amount under the Extended Offshore Term Loan, the details of which are set out in section 5.3 headed "Financing of the Acquisition – Extended Offshore Term Loan" and section 5.4 headed "Financing of the Acquisition – Internal Resources" of this letter in this Circular.

(d) Transfer of 1% of the equity interest in the Changsha Property Company by the Investor to the Changsha Intermediary Company

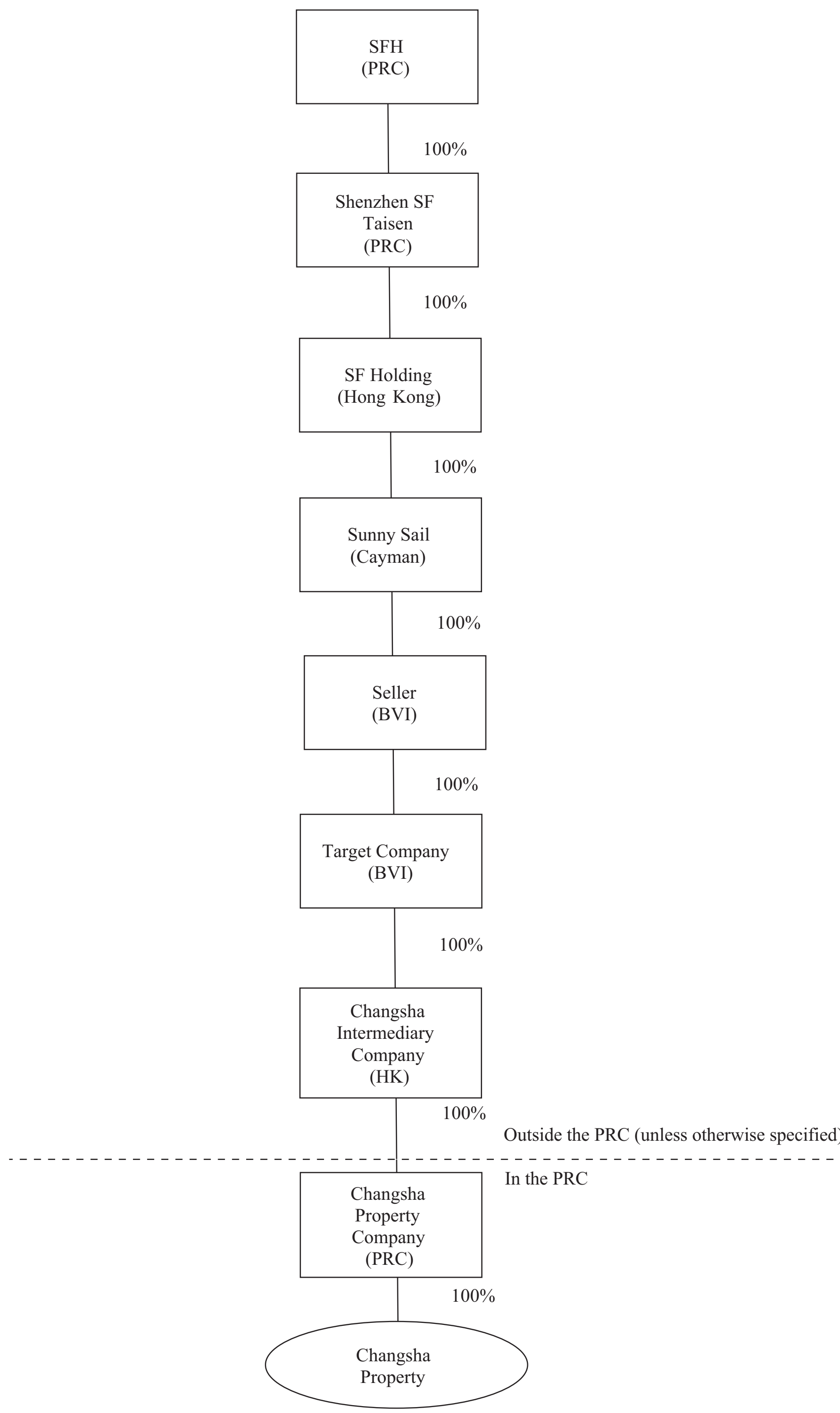
Pursuant to the equity transfer agreement entered into between the Investor and the Changsha Intermediary Company dated 27 April 2022, the Investor agreed to transfer to the Changsha Intermediary Company 1% of the equity interest in the Changsha Property Company at the consideration of approximately RMB2.3 million (equivalent to approximately HK$2.8 million). The consideration was determined pursuant to arm's length commercial negotiation between the parties and having regard to the valuation performed by an independent valuer in the PRC in accordance with the applicable valuation principles generally adopted in the PRC. The consideration for such transfer has been first fully settled by SF Holding (for and on behalf of the Changsha Intermediary Company). Thereafter, the amount paid by SF Holding to settle the abovementioned consideration forms part of the Reorganisation Payable, and such amount will be settled by the Changsha Intermediary Company to SF Holding at Completion using the internal resources of SF REIT and the drawdown amount under the Extended Offshore Term Loan, the details of which are set out in section 5.3 headed "Financing of the Acquisition – Extended Offshore Term Loan" and section 5.4 headed "Financing of the Acquisition – Internal Resources" of this letter in this Circular.

Notwithstanding the abovementioned unsettled consideration for the transfer of 99% of the equity interest in the Changsha Property Company from Shenzhen Fengtai to the Changsha Intermediary Company (which will be settled by using the internal resources of SF REIT and the drawdown amount under the Extended Offshore Term Loan at Completion), the PRC Legal Advisers confirmed that (a) the agreements in respect of the above transfers of the 99% and 1% of the equity interest in the Changsha Property Company were entered into on 27 April 2022 and the industrial and commercial registrations in respect of the above transfers were completed on 9 May 2022; and (b) upon completion of the above equity interest transfers on 9 May 2022, the Changsha Property Company was converted from a Sino-foreign equity joint venture to a wholly-foreign owned enterprise and owned as to 100% by the Changsha Intermediary Company.

In light of the foregoing and based on the legal advice received by the Manager from the PRC Legal Advisers and its own due diligence, the Manager confirms that: (i) the necessary regulatory filings and approvals required under the PRC laws and regulations for the Reorganisation have been completed and obtained; and (ii) the Reorganisation has been completed in accordance with the relevant PRC laws and regulations as at the date of this Circular.

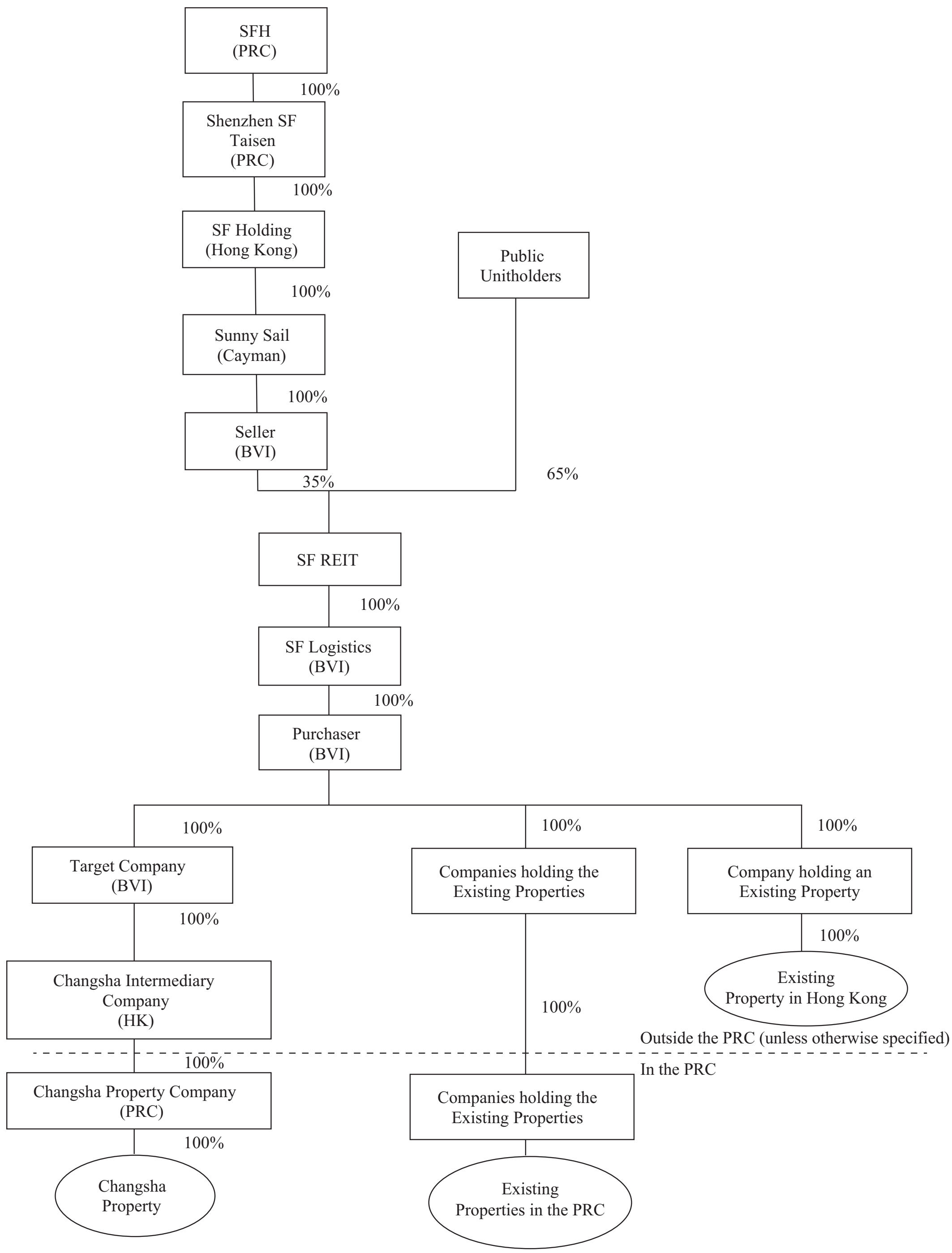
4.3 Holding structure of the Changsha Property as at the Latest Practicable Date (after completion of the Reorganisation)

The below simplified chart illustrates the holding structure of the Changsha Property as at the Latest Practicable Date (after completion of the Reorganisation):



4.4 Holding structure of the Changsha Property after Completion

The below simplified chart illustrates the holding structure of the Changsha Property immediately after Completion:



5 FINANCING OF THE ACQUISITION

5.1 Financing Structure

The Manager intends to fund the Total Consideration and the Other Acquisition Fees and Expenses in the following manner: (i) up to RMB267.2 million (equivalent to approximately HK$327.0 million) shall be paid from the amounts drawn down under the Onshore Term Loan; (ii) up to HK$259.0 million (equivalent to approximately RMB211.6 million) shall be paid from the amounts drawn down under the Extended Offshore Term Loan; and (iii) approximately RMB21.3 million (equivalent to approximately HK$26.1 million) shall be paid from the internal resources of SF REIT (the "**Financing Structure**"). The Other Acquisition Fees and Expenses are approximately HK$9.8 million (equivalent to approximately RMB8.0 million).

The Financing Structure has been determined by the Manager, after taking into consideration, among other things, SF REIT's working capital sufficiency, optimal level of gearing, financing costs and tenors of various existing indebtedness.

5.2 Onshore Term Loan

On 30 May 2022, the Changsha Property Company (as borrower) entered into a facility agreement (the "**Onshore Facility Agreement**") with China Merchant Bank Co., Ltd., Changsha Branch* （招商銀行股份有限公司長沙分行） (as lender) (being a third party independent of the SFH Group and the SF REIT Group) (the "**Onshore Lender**") for a term loan facility of a principal amount of up to RMB275.0 million (equivalent to approximately HK$336.5 million) (the "**Onshore Term Loan**").

The term of Onshore Term Loan is eight years from the first drawdown date. The Onshore Term Loan shall bear interest at a rate of 90 basis points above the loan prime rate for more than five years as announced by the National Interbank Funding Center on the business day immediately preceding the drawdown date and updated annually. The proceeds from the drawdown of the Onshore Term Loan (the amount of which is expected to be RMB267.2 million (equivalent to approximately HK$327.0 million) will be used by the Changsha Property Company to settle the Onshore Payable in full at Completion, in which approximately RMB6.7 million (equivalent to approximately HK$8.2 million) will be repaid within 2022, and the remaining balance will be repaid over the years from 2023 to 2030. The Onshore Term Loan is secured by (i) a first priority mortgage over the Changsha Property dated on 30 May 2022; (ii) a charge over 100% equity interest in the Changsha Property Company held by the Changsha Intermediary Company to be executed after Completion; and (iii) a charge over the Changsha Property Company's rental collection accounts in favour of the Onshore Lender dated 30 May 2022.

The Onshore Facility Agreement contains customary events of default, including but not limited to: (a) non-payment of any sums under the Onshore Facility Agreement; (b) cross-default of financial indebtedness by any subsidiary of SF REIT; (c) misrepresentation; (d) insolvency; (e) unlawfulness; (f) insolvency proceedings; and (g) litigation.

5.3 Extended Offshore Term Loan

On 29 April 2021, DBS Bank Ltd., acting through its Hong Kong Branch ("**DBS Hong Kong**"), Bank of Communications (Hong Kong) Limited and Credit Suisse AG, Singapore Branch (as lenders) (being third parties independent of the SFH Group and the SF REIT Group) and the SF Logistics (as borrower) entered into a facility agreement (the "**Offshore Facility Agreement**") for: (a) a committed term loan facility of up to HK$2.159 billion (the "**Offshore Term Loan**"); and (b) an uncommitted revolving loan facility of up to HK$250 million (together with the Offshore Term Loan, the "**Offshore Loans**"), with DBS Hong Kong acting as the facility agent and the security agent in respect of the Offshore Loans. As at the expiry of the drawdown period of the Offshore Term Loan (being 29 July 2021), the Offshore Term Loan had an unutilised amount of HK$259.0 million (equivalent to approximately RMB211.6 million).

DBS Bank Ltd. (acting through DBS Hong Kong) (acting as the facility agent and the security agent in respect of the Offshore Loans) and SF Logistics entered into (a) an amendment deed to the Offshore Facility Agreement on 24 February 2022 (the "**First Amendment Deed**") for extending the drawdown period of the unutilised part of the Offshore Term Loan to 28 April 2022 and (b) a further amendment deed to the First Amendment Deed on 19 April 2022 (the "**Second Amendment Deed**") for extending the drawdown period of the unutilised part of the Offshore Term Loan to 29 October 2022 (the "**Extended Offshore Term Loan**"). The term of the Extended Offshore Term Loan is five years since 17 May 2021, being the first drawdown date of the Offshore Term Loan. The interest rate for the Extended Offshore Term Loan is HIBOR plus 1.10% per annum. The proceeds from the drawdown of the Extended Offshore Term Loan will be used by the Changsha Intermediary Company to settle part of the Reorganisation Payable at Completion. No additional security is created to secure the Extended Offshore Term Loan.

5.4 Internal Resources

At Completion, SF Logistics (or another wholly-owned subsidiary of SF REIT incorporated outside the PRC) will make available an inter-company loan of RMB21.3 million (equivalent to approximately HK$26.1 million) to the Changsha Intermediary Company for the settlement by the Changsha Intermediary Company of the remaining part of the Reorganisation Payable (with the majority of the Reorganisation Payable to be settled by the Changsha Intermediary Company with the proceeds from the Extended Offshore Term Loan) at Completion.

The Other Acquisition Fees and Expenses of approximately HK$9.8 million (equivalent to approximately RMB8.0 million) will be paid from the internal resources of SF REIT.

5.5 Gearing Ratio

Based on the Unaudited Pro Forma Financial Information of the Enlarged Group set out in Appendix 4 to this Circular and the Other Acquisition Fees and Expenses, the gearing ratio of the Enlarged Portfolio is expected to increase from approximately 30.6% as at 31 December 2021 to approximately 35.5% upon Acquisition, assuming (a) completion of the Acquisition; (b) HK$259.0 million (equivalent to approximately RMB211.6 million) being drawn down under the Extended Offshore Term Loan to settle part of the Reorganisation

Payable (with the remaining part of the Reorganisation Payable to be settled by the internal resources of SF REIT as set out in the above section 5.4 of this letter); and (c) the assumption of the Onshore Term Loan by SF REIT at Completion and RMB267.2 million (equivalent to approximately HK$327.0 million) being drawn down under the Onshore Term Loan to settle the Onshore Payable in full. The Manager believes that this level is prudent under the current market conditions, and notes that it does not exceed 50.0%, being the borrowing limit as permitted under the REIT Code.

6 FEES AND CHARGES IN RELATION TO THE ACQUISITION

6.1 General

The estimated total fees and charges payable by SF REIT in relation to the Acquisition is approximately HK$9.8 million (equivalent to approximately RMB8.0 million) and consists of the Acquisition Fee and the Other Acquisition Fee and Expenses (including the Trustee's Additional Fee). Details of these fees and their amounts are set out in sections 6.2 to 6.4 of this letter below.

6.2 Acquisition Fee

On Completion, the Manager will be entitled under the Trust Deed to receive an acquisition fee of RMB2.7 million (equivalent to approximately HK$3.3 million), which is equal to 0.5% of the Agreed Property Value (the "**Acquisition Fee**"). The Acquisition Fee will be paid to the Manager in the form of cash.

6.3 Other Acquisition Fees and Expenses

SF REIT incurred or is expected to incur other estimated fees and expenses in connection with the Acquisition (including the Trustee's Additional Fees, legal fees, advisory fees, professional fees and expenses that are incidental to the Acquisition) of approximately HK$6.5 million (equivalent to approximately RMB5.3 million) (the "**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.

6.4 Trustee's Additional Fee

Pursuant to the Trust Deed, the Trustee is entitled to charge additional fees for duties undertaken by the Trustee in connection with the Acquisition which are of an exceptional nature or otherwise outside the scope of the Trustee's normal duties in the ordinary course of SF REIT's day-to-day business operations. The Trustee has agreed with the Manager that it will charge SF REIT a one-time additional fee of HK$100,000 (equivalent to approximately RMB82,000) for duties undertaken by it in connection with the Acquisition (the "**Trustee's Additional Fee**") to be paid in the form of cash.

6.5 Ongoing fees and charges following Completion

Pursuant to the Trust Deed:

(a) the Manager is entitled to receive a base fee for its own account out of the Deposited Property on a semi-annual basis which shall be calculated as follows: (i) in respect of the first semi-annual period for each financial year, 10% of the Base Fee Distributable Income based on the interim unaudited financial statements of SF REIT for such period; and (ii) in respect of the second semi-annual period for each financial year, 10% of the Base Fee Distributable Income based on the audited financial statements of SF REIT for the financial year, minus the base fee for the immediately preceding interim period (if any);

(b) the Manager is entitled to receive for its own account out of the Deposited Property the amount of a variable fee accrued to it on an annual basis which shall be calculated as 25.0% per annum of the difference in DPU in a financial year compared to the preceding financial year multiplied by the weighted average number of Units in issue for such financial year; and

(c) the Trustee is entitled to receive a fee which is currently 0.02% per annum of the value of the Deposited Property calculated and adjusted in accordance with the Trust Deed, subject to a minimum amount of HK$66,000 per month.

7 REASONS FOR AND BENEFITS OF THE ACQUISITION

The COVID-19 pandemic has caused unprecedented macroeconomic volatility which has hard hit on various parts of the global economy. Nevertheless, despite its impact on the overall economy and supply chain, demand for logistics services remains strong, and therefore resulting in strong demand for logistic properties. The outbreak of the COVID-19 pandemic has also accelerated structural changes in consumers' spending habits and retailers' supply chain management, causing retailers and suppliers to modernise and improve their logistics facilities and capabilities in response to these changes.

According to China Logistics Information Center, logistics industry in China continued to develop. In 2021, the total value of social logistics goods in China (an indication of the domestic market demand for logistics services) as released by the National Development and Reform Commission of the PRC grew by approximately 9.2% year-on-year to approximately RMB335.2 trillion. The prosperity index of China's logistics industry (an early indication of logistics activities in China's logistics sector as released by China Federation of Logistics and Purchasing, a social organization of logistics industry in China established in Beijing and approved by the State Council of the PRC) was approximately 53.4% in 2021, an increase of 1.7 percentage point as compared to that of 2020. The above reflects an expansion trend in logistics economic activities. Based on the above and the Manager's observation, demand in industrial logistics in China has remained strong and active. Continuous demand driven by expansion of e-commerce, retail and third-party logistics has been supplemented by growing demand from cold chain and medical supplies industries.

According to the Market Consultant, even under ample new supply, overall vacancy rate of warehouses and related facilities in major logistics markets across China has remained relatively stable attributable to strong rental demand.

The Board (including all the INEDs) believes that the Acquisition will bring the following benefits to the Unitholders:

7.1 Yield accretive acquisition

The Acquisition is expected to be DPU accretive to existing Unitholders and improve the earnings of SF REIT. Based on the pro forma financials as set out in section 8.2 headed "Financial Effects of the Acquisition – Pro forma distributable income and DPU" of this letter in this Circular, if the Acquisition was completed on 29 April 2021 and based on the assumptions as stated in Appendix 4 headed "Unaudited Pro Forma Financial Information of the Enlarged Group" to this Circular, SF REIT's pro forma DPU would have increased by 8.5% from HK$0.1724 to HK$0.1871 for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021.

Please refer to sections 8.2 and 8.3 headed "Financial Effects of the Acquisition – Pro forma distributable income and DPU" and headed "Financial Effects of the Acquisition – Pro forma net assets attributable to Unitholders per Unit" respectively of this letter in this Circular for further information.

7.2 High quality asset

The Changsha Property is a high quality asset which has the following competitive strengths:

(a) The Changsha Property was developed by two phases with completion in August 2019 and May 2021 respectively. It is a modern logistics property with a total Gross Lettable Area of approximately 120,055 sq.m. and comprises of five components which consist of the following facilities: (i) a ramp-up two-storey distribution centre; (ii) a three-storey warehouse with two underground levels; (iii) two single-storey warehouses; (iv) a nine-storey office building; and (v) three ancillary buildings, and is equipped with built-to-suit facilities, such as automatic sorting, cold storage and supply chain support facilities, to house the needs of its various logistics tenants;

(b) The Changsha Property is located at Changsha Linkong Economic Development Zone, which is a typical airport and high-speed rail linkage area within the Hunan Province. The vicinity is in close proximity to major infrastructure including the airport, Beijing – Hong Kong – Macau Expressways, the Changsha Ring Expressway, Changliu Expressway, Changsha South Railway Station, and Hunan Changsha Hongxing Agricultural and Sideline Products Market; and

(c) The Changsha Property is located in a logistics service base that effectively serves Changsha and the central region of China, and provides customers with standardized logistics and warehousing facilities and integrated supply chain solutions.

7.3 High occupancy rate supported by credible anchor tenant(s)

The occupancy rate of the Changsha Property at 31 March 2022 was 98.9% while the average occupancy rate of the Existing Properties as at 31 December 2021 was 95.8%. As at 31 March 2022, the Changsha Property was leased to various high quality tenants including Hunan SF Freight and Hunan SF Express, which are Changsha SF Connected Tenants, to operate mainly as a modern logistics property for regional distribution purposes, and various independent third party tenants. The Changsha SF Connected Tenants accounted for approximately 68.4% of the leased Gross Lettable Area as at 31 March 2022. The abovementioned Changsha SF Connected Tenants have entered into new Changsha SF Leases for a term of approximately 4 years and 8 months commencing from 1 May 2022, with an option to renew for a further term of up to five years on substantially the same terms (except for rent), which is exercisable by the tenant no later than three months before the expiry of the initial term. As at the Latest Practicable Date, the weighted average lease expiry of the Changsha Property by Gross Lettable Area was approximately 3.9 years.

While the Changsha SF Connected Tenants contribute a relatively high percentage of the total rental income generated by the Changsha Property, the Manager considers this arrangement to be beneficial to SF REIT as it provides a high degree of income stability for SF REIT.

7.4 Reasonable price and potential growth in capital value

The Agreed Property Value represents a discount of approximately 1.9% to the Appraised Value of the Changsha Property as at 31 March 2022.

The unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group for the period from 29 April 2021 to 31 December 2021 as set out in Appendix 4 to this Circular is computed as if the Acquisition had been completed on 29 April 2021 (date of establishment of SF REIT). The pro forma net property income of the Changsha Property Company for the period from 29 April 2021 to 31 December 2021, being HK$29.5 million (equivalent to RMB24.4 million), is computed on the same basis and assuming that the Changsha SF Leases subsisting at Completion and the Operations Management Agreement had taken effect on 29 April 2021 (please refer to Note 13 and Note 14 in Appendix 4 to this Circular). Based on the pro forma net property income of approximately RMB24.4 million for the period from 29 April 2021 to 31 December 2021 and the Appraised Value of approximately RMB550.4 million, the annualised pro forma net property yield of the Changsha Property was approximately 6.6%.

The annualised pro forma net property yield of the Changsha Property Company is comparable to the annualised net property yield of SF REIT's Existing Properties in the PRC of approximately 7.3%. The annualised net property yield of SF REIT's Existing Properties in the PRC is calculated by dividing the annualised net property income of SF REIT Group attributable to the PRC (being the period from 13 May 2021 (date of acquisition of the Purchaser by SF REIT) to 31 December 2021), by the respective values of the Existing Properties located in the PRC as at 31 December 2021.

7.5 Diversification and enlargement of assets

SF REIT's Existing Properties are located in Hong Kong, Foshan and Wuhu, all of which are modern logistics properties comprising distribution centres equipped with automatic sorting, cold storage and supply chain support facilities, strategically located within the key logistics hubs and near major airports, seaports, railways, express highways and transportation hubs in Hong Kong and the PRC.

The Acquisition, which will enlarge the total value and Gross Lettable Area of SF REIT's property portfolio by approximately 10.3% and 39.0% respectively, will be SF REIT's first investment in Central China. The Acquisition will diversify the locations and composition of SF REIT's portfolio assets and reduce SF REIT's exposure to concentration risk and other risks associated with its reliance on the income generated by the Existing Properties. In addition, the Acquisition will reduce the average age of the properties in SF REIT's portfolio (from 4.0 years to 3.8 years).

Upon Completion, SF REIT can also achieve better economies of scale resulting from enhanced operating synergies, both in terms of satisfying tenants' requirements as well as sharing of asset management resources.

7.6 Continued support by SFH

The Acquisition is a result of the concerted efforts between SF REIT and SFH. While SF REIT is entitled to the right of first refusal over the Changsha Property under the Deed of Right of First Refusal, the process regarding the negotiation and execution of the Acquisition hinges on the close cooperation between SF REIT and SFH which also demonstrates the latter's continued support to and belief in the future prospects of SF REIT.

8 FINANCIAL EFFECTS OF THE ACQUISITION

8.1 Impact of completion of the Acquisition on the financial position of SF REIT

The following information is presented for illustrative purposes only and is based on the assumptions outlined below. The Directors consider the below assumptions to be appropriate and reasonable as at the date of this Circular. However, Unitholders should consider the information outlined below in the light of such assumptions and make their own assessment of the future performance of SF REIT.

Unitholders should note that the financial effects of the Acquisition are presented on a pro forma basis for illustrative purposes only and are subject to the assumptions set out in Appendix 4 headed "Unaudited Pro Forma Financial Information of the Enlarged Group" to this Circular. Accordingly, they do not constitute a profit forecast or represent the actual financial position of SF REIT as a result of the Acquisition in the future. Furthermore, because of their hypothetical nature, they may not give a true picture of the financial position and the financial performance of the Enlarged Group had the Acquisition been completed as at 31 December 2021 or 29 April 2021 (date of establishment of SF REIT), where applicable.

The pro forma financial effects of completion of the Acquisition presented below were prepared based on:

(a) the audited consolidated financial statements of SF REIT Group from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021; and

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

and assuming:

(i) the Total Consideration will be financed in accordance with the Financing Structure;

(ii) the Acquisition will be recognised as an asset merger and will not generate goodwill; and

(iii) other matters stated in sections 8.2 to 8.4 of this letter in this Circular.

Based on the pro forma financial effects of completion of the Acquisition as stated above and Appendix 4 headed "Unaudited Pro Forma Financial Information of the Enlarged Group" to this Circular, the Directors do not foresee any material adverse impact on the financial position of SF REIT as a result of completion of the Acquisition.

8.2 Pro forma distributable income and DPU

The pro forma financial effects of the Acquisition on the distributable income and DPU from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021, on the basis that as if the Acquisition had been completed on 29 April 2021 and SF REIT had held and operated the Changsha Property through 29 April 2021 to 31 December 2021, are as follows:

	Before completion of the Acquisition[1]	**After completion of the Acquisition**[2]
Profit for the period from 29 April 2021 to 31 December 2021 before transaction with Unitholders *(HK$'000)*	174,271	184,693
Adjustments[3] *(HK$'000)*	(36,356)	(35,031)
Distributable income[3] *(HK$'000)*	137,915	149,662
Units in issue[4] *('000)*	800,000	800,000
DPU[5] *(HK cents)*	17.24	18.71

Notes:

(1) Based on the audited consolidated distribution statement of SF REIT from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021.

(2) The financial performance of the Enlarged Group is based on: (i) the audited consolidated financial statements of SF REIT and the audited financial statements of the Changsha Property Company from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021 and as at 31 December 2021; and (ii) the assumption that the Acquisition was completed on 29 April 2021 and SF REIT had held and operated the Changsha Property through 29 April 2021 to 31 December 2021 under the holding structure set out in section 4.4 headed "Reorganisation – Holding structure of the Changsha Property after Completion" of this letter in this Circular.

(3) The total distributable income in respect of the Enlarged Group is determined in accordance with the Trust Deed, and annual report of SF REIT for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021, being the profit for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021, before transactions with Unitholders attributable to Unitholders, after adjusting (a) fair value changes on investment properties, (b) negative goodwill, (c) differences between finance cost and interest paid in accordance with contractual obligations, (d) deferred tax charges, (e) depreciation and amortization, (f) appropriation to statutory reserve, (g) listing expense, (h) amortization of cost of debt, (i) historical tax loss utilised, (j) amortization of government grants, (k) net reversal for impairment losses of financial assets, (l) differences between accounting rental income and contractual rental income and (m) amounts not available for distribution, related to the profit after tax for the period from 29 April 2021 (date of establishment of SF REIT) to 16 May 2021, since pursuant to the Trust Deed, the first distributable period represented the period from and including 17 May 2021 (listing date of SF REIT) to and including 31 December 2021.

(4) Represented the Units in issue as at 31 December 2021.

(5) DPU is computed based on distributable income divided by the Units in issue.

The audited total distributable income of SF REIT for the period from 29 April 2021 to 31 December 2021 was approximately HK$137.9 million, whereas the unaudited pro forma total distributable income of the Enlarged Group for the same period would be approximately HK$149.7 million, representing an increase of approximately 8.5% over the above actual results. On a per unit basis, the DPU would similarly increase by approximately HK1.47 cents or 8.5%, from approximately HK17.24 cents to approximately HK18.71 cents. This implies that, on a pro forma basis, the Acquisition is expected to be DPU accretive to existing Unitholders and improve the earnings of SF REIT.

8.3 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, on the basis that as if the Acquisition had been completed on 31 December 2021, are as follows:

	Before completion of the Acquisition	**After completion of the Acquisition**
Net assets attributable to Unitholders *(HK$'000)*	4,091,674[(1)]	4,091,524[(2)]
Units in issue[(3)] *('000)*	800,000	800,000
Net assets attributable to Unitholders per Unit[(4)] *(HK$)*	5.11	5.11

Notes:

(1) Based on the audited consolidated balance sheet of SF REIT as at 31 December 2021.

(2) The financial position of the Enlarged Group is based on: (i) the audited consolidated balance sheet of SF REIT as at 31 December 2021 and the audited balance sheet of the Changsha Property Company as at 31 December 2021; and (ii) assuming the Acquisition was completed on 31 December 2021.

(3) Represented the Units in issue as at 31 December 2021.

(4) Net assets attributable to Unitholders per Unit is computed based on net assets attributable to Unitholders divided by the units in issue.

For further details regarding the calculation of the pro forma net assets attributable to Unitholders per Unit, please see Appendix 4 headed "Unaudited Pro Forma Financial Information of the Enlarged Group" to this Circular.

8.4 Pro forma capitalisation and gearing ratio

The pro forma financial effects of the Acquisition on the capitalisation and gearing ratio of SF REIT as at 31 December 2021, on the basis that as if the Acquisition had been completed on 31 December 2021, are as follows:

	Before completion of the Acquisition[1]	**After completion of the Acquisition**[2]
Net assets attributable to Unitholders *(HK$'000)*	4,091,674	4,091,524
Total borrowings *(HK$'000)*	2,141,491	2,727,532
Total liabilities *(HK$'000)*	2,917,886	3,583,008
Total gross assets *(HK$'000)*	7,009,560	7,674,532
Total capitalisation[3] *(HK$'000)*	6,233,165	6,819,056
Gearing ratio[4]	30.6%	35.5%
Debt to asset ratio[5]	41.6%	46.7%

Notes:

(1) Based on the audited consolidated balance sheet of SF REIT as at 31 December 2021.

(2) The financial position of the Enlarged Group is based on: (i) the audited consolidated balance sheet of SF REIT as at 31 December 2021 and the audited balance sheet of the Changsha Property Company as at 31 December 2021; and (ii) assuming the Acquisition was completed on 31 December 2021.

(3) Aggregate of total borrowings and net assets attributable to Unitholders.

(4) Gearing ratio is computed based on the total borrowings divided by total gross assets.

(5) Debt to equity ratio is computed based on the total liabilities divided by total gross assets.

Pursuant to the REIT Code, SF REIT's aggregate outstanding borrowings shall not at any time exceed 50.0% of SF REIT's total gross asset value. Based on the information provided by the pro forma consolidated statement of financial position of SF REIT set out in Appendix 4 to this Circular, the gearing ratio of the Enlarged Group after taking into consideration the expected drawdown on SF REIT's existing and new banking facilities for the purpose of the Acquisition is expected to be approximately 35.5% upon completion of the Acquisition.

For further details regarding the calculation of the pro forma capitalisation of SF REIT, please see Appendix 4 headed "Unaudited Pro Forma Financial Information of the Enlarged Group" to this Circular.

9 CONTINUING CONNECTED PARTY TRANSACTIONS

9.1 Background

On 4 December 2020, the REIT Code was revised to, inter alia, broadly align the requirements applicable to connected party transactions of REITs with the requirements for companies listed on the Stock Exchange. Following the changes to the REIT Code, save as otherwise provided in the REIT Code or the guidelines issued by the SFC from time to time, all connected party transactions of REITs will be regulated with reference to the requirements applicable to listed companies under Chapter 14A of the Listing Rules to the extent appropriate and practicable, including whether certain connected party transactions are continuing connected party transactions, available exemptions and the conditions thereof and the unitholders' approval, disclosure, reporting, annual review and other requirements. All pre-existing waivers shall continue to apply until expiry according to their terms or until otherwise modified or revoked.

9.2 Non-exempt Continuing Connected Party Transactions with the SFH Group

9.2.1 Operations Management Agreement

On 1 March 2022, the Changsha Property Company entered into the Operations Management Agreement with the Operations Manager, pursuant to which the Operations Managers shall provide the Operations Management Services with respect to the Changsha Property for an initial term from 1 March 2022 to 31 December 2023 (which may be extended by the parties' agreement upon expiry of the initial term, subject to the compliance with the relevant requirements of the REIT Code and the Listing Rules).

Please refer to section 3.9.3 headed "The Changsha Property – Management strategy – The Operations Management Agreement" of this letter in this Circular for details of the Operations Management Agreement.

(a) Historical figures attracting new tenants and exploring the expansion needs of existing tenants

The operations and property management service fees paid by the Changsha Property Company to the Operations Manager for managing the Changsha Property were nil, RMB1.6 million (equivalent to approximately HK$2.0 million) and RMB6.3 million (equivalent to approximately HK$7.7 million) for the years ended 31 December 2019, 2020 and 2021, respectively.

(b) Annual Caps

The aggregate fees payable under the Operations Management Agreement for the six months ending 31 December 2022 and the year ending 31 December 2023 will not exceed RMB0.6 million (equivalent to approximately HK$0.7 million) and RMB1.2 million (equivalent to approximately HK$1.5 million), respectively (the "**Proposed Annual Caps**").

The Proposed Annual Caps were calculated by reference to (i) the annual rent and management service fees receivable under the subsisting leases of the Changsha Property, which are the basis for calculating the property management fees payable; (ii) the expected expiry of leases in any particular year and the expected rental increment upon expiry of such leases; (iii) in respect of the Changsha SF Leases, an agreed yearly rental increment for these leases, being the top end of the range of rental increment for these leases; and (iv) a buffer of 25% to the amount resulting from (i) to (iii) above, to account for contingencies such as changes in market rent or market conditions. The determination of the Proposed Annual Caps has not taken into account the increase in the operations and property management service fees paid by the Changsha Property Company to the Operations Manager for the year ended 31 December 2021 as indicted in the above section (a) due to the different rates of the operations and property management service fees charged by the Operations Manager for the year ended 31 December 2021, and the years ending 31 December 2022 and 2023.

The Proposed Annual Caps should not be taken as the anticipated growth projections or indicators of the future performance of SF REIT.

(c) Reasons for, and benefit of, the Operations Management Agreement

The Manager believes that the Operations Manager is well-positioned to provide operations and property management services given its established business relationship with the Changsha Property Company and understanding of the operations, standards and specific needs in respect of the Changsha Property Company. Accordingly, it is expected that the arrangements under the Operations Management Agreement would be cost-efficient, expedient and beneficial to the business operations of SF REIT, and therefore the Manager considers that the Operations Management Agreement is beneficial to SF REIT and its Unitholders as a whole.

(d) Application of the REIT Code and the Listing Rules

As the Operations Manager is an indirect wholly-owned subsidiary of SFH (being the holding company of the Manager and the Seller (being a Substantial Unitholder) and being owned as to approximately 55% by Mingde Holding, a company owned as to 99.9% by Mr. WANG Wei (being a Director)), the Operations Manager is an associate of the Manager, a Substantial Unitholder and a Director and therefore a connected person of SF REIT within the meaning of Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code). The transactions under the Operations Management Agreement therefore constitute continuing connected party transactions of SF REIT upon Completion. As the applicable percentage ratios for the transactions contemplated under the Operations Management Agreement are more than 0.1% but less than 5% (even if aggregated with the transactions under the existing operations management agreements entered into between other indirect wholly-owned subsidiaries of SF REIT and other indirect wholly-owned subsidiaries of SFH in respect of the Existing Properties located in the PRC pursuant to Rule 14A.81 of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code)), these transactions will be subject to the reporting, annual review and announcement requirements but are exempt from the circular and Independent Unitholders' approval requirements under Chapter 14A of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code).

Upon renewal of the Operations Management Agreement, SF REIT will re-comply with the applicable disclosure and/or Independent Unitholders' approval requirements and other requirements under the REIT Code and the Listing Rules. In the event that the term of the Proposed Annual Caps (which the transactions entered into in accordance with the Operation Management Agreement are subject to) expires prior to the end of the term of any such transactions and is not renewed, SF REIT will comply in full with the applicable requirements under the REIT Code and the Listing Rules in respect of such transactions for the excessive term.

9.2.2 Changsha SF Leases

(a) SF Leasing Framework Agreement

The Manager (in its capacity as manager of SF REIT) entered into a framework agreement with Shenzhen SF Taisen on 29 April 2021 to set out the terms and conditions and pricing policy governing the SF Leases which are either in place or to be entered into from time to time (the "**SF Leasing Framework Agreement**"). The subsidiaries of SF REIT (as landlords) would enter into individual SF Leases with the SF Connected Tenants from time to time with terms consistent with the SF Leasing Framework Agreement.

The SF Leasing Framework Agreement commences from 17 May 2021 and expires on 31 December 2026 and is automatically renewable for a successive period of five years thereafter (or for any other period which may be shorter or longer than five years as the parties may agree otherwise), subject to compliance with the relevant requirements of the REIT Code and the Listing Rules. For the detailed terms of the SF Leasing Framework Agreement, please refer to section headed "Connected Party Transactions – Non-Exempt Continuing Connected Party Transactions with SF Connected Persons – SF Leasing Framework Agreement" in the Offering Circular.

The Manager applied for, and the SFC granted, a waiver (the "**SF Lease Continuing CPTs Waiver**") exempting SF REIT, in respect of the transactions under the SF Leasing Framework Agreement, from strict compliance with, the announcement, circular and Independent Unitholders' approval requirements under Chapter 14A of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of REIT Code), subject to, inter alia, the aggregate transaction value of the transactions under the SF Leasing Framework Agreement for each of the six years ending 31 December 2021, 2022, 2023, 2024, 2025 and 2026 not exceeding the annual caps of HK$344.4 million, HK$375.8 million, HK$393.7 million, HK$412.5 million, HK$432.2 million and HK$453.0 million, respectively (the "**SF Lease Annual Caps**"). For the detailed terms of the SF Lease Continuing CPTs Waiver, please refer to section headed "Connected Party Transactions – Application for Waiver in respect of Non-Exempt SF Continuing CPTs" in the Offering Circular.

(b) Reasons for, and benefit of, the Changsha SF Leases

As one of SF REIT's key investment objectives is to provide Unitholders with stable distributions, which are mainly derived from the rental income generated by its properties, the Manager believes that the entering into of the Changsha SF Leases with the Changsha SF Connected Tenants (which are high quality tenants in the view of the Manager) is necessary for the continuous growth and operations of, and will generate recurrent rental income for, SF REIT, and therefore the Manager considers that the Changsha SF Leases are beneficial to SF REIT and its Unitholders as a whole.

(c) Application of the REIT Code and the Listing Rules

As each of the Changsha SF Connected Tenants to the Changsha SF Leases is a subsidiary of SFH (being the holding company of the Manager and the Seller (being a Substantial Unitholder) and being owned as to approximately 55% by Mingde Holding, a company owned as to 99.9% by Mr. WANG Wei (being a Director)), each of the Changsha SF Connected Tenants is an associate of the Manager, a Substantial Unitholder and a Director and therefore a connected person of SF REIT within the meaning of Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code). The transactions under the Changsha SF Leases therefore constitute continuing connected party transactions of SF REIT upon Completion.

Each of the Changsha SF Leases subsisting as at the Completion Date is covered under and consistent with the terms of the SF Leasing Framework Agreement, as well as the terms of the SF Lease Continuing CPTs Waiver, and the transactions under such Changsha SF Leases (together with those under other existing SF Leases in respect of the Existing Properties) are expected not to exceed the SF Lease Annual Caps. Therefore, the transactions under the Changsha SF Leases will be subject to the reporting and annual review requirements under Chapter 14A of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code) but exempt from the announcement, circular and Independent Unitholders' approval requirements under Chapter 14A of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code).

In the event that the term of the SF Leases Annual Caps (which the transactions under the Changsha SF Leases are subject to) expires prior to the end of the term of any such transactions and is not renewed, SF REIT will comply in full with the applicable requirements under the REIT Code and the Listing Rules in respect of such transactions for the excessive term.

9.3 Fully-exempt Continuing Connected Party Transactions with the SFH Group

9.3.1 Changsha SF Lease Guarantee

(a) Summary of terms

On 1 May 2022, a guarantee agreement was entered into between Shenzhen SF Taisen (as guarantor) and the Changsha Property Company (as beneficiary) for the Changsha SF Lease in respect of Hunan SF Express (the "**Changsha SF Lease Guarantee**"). Under the Changsha SF Lease Guarantee, Shenzhen SF Taisen agreed to indemnify the Changsha Property Company against all claims, damages, demands, losses, liability, fees, costs and expenses whatsoever which the Changsha Property Company may sustain due to any act of default or neglect on the part of Hunan SF Express in the performance and observance of its obligations under the relevant Changsha SF Lease, subject to a monetary limit equivalent to rent payable for the last 12-months of the term of the relevant Changsha SF Lease. Shenzhen SF Taisen also agreed to be liable with Hunan SF Express for the due observance and performance of all the obligations, covenants, terms and conditions contained in the relevant Changsha SF Lease and on the part of Hunan SF Express to be observed and performed. The Changsha SF Lease Guarantee shall remain in place and be effective until three years following the expiry of the term of the relevant Changsha SF Leases or any extension or renewal thereof.

(b) Reasons for, and benefit of, the Changsha Lease Guarantee

The Changsha Lease Guarantee can provide additional certainty for the income stream of the Changsha Property and enhance the stability of distributions to Unitholders. In addition, the Manager believes that the Changsha Lease Guarantee is on favourable commercial terms to SF REIT. Therefore, the Manager considers that the Changsha Lease Guarantee is beneficial to SF REIT and its Unitholders as a whole.

(c) Application of the REIT Code and the Listing Rules

Shenzhen SF Taisen, being an indirect holding company of the Seller (being a Substantial Unitholder) and the Manager and being a direct wholly-owned subsidiary of SFH, which in turn is owned as to approximately 55% by Mingde Holding, a company owned as to 99.9% by Mr. WANG Wei (being a Director), is an associate of the Manager, an associate of a Substantial Unitholder and an associate of a Director, and therefore a connected person of SF REIT within the meaning of Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code). The transactions under the Changsha SF Lease Guarantee therefore constitute continuing connected party transactions of SF REIT upon Completion in accordance with the REIT Code. As the Changsha SF Lease Guarantee was granted for the benefit of the subsidiary of SF REIT (i.e. the Changsha Property Company after Completion), the Changsha SF Lease Guarantee constitutes financial assistance within the meaning of Rule 14A.24(4) of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code) received by SF REIT from a connected person which is on normal commercial terms or better and not secured by the assets of the SF REIT Group. Accordingly, the Changsha SF Lease Guarantee would, upon Completion, be exempt from the reporting, annual review, announcement, circular and Independent Unitholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code).

9.4 Internal controls

The Manager has established an internal control system to ensure that connected party transactions between the SF REIT Group and the SFH Group are monitored and that such transactions are undertaken on terms in compliance with the REIT Code. As required by the REIT Code, all connected party transactions must, among other things, be carried out at arm's length, on normal commercial terms and in the interests of Unitholders. The following internal control measures are in place to ensure that such transactions satisfy the foregoing criteria:

(a) The Manager maintains a register to record all connected party transactions which are entered into by members of the SF REIT Group and where applicable, the bases, including quotations from independent third parties and/or independent valuations obtained to support such bases, on which they are entered into. The Manager will review the quotations to ensure reasonableness having regard to the scale, scope and quality of services required, and the reputation, experience and track record of performance of the service providers.

(b) The register of connected party transactions is reviewed by the Manager on a monthly basis to ensure the relevant annual caps are not exceeded.

(c) As a general rule, the Manager will demonstrate to the Audit Committee of the Board that all connected party transactions are carried out at arm's length, on normal commercial terms and in the interests of Unitholders. In particular, the Audit Committee is provided with a summary of the connected party transactions including their transaction amounts on a half-yearly basis.

(d) The external auditor of the Manager will review all connected party transactions entered into by the SF REIT Group on an annual basis. The Manager will incorporate into its internal audit plan a review of all controls on all connected party transactions entered into by the SF REIT Group.

9.5 Review and reporting

The SF 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):

9.5.1 Annual review by the INEDs

The INEDs shall review the SF Continuing CPTs annually and confirm in SF REIT's annual report for the relevant financial period that each of those transactions has been entered into: (a) in the ordinary and usual course of business of the SF REIT 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 SF REIT and the Unitholders as a whole.

9.5.2 Annual review by the auditors

In respect of each relevant financial year, the Manager shall engage the auditors of SF REIT to report on the SF Continuing CPTs annually. The auditors of SF REIT must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that any such transactions: (a) have not been approved by the Board; (b) were not, in all material respects, in accordance with the pricing policies of the SF REIT Group; (c) were not entered into, in all material respects, in accordance with the relevant agreement governing it; and (d) have exceeded the applicable annual cap. The Manager shall provide a copy of such auditors' letter to the SFC at least ten Business Days before the bulk printing of the annual report of SF REIT.

9.5.3 Auditors' access to records

The Manager shall allow, and ensure that the counterparties to the SF Continuing CPTs allow, the auditors of SF REIT sufficient access to their records for the purpose of reporting on such transactions.

9.5.4 Notification to the SFC

The Manager shall promptly notify the SFC and publish an announcement if the INEDs and/or the auditors of SF REIT cannot confirm the matters set out in the above sections 9.5.1 headed "Continuing Connected Party Transactions – Review and reporting – Annual review by the INEDs" and/or 9.5.2 headed "Continuing Connected Party Transactions – Review and reporting – Annual review by the auditors", respectively, of this letter in this Circular. The SFC may require the Manager to re-comply with the announcement and Unitholders' approval requirements and may impose additional conditions.

9.5.5 Annual reports

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

9.6 Views relating to the continuing connected party transactions

9.6.1 Board

The Board (including the INEDs) is of the view that the SF Continuing CPTs (in respect of the transactions under the Operations Management Agreement, including the Proposed Annual Caps and the basis of arriving at the same) and the transactions under the Changsha SF Lease Guarantee are: (i) in the ordinary and usual course of business of the SF REIT Group; (ii) consistent with the investment objectives and strategy of SF REIT and in compliance with the REIT Code and the Trust Deed; and (iii) are on normal commercial terms, at arm's length and are fair and reasonable and in the interests of SF REIT and Unitholders as a whole.

9.6.2 Independent Property Valuer

The Independent Property Valuer is of the opinion that the Operations Management Agreement (including the Operations Management Fee) is fair and reasonable and conducted on normal commercial terms at arm's length and consistent with normal business practice for contracts of the similar types.

9.6.3 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; and (2) the opinion of the Independent Property Valuer as set out in the above section 9.6.2 of this letter, the Trustee, having taken into account its duties in the Trust Deed and the REIT Code:

(a) has no objection to the Manager proceeding with the transactions under the Operations Management Agreement;

(b) is of the view that the terms of the Operations Management Agreement (including the Proposed Annual Caps and the basis of arriving at the same) are (i) in the ordinary and usual course of business of the SF REIT Group; (ii) consistent with the investment objectives and strategy of SF REIT and in compliance with the REIT Code and the Trust Deed; and (iii) are on normal commercial terms, at arm's length and are fair and reasonable and in the interests of SF REIT and Unitholders as a whole; and

(c) confirms that Independent Unitholders' approval is not required under the REIT Code or the Trust Deed for the entry into of the Operations Management Agreement.

The Trustee's view is furnished for the sole purpose of complying with the REIT Code, and is not to be taken as a recommendation or representation by the Trustee as to the merits or impact of the SF Continuing CPTs as the Trustee has not made any assessment of such merits or impact, other than for the purposes of fulfilling its duties in the Trust Deed and the REIT Code.

10 REGULATORY IMPLICATIONS

10.1 Connected and major transaction

As at the Latest Practicable Date, (i) SFH wholly-owns the Seller (also a Substantial Unitholder of SF REIT holding 35% of the issued Units) and the Manager; and (ii) SFH is owned as to approximately 55% by Mingde Holding, a company owned as to 99.9% by Mr. WANG Wei, a Director. Therefore, each of SFH and the Seller is an associate of the Manager and the Seller is also an associate of a Director, and thus, each of SFH and the Seller is a connected person of SF REIT within the meaning of Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code). Accordingly, the Acquisition constitutes a connected party transaction of SF REIT and, since the applicable percentage ratios exceed 5%, the Acquisition is subject to the announcement, circular, reporting and Independent Unitholders' approval requirements under Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code).

Furthermore, as the highest applicable percentage ratio in respect of the Acquisition exceeds 25% but is less than 100%, the Acquisition constitutes a major transaction of SF REIT and is subject to the notification, announcement, circular and Unitholders' approval requirements under Chapter 10 of the REIT Code and Chapter 14 of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code).

10.2 Ordinary Resolution

Please refer to the EGM Notice for the Ordinary Resolution in relation to the Acquisition Matters Requiring Approval.

10.3 Restrictions on voting

Pursuant to the Trust Deed and paragraph 9.9(f) of the REIT Code, where a Unitholder has a material interest in the resolution tabled for approval, and that interest is different from that of all other Unitholders, such Unitholder shall abstain from voting. Further, under paragraph 3.2 of Schedule 1 to the Trust Deed, where a Unitholder has a material interest in the resolution tabled for approval at a general meeting of the Unitholders, and that interest is different from the interest of other Unitholders, such Unitholder shall be prohibited from voting its Units or being counted in the quorum for the general meeting.

Members of the SFH Group are counterparties to the Sale and Purchase Deed and the transactions contemplated thereunder, and as such, are considered to have a material interest or deemed material interest in the Ordinary Resolution relating to the Acquisition Matters Requiring Approval that will be tabled for approval, different from that of other Unitholders. Pursuant to the REIT Code and the Trust Deed, SFH has agreed that it will abstain, and will procure that other members of the SFH Group (including SF Fengtai) will abstain, from voting on such Ordinary Resolution, except pursuant to a proxy where a specific direction by an Independent Unitholder as to voting is given.

So far as the Manager is aware, as at the Latest Practicable Date, the parties mentioned above which are needed to abstain from voting are interested or deemed to be interested in 280,000,000 Units representing 35% of the Units in issue.

To the best of the Manager's knowledge, information and belief, after having made reasonable enquiries, the Manager takes the view that, save as disclosed above, as at the Latest Practicable Date, no other Unitholder is required to abstain from voting at the EGM in respect of the Ordinary Resolution pertaining to the Acquisition Matters Requiring Approval.

10.4 Manager has discretion

For the avoidance of doubt, Unitholders should note that, notwithstanding that the Ordinary Resolution relating to the approval of the Acquisition Matters Requiring Approval is passed: (1) the Manager is not obliged to, and has at all times the discretion whether or not to, proceed with the drawing down of the Extended Offshore Term Loan and the Onshore Term Loan; and (2) given that Completion is dependent upon the satisfaction of certain conditions having been satisfied, the Manager may not proceed with the Acquisition if any of the Conditions are not fulfilled or waived (if applicable) prior to the Long Stop Date.

11 RECOMMENDATIONS

11.1 Board

Having regard to the reasons for, terms of, and factors and other information taken into consideration in relation to, the Acquisition Matters Requiring Approval as described in this Circular, the Board (including the INEDs) (except Mr. WANG Wei, Ms. NG Wai Ting and Mr. HO Chit), having taken into account the duties of the Manager under the Trust Deed and the REIT Code, considers that the Acquisition and the transactions contemplated under the Sale and Purchase Deed are: (i) in the ordinary and usual course of business of SF REIT; (ii) consistent with the investment objectives and strategy of SF REIT and in compliance with the REIT Code and the Trust Deed; and (iii) on terms which are normal commercial terms, are at arm's length and are fair and reasonable and in the interests of SF REIT, Independent Unitholders and Unitholders as a whole.

Accordingly, the Board (including the INEDs) (except Mr. WANG Wei, Ms. NG Wai Ting and Mr. HO Chit) recommends that Independent Unitholders vote at the EGM in favour of the Ordinary Resolution in respect of the Acquisition Matters Requiring Approval.

As Mr. WANG Wei, the Chairman and a non-executive Director of the Manager, Ms. NG Wai Ting, a non-executive Director of the Manager, and Mr. HO Chit, a non-executive Director of the Manager, hold directorships, shareholding interests, senior management positions and/or advisory or consultancy role in the SFH Group, each of them has abstained from voting on the relevant board resolutions of the Manager in relation to the Acquisition Matters Requiring Approval. Save as disclosed above, no Director had a material interest in the Acquisition Matters Requiring Approval and thus was required to abstain from voting on the relevant board resolutions of the Manager in relation to the Acquisition Matters Requiring Approval.

11.2 Independent Financial Adviser

Somerley Capital Limited has been appointed as the Independent Financial Adviser to provide its opinion to the Independent Board Committee, the Independent Unitholders and the Trustee on the Acquisition Matters Requiring Approval. In respect of the Acquisition Matters Requiring Approval, the Independent Financial Adviser has confirmed it is of the view that the Acquisition and the transactions contemplated under the Sale and Purchase Deed are: (i) in the ordinary and usual course of business of SF REIT; (ii) consistent with the investment objectives and strategy of SF REIT and in compliance with the REIT Code and the Trust Deed; and (iii) on terms which are normal commercial terms, are at arm's length and are fair and reasonable and in the interests of SF REIT, Independent Unitholders and Unitholders as a whole.

Accordingly, the Independent Financial Adviser recommends that Independent Unitholders vote at the EGM in favour of the Ordinary Resolution in respect of the Acquisition Matters Requiring Approval.

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

11.3 Independent Board Committee

The Independent Board Committee has been established in accordance with Rule 14A.41 of the Listing Rules to advise the Independent Unitholders on the Acquisition Matters Requiring Approval. The Independent Board Committee will, pursuant to Rule 14A.40 of the Listing Rules and taking into account the recommendation of the Independent Financial Adviser, advise the Independent Unitholders: (A) whether such transactions are: (i) in the ordinary and usual course of business of SF REIT; and (ii) on terms which are normal commercial terms, are at arm's length and fair and reasonable and in the interests of SF REIT, Independent Unitholders and Unitholders as a whole; and (B) how to vote on the Ordinary Resolution in respect of the Acquisition Matters Requiring Approval.

In respect of the Acquisition Matters Requiring Approval, 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 Acquisition and the transactions contemplated under the Sale and Purchase Deed are: (i) in the ordinary and usual course of business of SF REIT; (ii) consistent with the investment objectives and strategy of SF REIT and in compliance with the REIT Code and the Trust Deed; and (iii) on terms which are normal commercial terms, are at arm's length and are fair and reasonable and in the interests of SF REIT, Independent Unitholders and Unitholders as a whole.

Accordingly, the Independent Board Committee recommends that Independent Unitholders vote at the EGM in favour of the Ordinary Resolution in respect of the Acquisition Matters Requiring Approval.

11.4 Trustee's view

Based and in sole reliance on: (1) the opinion of the Board in this letter to the Unitholders 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 Valuation Report; and (5) the Market Consultant 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, has no objection to the Manager proceeding with the transactions contemplated under the Sale and Purchase Deed subject to the approval of Independent Unitholders and is of the view that the Acquisition and the transactions contemplated under the Sale and Purchase Deed are: (i) consistent with the investment objectives and strategy of SF REIT and in compliance with the REIT Code and the Trust Deed; (ii) on normal commercial terms; and (iii) fair and reasonable and in the interests of SF REIT, Independent Unitholders, as well as Unitholders as a whole.

The Trustee's view is furnished for the sole purpose of complying with the REIT Code, and is not to be taken as a recommendation or representation by the Trustee as to the merits or impact of the Acquisition Matters Requiring Approval as the Trustee has not made any assessment of such merits or impact, other than for the purposes of fulfilling its duties in the Trust Deed and the REIT Code. Accordingly, the Trustee urges all Unitholders, including those who are in any doubt as to the merits or impact of the Acquisition Matters Requiring Approval, to seek their own financial or other professional advice.

12 EXTRAORDINARY GENERAL MEETING AND CLOSURE OF REGISTER OF UNITHOLDERS

The EGM will be held at Chatham Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Wednesday, 22 June 2022 at 11:00 a.m. for the purpose of, among other things, considering and, if thought fit, passing with or without modification, the Ordinary Resolution in relation to the Acquisition Matters Requiring Approval as set out in the EGM Notice, which is included in pages N1 to N3 of this Circular.

For the purpose of determining entitlement to attend and vote at the EGM (or any adjournment thereof), the register of Unitholders of SF REIT will be closed Tuesday, 21 June 2022 to Wednesday, 22 June 2022, both days inclusive, during which period no transfer of Units will be effected. In order to be eligible to attend and vote at the EGM (or any adjournment thereof), all transfer documents accompanied by the relevant unit certificates must be lodged with the Unit Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 20 June 2022.

Whether or not you are able to attend the EGM in person, you are required to complete and sign the accompanying proxy form in accordance with the instructions printed thereon and return it to the Unit Registrar 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 (excluding any part of a day that is a public holiday) before the time appointed for holding the EGM (or any adjournment thereof). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM (or any adjournment thereof) should you so wish.

13 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
SF REIT Asset Management Limited
(as Manager of SF Real Estate Investment Trust)
WANG Wei
Chairman of the Board

SF Real Estate Investment Trust
順豐房地產投資信託基金

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

(Stock Code: 2191)

Managed by
SF REIT Asset Management Limited

7 June 2022

To: The Independent Unitholders of SF REIT

Dear Sir or Madam,

MAJOR AND CONNECTED PARTY TRANSACTIONS RELATING TO ACQUISITION OF A MODERN LOGISTICS PROPERTY IN CHANGSHA

We have been appointed as members of the Independent Board Committee to advise you in respect of the Acquisition Matters Requiring Approval, details of which are set out in the "Letter to the Unitholders" in the circular dated 7 June 2022 from the Manager to the Unitholders (the "**Circular**"), 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 as to the Acquisition Matters Requiring Approval. Details of their opinion, together with the principal factors and reasons taken into consideration in arriving at such opinion, are set out in the "Letter from the Independent Financial Adviser" the text of which is contained in the Circular.

Having taken into account the opinion of Somerley Capital Limited and the principal factors and reasons considered by them, we consider that the Acquisition and the transactions contemplated under the Sale and Purchase Deed are: (i) consistent with the investment objectives and strategy of SF REIT and in compliance with the REIT Code and the Trust Deed; (ii) on normal commercial terms; and (iii) fair and reasonable and in the interests of SF REIT, the Independent Unitholders, as well as the Unitholders as a whole.

Accordingly, we recommend that Independent Unitholders vote at the EGM in favour of the resolution in respect of the Acquisition Matters Requiring Approval.

Yours faithfully,
For and on behalf of
the Independent Board Committee of
SF REIT Asset Management Limited
(as manager of SF Real Estate Investment Trust)

Mr. TAN Huay Lim
Independent Non-executive Director

Mr. CHAN Ming Tak, Ricky
Independent Non-executive Director

Mr. HO Lap Kee, MH, JP
Independent Non-executive Director

Mr. KWOK Tun Ho, Chester
Independent Non-executive Director

Mr. Michael Tjahja SUSANTO
Independent Non-executive Director

The following is the text of a letter of advice from Somerley Capital Limited to the Independent Board Committee, the Independent Unitholders and the Trustee in respect of the Acquisition Matters Requiring Approval, which has been prepared for the purpose of incorporation in this Circular.

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

7 June 2022

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

Dear Sirs,

MAJOR AND CONNECTED PARTY TRANSACTIONS RELATING TO ACQUISITION OF A MODERN LOGISTICS PROPERTY IN CHANGSHA

We refer to our appointment to advise the Independent Board Committee, the Independent Unitholders and the Trustee on the Acquisition and the transactions contemplated under the Sale and Purchase Deed (i.e. the Acquisition Matters Requiring Approval), details of which are set out in the letter to the Unitholders contained in the circular dated 7 June 2022 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter have the same meanings as those defined in the Circular, unless the context requires otherwise.

On 2 June 2022, SF REIT (through the Purchaser) and the Manager entered into the Sale and Purchase Deed with SF Fengtai (as the Seller) and SF Holding (as the guarantor), pursuant to which the Purchaser agreed to purchase the Changsha Property through the purchase of the Sale Share, representing the sole issued share in the Target Company, from the Seller.

As at the Latest Practicable Date, SFH wholly-owns the Seller (which is also a Substantial Unitholder of SF REIT holding 35% of the issued Units) and the Manager and is owned as to approximately 55% by Mingde Holding (which is a company owned as to 99.9% by Mr. WANG Wei, a Director). Therefore, each of SFH and the Seller is an associate of the Manager and a Director, and a connected person of SF REIT within the meaning of Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code).

Accordingly, the Acquisition constitutes a connected party transaction of SF REIT and, since the applicable percentage ratios exceed 5%, the Acquisition is subject to the announcement, circular, reporting and Independent Unitholders' approval requirements under Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code). Furthermore, as the highest applicable percentage ratio in respect of the Acquisition exceeds 25% but is less than 100%, the Acquisition constitutes a major transaction of SF REIT and is subject to the notification, announcement, circular, accountant's report and Unitholders' approval requirements under Chapter 10 of the REIT Code and Chapter 14 of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code).

The Independent Board Committee, comprising all the INEDs, namely Mr. TAN Huay Lim, Mr. HO Lap Kee, MH, JP, Mr. CHAN Ming Tak, Ricky, Mr. KWOK Tun Ho, Chester and Mr. Michael Tjahja SUSANTO, has been established in accordance with Rule 14A.41 of the Listing Rules to advise the Independent Unitholders in respect of the Acquisition Matters Requiring Approval: (A) whether such transactions are: (i) in the ordinary and usual course of business of SF REIT; (ii) consistent with the investment objectives and strategy of SF REIT and in compliance with the REIT Code and the Trust Deed; and (iii) on terms which are normal commercial terms or better, are at arm's length and fair and reasonable and in the interests of SF REIT, Independent Unitholders and Unitholders as a whole; and (B) as to voting on the relevant ordinary resolution. We have been appointed to advise the Independent Board Committee, the Independent Unitholders and the Trustee in this regard.

Somerley Capital Limited is independent of (i) the SF REIT Group; (ii) the Trustee; (iii) the Manager; (iv) each of the Substantial Unitholders of SF REIT; (v) the Seller, SF Holding and SFH; and (vi) their respective associates as defined in the REIT Code. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the aforementioned parties.

During the past two years, there was no engagement between the SF REIT Group and Somerley Capital Limited. As at the Latest Practicable Date, there were no relationships or interests between (a) Somerley Capital Limited; and (b) the parties to the transactions (including the SF REIT Group, the Seller, SF Holding and SFH) and their respective subsidiaries and associates that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser.

In formulating our opinion and recommendation, we have reviewed, amongst others, (i) the Sale and Purchase Deed; (ii) the Valuation Report; (iii) the Market Consultant Report; (iv) the Onshore Facility Agreement; (v) the Offshore Facility Agreement (as amended and supplemented by the First Amendment Deed and the Second Amendment Deed); (vi) the annual report of SF REIT for the period from 29 April 2021 (the date of establishment of SF REIT) to 31 December 2021 (the "**2021 Annual Report**"); (vii) the unaudited management accounts of the SF REIT Group as at 30 April 2022, and (viii) other information as set out in the Circular and the Announcement. We have discussed with the Independent Property Valuer the valuation methodology and bases and assumptions for the valuation of the Changsha Property.

We have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Manager and have assumed that the information, facts and opinions provided to us are true, accurate and complete. We have also sought and received confirmation from the Directors and management of the Manager that no material factors have been omitted from the information supplied and opinions expressed to us. We have no reason to doubt the truth, accuracy and completeness of the information provided to us or to believe that any material fact or information has been omitted or withheld. We have not, however, conducted an independent investigation into the affairs of the Manager, SF REIT, the Existing Properties and the Target Group (including the Changsha 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 will continue to be accurate and not misleading at the time of the EGM. Unitholders will be notified of any material changes as soon as possible.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background of SF REIT and reasons for the Acquisition

1.1 SF REIT

SF REIT is the first logistics-focused REIT listed on the Main Board of the Stock Exchange on 17 May 2021. It is a Hong Kong collective investment scheme authorised by the SFC under section 104 of the SFO and constituted as a unit trust by the Trust Deed. It currently owns three modern logistics properties, respectively in Hong Kong (the "**Hong Kong Property**"), Foshan (the "**Foshan Property**") and Wuhu (the "**Wuhu Property**"), the PRC (collectively, i.e. the Existing Properties), with an aggregate gross lettable area of approximately 307,655 sq.m. and a total appraised value of approximately HK$6,541.8 million as at 31 December 2021. The Hong Kong Property is managed by an independent professional property manager, while the Foshan Property and the Wuhu Property are operated by the SFH Group, one of the leading integrated logistics services providers in the PRC. As at 31 December 2021, in terms of gross lettable area, approximately 80% of the Existing Properties have been leased to the SFH Group, the controlling unitholder of SF REIT, for its logistics operations.

For the period from 29 April 2021 (the date of establishment of SF REIT) to 31 December 2021, SF REIT recorded revenue of approximately HK$244.3 million and net property income of approximately HK$194.9 million. Profit of approximately HK$174.3 million, or basic earnings per unit of approximately HK21.78 cents, was recorded during this period. The Manager has declared distributions, including interim and final distributions, of approximately HK$137.9 million, or HK17.24 cents per Unit for the period from 17 May 2021 (being the date on which the Units were listed on the Main Board of the Stock Exchange) to 31 December 2021.

SF REIT is managed by the Manager whose key investment objectives are to provide Unitholders with stable distributions, sustainable and long-term distribution growth, and enhancement in the value of SF REIT's properties. As set out in the Offering Circular, the Manager intends to achieve its objectives through holding and investing in high quality income-generating real estate globally, with an initial focus on logistics properties located in Hong Kong and the PRC. The implementation strategies include the following:

Investments and acquisition strategy

The Manager will proactively seek and evaluate opportunities to acquire income-generating properties that enhance the diversification of SF REIT's portfolio by geography, asset and tenant profile, and optimise risk-adjusted returns to Unitholders. The property must fulfil investment criteria and property characteristics which are consistent with the investment objectives and strategy of SF REIT, including (a) attractive yield accretion, (b) geographical location with good accessibility and connectivity, (c) stable tenant mix and high tenancy retention and occupancy rates, (d) quality building and facilities specifications, and (e) asset enhancement potential to create value and increase investment returns.

Capital and risk management strategy

The Manager aims to maintain a strong balance sheet by optimising SF REIT's capital structure, which will involve minimising cost of debt financing, managing risk exposure to fluctuations in interest rates and foreign exchange rates, and employing an appropriate mix of debt and equity financing to fund future acquisitions and asset enhancement works. Careful consideration will be taken in respect of the optimal financing structure and the availability of fundings from financial institutions and the capital market.

1.2 Reasons for and benefits of the Acquisition

As set out in the letter to the Unitholders, the COVID-19 pandemic has caused unprecedented macroeconomic volatility, which in turn has negatively affected various parts of the global economy and supply chain. Nevertheless, demand for logistics services remains strong, resulting in strong demand for logistics properties. The outbreak of the COVID-19 pandemic has also accelerated structural changes in consumers' spending habits and retailers' supply chain management, causing retailers and suppliers to modernise and improve their logistics facilities and capabilities in response to these changes.

According to China Logistics Information Center, the logistics industry in China has continued to develop. In 2021, the total value of social logistics goods in China (an indication of the domestic market demand for logistics services) as released by the National Development and Reform Commission of the PRC grew by approximately 9.2% year-on-year to approximately RMB335.2 trillion. The prosperity index of China's logistics industry (an early indication of logistics activities in China's logistics sector as released by China Federation of Logistics and Purchasing, an organisation of the logistics industry in China established in Beijing and approved by the State Council of the PRC) was approximately 53.4% in 2021, an increase of 1.7 percentage point as compared to that of 2020. The above reflects an expansion trend in logistics economic activities. Based on the above and the Manager's observation, demand for industrial logistics in China has remained strong and active. Continuous demand driven by expansion of e-commerce, retail and third-party logistics has been supplemented by growing demand from cold chain and medical supplies industries. According to the

Market Consultant, even under ample new supply, overall vacancy rate of warehouses and related facilities in major logistics markets across China has remained relatively stable, attributable to strong rental demand.

The key benefits of the Acquisition are set out in the section headed "7. Reasons for and Benefits of the Acquisition" in the letter to the Unitholders, as summarised below:

Yield accretive acquisition

The Acquisition is expected to be DPU accretive to existing Unitholders and enhance the overall earnings of SF REIT. On a pro forma basis, assuming completion of the Acquisition on 29 April 2021, SF REIT's DPU would increase by approximately 8.5% to approximately HK18.71 cents for the period from 29 April 2021 (the date of establishment of SF REIT) to 31 December 2021.

As REIT investors in general focus on distributions, we consider the above expected accretion in DPU to be an important factor, beneficial to the Independent Unitholders. For further details, please refer to the section below headed "6. Financial impact on SF REIT and the Independent Unitholders upon Completion".

High quality asset

The Changsha Property is a modern logistics property and is equipped with built-to-suit facilities, such as automatic sorting, cold storage and supply chain support facilities, to meet the needs of its various logistics tenants. It is located at Changsha Linkong Economic Development Zone, which is a typical airport and high-speed rail linkage area within Hunan Province, the PRC. For further information on the Changsha Property, please refer to the section below headed "1.3 The Changsha Property and the Existing Properties".

High occupancy rate supported by credible anchor tenants

The occupancy rate of the Changsha Property as at 31 March 2022 was approximately 98.9%, which is higher than the average occupancy rate of the Existing Properties as at 31 December 2021 of approximately 95.8%. As at 31 March 2022, the Changsha Property was leased to various long-term tenants, including the Changsha SF Connected Tenants (including Guangdong Shunxin), which accounted for approximately 68.4% of total leased Gross Lettable Area. Certain Changsha SF Connected Tenants have entered into new Changsha SF Leases for a term commencing on 1 May 2022 and expiring on 31 December 2026. In addition, the Changsha Property is occupied by various independent third-party tenants.

While the Changsha SF Connected Tenants will contribute a relatively high percentage of the total rental income generated by the Changsha Property, the Manager considers this arrangement to be beneficial to SF REIT as it provides a high degree of income stability for SF REIT.

Reasonable price and potential growth in capital value

The Agreed Property Value represents a discount of approximately 1.9% to the Appraised Value of the Changsha Property as at 31 March 2022. Based on the pro forma net property income of approximately RMB24.4 million for the period from 29 April 2021 to 31 December 2021 and the Appraised Value of RMB550.4 million, the annualised net property yield of the Changsha Property was approximately 6.6%, which compares to the annualised net property yield of the Existing Properties in the PRC of approximately 7.3%.

While growth in capital values depends on the supply and demand dynamics of logistics properties, investors' confidence in the structural drivers for the logistics sector is expected to remain intact. According to the Market Consultant Report, the Market Consultant expects that the capital value for high-standard warehouses in Changsha will grow by approximately 2% each year between 2022 and 2024, and could reach up to 5% each year in 2025 and 2026.

Diversification and enlargement of assets

SF REIT's Existing Properties are located in Hong Kong and Foshan and Wuhu, the PRC. The Acquisition, which will enlarge the total value and gross lettable area of SF REIT's property portfolio by approximately 10.3% and 39.0% respectively (the difference in percentage changes mainly due to the Hong Kong Property having a high appraised value per unit area compared to other properties in the PRC), will be SF REIT's first investment in Central China. The Acquisition will diversify the locations and composition of SF REIT's portfolio assets and reduce SF REIT's exposure to concentration risk and other risks associated with its reliance on the income generated by the Existing Properties. Upon Completion, SF REIT can also achieve economies of scale resulting from enhanced operating synergies, both in terms of satisfying tenants' requirements as well as sharing asset management resources.

Having considered the above, the Manager is of the view that acquiring the Changsha Property is in the interests of SF REIT, Independent Unitholders and Unitholders as a whole. We consider the Manager's rationale for entering into of the Acquisition, a high-quality logistics property located in the PRC that falls squarely within the investment criteria of SF REIT, to be in line with the Manager's strategy.

1.3 The Changsha Property and the Existing Properties

The Changsha Property is located at Changsha Linkong Economic Development Zone, which is a typical airport and high-speed rail linkage area within the Hunan Province. It is in close proximity to major infrastructure including Changsha Huanghua International Airport, Beijing – Hong Kong – Macau Expressways, Changsha Ring Expressway, Changliu Expressway, Changsha South Railway Station, and Hunan Changsha Hongxing Agricultural and Sideline Products Market. Given its location, the

Changsha Property is well placed to serve logistics companies in Changsha and the central region of Mainland China. Set out below is a map showing the location of the Changsha Property:

Location of the Changsha Property

Source: Market Consultant

The Changsha Property, which was developed and completed by two phases in August 2019 and May 2021 respectively, has a total Gross Lettable Area of approximately 120,055 sq.m.. It is a modern logistics property with the following facilities: (i) a ramp-up two-storey distribution centre; (ii) a three-storey warehouse with two underground levels; (iii) two single-storey warehouses; (iv) a nine-storey office building; and (v) three ancillary buildings. The Changsha Property comprises two land parcels, being the phase 1 land parcel (with total land area of approximately 117,333 sq.m.) and the phase 2 land parcel (with total land area of approximately 52,512 sq.m.). The Changsha Property is equipped with built-to-suit facilities, such as automatic sorting, cold storage and supply chain support facilities, to meet the needs of its logistics tenants.

As is the case with the Existing Properties, the Changsha Property was initially developed to support SFH's logistics network and to facilitate its operations in the PRC. As at 31 March 2022, approximately 68.4% of the leased Gross Lettable Area of the Changsha Property have been leased to and operated by the SFH Group (which contributed approximately 68.4% of total monthly Gross Rental Income of the Changsha Property Company for the month of March 2022). The remaining portions were mainly leased to companies in logistics, food and beverages and technology industries. As at 31 March 2022, the occupancy rate of the Changsha Property was approximately 98.9%, housing a total of 21 tenants. As at the Latest Practicable Date, the weighted average lease expiry of the Changsha Property by the Gross Lettable Area was approximately 3.9 years. For the three years ended 31 December 2019, 2020 and 2021, no provision was made for unpaid rents and there was no major rental delinquencies or dispute in respect of the Changsha Property.

The table below sets out key information relating to the Changsha Property and the three Existing Properties, as extracted and summarised from the Circular and the 2021 Annual Report:

	Changsha Property	**Hong Kong Property**	**Foshan Property**	**Wuhu Property**
Location	Changsha City, Hunan Province, the PRC	Tsing Yi, Hong Kong	Foshan City, Guangdong Province, the PRC	Wuhu City, Anhui Province, the PRC
Nature	Modern logistics property	Modern logistics property		
Gross Floor Area *(sq.m.) (approximate)*	113,467	97,181	82,552	62,304
Gross Lettable Area *(sq.m.) (approximate)*	120,055	160,322	84,951	62,382
Year of completion	Phase I: August 2019 Phase II: May 2021	2014	2021	2019
Expiry of lease/ land use rights	Phase I: December 2066 Phase II: February 2068	January 2061	July 2049	January 2066
Occupancy rate *(%)*	98.9% as at 31 March 2022	92.6% as at 31 December 2021	100.0% as at 31 December 2021	98.5% as at 31 December 2021
Percentage of Gross Lettable Area leased to the SFH Group	68.4% as at 31 March 2022	65.9% as at 31 December 2021	99.9% as at 31 December 2021	89.1% as at 31 December 2021
Revenue *(Note 1)*	RMB28.9 million	HK$191.6 million	HK$52.7 million in aggregate	
Net property income	RMB24.4 million *(Note 2)*	HK$153.8 million *(Note 1)*	HK$41.1 million in aggregate *(Note 1)*	
Appraised value	RMB550.4 million (equivalent to HK$673.6 million) as at 31 March 2022	HK$5,660.0 million as at 31 December 2021	HK$881.8 million in aggregate as at 31 December 2021	
Annualised net property yield (based on the appraised value)	6.6% *(Note 3)*	4.3% *(Note 4)*	7.3% *(Note 4)*	

Notes:

(1) Being the actual amount for the period from 29 April 2021 to 31 December 2021

(2) Being the pro forma amount, which took into account terms of the Changsha SF Leases and the Operations Management Agreement, for the period from 29 April 2021 to 31 December 2021, as detailed in the Unaudited Pro Forma Financial Information of the Enlarged Group in Appendix 4 to the Circular

(3) Calculated by dividing the annualised pro forma net property income of the Changsha Property by the Appraised Value of the Changsha Property

(4) Calculated by dividing the annualised net property income of the Existing Properties during the period from 13 May 2021 (being the completion date of acquisition of the Existing Properties by SF REIT) to 31 December 2021, by the respective appraised value of the Existing Properties

(5) For the purpose of the illustrations in the above table, conversion of RMB into HK$ is calculated at the exchange rate of RMB1 to HK$1.2238 adopted in the Circular

As shown in the above table, the annualised net property yield of the Changsha Property of approximately 6.6% is somewhat lower than that of the Existing Properties in the PRC of approximately 7.3%. Based on our discussion with the Manager, the annualised net property yield of the Changsha Property is calculated based on the pro forma net property income of the Changsha Property Company for the period from 29 April 2021 to 31 December 2021, for which the terms of the Changsha SF Leases and the Operations Management Agreement agreed subsequent to 31 December 2021 have been reflected.

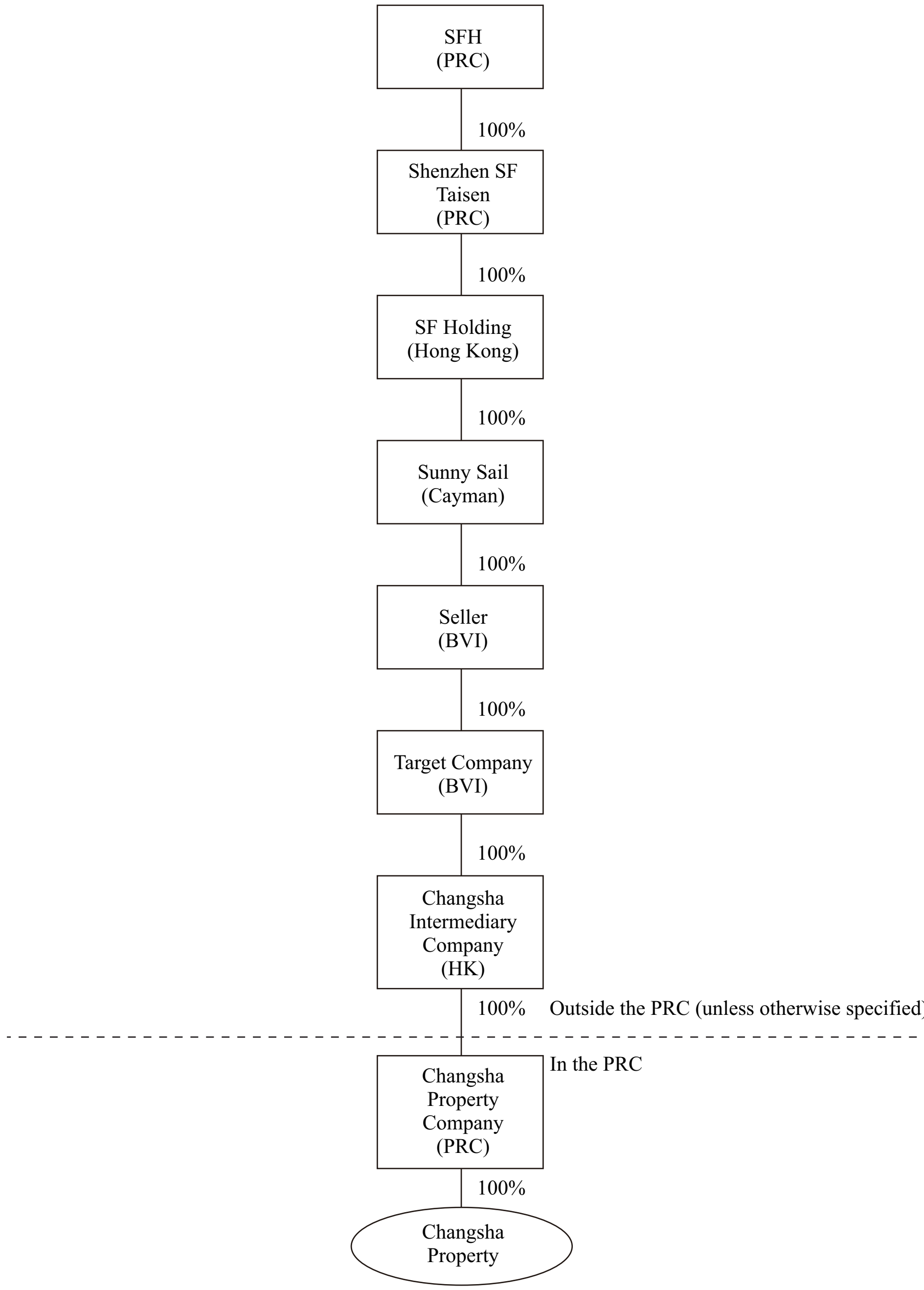
Further details of the Changsha Property and the Valuation Report are set out in the section headed "3. The Changsha Property" in the letter to the Unitholders and the section headed "3. Valuation of the Changsha Property" in this letter, respectively.

1.4 Target Group and its financial information

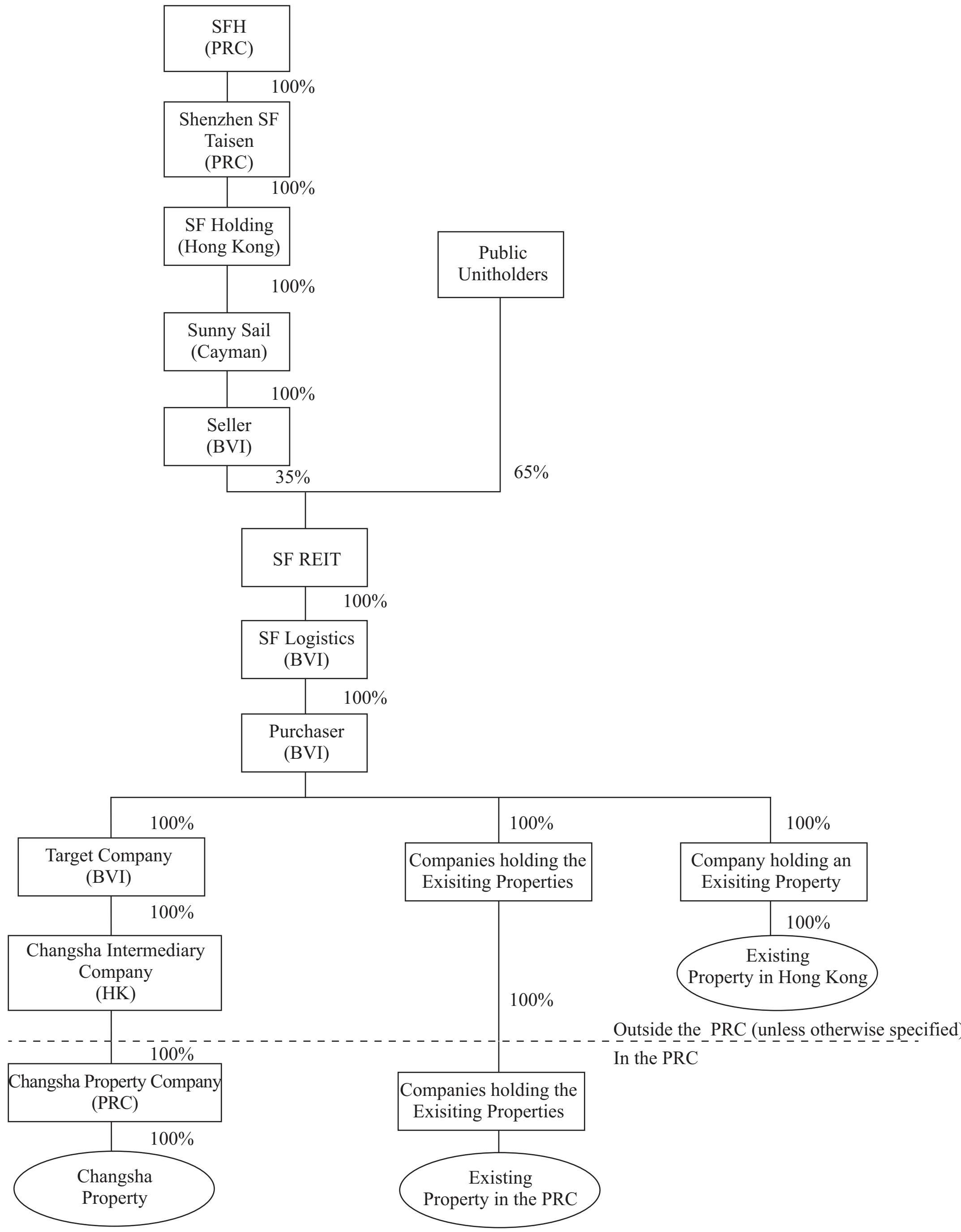
The Target Company is a limited liability company recently incorporated under the laws of the British Virgin Islands. The Target Company, through the Changsha Intermediary Company, holds 100% interest in the Changsha Property Company, which in turn directly owns the Changsha Property. Each of the Target Company and the Changsha Intermediary Company is an investment holding company with no business operations other than their indirect interest in the Changsha Property. The Changsha Property Company does not hold any investment other than the Changsha Property.

Set out below are the simplified charts illustrating the holding structure of the Target Company and the Changsha Property (i) as at the Latest Practicable Date, and (ii) immediately after Completion.

As at the Latest Practicable Date



Immediately after Completion



As shown in the historical financial information of the Target Company and its subsidiary (i.e. the Changsha Intermediary Company) as set out in Appendix 2A to the Circular, the Target Company and its subsidiary have minimal profit or loss, and minimal assets and liabilities, as at 31 December 2021. The financial information of the Target Company and its subsidiary do not contain the financial information of the Changsha Property Company (which holds the Changsha Property) on a consolidated basis. As such, we consider the analysis of the historical financial information of the Changsha Property Company, as set out in Appendix 2B to the Circular, gives a better picture of the historical financial performance and financial position of the business of the Target Group.

Unitholders should note that the financial information of the Changsha Property Company included below and set out in Appendix 2B to the Circular is not indicative of the Target Group's future performance, given that the lease agreements with the Changsha SF Connected Tenants (including Guangdong Shunxin) (together, with an aggregate Gross Lettable Area of approximately 82,068 sq.m. as advised by the Manager, or 68.4% of total leased Gross Lettable Area of the Changsha Property as at 31 March 2022 and contributing approximately 68.4% of total monthly Gross Rental Income of the Changsha Property Company for the month of March 2022, and the operations management agreement have been replaced by the Changsha SF Leases and the Operations Management Agreement agreed subsequent to 31 December 2021, and that the capital structure of the Target Group will be different. The following financial information should be read together with the sections headed "9.2.1 Operations Management Agreement" and "9.2.2 Changsha SF Leases" in the letter to the Unitholders, and "Unaudited Pro Forma Financial Information of the Enlarged Group" in Appendix 4 to the Circular.

Financial performance

The following table sets out major components of the statements of comprehensive income of the Changsha Property Company for the three years ended 31 December 2019, 2020 and 2021, as extracted from the Accountant's Report of the Changsha Property Company set out in Appendix 2B to the Circular:

	For the year ended 31 December		
	2021	**2020**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*
Revenue	38,948	26,546	3,086
Property operating expenses	(13,190)	(8,997)	(3,607)
Net property income/(expense)	25,758	17,549	(521)
Fair value changes on an investment properties	1,960	5,755	29,450
Profit and total comprehensive income for the year	17,852	14,936	20,660

Revenue of the Changsha Property Company, mainly derived from the leasing and the provision of property management services in respect of the Changsha Property, exhibited an increasing trend in the past three years, from approximately RMB3.1 million in 2019 to approximately RMB26.5 million and RMB38.9 million in 2020 and 2021 respectively. This was mainly due to the full-year effect of rents and management service fees received from tenants following the commencement of operations in respect of the Changsha Property Phase I and Phase II in August 2019 and May 2021 respectively. For the three years ended 31 December 2019, 2020 and 2021, the SFH Group collectively contributed approximately 81.6%, 53.1% and 64.1% of the total revenue.

Property operating expenses of the Changsha Property Company mainly included property management fee and other taxes, which generally fluctuated in line with changes in rental income. Starting from the second half of 2020, the Operations Manager has been engaged to provide operations and property management services with respect to the Changsha Property. According to the Manager, under the previous operations management agreement effective from July 2021 to February 2022, the Changsha Property Company was required to pay an amount equivalent to 11% of the sum of the monthly rental income and property management income, together with VAT. The rate charged prior to July 2021 was higher at 20%. Starting from 1 March 2022, the rate of operations management fee to be charged on the Changsha Property has been reduced to 2.0% pursuant to the Operations Management Agreement, as detailed in the section below headed "4.4.2 The Operations Management Agreement".

Net property income of the Changsha Property Company, representing revenue less property operating expenses, turned around from a loss of approximately RMB0.5 million in 2019 to a profit of approximately RMB17.5 million in 2020, and further increased to approximately RMB25.8 million in 2021, due to the substantial growth in revenue as discussed above.

Despite the continuing increase in net property income during the above periods under review, profit and total comprehensive income of the Changsha Property Company fluctuated during the past three years, principally due to the change in fair value of the Changsha Property. The fair value increases in investment property in 2020 and 2021 were lower when compared to 2019, leading to the lower level of profit in 2020 and 2021.

Financial position

The following table sets out the statements of financial position of the Changsha Property Company as at 31 December 2019, 2020 and 2021, as extracted from the Accountant's Report of the Changsha Property Company set out in Appendix 2B to the Circular:

	As at 31 December		
	2021	**2020**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*
Assets			
Investment properties	550,100	466,700	384,300
Prepayments	11,974	19,677	19,292
Cash and cash equivalents	2,176	4,187	8,709
Other assets	305	286	336
Total assets	**564,555**	**490,850**	**412,637**
Liabilities			
Other payables	61,780	70,674	79,151
Amounts due to related parties	264,659	204,562	140,138
Deferred tax liabilities	7,780	5,226	894
Other liabilities	5,397	3,301	303
Total liabilities	**339,616**	**283,763**	**220,486**
Total equity	**224,939**	**207,087**	**192,151**

As at 31 December 2021, the Changsha Property Company recorded total assets of approximately RMB564.6 million. The fair value of investment properties (i.e. the Changsha Property) as assessed by the Independent Property Valuer amounted to RMB550.1 million as at 31 December 2021, accounted for approximately 97.4% of total assets. As confirmed by the Manager and the Independent Property Valuer, the appraised value of the Changsha Property and the related valuation methodology, bases and assumptions as at 31 December 2021 and 31 March 2022 are substantially the same. The Appraised Value of the Changsha Property as at 31 March 2022 is RMB550.4 million, further details of which are set out in the section below headed "3. Valuation of the Changsha Property". A small amount of cash, being approximately RMB2.2 million, was kept as at 31 December 2021 for the purpose of daily operations.

As at 31 December 2021, the Changsha Property Company recorded total liabilities of approximately RMB339.6 million, which mainly included (i) amounts due to related parties of approximately RMB264.7 million, mainly comprising loans from the SFH Group (including interest payable) of approximately RMB258.5 million, bearing a fixed interest rate of 3.2% per annum and maturing on 15 June 2022, and rents collected in advance from the SFH Group of approximately RMB4.5 million, (ii) other payables of approximately RMB61.8 million, mainly comprising construction payables of approximately RMB56.9 million, and (iii) net deferred tax liabilities of approximately RMB7.8 million, arising from the revaluation of the Changsha Property of approximately RMB8.8 million, less deferred tax assets of approximately RMB1.0 million arising from certain taxable subsidies from Changsha government.

The Target Company and the Changsha Property Company had undergone the Reorganisation in the second quarter of 2022. All the loans from the SFH Group (including interest payable) prior to Completion, being approximately RMB267.2 million (i.e. the Onshore Payable), together with the aggregate Reorganisation Payable amount owing from the Changsha Intermediary Company to Shenzhen Fengtai and SF Holding of approximately RMB232.9 million (relating to the consideration outstanding for the transfer of 100% equity interest in the Changsha Property Company to the Changsha Intermediary Company under the Reorganisation), shall be settled through the external loans and cash resources of SF REIT, as detailed in the section below headed "5. Financing of the Acquisition". The Reorganisation steps, while not reflected in the Accountant's Reports, have been completed in accordance with the relevant PRC laws and regulations as at the Latest Practicable Date. For additional details of the Reorganisation, please refer to the section headed "4. Reorganisation" in the letter to the Unitholders and the Unaudited Pro Forma Financial Information of the Enlarged Group in Appendix 4 to the Circular.

1.5 Risk factors

Certain risk factors in relation to the Acquisition, including risks relating to the Changsha Property and the real estate industry in the PRC, are set out in Appendix 7 to the Circular, to which the attention of Unitholders is drawn. Given the Changsha Property, the Foshan Property and the Wuhu Property are all logistics properties located in the PRC which are exposed to a similar set of risk factors relating to the logistics industry in China, and that a majority of the Changsha Property's Gross Lettable Area will continue to be leased to and operated by the SFH Group on a long-term basis, similar to the case for the Existing Properties, we consider that the key risks involved in the Changsha Property are generally similar to the risk involved in the Foshan Property and the Wuhu Property.

2. Market overview and outlook

2.1 PRC logistics and e-commerce industries

The Market Consultant Report issued by Cushman & Wakefield Limited, being the Market Consultant, is set out in Appendix 6 to the Circular. According to the Market Consultant Report, logistics demand in China has been consistently growing at a fast pace. In 2021, the total value of social logistics goods was approximately RMB335.2 trillion, representing a year-on-year increase of approximately 9.2%. The increase was mainly attributable to the stable economic growth and industrial upgrading, whereby market participants shift their development and investment focus from lower value-adding activities to higher ones. Out of the total, the value of industrial logistics products increased by approximately 9.6% in 2021, where high-tech manufacturing sector was the main driving forces.

As mentioned earlier, the outbreak of the COVID-19 pandemic has accelerated structural changes in consumers' spending habits and retailers' supply chain management, causing retailers and suppliers to modernise and improve their logistics facilities and capabilities in response to these changes. For example, more consumers purchase goods through e-commerce platforms and online supermarkets, and more enterprises expand their new online sales channels. According to the Market Consultant Report, the proportion of e-commerce sales of physical goods in total retail sales of consumer goods increased from approximately 20.7% in 2019 to approximately 24.9% in 2021. The e-commerce sector has driven the rapid growth of the PRC logistics industry. In 2021, logistics service enterprises completed delivery of a total of 108.3 billion pieces, a year-on-year increase of approximately 29.9%, and it is estimated that 80% of the logistics volume was serving e-commerce sector.

The Market Consultant commented in its report that given the rapid expansion of China's e-commerce sector, the development of third-party logistics companies, and the upgrade of domestic manufacturing industries, demand for warehousing and logistics support would grow steadily.

2.2 Overview of Changsha

Changsha is the provincial capital of Hunan and the largest contributor of gross domestic product ("**GDP**") in the province, with a residential population of 10 million as of the end of 2021. The GDP of Changsha reached approximately RMB1.3 trillion in 2021, representing a year-on-year increase of approximately 9.3% and a compound annual growth of approximately 7.3% between 2016 and 2021. The Changsha government has continued to develop Changsha as an important national advanced manufacturing center, with completed investment of approximately RMB500.5 billion in 2021. Changsha's high-tech industries value added grew by approximately 10.5% and 15% respectively in 2020 and 2021, and the number of high-tech enterprises in the city increased from about 1,100 in 2016 to about 4,100 in 2020. The above statistics indicated that Changsha experienced steady economic growth in the past five years, which is expected to continue in near future, and played an important role in promoting the economic development of Hunan Province.

2.3 Logistics market of Changsha

The Changsha government has introduced a series of favourable policies, generally relating to logistics infrastructure, taxation and technology, to support the development of the logistics sector. In 2021, the Bureau of Commerce of Changsha Municipality published (i) "Changsha's 14th Five-Year Logistics and Port Development Plan (2021-2025)", which serves as an action plan to promote the development of modern logistics and port operations in Changsha, and (ii) "Changsha County Logistics Industry 14th Five-Year Development Plan", which provides development objectives and specifies the spatial layout principles for the logistics industry in Changsha County.

According to the Market Consultant Report, market demand for logistics real estates in Changsha has been increasing over the past five years, mainly driven by (i) an increase in demand of e-commerce logistics, third-party logistics, and warehousing, and (ii) the transformation and improvement of the local manufacturing industry. In the past five years, the average monthly rent of Changsha's high-standard logistics warehouses enjoyed a rising trend, growing at an annual rate of approximately 5% between 2017 and 2019, but slowed down to approximately 3% in 2020 and 2021, mainly due to the negative impacts brought by the COVID-19 pandemic. In 2021, the average monthly rent of Changsha's high-standard logistics warehouses was approximately RMB27.7 per sq.m., while the average monthly rent in Changsha Linkong Economic Development Zone, in which the Changsha Property is situated, is the highest, being approximately RMB30.5 per sq.m., among various sub-markets in Changsha.

As of the end of 2021, Changsha had constructed high-standard logistics warehouses with a total area of approximately 2.8 million sq.m., representing approximately 2.5 times as compared to that in 2017. The resultant increase in the supply of high-standard warehouses led to a growth of vacancy rate to approximately 20% in 2021, which is expected to decline in coming years, mainly due to the increasing demand for e-commerce, cold storage, and express delivery services in the region. After balancing the future supply of high-standard logistics warehouses and the growth of logistics market in Changsha, the Market Consultant is of the view that the growth of rent would increase by about 1 to 2% per year between 2022 and 2026.

According to the Market Consultant Report, capital value for high-standard warehouses in Changsha grew by approximately 3% to 5% each year between 2018 to 2020, in line with the growth in average rent, but slowed down to approximately 1.2% in 2021, mainly attributable to the expanding supply in recent years. The Market Consultant expects that the latest release of "Changsha's 14th Five-Year Logistics and Port Development Plan (2021-2025)" in January 2022 and other favourable policies would facilitate the development of the transportation network and the construction of logistics supporting infrastructure in the region, which will in turn attract domestic and foreign investments. As the Market Consultant expects that it may take time for the above favourable policies to bring actual benefits to the industry, the growth in capital value is expected to remain at about 2% each year between 2022 and 2024, and could eventually reach up to 5% each year in 2025 and 2026.

Having considered the above and barring unforeseen circumstances, we consider the outlook of the logistics market in Changsha to be positive. We therefore concur with the observations of the Manager and the Market Consultant on the market outlook and the overall growth potential.

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, (i) further information on the Changsha Property; and (ii) information on the market environment, the competitive landscape and the outlook for Changsha.

3. Valuation of the Changsha Property

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, being the current principal valuer of SF REIT and the Independent Property Valuer, has been appointed to appraise the market value of the Changsha Property (i.e, the Appraised Value). In their opinion, the Appraised Value as at 31 March 2022 is RMB550.4 million. The full Valuation Report is contained in Appendix 5 to the Circular.

The Agreed Property Value of RMB540.0 million, arrived on the basis of arm's length negotiations after taking into account the Appraised Value, represents an approximately 1.9% discount to such Appraised Value.

We have reviewed the Independent Property Valuer's terms of engagement, in particular its scope of work, for the valuation of the Changsha Property. We have also interviewed the Independent Property Valuer regarding its experience and expertise, and understand that the Independent Property Valuer is an established independent property valuer with a large number of completed assignments acting for listed REITs in Hong Kong. We also note that Mr. Eddie T. W. Yiu, the valuer-in-charge of the Valuation Report, is a Chartered Surveyor and has 28 years of experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

3.1 Valuation methodology

The Independent Property Valuer has adopted the income capitalisation method (the "**Income Capitalisation Approach**") in arriving at the Appraised Value. Under the Income Capitalisation Approach, market value is determined by capitalising, by appropriate rates, the fully leased net rental income of the subject property derived from existing leases and/or achievable in the existing market, with due allowance for reversionary income potential of the leases.

We have reviewed the Valuation Report and discussed with the Independent Property Valuer the rationale for adopting the Income Capitalisation Approach as the valuation methodology for the Changsha Property, as well as the bases and assumptions adopted in arriving at the Appraised Value under the Income Capitalisation Approach.

We were advised by the Independent Property Valuer that the Income Capitalisation Approach is the most common valuation methodology in valuing completed logistics properties in the PRC. The Independent Property Valuer further informed us as regards other potential valuation methodologies that (i) there are not sufficient recent directly comparable transactions in Changsha to use this method, and (ii) a discounted cash flow approach would be subject to higher uncertainties and more assumptions, such as future growth rate of market rents, operating costs during the projection period and the choice of discount rate, compared to the Income Capitalisation Approach. As such, the Independent Property Valuer has not adopted the Market Approach or the Discounted Cash Flow Approach. Given in particular the stable and uniform tenancy terms in respect of the Changsha Property, the Independent Property Valuer considers it would be appropriate to use the Income Capitalisation Approach for the assessment of the Appraised Value.

The Income Capitalisation Approach is consistent with the valuation methodology adopted for the valuation of completed PRC logistics properties of SF REIT as set out in its Offering Circular and 2021 Annual Report. According to the Independent Property Valuer, the same valuation approach has been used to assess the market value of the completed portion of the Changsha Property as at 31 December 2020 and 2021, as presented in the Accountant's Report of the Changsha Property Company in Appendix 2B to the Circular.

We also reviewed the valuation approaches adopted for valuing completed logistics properties of companies listed on the Stock Exchange. In this regard, we observe that China Logistics Property Holdings Co., Ltd (stock code: 1589), one of the leading logistics facilities providers in China, and Kerry Logistics Network Limited (stock code: 636), one of the leading logistics services providers in Asia and a subsidiary of SFH, disclosed in their latest annual reports that their independent valuers adopted income capitalisation approach (or term and reversionary yield analysis) for the valuation of completed logistics properties in the PRC.

Having considered the above and SF REIT's intention to hold the Changsha Property for long-term investment purpose, we consider that the Income Capitalisation Approach is a reasonable and acceptable valuation methodology for assessing the market value of the Changsha Property, and is in line with the valuation methodology adopted in SF REIT's property valuation reports for its 2021 Annual Report and also by certain Hong Kong listed companies that are engaged in investment in logistics properties in the PRC.

3.2 Valuation bases and assumptions

Based on our discussions with the Independent Property Valuer and our review of the bases and assumptions adopted under the Income Capitalisation Approach, the underlying net rental income is calculated based on existing leases of the Changsha Property, while vacant units are assumed to be fully let at their respective market rents as at the valuation date. Potential future reversionary income of the Changsha Property for the remaining period of the land use rights is calculated based on the market level, with a 5% allowance to cater for the potential vacancy. The Independent Property Valuer confirmed to us that the above bases and assumptions used are consistent with those used in the valuation of the Foshan Property and the Wuhu Property. The Independent Property Valuer has also conducted sampling reviews of signed tenancy agreements of the Changsha Property, and reviewed the most recent rent for similar properties available in the same city, as further discussed below.

As stated in the Valuation Report, the adopted monthly market rent is RMB30.2, RMB29.3 and RMB29.5 per sq.m. for the warehouse, distribution center and office building portions respectively. As discussed with the Independent Property Valuer, such adopted monthly market rents were determined with reference to the transacted and/or asking rental rates of comparable warehouses and office buildings with similar building quality, such as clear height, loading capacity, floors and other specifications, in Changsha as at the valuation date, which are sourced from the Independent Property Valuer's market research and own database. Certain adjustments were made to the relevant comparables to reflect (i) the discrepancies between them and corresponding portions of the Changsha Property in terms of location, building quality, age and gross floor area, and (ii) the possible transacted rental rate if only asking rental rate of such comparables are available. In the Independent Property Valuer's opinion, given that the market has a large number of cases and asking rental rates and a lot of differences can be drawn between the comparable properties and the Changsha Property, it would be impossible and impracticable for them to confirm the list to be exhaustive. Nevertheless, the list of comparables has been collected on a best effort basis based on the stated criteria above. On the basis of the above, the Independent Property Valuer considers that the selected comparables represent fair and representative samples for the purpose of the valuation. Rental rates of the following comparables have been collected and analysed for determining the market rent of the Changsha Property (the "**Comparable Rents**"):

Portions of the Changsha Properties:	Comparables in Changsha used in determining market rent of the Changsha Property:
Warehouse	Mapletree Changsha Airport Logistics Park (豐樹長沙空港物流園) Changsha Blue Industrial Park (長沙藍色產業園) ESR Changsha Phase I Logistics Park (易商紅木長沙一期物流園) Lijiang International Intelligent Logistics Park (梨江國際智能物流園) Rongcheng Logistics Park (融城物流園) Langli Industrial Park (榔梨工業園) Cold storage in Daming Industrial Park (大明工業園內冷庫) Wallin cold chain (沃霖冷鏈) Centrally-affiliated Meat cold storage (中央直屬儲備肉冷庫)
Distribution center	Mapletree Changsha Airport Logistics Park (豐樹長沙空港物流園) Changsha Blue Industrial Park (長沙藍色產業園) ESR Changsha Phase I Logistics Park (易商紅木長沙一期物流園)
Office building	Changsha Science and Technology New City (長沙科技新城) Middle Zhigu Industrial Park (中部智穀產業園) Haiping International Medical Device Industrial Park (Changsha Economic Development Zone) (海甹國際長沙經開區醫療器械產業園)

Based on our review, the adopted monthly market rents for the warehouse, distribution center and office building portions applied in the valuation of the Changsha Property are close to the average monthly Comparable Rents. The adopted monthly market rents are also close to the average monthly rent in Changsha Linkong Economic Development Zone of approximately RMB30.5 per sq.m. as suggested by the Market Consultant and as mentioned in the section above headed "2.3 Logistics market of Changsha".

The adopted capitalisation rates for the Changsha Property are 4.75% (term yield) and 5.25% (reversionary yield), for net rental income and potential future reversionary income respectively. As discussed with the Independent Property Valuer, the adopted term yield was 0.5 percentage point lower than the adopted reversionary yield in order to reflect the secured nature of existing leases with certainty of income stream for term yield, as opposed to the uncertainties of future reversionary potential in determining the reversionary yield. We noted that the 0.5 percentage point premium of reversionary yield over term yield is the same as that adopted in the valuation of the Foshan Property and the Wuhu Property as set out in SF REIT's Offering Circular and 2021 Annual Report.

The abovementioned capitalisation rates are determined based on the yields achieved with reference to, among others, historical sales transactions of completed logistics properties with similar building quality in Changsha in the past three years, with clear and reliable evidence in the market relating to the transaction prices and building specifications that are publicly available, and the Independent Property Valuer's knowledge of the market expectations of property investors. The Independent Property Valuer reviewed transactions of similar properties for the purpose of determining the reversionary yield used in the valuation. Mapletree Changsha Logistics Park Phase 1（豐樹長沙物流園一期）, Mapletree Changsha Industrial Park Phase 2（豐樹長沙物流園二期）and Mapletree Changsha Airport Logistics Park（豐樹長沙空港物流園）, all of which are located in Changsha, were selected as comparables, which the Independent Property Valuer considers to be (i) an exhaustive list based on the above stated criteria, and (ii) fair and representative samples for the purpose of the valuation. The yields of such comparables as analysed by the Independent Property Valuer are in the range of approximately 5.0% to 5.5%. The Independent Property Valuer applied the reversionary yield of 5.25% for the Changsha Property, which is within the abovementioned range. Further, we note that such adopted reversionary yield is within the range of net capitalisation rate (also known as reversionary yield as confirmed by the Market Consultant) of high-standard warehouses in Changsha between 5.25% and 6.00% in the past two years as set out in the Market Consultant Report.

The Independent Property Valuer has also carried out site inspections and made relevant enquiries and searches for the purpose of the valuation. 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. On the basis of the above, we are of the view that the bases and assumptions adopted in relation to the Appraised Value by the Independent Property Valuer are reasonable and in line with market practice.

4. Summary of the key terms of the Sale and Purchase Deed

4.1 The Sale and Purchase Deed

On 2 June 2022, Golden Bauhinia Logistics Holdings Limited (a SPV wholly-owned by SF REIT, as the Purchaser), the Manager (in its capacity as manager of SF REIT), SF Fengtai (as the Seller) and SF Holding (as the guarantor) entered into the Sale and Purchase Deed, pursuant to which, among other things: (i) the Purchaser agreed to purchase, and the Seller agreed to sell, the Sale Share, representing the sole issued share in the Target Company, which will indirectly holds 100% of the Changsha Property Company and the Changsha Property; and (ii) the Purchaser agreed to procure the repayment of the Intercompany Payables.

SF Holding has unconditionally and irrevocably guaranteed to the Purchaser the due and punctual payment of all amounts payable by the Seller under the Sale and Purchase Deed and due and punctual performance and observance by the Seller of all its obligations, commitments, undertakings, warranties and indemnities under or pursuant to the Sale and Purchase Deed.

Consideration

The Total Consideration is equal to the sum of:

1) (for the acquisition of the Sale Share) the Share Consideration, being the Agreed Property Value of RMB540.0 million; plus/minus the Target Group Adjusted NAV as set out in the Completion Statement; and

2) the Intercompany Payables, being the aggregate amounts outstanding under (i) the Onshore Payable owing from the Changsha Property Company to Shenzhen SF Taisen; and (ii) the Reorganisation Payable owing from the Changsha Intermediary Company to Shenzhen Fengtai and SF Holding, arising as a result of the Reorganisation after 31 December 2021.

The Agreed Property Value of RMB540.0 million was arrived at on an arm's length basis after taking into account the Appraised Value of the Changsha Property of RMB550.4 million as at 31 March 2022 as appraised by the Independent Property Valuer. It represents a discount of approximately 1.9% to such appraised value.

The Target Group Adjusted NAV shall be equal to: (i) all assets of the Target Group (other than the Changsha Property), minus (ii) all liabilities of the Target Group (including the Intercompany Payables but excluding the deferred tax liabilities arising from the revaluation of the Changsha Property) in each case as at Completion as shown in the Completion Statement.

Based on the Accountant's Reports set out in Appendix 2A and Appendix 2B to the Circular and assuming the Intercompany Payables remain outstanding immediately before Completion, the table below sets out the Share Consideration for illustrative purposes only:

Agreed Property Value	RMB540.0 million
Plus: Illustrative Target Group Adjusted NAV	RMB(546.9) million
Illustrative Share Consideration	**RMB(6.9) million**

As set out in the letter to the Unitholders, the Illustrative Target Group Adjusted NAV represents mostly cash and cash equivalents and amounts due to related parties, mainly the Intercompany Payables. We note that the calculation of the Target Group Adjusted NAV has not taken into account the deferred tax liabilities of the Changsha Property Company arising from the revaluation of the Changsha Property, being approximately RMB8.8 million as at 31 December 2021. This was recognised under IFRS resulting from the fair value changes in respect of the Changsha Property. Since the Changsha Property will be acquired by SF REIT by way of acquisition of the Sale Share, and the Manager has a present intention for SF REIT to hold the Changsha Property for long-term investment purposes, the Manager's Tax Advisers considers that it is very unlikely that the abovementioned deferred tax liabilities will crystallise upon future disposal. Therefore, no account has been taken of such liabilities in the calculation of the Target Group Adjusted NAV.

We have researched all acquisitions of properties in the PRC by other Hong Kong listed REITs, as disclosed in their respective circulars in the past five years up to and including the day immediately before the Latest Practicable Date, according to our research on the website of the Stock Exchange. We consider such acquisitions to be an exhaustive list based on the above selection criteria, and fair and representative samples for this assessment purpose. Based on the above research, we note that it is common to exclude the deferred tax liabilities in the calculation of an adjusted NAV, in particular revaluation differences and depreciation, relating to the subject property. The basis of the property price is a commercial point to be agreed upon between the buyer and the seller having regard to the particular facts and circumstances. Given there are similar acquisitions of properties in the PRC by other Hong Kong listed REITs to determine the property price without taking into account deferred tax provision and the Changsha Property is intended to be held by SF REIT as a long-term investment, we consider the exclusion of the deferred tax provision is in line with market practice.

As set out in the letter to the Unitholders, the Intercompany Payables are estimated to be approximately RMB500.1 million, which will be settled on a dollar-for-dollar basis.

Based on the illustrative Share Consideration of approximately negative RMB6.9 million and the Intercompany Payables of approximately RMB500.1 million as discussed above, the illustrative Total Consideration is estimated to be approximately RMB493.2 million.

Having considered the above, and on the basis that (i) the Agreed Property Value represents an approximately 1.9% discount to the Appraised Value of RMB550.4 million as at 31 March 2022, and (ii) there will be no material damage to the Changsha Property and no material breach of any warranties of the Seller and SF Holding under the Sale and Purchase Deed is expected up to Completion, we consider the illustrative Total Consideration to be fair and reasonable.

Payment terms

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

(A) at Completion, the Purchaser shall pay to the Seller an amount equal to the Initial Share Consideration: (1) the Agreed Property Value of RMB540.0 million; plus/minus (2) the Target Group Adjusted NAV as set out in the pro forma statement of financial position of the Target Group as at the close of business on the Completion Date, to be delivered by the Seller at least five Business Days prior to the Completion Date (i.e. the Estimated Completion Statement);

(B) at Completion, the Purchaser shall procure the repayment by the Target Group of the Intercompany Payables in RMB; and

(C) within ten Business Days after agreement or determination of the Completion Statement regarding the Target Group, for the purpose of ascertaining the Target Group Adjusted NAV as at the Completion Date, the True-up Payment shall be payable in the following manner:

(i) if the Target Group Adjusted NAV (as set out in the Completion Statement) is higher than the Target Group Adjusted NAV (as set out in the Estimated Completion Statement), the Purchaser shall pay the difference to the Seller; and

(ii) if the Target Group Adjusted NAV (as set out in the Completion Statement) is lower than the Target Group Adjusted NAV (as set out in the Estimated Completion Statement), the Seller shall repay the difference to the Purchaser.

If the Initial Share Consideration is a negative figure, the Seller shall pay to the Purchaser at Completion a sum equal to such negative figure (as if it were a positive figure for this purpose) as consideration for the Purchaser in substance acquiring a negative equity of the Target Company.

Having considered (i) the Initial Share Consideration and the Intercompany Payables will only be paid upon Completion, and (ii) the True-up Payment will be assessed at the Completion Date, we are of the view that the above payment terms are on normal commercial terms and are fair and reasonable.

Conditions precedent

Completion of the Acquisition is subject to and conditional upon satisfaction of certain Conditions, including, among others:

(A) RMB267.2 million (equivalent to approximately HK$327.0 million) being available for drawdown under the Onshore Term Loan, and there being no material breach by the relevant member of the Target Group of any documents executed pursuant to the Onshore Term Loan;

(B) HK$259.0 million (equivalent to approximately RMB211.6 million) being available for drawdown under the Extended Offshore Term Loan, and there being no material breach by the relevant member of the SF REIT Group of any documents executed pursuant to the Extended Offshore Term Loan; and

(C) the resolution approving the Acquisition Matters Requiring Approval having been passed by Independent Unitholders at the EGM.

The Purchaser may waive either in whole or in part at any time by notice in writing to the Seller any Conditions (except for the Condition (c) above).

Unless the parties to the Sale and Purchase Deed agree otherwise in writing, if any of the Conditions have not been fulfilled or waived (if applicable) on or before the Long Stop Date (being 31 August 2022, or such other date as agreed by the Purchaser and the Seller in writing), then the Purchaser shall not be bound to proceed with the purchase of the Sale Share and the Seller shall not be bound to proceed with the sale of the Sale Share, and the Sale and Purchase Deed shall terminate.

Completion

Completion shall take place on the day falling five Business Days after the date on which all the Conditions have been fulfilled (or waived, if applicable), or such other date as may be agreed by the Purchaser and the Seller in writing.

Representations and warranties

The Sale and Purchase Deed contains customary representations and warranties to be made by the Seller in respect of the members of the Target Group and the Changsha Property, including fundamental warranties relating to title to the Sale Share and to the Changsha Property, and other warranties relating to tax and compliance with all applicable laws, rules and regulations by the members of the Target Group in conducting their respective businesses.

The maximum aggregate liability of the Seller and SF Holding in respect of claims under the warranties shall not exceed the amount equal to the Total Consideration. Such claims shall only be recoverable from the Seller and SF Holding if (a) the amount of each of such claims exceeds RMB0.5 million; and (b) the aggregate amount recoverable in respect of all of such claims exceeds RMB5 million, in which case the Seller and SF Holding will be liable for the entire amount.

The Sale and Purchase Deed provides for a limitation period of three years after the Completion Date for claims under the warranties (other than those claims relating to fundamental warranties in respect of the title to the Sale Share and to the Changsha Property and tax warranties, in which case the limitation period is seven years after the Completion Date).

Indemnities and covenants

The Sale and Purchase Deed contains customary indemnities from the Seller and SF Holding, both of whom have irrevocably undertaken to indemnify, on a joint and several basis, SF REIT, the Trustee, the Manager, the Purchaser and each member of the Target Group, to the fullest extent permissible by law, for any liabilities, losses, damages, fines, fees, charges, penalties, premiums, expenses and costs (on a full indemnity basis) which any one of them may incur, suffer or sustain as a result of or in connection with the following:

(i) delay in payment instalments by the Changsha Property Company before Completion in the acquisition of land use rights of the Changsha Property;

(ii) delay in commencement and completion of construction works in respect of the Changsha Property by the Changsha Property Company before Completion;

(iii) any unauthorised decoration and modification works in respect of the Changsha Property undertaken by the Changsha Property Company before Completion;

(iv) use and leasing out of the underground car parking spaces and equipment rooms of the Changsha Property by the Changsha Property Company before Completion; and

(v) failure of the Changsha Property Company to register the existing leases in respect of the Changsha Property within the time limit prescribed by the relevant laws, rules and regulations of the PRC before Completion.

The liabilities of the Seller and SF Holding in respect of any claim made against any indemnity (including a claim under an indemnity arising out of or in connection with a fact or circumstance which may also give rise to a claim under any warranty) shall not be subject to the liability caps and the limitation periods in respect of claims under warranties as set out above, except that (a) the maximum liability of the Seller and SF Holding in respect of any claim made against any indemnity shall be limited to the amount equal to the Total Consideration; and (b) such claim shall be subject to a limitation period ending upon the expiry of the land use rights pertaining to the Changsha Property.

In addition, the Sale and Purchase Deed contains tax covenants in respect of events occurring on or before Completion and the PRC Enterprise Income Tax payable by the Seller in respect of the Acquisition. Any claim made against any tax covenant in respect of events occurring on or before Completion shall be limited to the amount equal to the Total Consideration and be subject to a limitation period of seven years after the Completion Date.

We have reviewed clauses relating to warranties, indemnities and/or covenants 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, published on the website of the Stock Exchange. We note that the limitation periods for the above acquisitions are as follows:

(i) fundamental warranties: two to seven years;

(ii) tax warranties: seven years;

(iii) claims other than fundamental and tax warranties: two to three years; and

(iv) indemnity claims: three years to the expiry of the relevant land use rights, or not subject to any limitation period.

In addition, we note that (i) the minimum per claim threshold, if any, accounted for approximately 0.04% to 0.06% of the consideration; and (ii) the minimum aggregate amounts of all claims, if any, accounted for approximately 0.15% to 1.02% of the consideration, subject to the maximum liability caps equal to the total consideration or the agreed property price.

Based on our review of the relevant clauses as mentioned above, and given each of (a) the limitation periods of seven years in the case of fundamental and tax warranties, or three years in the case of claims other than fundamental and tax warranties under the Sale and Purchase Deed; (b) the limitation period applicable to other indemnity claims shall end upon the expiry of the land use rights pertaining to the Changsha Property; and (c) the minimum per claim threshold and the minimum aggregate amounts of all claims, being approximately 0.10% and 1.01% of the illustrative Total Consideration respectively, subject to the cap equal to the Total Consideration, is broadly in line with similar transactions, we concur with the Manager that the abovementioned representations and warranties coverage and indemnities and covenants (including the abovementioned liability caps and limitation periods) are fair and reasonable as they are in line with normal commercial terms expected in similar transactions. The Manager is also satisfied, and we concur, that the abovementioned representations and warranties and indemnities and covenants are considered to be sufficient in the circumstances and the interests of SF REIT and Unitholders are adequately protected.

4.2 Due diligence review

As set out in the letter to the Unitholders, the Manager has conducted, and is satisfied with the results of, due diligence in respect of the Changsha Property and the Target Group, and no material irregularities or non-compliance issues have been noted as at the Latest Practicable Date. Such due diligence has been carried out in accordance with the relevant provisions of the REIT Code (including the Practice Note on Overseas Investment by SFC-authorised REITs), the Listing Rules and the Manager's compliance manual. Regarding details of the due diligence matters identified in respect of the Changsha Property, please refer to the section headed "3.6 Due diligence review" in the letter to the Unitholders.

Having considered the above and based on the advice of the PRC Legal Advisers, the Manager believes that SF REIT will have good, marketable, legal and beneficial title to the Changsha Property as a whole through the Target Group upon Completion, subject to the first priority mortgage over the Changsha Property in favour of the Onshore Lender to secure the Onshore Term Loan and the existing tenancies of the Changsha Property.

4.3 Fees and charges in relation to the Acquisition

As set out in the section headed "6. Fees and Charges in relation to the Acquisition" in the letter to the Unitholders, the estimated total fees and charges payable by SF REIT in relation to the Acquisition (the "**Total Fees and Charges**") are summarised below:

	RMB million
Acquisition fee *(Note 1)*	2.7
Other acquisition fees and expenses *(Note 2)*	5.3
Trustee's additional fee *(Note 3)*	0.1
Total Fees and Charges *(Note 4)*	8.0

Notes:

(1) Representing an acquisition fee of RMB2.7 million, which is equal to 0.5% of the Agreed Property Value, payable to the Manager on Completion under the Trust Deed, to be paid by cash

(2) Comprising estimated one-off transaction expenses of a non-recurring nature in connection with the Acquisition (including legal fees, advisory fees, professional fees and expenses that are incidental to the Acquisition) of approximately HK$6.5 million (equivalent to approximately RMB5.3 million), to be paid by cash

(3) Representing a one-time additional fee of HK$100,000 (equivalent to approximately RMB82,000) to be charged by the Trustee for duties undertaken by it in connection with the Acquisition, to be paid by cash

(4) May not add up due to rounding difference

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, each of the Manager and the Trustee will be entitled under the Trust Deed to receive ongoing fees attributable to the Target Group, details of which are set out in the section headed "6.5 Ongoing fees and charges following Completion" in the letter to the Unitholders.

4.4 Other matters relating to the Acquisition

4.4.1 The Changsha SF Leases

The Changsha Property Company and the Changsha SF Connected Tenants have entered into new Changsha SF Leases, commencing on 1 May 2022 and expiring on 31 December 2026, and the Changsha SF Connected Tenants have an option to renew the relevant Changsha SF Leases on substantially the same terms (apart from rent, which is to be determined by reference to the market rental package, property management fee and rental deposit) for a further term of up to five years. As at 31 March 2022, the aggregate Gross Lettable Area under the Changsha SF Leases is approximately 82,068 sq.m., accounted for approximately 68.4% of leased Gross Lettable Area of the Changsha Property.

The rent payable under the Changsha SF Leases is fixed for each year of the term, with an agreed yearly increment taking into account the market rent suggested by a professional independent valuer. Each of the Changsha SF Connected Tenants (which comprise Shenzhen Intra-city, Hunan SF Freight and Hunan SF Express as at the Latest Practicable Date) has agreed to pay rent in advance on the first day of every three months to the Changsha Property Company in accordance with the terms of the relevant Changsha SF Lease.

Each of the Changsha SF Connected Tenants is required to provide at the start of the initial term and maintain at all times during the relevant Changsha SF Lease's term a non-interest bearing rental deposit equivalent to the aggregate of two months' rent and property management fees.

As set out in the letter to the Unitholders, the Independent Property Valuer has confirmed that: (i) the rental/licence fees in respect of the Changsha SF Leases are at or higher than prevailing market levels as at their respective agreement dates; (ii) the other commercial terms in the Changsha SF Leases are on normal commercial terms; and (iii) the terms of the Changsha SF Leases are fair and reasonable. The Manager is also of the view that the Changsha SF Leases are in the interests of SF REIT and its Unitholders as a whole.

In our view, the Changsha SF Lease, which covers a majority of the Gross Lettable Area of the Changsha Property and has an annual rent increment feature, would bring increased level of certainty to the future revenue to SF REIT.

For further details, please refer to the section headed "3.8 Lease agreements" in the letter to the Unitholders.

4.4.2 The Operations Management Agreement

On 1 March 2022, the Changsha Property Company and the Operations Manager entered into the Operations Management Agreement, pursuant to which the Operations Manager has agreed to provide, among other things, the Operations Management Services, including leasing and marketing management services and property management services with respect to the Changsha Property. It has an initial term from 1 March 2022 to 31 December 2023, which may be extended by the parties.

The Changsha Property Company will pay the Operations Manager the Operations Management Fee, equivalent to 2.0% of the sum of the monthly rental income and property management fee of the Changsha Property Company together with VAT payable on a monthly basis, during the term of the Operations Management Agreement. The Operations Manager will bear its own operating costs and expenses and be subject to the ongoing supervision of the Manager. We note that the Operations Management Services and the rate of Operations Management Fee are the same as those under the existing operations management agreements with respect to the Foshan Property and the Wuhu Property.

As set out in the letter to the Unitholders, the Independent Property Valuer has confirmed that the Operations Management Agreement (including the Operations Management Fee) is fair and reasonable, conducted on normal commercial terms at arm's length, and consistent with normal business practice for contracts of the similar types.

For further details, please refer to the section headed "3.9.3 The Operations Management Agreement" in the letter to the Unitholders.

5. Financing of the Acquisition

5.1 Total cost of the Acquisition and financing structure

As set out in the Offering Circular, the Manager's capital and risk management strategy is to, among others, employ an approximate mix of debt and equity financing to fund future acquisitions. Given the Manager's intension to distribute 100% of the Annual Distributable Income to the Unitholders for the period from 29 April 2021 to 31 December 2021, SF REIT does not possess sufficient cash resources to fund the Acquisition. External financing is therefore required.

For the purpose of settling the Total Consideration and the Total Fees and Charges under the Acquisition (the "**Total Cost**"), SF REIT will procure the Changsha Property Company to draw down the Onshore Term Loan and itself will draw down the Extended Offshore Term Loan. Summarised below are breakdown of the Total Cost and how they will be funded by SF REIT, for illustrative purpose.

		To be satisfied by		
		Onshore Term Loan *(Note 1)*	**Extended Offshore Term Loan** *(Note 2)*	**Internal cash resources**
	RMB million	*RMB million*	*RMB million*	*RMB million*
Illustrative Share Consideration	(6.9)			
Intercompany Payables	500.1	267.2	211.6	21.3
Total Consideration	493.2			
Total Fees and Charges	8.0			8.0
Total Cost				
– after taking into account Illustrative Share Consideration	501.2	267.2	211.6	22.4
– before taking into account Illustrative Share Consideration	508.1	267.2	211.6	29.3

Notes:

(1) Being the Onshore Term Loan of RMB267.2 million expected to be drawn down at Completion for the settlement of the Onshore Payable in full, details of which are set out below

(2) Being the Extended Offshore Term Loan of HK$259.0 million (equivalent to approximately RMB211.6 million) expected to be drawn down at Completion mainly for the settlement of the Reorganisation Payable, details of which are set out below

As stated in the letter to the Unitholders, the above financing structure has been determined by the Manager after taking into consideration, among other things, SF REIT's working capital sufficiency, level of gearing, financing costs (for both debt and equity) and tenors of various existing indebtedness. As shown in the table above, the Manager intends to fund the Total Cost by debt financing and cash, in the proportion of roughly 95% and 5% respectively. No equity financing is to be sought.

We have discussed with the Manager the above financing structure and the availability of funding from financial institutions and the capital market. As at 31 December 2021, SF REIT had cash and cash equivalents of approximately HK$397.5 million, and bank borrowings of approximately HK$2,141.5 million. After deducting the 2021's distributions of approximately HK$137.9 million, available cash resources amounted to less than HK$300.0 million, which is far from sufficient to fund the Total Cost. The REIT Code currently limits the ratio of aggregate borrowings to total gross asset value to 50%. As at 31 December 2021, SF REIT has a gearing ratio of approximately 30.6%, which give room for further debt financing to satisfy the Total Cost. In view of the Group's borrowings being primarily denominated in Hong Kong dollars while the valuations of the Foshan Property and the Wuhu Property, together with the Changsha Property, are denominated in RMB, and the Group's investment properties are subject to fair value changes, the Manager seeks to maintain a reasonable buffer to cater for fluctuations in asset value or exchange rates, to avoid the 50% limit being exceeded. We consider the pro forma gearing ratio of the Enlarged Group of approximately 35.5% (as further elaborated in below section) to be well below the 50% limit, with a sufficient buffer to cater for the abovementioned fluctuations.

The shortfall amount between the Total Cost and the sum of the Onshore Term Loan and the Extended Offshore Term Loan of approximately RMB22.4 million, or RMB29.3 million without taking into account the expected receipt resulting from the negative Illustrative Share Consideration, will be funded by internal cash resources of SF REIT. We have been provided with the unaudited management accounts of the SF REIT Group as at 30 April 2022, which show sufficient cash resources to settle the above shortfall. Based on our review of the working capital forecast of the Enlarged Group, we concur with the Manager's view that taking into account the expected Completion Date in respect of the Acquisition and the financial resources available, the Enlarged Group will have sufficient working capital to satisfy its present requirements for at least the next 12 months from the date of the Circular, in the absence of unforeseen circumstances.

We have discussed with the Manager the possibility of equity financing. Based on the fact that equity financing involves dilution to existing Unitholders, the size of Acquisition is relatively small compared to the scale of SF REIT and there is ample room to raise the existing gearing of SF REIT (approximately 30.6% as at 31 December 2021), we concur with the Manager's view that equity financing is not appropriate for the Acquisition.

Having considered the above, we concur with the Manager that the financing structure of the Acquisition is reasonable and acceptable, on one hand to utilise available internal resources and avoid excessive gearing, and on the other hand to avoid dilution to Unitholders.

5.2 Debt financing

5.2.1 Onshore Term Loan

Pursuant to the Onshore Facility Agreement entered into on 30 May 2022, China Merchant Bank Co., Ltd., Changsha Branch (i.e. the Onshore Lender) agreed to provide the Changsha Property Company the Onshore Term Loan, with a principal amount of up to RMB275.0 million, the proceeds from the drawdown (the amount of which is expected to be RMB267.2 million) will be used to settle the Onshore Payable in full at Completion, in which approximately RMB6.7 million will be repaid within 2022, and the remaining balance will be repaid over the years from 2023 to 2030.

The term of the Onshore Term Loan is eight years from the first drawdown date, bearing a floating interest rate of the five-year loan prime rate as announced by the National Interbank Funding Center on the business day immediately preceding the drawdown date and updated annually plus 90 basis points per annum (equivalent to 5.35% as at the Latest Practicable Date). The Onshore Term Loan is secured by (i) a first priority mortgage over the Changsha Property dated 30 May 2022; (ii) a charge over 100% equity interest in the Changsha Property Company held by the Changsha Intermediary Company to be executed after Completion; and (iii) a charge over the Changsha Property Company's rental collection accounts in favour of the Onshore Lender dated 30 May 2022 (i.e. rental income from the Changsha Property is charged in favour of the Onshore Lender).

We note that in January 2022, the People's Bank of China announced a reduction of the five-year loan prime rate by five basis points from 4.65% to 4.6%, being the first cut since April 2020. A further reduction in the five-year loan prime rate by 15 basis points to 4.45% was announced in May 2022. The interest rate of 5.35% per annum under the Onshore Facility Agreement as at the Latest Practicable Date is slightly lower than those under the existing onshore third party bank loans obtained by the Group in respect of its Foshan Property and Wuhu Property, being a fixed interest rate of 5.5% per annum.

5.2.2 Extended Offshore Term Loan

Pursuant to the Offshore Facility Agreement dated 29 April 2021, DBS Hong Kong and certain banks agreed to provide SF Logistics (a) the Offshore Term Loan of up to HK$2.159 billion and (b) an uncommitted revolving loan facility of up to HK$250 million. As at the expiry of the drawdown period of the Offshore Term Loan (being 29 July 2021), the Offshore Term Loan had an unutilised amount of HK$259.0 million (equivalent to approximately RMB211.6 million).

DBS Hong Kong and SF Logistics entered into the First Amendment Deed and the Second Amendment Deed to extend the drawdown period of the unutilised part of the Offshore Term Loan to 29 October 2022 (i.e. the Extended Offshore Term Loan), to settle part of the Reorganisation Payable at Completion.

The term of the Extended Offshore Term Loan is five years since 17 May 2021, being the first drawdown date of the Offshore Term Loan, bearing a floating interest rate of one-month HIBOR plus 1.10% per annum (equivalent to approximately 1.30% as at the Latest Practicable Date). No additional security is created to secure the Extended Offshore Term Loan.

We note that the counter-parties to the Onshore Facility Agreement and the Offshore Facility Agreement (as amended and supplemented by the First Amendment Deed and the Second Amendment Deed) are independent third-party banks. Further, the tenor of the Onshore Term Loan of eight years and the remaining tenor of the Extended Offshore Term Loan of approximately four years are longer than or in line with those onshore and offshore loans obtained by the Group in respect of the Existing Properties, which we consider appropriate to match the Manager's intention to hold the Changsha Property for long-term investment purpose. Based on the analysis above, we consider the terms of the Onshore Facility Agreement and the Offshore Facility Agreement (as amended and supplemented by the First Amendment Deed and the Second Amendment Deed) to be reasonable and acceptable.

6. Financial impact on SF REIT and the Independent Unitholders upon Completion

Upon Completion, the Target Group (including the Changsha Property Company which holds the Changsha Property) will be wholly-owned by SF REIT, and its results and financial position will be consolidated into the financial statements of SF REIT. The analyses on the financial effects below reference the Unaudited Pro Forma Financial Information of the Enlarged Group in Appendix 4 to the Circular (the "**Pro Forma Financial Statements**"), which has been compiled by the Manager for illustrative purposes only and is based on a number of assumptions, estimates and currently available information as set out therein. Due to these limitations, such pro forma financial information may not give a true picture of the financial position and the financial performance of the Enlarged Group following Completion.

SF REIT was established on 29 April 2021 and has no operating history and financial information during the period from 1 January 2021 to 28 April 2021, and the operations of the Changsha Property Phase II commenced since May 2021. In view of the above and to enable the Unitholders to make an informed assessment of the Enlarged Group following Completion, in particular full-scale operation of the Changsha Property, the Pro Forma Financial Statements have been prepared for the period from 29 April 2021 to 31 December 2021. This is based on the audited consolidated financial results of SF REIT for the period from 29 April 2021 to 31 December 2021 as set out in the 2021 Annual Report and the audited financial results of the Target Company and its subsidiary, and the Changsha Property Company during the same period, as extracted from the audited financial statements included in the Accountant's Reports set out in Appendix 2A and 2B to the Circular.

It is assumed in the Pro Forma Financial Statements that the Total Consideration will be financed in accordance with the proposed financing structure as discussed under the section above headed "5. Financing of the Acquisition" and the Acquisition will be accounted for by SF REIT as an acquisition of assets such that no goodwill will be generated. For further details of the key assumptions used, please refer to the section headed "8. Financial Effects of the Acquisition" in the letter to the Unitholders.

6.1 Distributable income and DPU

Assuming SF REIT had completed the Acquisition on 29 April 2021 and SF REIT had held and operated the Changsha Property through 29 April 2021 to 31 December 2021, the pro forma total distributable income and the DPU for the period from 29 April 2021 to 31 December 2021 would be accretive, as set out below:

	For the period from 29 April 2021 to 31 December 2021	
	The Group Actual *(audited)*	**The Enlarged Group Pro forma** *(unaudited)*
Total distributable income *(HK$'000)* *(Note 1)*	137,915 *(Note 2)*	149,662 *(Note 3)*
Number of issued Units *('000)*	800,000 *(Note 4)*	800,000 *(Note 4)*
DPU *(HK cents)*	17.24	18.71

Notes:

(1) Total distributable income represents the profit for the period from 29 April 2021 (the date of establishment of SF REIT) to 31 December 2021, before transactions with Unitholders attributable to Unitholders, after adjusting for (a) fair value changes on investment properties, (b) negative goodwill, (c) differences between finance cost and interest paid in accordance with contractual obligations, (d) deferred tax charges, (e) depreciation and amortisation, (f) appropriation to statutory reserve, (g) listing expense, (h) amortisation of cost of debt, (i) historical tax loss utilised, (j) amortisation of government grants, (k) net reversal for impairment losses of financial assets, (l) differences between accounting rental income and contractual rental income and (m) amounts not available for distribution, related to the profit after tax for the period from 29 April 2021 to 16 May 2021, since pursuant to the Trust Deed, the first distributable period represented the period from and including 17 May 2021 (the listing date of SF REIT) to and including 31 December 2021

(2) Extracted from the audited consolidated income statement and statement of comprehensive income of SF REIT as set out in the 2021 Annual Report

(3) Extracted from the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group as set out in the Pro Forma Financial Statements

(4) Being the 800,000,000 issued Units as at 31 December 2021

The audited total distributable income of SF REIT for the period from 29 April 2021 to 31 December 2021 was approximately HK$137.9 million, whereas the unaudited pro forma total distributable income of the Enlarged Group for the same period would be approximately HK$149.7 million, representing an increase of approximately 8.5% over the above actual results. On a per unit basis, the DPU would similarly increase by approximately HK1.47 cents or 8.5%, from approximately HK17.24 cents to approximately HK18.71 cents, which we consider to be beneficial to the Unitholders. This implies that, on a pro forma basis, the Unitholders will benefit from a DPU accretion upon Completion.

Based on our discussions with the Manager, we understand that for the purpose of the preparation of the Pro Forma Financial Statements, finance cost of approximately HK$2.0 million under the floating rate Extended Offshore Term Loan (at one-month HIBOR plus 1.10% per annum) for the period from 29 April 2021 to 31 December 2021 was calculated based on the average one-month HIBOR during the above period of approximately 0.08% plus 1.10%, being 1.18%. Assuming the one-month HIBOR of approximately 0.20% as at the Latest Practicable Date is used, related finance cost would be increased, and total distributable income would be decreased, by approximately HK$0.2 million for the period from 29 April 2021 to 31 December 2021.

In addition, we note that an approximately RMB2.4 million (equivalent to approximately HK$2.9 million) of finance cost, representing the difference between finance cost recognised and interest paid in accordance with contractual obligations under the Onshore Facility Agreement, was added back to the total distributable income of the Enlarged Group. Based on our discussions with the Manager, the adjustment arose as a result of contractual payment of loan interest happening later than recognition of finance cost. Should the temporary difference be disregarded, such that finance cost of the Onshore Term Loan was recognised for the full period from 29 April 2021 to 31 December 2021, total distributable income of the Enlarged Group would be decreased by approximately HK$2.9 million.

Taking into account the above two factors relating to finance costs of the Onshore Term Loan and the Extended Offshore Term Loan, the Manager estimated that total distributable income and DPU would be approximately HK$146.6 million and HK18.32 cents respectively, and the pro forma DPU accretion would be approximately 6.3%.

The Manager has capitalised most of the estimated transaction costs of approximately RMB7.9 million (equivalent to approximately HK$9.7 million) that are considered directly attributable to the Acquisition into the carrying amount of the Changsha Property in the Pro Forma Financial Statements. Such transaction costs are one-off and non-recurring expenses.

The U.S. Federal Reserve announced in March 2022 the raise in federal funds rate, for the first time since 2018, by 25 basis points, and subsequently announced in May 2022 a further raise by 50 basis points. Given the Linked Exchange Rate System implemented by the Hong Kong government, interest rates in Hong Kong (including HIBOR) are influenced by the changes in interest rate policy in the U.S.. Therefore, the rising interest rate in the U.S. may potentially lead to HIBOR trending higher in future, leading to a higher finance cost of the floating rate Extended Offshore Term Loan. Based on the Manager's estimate, an increase of 100 basis points in one-month HIBOR (approximately 0.20% as at the Latest Practicable Date), with all other variables held constant, would decrease the Enlarged Group's total distributable income and DPU by approximately HK$1.7 million and HK0.22 cents respectively for an eight-month period, similar to the period between 29 April 2021 and 31 December 2021 adopted as the basis of the Pro Forma Financial Statements. The potential negative impact based on the above interest rate sensitivity analysis is still substantially lower than the accretion in pro forma DPU of approximately HK1.47 cents as mentioned above.

Upon Completion, Unitholders will enjoy DPU accretion of 8.5%, or 6.3% after taking into account the effect of latest HIBOR rate and interest expense for the full period, on pro forma basis. Despite the fact that future change in interest rate may affect the finance cost of the Extended Offshore Term Loan which is a floating rate borrowing, the Manager expects the Acquisition will nevertheless bring accretion in DPU to the Unitholders, which we consider to be beneficial to the Unitholders.

6.2 Net assets per Unit

The pro forma financial effects on the net assets per Unit as at 31 December 2021, assuming SF REIT had completed the Acquisition on 31 December 2021, are as follows:

	As at 31 December 2021	
	The Group Actual *(audited)*	**The Enlarged Group Pro forma** *(unaudited)*
Net assets attributable to the Unitholders *(HK$'000)*	4,091,674 *(Note 1)*	4,091,524 *(Note 2)*
Number of issued Units *('000)*	800,000 *(Note 3)*	800,000 *(Note 3)*
Net assets per Unit *(HK$)*	5.11	5.11

Notes:

(1) Extracted from the audited consolidated balance sheet of SF REIT as at 31 December 2021 as set out in the 2021 Annual Report

(2) Extracted from the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as set out in the Pro Forma Financial Statements

(3) Being 800,000,000 issued Units as at 31 December 2021

The audited net assets attributable to the Unitholders was approximately HK$4,091.7 million as at 31 December 2021. The unaudited pro forma net assets attributable to the Unitholders of the Enlarged Group would be slightly lower at approximately HK$4,091.5 million. On a per unit basis, the pro forma net assets per Unit as at 31 December 2021 would be remained at a similar level at approximately HK$5.11. As such, the Acquisition is not expected to significantly affect the net assets attributable to the Unitholders.

6.3 Gearing and cash flow

The pro forma financial effects on the gearing ratio of SF REIT as at 31 December 2021, assuming SF REIT had completed the Acquisition on 31 December 2021, are as follows:

	As at 31 December 2021	
	The Group Actual (audited) *(Note 1)*	**The Enlarged Group Pro forma (unaudited)** *(Note 2)*
Total borrowings *(HK$'000) (A)*	2,141,491	2,727,532
Gross assets *(HK$'000) (B)*	7,009,560	7,674,532
Gearing ratio (A/B)	30.6%	35.5%

Notes:

(1) Extracted from the audited consolidated balance sheet of SF REIT as at 31 December 2021 as set out in the 2021 Annual Report

(2) Extracted from the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as set out in the Pro Forma Financial Statements

On a pro forma basis, the gearing ratio of SF REIT is expected to increase from approximately 30.6% to approximately 35.5%. The increase is mainly due to the drawdown of the Onshore Term Loan (through the Changsha Property Company) and the Extended Offshore Term Loan upon Completion. The pro forma gearing ratio is still well below the maximum 50.0% gearing ratio permitted under the REIT Code, which we consider to be acceptable.

As advised by the Manager and the Building Consultant, minimal capital expenditure is expected in near future as the Changsha Property was developed and completed fairly recently in two phases in August 2019 and May 2021. It is expected that certain construction payables, amounting to approximately RMB56.9 million as at 31 December 2021, will be borne and settled by SF REIT following Completion. As mentioned above, the Directors are of the opinion that the Enlarged Group will have sufficient working capital to satisfy its present requirements for at least the next 12 months from the date of the Circular in the absence of unforeseen circumstances.

DISCUSSION

The Acquisition is in line with the investment objectives of SF REIT

SF REIT is a real estate investment trust formed with key investment objectives to provide Unitholders with stable distributions, sustainable and long-term distribution growth, and enhancement in the value of SF REIT's properties. At the time of listing in May 2021, SF REIT held the Existing Properties, comprising modern logistics properties in Hong Kong, Foshan and Wuhu. The acquisition of the Changsha Property is the first acquisition by SF REIT since listing and its first investment in Central China. It will enhance the total value and Gross Lettable Area of SF REIT's property portfolio by 10% and 39% respectively.

The Changsha Property was developed recently with its last phase completed in May 2021, and is equipped with built-to-suit facilities. It is located at Changsha Linkong Economic Development Zone, which is in close proximity to Changsha Huanghua International Airport and other major transport infrastructure. The e-commerce sector has driven the rapid growth of the PRC logistics industry, and the outbreak of the COVID-19 pandemic has accelerated structural changes in consumers' spending habits, raising demand for logistics capabilities. The Market Consultant expects the capital value for high-standard warehouses in Changsha to grow by 2% each year between 2022 and 2024, and could reach up to 5% each year in 2025 and 2026.

As is the case with the Existing Properties, the Changsha Property was initially developed to support SFH's logistics network. Following Completion, the SFH Group is expected to continue leasing roughly 70% of the Gross Lettable Area of the Changsha Property under the Changsha SF Leases, with provisions for yearly rental increment and with an initial expiry date of 31 December 2026, bringing increased level of certainty of future revenue up to that date. Similar to the Foshan Property and the Wuhu Property, the Changsha Property will continue be managed by the Operations Manager (a subsidiary of SFH), at a fee rate similar to those applicable to the Foshan Property and the Wuhu Property.

Increase in pro forma DPU

The Acquisition is expected to be DPU accretive to existing Unitholders and enhance the overall earnings of SF REIT. On a pro forma basis, the DPU of SF REIT is expected to increase by 8.5% as a result of the Acquisition, from HK17.24 cents to HK18.71 cents. If the latest HIBOR and interest expense for the full period are taken into account, DPU accretion is expected to be 6.3%.

As REIT investors in general focus on the level of distributions, we consider the accretion in DPU to be an important factor in evaluating the Acquisition and a major benefit for Independent Unitholders following Completion.

Valuation of the Changsha Property is reasonable

The Changsha Property has been valued by the Independent Property Valuer at RMB550.4 million. We have discussed with the Independent Property Valuer the relevant methodologies, bases and assumptions used by them to arrive at the Appraised Value. The chosen valuation approach, the Income Capitalisation Approach, has also been applied to the valuation of the Existing Properties and is in line with market practice for similar properties. Based on our discussion with the Independent Property Valuer, and given that the Agreed Property Value represents a slight discount to the Appraised Value, we consider the Agreed Property Value to be fair and reasonable as far as the Independent Unitholders are concerned.

Terms of the Sale and Purchase Deed

The Agreed Property Value of RMB540.0 million represents a discount of 1.9% to the Appraised Value. The illustrative Total Consideration, which also takes into account other assets and liabilities of the Target Group and the Intercompany Payables, is estimated at RMB493.2 million and will be settled at Completion. Given the intention to hold Changsha Property as a long-term investment, deferred tax liabilities arising from the property's fair value changes was excluded in arriving at the Total Consideration, which we consider to be in line with market practice. Completion is subject to the approval from the Independent Unitholders at the EGM, and the availability of debt financing. Customary representations and warranties, indemnities and covenants are contained in the Sale and Purchase Deed, which are in line with normal commercial terms expected in similar transactions.

Method of financing considered appropriate

The Manager intends to fund the Total Cost by debt financing and cash, in the proportion of roughly 95% and 5% respectively. No equity financing is to be sought. In determining the above financing arrangement, the Manager has considered its internal financial resources, the terms of the proposed debt financing, various financing alternatives, and the resulting gearing of the Enlarged Group. We consider the current financing structure avoids dilution to Unitholders while at the same time maintaining gearing well below the level prescribed in the REIT Code.

Debt financing for the Acquisition comprises the Onshore Term Loan of RMB267.2 million and the Extended Offshore Term Loan of RMB211.6 million (or HK$259.0 million, representing the unutilised amount of the Offshore Term Loan agreed at around the time of listing), both from independent third-party banks. The Onshore Term Loan bears a floating interest rate of the five-year loan prime rate plus 90 basis points per annum, or 5.35% as at the Latest Practicable Date, slightly lower than rates under existing onshore loans obtained for the Foshan Property and the Wuhu Property. The Extended Offshore Term Loan bears a floating interest rate of one-month HIBOR plus 1.10% per annum, or 1.30% as at the Latest Practicable Date. The relatively long tenors of the Onshore Term Loan of eight years and the Extended Offshore Term Loan of four years match the Manager's intention to hold the Changsha Property for long-term investment purpose. The remaining balance of the Total Cost is to be financed by internal resources, which are sufficient considering SF REIT's latest cash position after taking into account the expected payment of distributions.

Financial impact following Completion is considered positive

Following Completion and given the entering into of the Changsha SF Leases, the Changsha Property is expected to contribute stable and gradually increasing revenues to SF REIT. As mentioned above, Unitholders will enjoy accretion in pro forma DPU of 8.5%, or 6.3% if the latest HIBOR and interest expense for the full period are taken into account. While future changes in interest rate may affect the finance cost of the floating-rate, in particular the Extended Offshore Term Loan, the Manager expects the Acquisition will nevertheless achieve accretion in DPU to the Unitholders. The pro forma financial effect on the net assets per Unit is not expected to be material.

The pro forma gearing ratio of the Enlarged Group is expected to be 35.5% on completion, providing sufficient buffer compared to the 50% limit set out in the REIT Code. We have reviewed the working capital projections of SF REIT, and concur with the Directors that the Enlarged Group will have sufficient working capital for at least the next 12 months from the date of the Circular, in the absence of unforeseen circumstances.

OPINION AND RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the Acquisition Matters Requiring Approval are (a) being entered into in the ordinary and usual course of business of SF REIT, (b) consistent with the investment objectives and strategy of SF REIT and in compliance with the REIT Code and the Trust Deed, and (c) on terms which are normal commercial terms, are at arm's length and are fair and reasonable and in the interests of SF REIT, Independent Unitholders and Unitholders as a whole.

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

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

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

1. FINANCIAL INFORMATION OF THE SF REIT GROUP

The financial information of SF REIT for the period from 29 April 2021 (date of establishment of SF REIT) to 30 June 2021 has been published in the interim report of SF REIT published on 23 September 2021, from pages 26 to 71, and the annual report of SF REIT for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021 has been published on 22 April 2022, from pages 64 to 125.

The interim report for the period from 29 April 2021 (date of establishment of SF REIT) to 30 June 2021 and the annual report of SF REIT for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021 have been published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of SF REIT (http://www.sf-reit.com).

Summary of financial information of the SF REIT Group

The following is a summary of the financial results of the SF REIT Group for the period from 29 April 2021 (date of establishment of SF REIT) to 30 June 2021 and for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021 as extracted from the interim report and annual report of SF REIT respectively:

	For the period from 29 April 2021 (date of establishment of SF REIT) to 30 June 2021 *HK$'000* *(Unaudited)*	**For the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021** *HK$'000* *(Audited)*
Revenue	50,700	244,274
Profit before income tax and transactions with unitholders	21,074	220,890
Income tax expenses	(5,269)	(46,619)
Profit attributable to unitholders	15,805	174,271
Basic earnings per Unit	HK1.98 cents	HK21.78 cents
Distributable income	26,697	137,915
Distribution per Unit (HK$)	0.0334	0.1724

The auditor of SF REIT for the period from 29 April 2021 (date of establishment of SF REIT) to 30 June 2021 and for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021 was PricewaterhouseCoopers. The audit opinions of PricewaterhouseCoopers in respect of the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021 were not qualified and there were no modified opinions nor emphasis of matter or material uncertainty related to going concern contained in the auditor's report of PricewaterhouseCoopers in respect of the above periods. The consolidated financial statements of SF REIT for the period from 29 April 2021 (date of establishment of SF

REIT) to 31 December 2021 has been audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

2. STATEMENT OF INDEBTEDNESS

Borrowings and amounts due to related companies

As at 30 April 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the publication of this Circular, the Enlarged Group's indebtedness comprised (i) the borrowings of SF REIT Group amounting to approximately HK2,134.8 million and (ii) the amounts due to related companies of the Changsha Property Company amounting to approximately RMB265.8 million which were unsecured.

As at 30 April 2022, the borrowings of SF REIT Group of approximately HK2,134.8 million were secured by the SF REIT Group's investment properties, a significant portion of trade receivables, the rental income generated from the leases of the investment properties during the terms of the borrowings, restricted bank balances, equity interests in a certain subsidiary of the SF REIT Group and certain assets of a subsidiary of the SF REIT Group.

As at 30 April 2022, all borrowings and amounts due to related companies of the Enlarged Group were unguaranteed.

Save as aforesaid, and apart from intra-group liabilities, as at 30 April 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the publication of this Circular, the Enlarged Group did not have any other debt securities, any outstanding loan capital, any borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities.

The Directors confirm that there has been no material change to the indebtedness and contingent liabilities of the Enlarged Group since 30 April 2022 up to and including the Latest Practicable Date.

3. MATERIAL CHANGE

Save for the Acquisition, the Directors confirm that there has been no material change in the financial or trading position or outlook of the SF REIT Group since 31 December 2021, being the date on which the last published audited consolidated financial information of the SF REIT Group were made up, and up to and including the Latest Practicable Date.

The Directors also confirm that there has been no change in the financial or trading position or outlook of the Target Group since 31 December 2021, being the date on which the last published audited financial information of the Target Group were made up, and up to and including the Latest Practicable Date.

4. WORKING CAPITAL SUFFICIENCY

Taking into account the expected Completion Date in respect of the Acquisition, and the financial resources available to the Enlarged Group, including its internally generated funds, existing banking facilities and onshore loan, the Directors are of the opinion that the Enlarged Group will have sufficient working capital to satisfy its present requirements for at least the next 12 months from the date of this Circular in the absence of unforeseen circumstances.

5. RECENT DEVELOPMENT AND FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The COVID-19 pandemic has caused unprecedented macroeconomic volatility which has hard hit on various parts of the global economy. Nevertheless, despite its impact on the overall economy and supply chain, demand for logistics services remain strong, and therefore resulting in strong demand for logistic properties. Looking ahead, China's logistics properties remains firmly on the radar of investors. While growth in values is dependent on the supply and demand dynamics of logistics properties, investors' confidence in the structural drivers for the logistics sector is expected to remain intact.

Changsha is located in the central part of China and the middle reaches of the Yangtze River. With the rise of the central China and the Yangtze River Economic Belt, the Manager believes that the Changsha Property could effectively serve Changsha and the central region of China, and provide customers with standardized logistics and warehousing facilities and integrated supply chain solutions.

The Acquisition will be SF REIT's first investment in Central China. It will diversify the locations and composition of SF REIT's portfolio assets and reduce SF REIT's exposure to concentration risk and other risks associated with its reliance on the income generated by the Existing Properties.

The Acquisition is a result of the concerted efforts between SF REIT and SFH. Going forward, there will have more close cooperation between SF REIT and SFH, the Manager will look for more high-quality modern logistics properties in China. The Manager will also aim at improving the quality of SF REIT's portfolio and expanding its scale of assets as well.

The following is the text of a report set out on pages A2A-1 to A2A-2, received from SF REIT's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Circular.

羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SF REIT ASSET MANAGEMENT LIMITED (AS MANAGER OF SF REAL ESTATE INVESTMENT TRUST)

Introduction

We report on the historical financial information of Changsha Industrial Park Limited (the "**Target Company**") and its subsidiary (together, the "**Target Group**") set out on pages A2A-3 to A2A-11, which comprises the consolidated and company balance sheet as at 31 December 2021, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period from 30 November 2021 (date of incorporation) to 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 A2A-3 to A2A-11 forms an integral part of this report, which has been prepared for inclusion in the circular of SF Real Estate Investment Trust ("**SF REIT**") dated 7 June 2022 (the "**Circular**") in connection with the proposed acquisition of the Target Company by SF REIT.

Directors' responsibility for the Historical Financial Information

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

The financial statements of the Target Group for the Track Record Period ("**Underlying Financial Statements**"), on which the Historical Financial Information is based, were prepared by the directors of the Target Company. The directors of the Target Company are responsible for the preparation and fair presentation of the Underlying Financial Statements in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board, and for such internal control as the directors determine is necessary to enable the preparation of Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Reporting accountant's responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Target Company as at 31 December 2021, the consolidated financial position of the Target Group as at 31 December 2021 and the consolidated financial performance and cash flows of the Target Group for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements have been made.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

7 June 2022

I HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

Preparation of Historical Financial Information

Set out below is the historical financial information as at 31 December 2021 and for the period from 30 November 2021 (the "**Date of incorporation**") to 31 December 2021 (the "**Track Record Period**") (the "**Historical Financial Information**") which forms an integral part of this accountant's report.

The financial statements of the Target Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in Hong Kong dollar, and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Section II Note	**Period from 30 November 2021 (date of incorporation) to 31 December 2021** *HK$'000*
Revenue	*3*	–
General and administrative expenses		(22)
Loss before income tax	*4*	(22)
Income tax expenses	*5*	–
Loss and total comprehensive loss for the period		(22)

CONSOLIDATED BALANCE SHEET

	Section II Note	**As at 31 December 2021** *HK$'000*
Current assets		
Amounts due from related company		–
Total assets		–
EQUITY		
Share capital	*7*	–
Accumulated losses		(22)
Total equity		(22)
Current liabilities		
Amounts due to related company		22
Total liabilities		22
Total equity and liabilities		–

BALANCE SHEET OF THE COMPANY

	Section II Note	**As at 31 December 2021** *HK$'000*
Current assets		
Amounts due from related company		–
Non-current assets		
Investment in Subsidiary		–
Total assets		–
EQUITY		
Share capital	*7*	–
Accumulated losses		(15)
Total equity		(15)
Current liabilities		
Amounts due to related company		15
Amounts due to subsidiary		–
Total liabilities		15
Total equity and liabilities		–

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Target Company		
	Share capital *(Note 7)* *HK$'000*	**Accumulated losses** *HK$'000*	**Total** *HK$'000*
At 30 November 2021 (date of incorporation)	–	–	–
Issue of share capital	–	–	–
Loss and total comprehensive loss for the period	–	(22)	(22)
At 31 December 2021	–	(22)	(22)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Period from 30 November 2021 (date of incorporation) to 31 December 2021
	HK$'000
Operating activities	
Net cash generated from operations	–
Net cash generated from operating activities	–
Financing activities	
Issuance of ordinary shares	–
Net cash generated from financing activities	–
Change in cash and cash equivalents	–
Cash and cash equivalents at beginning of the period	–
Cash and cash equivalents at end of the period	–

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION

Changsha Industrial Park Limited (the "**Target Company**" or the "**Company**") was incorporated in the British Virgin Islands (the "**BVI**") on 30 November 2021 as a limited liability company under the Company Law of the British Virgin Islands. The address of the Company's registered office is at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

The principal activity of the Target Company is investment holding.

The Target Company and its subsidiary (the "**Group**") are inactive during the Track Record Period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to the Track Record Period presented, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standard Board ("**IASB**"). The Historical Financial Information has been prepared under the historical cost convention.

The preparation of the Historical Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Company's accounting policies. There are no areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements.

New standards and amendments to existing standards not yet adopted

Standards, amendments and interpretations that have been issued but not yet effective for the Track Record Period and have not been early adopted by the Target Company for the Track Record Period are as follows:

		Effective for annual periods beginning on or after
Amendments to IFRS 3	*Update reference to the Conceptual Framework*	1 January 2022
Amendments to IFRS 16	*COVID-19-Related Rent Concessions*	1 January 2022
Amendments to IAS 16	*Proceeds before Intended Use*	1 January 2022
Amendments to IAS 37	*Onerous contracts – Cost of Fulfilling a Contract*	1 January 2022
Annual improvements	*Annual improvements to IFRS standards 2018-2020 cycle*	1 January 2022
Amendments to IAS 1	*Classification of liabilities as current or non-current*	1 January 2023
IFRS 17	*Insurance Contracts*	1 January 2023
Amendments to IAS1 and IFRS Practice Statement 2	*Disclosure of accounting policies*	1 January 2023
Amendments to IAS 8	*Definition of accounting estimates*	1 January 2023
Amendments to IAS 12	*Deferred tax related to assets and liabilities arising from a single transaction*	1 January 2023

		Effective for annual periods beginning on or after
IFRIC In5 (2020)	*Classification by the borrower of a term loan that contains a repayment on demand clause*	1 January 2023
Amendments to IFRS 10 and IAS 28	*Sale or contribution of assets between an investor and its associate or Joint Venture*	To be determined

The Group will adopt the above new or revised standards and amendments to existing standards as and when they become effective. These standards are not expected to have a material impact on the Group's financial position and results of operation upon adopting them in the foreseeable future.

2.2 Subsidiary

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

2.3 Taxation

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

2.4 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.5 Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably measured. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the management's best estimate of the expenditures required to settle the present obligation that reflects current market assessments of the time value of money and the risks specific to the obligation.

3 REVENUE

The Target Company and its subsidiary did not generate any revenue during the Track Record Period.

4 PROFIT BEFORE INCOME TAX

No auditors' remuneration and employees' emoluments were paid by the Target Company and its subsidiary during the Track Record Period.

5 INCOME TAX EXPENSES

No provision for income tax has been made in the financial statements as the Target Company and its subsidiary have no taxable profit for the period.

6 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

None of the directors and senior management of the Target Company received any emoluments in respect of their services rendered to the Target Company during the period from 30 November 2021 to 31 December 2021.

7 SHARE CAPITAL

	No. of share	*HK$'000*
Ordinary share, issued and fully paid:		
As at 30 November 2021 and 31 December 2021	1	–

The Target Company was incorporated on 30 November 2021 in the British Virgin Islands with 50,000 authorized shares of HK$1 each. On the date of incorporation, 1 ordinary share was issued at HK$1 for cash.

8 SUBSIDIARY

The Target Company held the following subsidiary as at 31 December 2021:

Name	**Place of establishment and kind of legal entity/ place of operations**	**Principal activities**	**Particulars of issued share capital/registered capital**	**Interest held**
Directly held:				
Changsha Fengtai (Hong kong) limited ("Changsha Intermediary Company") *(i)*	Limited liability company/ Hong Kong	Investment holding	HK$1	100%

(i) Changsha Intermediary Company was established by the Target Company on 28 December 2021 .

9 EVENT AFTER BALANCE SHEET DATE

On 2 June 2022, Golden Bauhinia Logistics Holdings Limited (the "**Golden Bauhinia**"), wholly-owned subsidiary of SF REIT, entered into the Sale and Purchase Deed with SF Fengtai Industrial Park Holdings Limited, wholly-owned subsidiary of SFH, pursuant to which Golden Bauhinia agreed to acquire 100% of the issued shares of the Changsha Industrial Park Limited, which after the recognization indirectly holds 100% of the equity interest of the Changsha Property Company.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of its subsidiary in respect of any period subsequent to 31 December 2021 and up to the date of this report. No dividend or distribution has been declared or made by the Target Company or any of its subsidiary in respect of any period subsequent to 31 December 2021 and up to the date of this report.

The following is the text of a report set out on pages A2B-1 to A2B-2, received from SF REIT's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Circular.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SF REIT ASSET MANAGEMENT LIMITED (AS MANAGER OF SF REAL ESTATE INVESTMENT TRUST)

Introduction

We report on the historical financial information of Changsha Jietai e-commerce Industrial Park Management Co., Ltd. (the "**Project Company**") set out on pages A2B-3 to A2B-43, which comprises the balance sheets as at 31 December 2019, 2020 and 2021, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for each of the years ended 31 December 2019, 2020 and 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 A2B-3 to A2B-43 forms an integral part of this report, which has been prepared for inclusion in the circular of SF Real Estate Investment Trust ("**SF REIT**") dated 7 June 2022 (the "**Circular**") in connection with the proposed acquisition of Changsha Industrial Park Limited by SF REIT.

Directors' responsibility for the Historical Financial Information

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

The financial statements of the Project Company for the Track Record Period ("**Underlying Financial Statements**"), on which the Historical Financial Information is based, were prepared by the directors of the Project Company. The directors of the Project Company are responsible for the preparation and fair presentation of the Underlying Financial Statements in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board, and for such internal control as the directors determine is necessary to enable the preparation of Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Reporting accountant's responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Project Company as at 31 December 2019, 2020 and 2021 and of its financial performance and its cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

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

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements have been made.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

7 June 2022

I HISTORICAL FINANCIAL INFORMATION OF THE CHANGSHA PROPERTY COMPANY

Preparation of Historical Financial Information

Set out below is the historical financial information as at 31 December 2019, 2020 and 2021 and for the years then ended (the "Track Record Period") (the "Historical Financial Information") which forms an integral part of this accountant's report.

The financial statements of the Project Company for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December		
		2019	**2020**	**2021**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*5*	3,086	26,546	38,948
Property operating expenses	*6*	(3,607)	(8,997)	(13,190)
Net property (expense)/income		**(521)**	**17,549**	**25,758**
General and administrative expenses	*7*	(700)	(1,225)	(117)
Fair value changes on investment properties	*13*	29,450	5,755	1,960
Other income, net	*9*	24	11	128
Operating profit		**28,253**	**22,090**	**27,729**
Finance income		41	84	95
Finance costs	*10*	(682)	(2,240)	(4,013)
Profit before income tax		**27,612**	**19,934**	**23,811**
Income tax expense	*11*	(6,952)	(4,998)	(5,959)
Profit and total comprehensive income for the year		**20,660**	**14,936**	**17,852**

BALANCE SHEETS

		As at 31 December		
		2019	**2020**	**2021**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Investment properties	*13*	384,300	466,700	550,100
Prepayments for construction		162	26	–
		384,462	**466,726**	**550,100**
Current assets				
Trade receivables	*15*	32	117	129
Prepayments and other receivables	*16*	19,130	19,651	11,974
Amounts due from related companies	*27*	304	169	176
Cash and cash equivalents	*17*	8,709	4,187	2,176
		28,175	**24,124**	**14,455**
Total assets		**412,637**	**490,850**	**564,555**
EQUITY				
Equity attributable to owners of the Company				
Paid-in capital	*18*	190,000	190,000	190,000
Other reserves	*19*	26	26	876
Retained earnings		2,125	17,061	34,063
Total equity		**192,151**	**207,087**	**224,939**

		As at 31 December		
		2019	**2020**	**2021**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES				
Non-current liabilities				
Deferred tax liabilities	*21*	894	5,226	7,780
Deferred government grants	*22*	–	2,595	4,095
		894	**7,821**	**11,875**
Current liabilities				
Trade payables	*23*	303	40	233
Other payables	*24*	79,151	70,674	61,780
Amounts due to related companies	*27*	140,138	204,562	264,659
Current tax liabilities		–	666	1,069
		219,592	**275,942**	**327,741**
Total liabilities		**220,486**	**283,763**	**339,616**
Total equity and liabilities		**412,637**	**490,850**	**564,555**
Net current liabilities		**(191,417)**	**(251,818)**	**(313,286)**
Total assets less current liabilities		**193,045**	**214,908**	**236,814**

STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital *RMB'000* *(Note 18)*	Other reserves *RMB'000* *(Note 19)*	Retained earnings *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2019	190,000	–	(18,535)	171,465
Comprehensive income				
Profit and total comprehensive income for the year	–	–	20,660	20,660
Transactions with owners				
Share-based payments	–	26	–	26
Balance at 31 December 2019	190,000	26	2,125	192,151
Balance at 1 January 2020	190,000	26	2,125	192,151
Comprehensive income				
Profit and total comprehensive income for the year	–	–	14,936	14,936
Balance at 31 December 2020	190,000	26	17,061	207,087
Balance at 1 January 2021	190,000	26	17,061	207,087
Comprehensive income				
Profit and total comprehensive income for the year	–	–	17,852	17,852
Profit distribution				
Appropriation to statutory reserve	–	850	(850)	–
Balance at 31 December 2021	190,000	876	34,063	224,939

STATEMENTS OF CASH FLOWS

		Year ended 31 December		
		2019	2020	2021
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities				
Cash generated from operations	*25(a)*	4,453	26,814	43,979
Interest received		41	84	95
Income tax paid		–	–	(3,002)
Net cash generated from operating activities		4,494	26,898	41,072
Cash flows from investing activities				
Additions of investment properties		(101,171)	(88,522)	(98,287)
Net cash used in investing activities		(101,171)	(88,522)	(98,287)
Cash flows from financing activities				
Proceeds from loans from related companies	*25(c)*	266,029	246,800	556,300
Repayment of loans from related companies	*25(c)*	(159,029)	(187,100)	(497,500)
Interest paid	*25(c)*	(2,524)	(2,598)	(3,596)
Net cash generated from financing activities		104,476	57,102	55,204
Net increase/(decrease) in cash and cash equivalents		7,799	(4,522)	(2,011)
Cash and cash equivalents at beginning of the year		910	8,709	4,187
Cash and cash equivalents at end of the year	*17*	8,709	4,187	2,176

II NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION

Changsha Jietai e-commerce Industrial Park Management Co., Ltd. (長沙捷泰電商產業園管理有限公司, the "Changsha Property Company" or the "Company") was incorporated in the People's Republic of China ("PRC") on 25 May 2016 with limited liability. The address of its registered office is No. 102, Hexin Road, Huangxing District, Changsha City, Hunan Province, the PRC.

The Changsha Property Company is principally engaged in property investment in Changsha in Mainland China (the "Changsha Property"). The Changsha Property Company's immediate holding company is Shenzhen Fengtai E-Commerce Industrial Park Asset Management. Co., Ltd. (深圳市豐泰電商產業園資產管理有限公司, "Shenzhen Fengtai"), which is a wholly-owned subsidiary of S.F. Holding Co., Ltd. ("SFH"). The ultimate holding company of the Changsha Property Company is Shenzhen Mingde Holding Development Co., Ltd. ("Mingde Holding"), and the ultimate controlling person is Mr. Wang Wei.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standard Board ("IASB"). The Historical Financial Information has been prepared under the historical cost convention, except for investment properties, which are carried at fair value.

All effective standards, amendments to standards and interpretations, which are mandatory for the financial year beginning 1 January 2021, have been consistently applied to the Changsha Property Company for the Track Record Period.

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

As at 31 December 2021, the Changsha Property Company's current liabilities exceeded its current assets by approximately RMB313,286,000, including amounts due to related companies of approximately RMB264,659,000. The directors have given due and careful consideration to the liquidity of the Company. In the directors' opinion, the Changsha Property Company has a number of sources of financing available to finance its operations and to meet its financial obligations, including (i) internally generated operational cash inflow; (ii) available financing facilities from Shenzhen S.F. Taisen Holdings (Group) Co., Ltd., a wholly-owned subsidiary of SFH, amounted to RMB350,000,000 with maturity date of 15 June 2023 , out of which RMB257,500,000 were used to renew the existing amounts due to Shenzhen S.F. Taisen Holdings (Group) Co., Ltd. and RMB92,500,000 are available for further draw down. Such financial facilities will be terminated upon the completion of the proposed Acquisition; (iii) a new bank loan of RMB275,000,000 with a term of 8 years according to a facility agreement entered into on 30 May 2022; (iv) financial support from SF REIT in twelve months starting from the completion date of the proposed Acquisition. Accordingly, the Historical Financial Information has been prepared on a going concern basis.

New standards and amendments to existing standards not yet adopted

Standards, amendments and interpretations that have been issued but not yet effective for the Track Record Period and have not been early adopted by the Changsha Property Company for the Track Record Period are as follows:

		Effective for annual periods beginning on or after
Amendments to IFRS 3	*Update reference to the Conceptual Framework*	1 January 2022
Amendments to IFRS 16	*COVID-19 Related Rent Concessions*	1 January 2022
Amendments to IAS 16	*Proceeds before Intended Use*	1 January 2022
Amendments to IAS 37	*Onerous contracts - Cost of Fulfilling a Contract*	1 January 2022
Annual improvements	*Annual improvements to IFRS standards 2018-2020 cycle*	1 January 2022
Amendments to IAS 1	*Classification of liabilities as current or non-current*	1 January 2023
IFRS 17	*Insurance Contracts*	1 January 2023
Amendments to IAS1 and IFRS Practice Statement 2	*Disclosure of accounting policies*	1 January 2023
Amendments to IAS 8	*Definition of accounting estimates*	1 January 2023
Amendments to IAS 12	*Deferred tax related to assets and liabilities arising from a single transaction*	1 January 2023
Amendments to IFRS 10 and IAS 28	*Sale or contribution of assets between an investor and its associate or Joint Venture*	To be determined

The Changsha Property Company will adopt the above new or revised standards and amendments to existing standards as and when they become effective. These standards are not expected to have a material impact on the Changsha Property Company's financial position and results of operation upon adopting them in the foreseeable future.

2.2 Segment reporting

Operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the directors of the Changsha Property Company who make strategic decisions.

The Changsha Property Company is mainly engaged in leasing of the Changsha Property in Mainland China, accordingly, there is only one business and geographical segment for the Changsha Property Company's operations.

2.3 Foreign currency translation

2.3.1 Functional and presentation currency

Items included in the financial statements of the Changsha Property Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in RMB, which is the Changsha Property Company's functional and presentation currency.

2.3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statements, within "interest income" or "finance costs". All other foreign exchange gains and losses are presented in the income statements on a net basis within "other income, net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Currency translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, currency translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and currency translation differences on non-monetary assets such as equities held at fair value through other comprehensive income are recognised in other comprehensive income.

2.4 Investment properties

Investment properties, principally comprising leasehold land and buildings, are held for long-term rental yields and/or for capital appreciation. Land held under operating leases is accounted for as investment property when the rest of the definition of an investment property is met. Investment property is initially measured at cost, including related transaction costs and where applicable, borrowing costs. Subsequently, they are carried at fair value. Changes in fair values are recorded in the income statements.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Changsha Property Company and the cost of them can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

2.5 Impairment of non-financial assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amounts by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. A financial asset or a financial liability is recognised when the Changsha Property Company becomes a party to the contractual provisions of the instrument.

2.6.1 Financial assets

(i) Classification

The Changsha Property Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortised cost.

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

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

The Changsha Property Company reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

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

(iii) Measurement

At initial recognition, the Changsha Property Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Subsequent measurement of debt instruments depends on the Changsha Property Company's business model for managing the asset and the cash flow characteristics of the asset.

The Changsha Property Company classifies all its financial assets under amortised cost.

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income, net, together with foreign exchange gains and losses. Impairment losses is presented as a line item in the income statement.

(iv) Impairment

The Changsha Property Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Changsha Property Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 15 for further details.

2.6.2 Financial liabilities

Financial liabilities of the Changsha Property Company are financial liabilities at amortised cost, which mainly comprise trade payables, other payables, and amounts due to related companies. Such financial liabilities are initially recognised at fair value, net of transaction costs incurred, and subsequently measured using the effective interest method. Financial liabilities that are due within one year (inclusive) are classified as current liabilities; those with maturities over one year but are due within one year (inclusive) from the balance sheet date are classified as current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability is derecognised or partly derecognised when the underlying present obligation is discharged or partly discharged. The difference between the carrying amount of the derecognised part of the financial liability and the consideration paid is recognised in profit or loss for the current period.

2.7 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.8 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.9 Trade and other payables

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

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

2.10 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.11 Provisions

Provisions are recognised when the Changsha Property Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amounts can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.12 Current and deferred income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

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

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

Where investment properties are carried at their fair values in accordance with the accounting policy set out in Note 2.4, the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are not discounted. The Changsha Property Company has recognised the deferred tax with the tax rate that applied through use.

(c) Offsetting

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

Current and deferred income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In these cases, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.13 Employee benefits

Employee benefits refer to all forms of consideration or compensation given by the Changsha Property Company in exchange for service rendered by employees or for termination of employment relationship, which include short-term employee benefits, defined contribution plans and termination benefits.

(a) Short-term obligations

Short-term employee benefits include employee wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs. The employee benefit liabilities are recognised in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Employee benefits which are non-monetary benefits are measured at fair value.

(b) Defined contribution plans

In the PRC, the Changsha Property Company pays contributions to state-managed pension insurance plans on a mandatory, contractual or voluntary basis. The Changsha Property Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(c) Bonus plans

The Changsha Property Company recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Changsha Property Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Changsha Property Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Changsha Property Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2.14 Share-based payments

A share-based payment is a transaction in which an enterprise grants equity instruments or assumes liabilities that are determined based on equity instruments, in exchange for services rendered by employees or another party. Equity instruments include the equity instruments that are linked to the enterprise, the parent company of the enterprise or another accounting entity within the same group. Share-based payments comprise equity-settled and cash-settled payments.

For the share-based payments of the Changsha Property Company during the Track Record Period, the equity instruments are linked to SFH and the Changsha Property Company has no responsibilities to make any payments to SFH or other entities for its employees receiving such equity instruments. The share-based payments of the Changsha Property Company are equity-settled payments.

Equity-settled share-based payments

The equity-settled share-based payment where the Changsha Property Company grants shares to its employees or its employees receive other equity instruments as a consideration in return for services, is measured at the fair value of the equity instruments at the grant date. Where the share-based payment is not exercisable until the service in the vesting period is completed or specified performance conditions are met, then at each balance sheet date within the vesting period, the service obtained in the current period shall be included in relevant cost or expenses and in capital reserve at the fair value of the equity instruments at the grant date based on the best estimates of the quantity of exercisable equity instruments by the Changsha Property Company, in accordance with latest changes in the number of exercisable employees and subsequent information.

2.15 Revenue recognition and rental income

(a) Revenue recognition

The Changsha Property Company recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the process towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Changsha Property Company's performance as the Changsha Property Company performs;

- the Changsha Property Company's performance creates or enhances an asset that the customer controls as the Changsha Property Company performs; or

- the Changsha Property Company's performance does not create an asset with an alternative use to the Changsha Property Company and the Changsha Property Company 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.

(b) Management service income

The Changsha Property Company provides property management services to the tenants of the properties. Since customers simultaneously receive and consume the benefits when service is provided, revenue from providing services is recognised over time in the period in which the services are rendered. The Changsha Property Company acts as the principal and is primarily responsible for providing the property management services to the tenants. The Changsha Property Company recognises the fee received or receivable from tenants as its revenue.

(c) Rental income

Rental income from operating leases where the Changsha Property Company is a lessor is recognised in revenue on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as an expense over the lease term on the same basis as rental income.

Variable lease income of the Changsha Property Company, which represents rental income depending on tenants' turnover pursuant to the terms and conditions as set out in the respective rental agreements, is recognised as income in the accounting period on a receipt basis. No variable lease payments are recognised if there are uncertainties due to the possible return of amounts received.

2.16 Government grants

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

Government grants relating to expenses are deferred and recognised in the income statements over the period necessary to match them with the expenses that they are intended to compensate.

Government grants relating to the construction of investment properties are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets. Note 22 provides further information on how the Changsha Property Company accounts for the government grants.

3 FINANCIAL RISK MANAGEMENT

The Changsha Property Company's activities expose it to a variety of financial risks: credit risk and liquidity risk. The Changsha Property Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Changsha Property Company's financial performance.

3.1 Credit risk

Credit risk arises from cash and cash equivalents, trade and other receivables from third parties and related companies. The Changsha Property Company's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of these assets as stated in the balance sheet. The Changsha Property Company has no significant concentration of credit risk arising from third parties, with exposure spread over certain counterparties and customers.

The Changsha Property Company has two types of financial assets that are subject to the expected credit loss model:

- Trade receivables, and
- Other financial assets carried at amortised cost.

While cash and cash equivalents are also subject to the impairment requirement of IFRS 9, the identified impairment loss was minimal, as the cash and cash equivalents were deposited at reputable financial institutions with no historical credit losses experienced.

Trade receivables from third parties

The gross carrying value of trade receivables from third parties was approximately RMB32,000, RMB117,000 and RMB129,000 respectively as at 31 December 2019, 2020 and 2021. In order to minimise the credit risk of trade receivables, the management of the Changsha Property Company established policies in place to ensure that the leases and sales of services are made to customers with an appropriate credit history and the Changsha Property Company assesses the credit worthiness and financial strength of its customers as well as considering prior dealing history with the customers. The compliance of credit limits by the customers is regularly monitored by the management of the Changsha Property Company. There has not been any historical loss during the Track Record Period. The Changsha Property Company also has policies in place to ensure that rental security deposits or bank guarantees are required prior to commencement of leases. In this regard, the management of the Changsha Property Company considers that the Changsha Property Company's credit risk of trade receivables is significantly reduced.

The Changsha Property Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the ageing analysis.

The expected loss rates are based on the Changsha Property Company's past loss experiences, existing market conditions as well as forward looking information at the end of each reporting periods. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the tenants to settle the receivables. The Changsha Property Company has identified the Gross Domestic Product of the region in which it operates the properties to be the most relevant macroeconomic factor. The Changsha Property Company had no historical credit loss experiences related to trade receivables during the Track Record Period, and thus the identified impairment loss on trade receivables from third parties of the Changsha Property Company during the Track Record Period is minimal.

Trade receivables from related companies

In respect of amounts due from related companies with gross carrying value of approximately RMB304,000, RMB169,000 and RMB176,000 respectively as at 31 December 2019, 2020 and 2021, given the strong financial capability of SFH and its subsidiaries, management of the Changsha Property Company does not consider there is a risk of default and does not expect any losses from non-performance by these related companies, and accordingly, the expected credit loss recognised in respect of the amounts due from related companies was immaterial.

Other financial assets carried at amortised cost

The Changsha Property Company's other financial assets carried at amortised cost include other receivables from third parties and related companies and are not originated credit-impaired. The impairment loss of other financial assets carried at amortised cost is measured based on the twelve months expected credit loss. The twelve months expected credit loss is the portion of lifetime expected credit loss that results from default events on a financial instrument that are possible within twelve months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss.

As at 31 December 2019, 2020 and 2021, management considered the credit risk of other receivables from third parties and related companies to be low as counterparties have a strong capacity to meet their contractual cash flow obligations in the near term. The Changsha Property Company has assessed that the expected credit losses for these other receivables from third parties and related companies were minimal under 12 months expected losses method. Therefore, the impairment loss allowance required for these balances was minimal.

3.2 Liquidity risk

The management monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Changsha Property Company's operations. As at 31 December 2021, the Changsha Property Company had net current liabilities of approximately RMB313,286,000. Taking into account of the available resources as set out in Note 2.1, the Changsha Property Company will be able to meet its financial obligation when they fall due.

The table below analyses the Changsha Property Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year
	RMB'000
At 31 December 2019	
Trade payables	303
Other payables	74,924
Amounts due to related companies	141,537
	216,764
At 31 December 2020	
Trade payables	40
Other payables	68,922
Amounts due to related companies	205,997
	274,959
At 31 December 2021	
Trade payables	233
Other payables	60,415
Amounts due to related companies	268,407
	329,055

3.3 Capital management

The Changsha Property Company's objectives when managing capital are to safeguard the Changsha Property Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Changsha Property Company's overall strategy remains unchanged throughout the Track Record Period.

In order to maintain or adjust the capital structure, the Changsha Property Company may adjust the tenure of debt to accomplish adequate liquidity position as well as adjust the amount of debt over capital structure.

Consistent with others in the industry, the Changsha Property Company monitors capital on basis of the total borrowings to total assets. The ratio is calculated as total borrowings divided by total assets as shown in the balance sheet. The management of the Changsha Property Company will balance its overall capital structure through the obtaining of new borrowings or the redemption of existing borrowings as well as the payment of dividends or issuance of new shares.

The total borrowings to total assets as at 31 December 2019, 2020 and 2021 were as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Total borrowings *(Note 27(b))*	139,071	198,807	258,506
Total assets	412,637	490,850	564,555
Total borrowings to total assets	34%	41%	46%

The increase in the total borrowings to total assets from 34% as at 31 December 2019 to 41% as at 31 December 2020 and 46% as at 31 December 2021 was mainly due to the increase in total borrowings for property construction.

3.4 Fair value estimation

The Changsha Property Company's financial instruments carried at fair value as at 31 December 2019, 2020 and 2021 were categorised into three levels by level of inputs adopted in the valuation techniques used for measuring fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

As at 31 December 2019, 2020 and 2021, the Changsha Property Company did not have any financial assets or financial liabilities in the balance sheet which were measured at fair value.

The carrying amounts of the Changsha Property Company's financial assets and financial liabilities approximated their fair values due to their short maturities.

See note 13 for disclosure for investment properties which are under level 3 of the fair value hierarchy.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

The Changsha Property Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4.1 Critical accounting estimates

Estimates of fair value of investment properties

In estimating the fair value of an investment property, the Changsha Property Company uses market-observable data to the extent it is available. If the information on current or recent prices of investment properties is not available, the fair values of investment properties are determined using other methods such as income capitalisation approach or discounted cash flow method. The directors of the Changsha Property Company work closely with the independent valuer to establish the appropriate valuation techniques and inputs to the model.

Investment properties are stated at fair value at the end of the reporting period based on the valuation performed by an independent professional valuer. In determining the fair value, the valuer used a method of valuation which involves certain estimates as described in Note 13.

4.2 Critical accounting judgement

Deferred taxation on investment properties

For the purposes of measuring deferred taxation arising from investment properties that are measured using fair value model, the director of Changsha Property Company reviewed the business model of the investment properties and concluded that the investment properties are held with objectives to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Project Company's deferred taxation on fair value change of the investment properties, the director of Changsha Property Company has determined that the presumption of the investment properties measured using the fair value model are recovered entirely through sale is rebutted. As a result, the Changsha Property Company has recognised the deferred taxation based on the temporary differences between the tax bases and the fair values of the investment properties and the tax rates expected to apply.

5 REVENUE AND SEGMENT INFORMATION

(a) Revenue mainly consists of rental income. The revenue of the Changsha Property Company during the Track Record Period is derived from external tenants and related companies of SFH.

The Changsha Property Company's revenue is derived solely from its operation in Mainland China and the non-current assets of the Changsha Property Company are also located in Mainland China. The Changsha Property Company's revenue by nature is as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Rental income *(i)*	2,812	23,437	31,472
Management service income *(ii)*	274	2,444	6,558
Others *(iii)*	–	665	918
	3,086	26,546	38,948

Revenue from major customers who have individually contributed to 10% or more of the total revenue of the Changsha Property Company:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Subsidiaries of SFH	2,519	14,100	24,966

(i) The Changsha Property Company's investment properties are leased to tenants under operating lease with rental payable monthly/quarterly/semi-annually. As at 31 December 2019, 2020 and 2021, the Changsha Property Company had minimum lease payment receivables on lease of investment properties including warehouse, distribution centre and office buildings as follows:

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	18,588	24,290	28,169
1-2 year	17,242	18,611	15,778
2-3 year	11,467	8,395	11,514
3-4 year	–	6,909	921
4-5 year	–	354	–
	47,297	58,559	56,382

(ii) The Changsha Property Company bills management service fees based on fixed service fee rates and time incurred. Revenue from providing management services are recognized over time based on the amount billed, and as a practical expedient permitted by IFRS 15, the contract price of management service allocated to unsatisfied performance obligations at the end of each reporting period is not disclosed.

(iii) Others represent revenue generated from car parking and arrangement of the provision of electricity and water.

6 PROPERTY OPERATING EXPENSES

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Employee benefit expense *(Note 8)*	1,820	1,896	–
Other taxes	1,410	4,087	4,966
Property management fee	337	2,755	8,019
Repairs and maintenance	30	207	180
Others	10	52	25
	3,607	8,997	13,190

7 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Entertainment expenses	191	112	–
Advertising costs	183	183	–
Legal and consultancy fee	83	43	8
Motor vehicle expenses	56	35	14
Raw materials and consumables used	39	679	47
Auditors' remuneration (audit services)	24	34	34
Others	124	139	14
	700	1,225	117

8 EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Wages, salaries and bonuses	1,721	1,787	–
Welfare, medical and other expenses	73	109	–
Share-based payments	26	–	–
	1,820	1,896	–

(a) Five highest paid individuals

During the Track Record Period, the directors of the Changsha Property Company did not receive remuneration from the Changsha Property Company. The emoluments payable to the five individuals whose emoluments were the highest in the Changsha Property Company for the years ended 31 December 2019, 2020 and 2021 are as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Wages, salaries and bonuses	1,642	1,785	–

The emoluments fell within the following bands:

Number of individuals

	Year ended 31 December		
	2019	**2020**	**2021**
HK$ 1 to HK$ 1,000,000	4	4	–
HK$ 1,000,001 to HK$ 1,500,000	1	1	–
	5	5	–

9 OTHER INCOME, NET

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Government subsidies	–	–	20
Amortization of deferred government grants *(Note 22)*	–	5	88
Others	24	6	20
	24	11	128

10 FINANCE COSTS

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Interest expenses on amounts due to related companies	2,518	2,634	4,495
Amount capitalised	(1,836)	(394)	(482)
	682	2,240	4,013

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Changsha Property Company's general borrowings during the years, which were 1.99%, 1.58% and 1.85% for the years ended 31 December 2019, 2020 and 2021 respectively.

11 INCOME TAX EXPENSE

During the years ended 31 December 2019, 2020 and 2021, the Changsha Property Company's subsidiaries in the PRC were subject to corporate income tax ("CIT") at a standard rate of 25%.

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Current income tax			
– PRC CIT	–	666	3,405
Deferred income tax *(Note 21)*	6,952	4,332	2,554
Income tax expense	6,952	4,998	5,959

The income tax expense for the years ended 31 December 2019, 2020 and 2021 is reconciled to the profit before tax per the income statements as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax:	27,612	19,934	23,811
Tax calculated at tax rate applicable (PRC: 25%)	6,903	4,984	5,953
Tax effects of:			
Expenses not deductible for tax purposes	49	14	5
Under provision in prior years	–	–	1
Income tax expense	6,952	4,998	5,959

12 EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this accountant's report, is not considered meaningful due to the Changsha Property Company had no ordinary shares during the Track Record Period.

13 INVESTMENT PROPERTIES

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	233,000	384,300	466,700
Additions	121,850	76,645	81,440
Fair value changes	29,450	5,755	1,960
At the end of the year	384,300	466,700	550,100

As at 31 December 2019, 2020 and 2021, no investment properties were pledged as collateral.

The Changsha Property Company's investment properties are located in Changsha Mainland China, and are measured using the fair value model.

Investment properties were revalued as at 31 December 2019, 2020 and 2021 by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent professional valuer with appropriate professional qualifications and experiences in the valuation of similar properties in the relevant locations.

The address of Jones Lang LaSalle Corporate Appraisal and Advisory Limited is 7/F, One Taikoo Place, 979 King's Road, Hong Kong.

Fair value of completed investment properties was generally derived using the income capitalisation method, taking into account the net rental income of a property derived from its existing tenancies with due allowance for the reversionary income potential of the property upon expiry of the existing leases, which was then capitalised to determine the fair value at an appropriate capitalisation rate.

Fair value of the investment properties under development is generally derived using the residual method and/or the direct comparison method (taking into consideration of construction costs incurred). Residual method involves the assessment of the estimated capital value of the proposed development assuming completed as at valuation date, with allowances for the outstanding development costs together with developer's profit and risk. The direct comparison method involves the assessment of the value of the underlying land based on its existing use, plus the construction costs incurred as of the valuation date.

As at 31 December 2019 and 31 December 2020, the investment properties comprised of completed investment properties and investment properties under development, which was thereafter completed in May 2021. Therefore, as at 31 December 2021, all investment properties were completed.

The following table gives the information about how the fair values of the Changsha Property are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Level 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

There were no transfers into or out of Level 3 during the Track Record Period.

Investment properties held by the Changsha Property Company in the balance sheet	**Fair value hierarchy**	**Valuation** *(RMB'000)*	**Valuation technique and key input(s)**	**Significant unobservable input(s)**	**Relationship of unobservable inputs to fair value**
Changsha Fengtai Industrial Park located at No. 102 Hexin Road Huangxin Town Changsha County Hunan Province The PRC (長沙豐泰產業園)	Level 3	31 Dec 2019: 361,600; 31 Dec 2020: 362,600;	Completed investment properties: Income capitalisation method The key inputs are		
			(1) Term yield	Term yield, taking into account of yield generated by market average selling price and the market average rental from comparable properties and adjustment to reflect the conditions of the subject property was 4.75% as at 31 December 2019 and 2020.	The higher the term yield, the lower the fair value.
			(2) Reversionary yield	Reversionary yield, taking into account of yield generated by market average selling price and the market average rental from comparable properties and adjustment to reflect the risk associated with the future rental was 5.25% as at 31 December 2019 and 2020.	The higher the reversionary yield, the lower the fair value.

Investment properties held by the Changsha Property Company in the balance sheet	Fair value hierarchy	Valuation *(RMB'000)*	Valuation technique and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
			(3) Monthly market rent	Market rent was determined by the estimated amount for which all interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion, the amounts of which was RMB28.40 , and 29.71 sq.m./month as at 31 December 2019 and 2020, respectively.	The higher the monthly market rent, the higher the fair value.
		31 Dec 2019: 22,700; 31 Dec 2020: 104,100;	Investment properties under development: Residual method		
			The key inputs are		
			(1) Monthly market rent	Market rent was determined by the estimated amount for which all interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion, the amounts of which were RMB 26.61 sq.m./month, and RMB 26.87 sq.m./month respectively as at 31 December 2019 and 2020.	The higher the monthly market rent, the higher the fair value.
			(2) Estimated developer's profit	Estimated developer's profit, taking into account of the estimated capital value of the proposed development assuming completed as at the date of valuation, was 6.00% respectively as at 31 December 2019 and 2020.	The higher the estimated developer's profit, the lower the fair value.

Investment properties held by the Changsha Property Company in the balance sheet	Fair value hierarchy	Valuation *(RMB'000)*	Valuation technique and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Changsha Fengtai Industrial Park located at No. 102 Hexin Road Huangxin Town Changsha County Hunan Province The PRC (長沙豐泰産業園)	Level 3	31 Dec 2021: 550,100	Income capitalisation method The key inputs are		
			(1) Term yield	Term yield, taking into account of yield generated by market average selling price and the market average rental from comparable properties and adjustment to reflect the conditions of the subject property was 4.75% as at 31 December 2021.	The higher the term yield, the lower the fair value.
			(2) Reversionary yield	Reversionary yield, taking into account of yield generated by market average selling price and the market average rental from comparable properties and adjustment to reflect the risk associated with the future rental was 5.25% as at 31 December 2021.	The higher the reversionary yield, the lower the fair value.
			(3) Monthly market rent	Market rent was determined by the estimated amount for which all interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion, the amounts of which was RMB29.96 sq.m./month as at 31 December 2021.	The higher the monthly market rent, the higher the fair value.

14 FINANCIAL INSTRUMENTS BY CATEGORIES

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets at amortised cost			
Trade receivables *(Note 15)*	32	117	129
Other receivables *(Note 16)*	317	363	535
Amounts due from related companies *(Note 27)*	304	169	176
Cash and cash equivalents *(Note 17)*	8,709	4,187	2,176
	9,362	4,836	3,016

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Financial liabilities carried at amortised cost			
Trade payables *(Note 23)*	303	40	233
Other payables *(Note 24)*	74,924	68,922	60,415
Amounts due to related companies *(Note 27)*	139,870	201,383	260,160
	215,097	270,345	320,808

15 TRADE RECEIVABLES

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	32	117	129

As at 31 December 2019, 2020 and 2021, the carrying amounts of trade receivables from third parties approximated to their fair values due to the short-term nature.

Trade receivables mainly represent lease receivables from third party lessees. Rental income from rental of Changsha Property including warehouse, distribution centre, office buildings and car parking spaces are generally required to be settled by tenants within 3-20 days upon issuance of invoice.

As at 31 December 2019, 2020 and 2021, the ageing analysis of trade receivables, based on invoice date, were as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
0-30 days	32	117	129

The maximum exposure to credit risk as at 31 December 2019, 2020 and 2021 was the carrying value of the trade receivables mentioned above. The Changsha Property Company required rental security deposits or bank guarantees from tenants prior to commencement of leases.

The Changsha Property Company applied the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The loss allowance is immaterial.

The Changsha Property Company's trade receivables are denominated in RMB.

16 PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Value added tax ("VAT") recoverable and other tax receivables *(i)*	18,725	19,198	11,343
Prepayments for expenses	19	30	22
Other receivables	317	363	535
Others	69	60	74
	19,130	19,651	11,974

(i) Amounts represented mainly the VAT input tax of the Changsha Property Company, which could be used for deduction of VAT output tax.

The carrying amounts of the Changsha Property Company's deposits and other receivables were denominated in RMB.

17 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following for the purposes of the statements of cash flows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Deposits placed at S.F. Holding Group Finance Co., Ltd. *(i)*	8,709	4,187	2,176

(i) S.F. Holding Group Finance Co., Ltd is a subsidiary of SFH and incorporated upon approval from China Banking and Insurance Regulatory Commission ("CBIRC") (Shen Yin Jian Fu 2016 No. 193) in 2016.

The carrying amounts of the Changsha Property Company's cash and cash equivalents were denominated in RMB.

18 PAID-IN CAPITAL

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Paid-in Capital	190,000	190,000	190,000

19 OTHER RESERVES

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Share-based payments *(Note (a))*	26	26	26
Statutory reserve *(Note (b))*	–	–	850
	26	26	876

(a) Share-based payments

Share-based payments of the Changsha Property Company during the Track Record Period were equity settled and derived from two share-based payment arrangements of SFH which were established in 2018. 1 employee of the Changsha Property Company was awarded share instruments of SFH under the share-based payment arrangements of SFH. The share-based payment arrangements had been expired and accounted for by the Changsha Property Company during the Track Record Period. As the number and fair value of share instruments awarded to employees of the Changsha Property Company were immaterial, such share-based payment arrangements had no material impact on the Historical Financial Information. As of 31 December 2021, there were no share-based payment arrangements to which employees of the Changsha Property Company were entitled to.

(b) Statutory Reserve

The statutory reserve represents the amount transferred from net profit for the year of the Changsha Property Company in accordance with the relevant PRC laws until the statutory reserve reaches 50% of the registered capital of the Changsha Property Company. The statutory reserve cannot be reduced except for setting off the accumulated losses or increasing capital.

20 DIVIDENDS

No dividends have been paid or declared by the Changsha Property Company during each of the years ended 31 December 2019, 2020 and 2021.

21 DEFERRED INCOME TAX

The analysis of deferred tax assets/(liabilities) is as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Changes in fair value of investment properties	(2,663)	(5,880)	(8,804)
Government grants	–	649	1,024
Unused tax losses	1,769	–	–
Others	–	5	–
Deferred tax liabilities	(894)	(5,226)	(7,780)

The movements on the deferred tax (liabilities)/assets for the years are as follows:

	Changes in fair value of investment properties	Government grants	Tax losses	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2019	5,225	–	833	–	6,058
Credited/(charged) to the income statements	(7,888)	–	936	–	(6,952)
As at 31 December 2019	(2,663)	–	1,769	–	(894)
Credited/(charged) to the income statements	(3,217)	649	(1,769)	5	(4,332)
As at 31 December 2020	(5,880)	649	–	5	(5,226)
Credited/(charged) to the income statements	(2,924)	375	–	(5)	(2,554)
As at 31 December 2021	(8,804)	1,024	–	–	(7,780)

Deferred tax assets are recognised for tax losses, which are carried forward to the extent that the realisation of the related tax benefit through the future taxable profit is probable. As at 31 December 2019, 2020 and 2021, no tax losses had not been recognised as deferred tax assets.

22 DEFERRED GOVERNMENT GRANTS

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	–	–	2,595
Additions	–	2,600	1,588
Released to the income statements	–	(5)	(88)
At the end of the year	–	2,595	4,095

The amount of deferred government grants represented several one-time taxable subsidies from Changsha government for the Changsha Property construction. A total amount of RMB2,600,000 was received in 2020 and a total amount of RMB1,587,500 was received in 2021 and amortised to profit or loss on a straight-line basis over the expected lives of the related assets.

23 TRADE PAYABLES

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	303	40	233

As at 31 December 2019, 2020 and 2021, the ageing analysis of trade payables, based on invoice date, were as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
0-30 days	303	40	233

24 OTHER PAYABLES

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Payables for construction	72,015	66,364	56,910
Rental collected in advance *(i)*	3,379	1,346	865
Contract liabilities of management service income *(ii)*	151	125	162
Deposits received from tenants	1,904	2,303	2,489
Employee benefit payables	466	20	–
Other tax payables	231	261	338
Others	1,005	255	1,016
	79,151	70,674	61,780

(i) Rental collected in advance will be recognised revenue within 6 months.

(ii) The following table shows how much of the revenue recognised during the year ended 31 December 2019, 2020 and 2021 relates to carried-forward contract liabilities.

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities of management service income	–	151	125

25 NOTES TO THE STATEMENTS OF CASH FLOWS

(a) Reconciliation of profit before income tax for the Track Record Period to cash generated from operations

	Year ended 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	27,612	19,934	23,811
Adjustments for:			
Finance income	(41)	(84)	(95)
Finance costs	682	2,240	4,013
Share-based payments	26	–	–
Change in fair value of investment properties	(29,450)	(5,755)	(1,960)
Others	–	3	–
	(1,171)	16,338	25,769
Changes in working capital:			
– Trade and other receivables	(233)	7,131	16,049
– Net payables to related companies	367	4,824	392
– Trade and other payables	5,490	(1,479)	1,769
Cash generated from operations	4,453	26,814	43,979

(b) Net debt reconciliation

Net debt

	Year ended 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Liabilities arising from financing activities			
– Amounts due to related companies	139,071	198,807	258,506
Cash and cash equivalents	(8,709)	(4,187)	(2,176)
Net debt	130,362	194,620	256,330
Gross debt at fixed interest rates	139,071	198,807	258,506
Cash and cash equivalents	(8,709)	(4,187)	(2,176)
Net debt	130,362	194,620	256,330

(c) The reconciliations of liabilities arising from financing activities are as follows:

	Amounts due to related companies
	RMB'000
As at 1 January 2019	32,077
– Cash flows	107,000
– Interests paid	(2,524)
– Interest accrued	2,518
As at 31 December 2019 and 1 January 2020	139,071
– Cash flows	59,700
– Interests paid	(2,598)
– Interest accrued	2,634
As at 31 December 2020 and 1 January 2021	198,807
– Cash flows	58,800
– Interests paid	(3,596)
– Interest accrued	4,495
As at 31 December 2021	258,506

26 CAPITAL COMMITMENTS

Capital expenditure contracted for at the end of the year but not yet incurred was as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Contracted but not provided for construction	27,316	42,411	–

27 RELATED PARTY TRANSACTIONS AND BALANCES

Related companies are those parties that have the ability to control, jointly control or exert significant influence over the other party in holding power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amounts of the investor's returns. Parties are also considered to be related if they are subject to common control or joint control. Related companies may be individuals or other entities.

Major related companies that had transactions with the Changsha Property Company during the Track Record Period were as follows:

Related companies	**Relationship with the Changsha Property Company as at 1 January 2019, 31 December 2019, 2020 and 2021**
SFH	Intermediate holding company
Subsidiaries of SFH *(i)*	Controlled by SFH

(i) Subsidiaries of SFH that had transactions with the Changsha Property Company during the Track Record Period were as follows:

	Chinese name
Hunan S.F. Express Co., Ltd	湖南順豐速運有限公司
Hunan S.F. Freight Co., Ltd	湖南順豐快運有限公司
Guangzhou S.F. Freight Co., Ltd	廣州順豐快運有限公司
Guangdong Shunxin Freight Co., Ltd	廣東順心快運有限公司
Shenzhen SF Intra-city Logistics Co., Ltd	深圳市順豐同城物流有限公司
Shenzhen Hive Box Internet Technology Co., Ltd	深圳市豐巢網路技術有限公司
S.F. Holding Group Finance Co., Ltd	順豐控股集團財務有限公司
S.F. Express Co., Ltd.	順豐速運有限公司
S.F. Data Service (Wuhan) Co., Ltd	順豐資料服務武漢有限公司
Shenzhen Shunfeng Runtai Management Consulting Co., Ltd.	深圳順豐潤泰管理諮詢有限公司
Runxianghe Human Resource Service (Wuhan) Co., Ltd.	潤祥和人力資源服務武漢有限公司
Changsha Hongjie Industrial Park Management Co., Ltd	長沙市宏捷產業園運營管理有限公司
Shenzhen Shunkai Technology Co., Ltd	深圳順鎧科技有限公司
Shenzhen Yifeng Technology Co., Ltd	深圳意豐科技有限公司
Shenzhen Hongjie Enterprise Management Co., Ltd.	深圳宏捷產業園管理有限公司
Shenzhen Fengtai Project Management Co., Ltd	深圳市豐泰工程項目管理有限公司
Shenzhen S.F. Taisen Holdings (Group) Co., Ltd.	深圳順豐泰森控股集團有限公司
Shenzhen Fengtai E-Commerce Industrial Park Asset Management Ltd.	深圳市豐泰電商產業園資產管理有限公司
Shenzhen Yirunfeng Technology Co., Ltd.	深圳意潤豐科技有限公司
Shenzhen Yihuifeng Technology Co., Ltd.	深圳意慧豐科技有限公司
S.F. Hengtong Pay Co., Ltd.	順豐恒通支付有限公司
Zhongshan Runjie Enterprise Management Co., Ltd.	中山市潤捷企業管理有限公司
Shenzhen Tuofeng Industrial Park Management Co., Ltd.	深圳拓豐產業園管理有限公司
Shenzhen Yirongfeng Technology Co., Ltd.	深圳市意榮豐科技有限公司
Shenzhen Yufeng Industrial Park Management Co., Ltd.	深圳裕豐產業園管理有限公司
Shenzhen Fengyikai Technology Co., Ltd.	深圳豐意愷科技有限公司
Shenzhen Fengrui Industrial Park Management Co., Ltd.	深圳豐瑞產業園管理有限公司
Shenzhen Runan Industrial Park Management Co., Ltd.	深圳潤安產業園管理有限公司

* The English translation of these Companies is for identification purpose only. These companies do not have official English names.

Other than the deposits placed with S.F. Holding Group Finance Co., Ltd (Note 17), balances with related companies are set out below:

(a) Balances with related companies - Amounts due from related companies

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from related companies			
– *Trade receivables*			
– Subsidiaries of SFH *(i)*	228	169	176
– *Other receivables (Non-trade)*			
– Subsidiaries of SFH *(ii)*	76	–	–
	304	169	176

(i) As at 31 December 2019, 2020 and 2021, the carrying amounts of trade receivables from related companies approximated to their fair values due to the short-term nature.

Trade receivables mainly represent lease receivables from related party tenants. Rental income from rental of investment properties including warehouse, distribution centre, office buildings and car parking spaces are generally required to be settled by tenants within 3-20 days upon issuance of invoice.

As at 31 December 2019, 2020 and 2021, the ageing analysis of trade receivables due from related companies, net of impairment, based on invoice date, were as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
0-30 days	228	169	176

The carrying amounts of the Changsha Property Company's trade receivables were denominated in RMB.

(ii) As at 31 December 2019, non-trade related other receivables from related companies represents reimbursement of expenses paid by the Changsha Property Company on behalf of related companies and other receivables.

(b) Balances with related companies – Amounts due to related companies

	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due to related companies under current liabilities			
– *Trade payables*			
– Subsidiaries of SFH *(i)*	3	1,607	1,427
– *Loans from related companies*			
– Subsidiaries of SFH *(ii)*	139,071	198,807	258,506
– *Other payables*			
– Subsidiaries of SFH – rental collected in advance	268	3,179	4,499
– Subsidiaries of SFH – deposits	358	67	87
– Subsidiaries of SFH – payables for construction	433	466	140
– Subsidiaries of SFH – non-trade	5	436	–
	140,138	204,562	264,659

(i) The trade related payables to related companies represents the property management fee payables and certain services fee payables.

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
0 to 30 days	3	1,591	1,427
31 to 90 days	–	16	–
	3	1,607	1,427

(ii) As at 31 December 2019, loans from related companies represents (i) loans from related companies of approximately RMB139,000,000 with weighted average interest at a fixed rate of 1.7% per annum with the term of one year, and (ii) interest payables for the loan from related companies of approximately RMB71,000, which is paid at maturity.

As at 31 December 2020, loans from related companies represents (i) loans from related companies of approximately RMB198,700,000 with weighted average interest at a fixed rate of 1.8% per annum with the term of one year, and (ii) interest payables for the loan from related companies of approximately RMB107,000, which is paid at maturity.

As at 31 December 2021, loans from related companies represents (i) a loan from a related company of approximately RMB257,500,000 which bore interest at a fixed rate of 3.20% per annum with the maturity date of 15 June, 2022, and (ii) interest payables for the loan from related companies of approximately RMB1,006,000, which is paid at maturity.

(c) Transactions with related companies

Save as disclosed elsewhere in the financial statements, during the Track Record Period, the following transactions were carried out with related companies at terms mutually agreed by both parties:

(i) Rental income

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
– Subsidiaries of SFH	2,359	12,430	19,558

(ii) Management service income

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
– Subsidiaries of SFH	160	1,424	4,956

(iii) Other revenue

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
– Subsidiaries of SFH	–	246	452

(iv) Interest income

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
– Subsidiaries of SFH	41	84	95

(v) Interest expenses

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
– Subsidiaries of SFH	682	2,240	4,013

(vi) Property management fee

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
– Subsidiaries of SFH	–	1,591	6,327

(vii) Construction project management expenses

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
– Subsidiaries of SFH	2,447	2,622	572

(viii) Proceeds from loans from related companies

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
– Subsidiaries of SFH	266,029	246,800	556,300

(ix) Repayments of loans from related companies

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
– Subsidiaries of SFH	159,029	187,100	497,500

In the opinion of the directors of the Company, the above transactions were conducted in the ordinary course of business of the Changsha Property Company and in accordance with the terms of the underlying agreements.

(d) Key management compensation

Key management personnels are all directors of the Changsha Property Company. No directors' emoluments were paid or are payable by the Changsha Property Company for the years ended 31 December 2019, 2020 and 2021 respectively.

28 FINANCIAL RESULTS OF THE CHANGSHA PROPERTY COMPANY FROM 29 APRIL 2021 (DATE OF ESTABLISHMENT OF SF REIT) TO 31 DECEMBER 2021

The REIT Manager has considered the financial presentation of SF REIT and included the following financial information so as to provide the unitholders of SF REIT with the financial performance of Changsha Property Company for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021.

	Note	**Statement of Comprehensive Income to the Changsha Property Company for the period from 29 April 2021(date of establishment of SF REIT) to 31 December 2021** *RMB'000*
Revenue	*i*	28,939
Property operating expenses	*ii*	(9,562)
Net property income		**19,377**
General and administrative expenses		(93)
Fair value changes on investment properties		21
Other income, net		100
Operating profit		**19,405**
Finance income	*iii*	70
Finance costs		(3,232)
Profit before income tax		**16,243**
Income tax expense	*iv*	(4,067)
Profit and total comprehensive income for the year		**12,176**

(i) Revenue

	Period from 29 April 2021(date of establishment of SF REIT) to 31 December 2021 *RMB'000*
Rental income	22,863
Management service income	5,428
Others	648
	28,939

(ii) Property operating expenses

	Period from 29 April 2021(date of establishment of SF REIT) to 31 December 2021
	RMB'000
Property management fee	5,833
Other taxes	3,543
Repairs and maintenance	176
Others	10
	9,562

(iii) Finance costs

	Period from 29 April 2021(date of establishment of SF REIT) to 31 December 2021
	RMB'000
Interest expenses on amounts due to related companies	3,232
Amount capitalised	–
	3,232

(iv) Income tax expenses

During the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021, the Changsha Property Company's subsidiaries in the PRC were subject to corporate income tax ("CIT") at a standard rate of 25%.

	Period from 29 April 2021(date of establishment of SF REIT) to 31 December 2021
	RMB'000
Current income tax	
– PRC CIT	2,615
Deferred income tax	1,452
Income tax expense	4,067

	Period from 29 April 2021(date of establishment of SF REIT) to 31 December 2021
	RMB'000
Profit before income tax:	16,243
Tax calculated at tax rate applicable (PRC: 25%)	4,061
Tax effects of:	
Expenses not deductible for tax purposes	5
Under provision in prior years	1
Income tax expense	4,067

29 CONTINGENCIES

The Changsha Property Company had no material contingent liabilities outstanding as at 31 December 2019, 2020 and 2021 respectively.

30 SUBSEQUENT EVENTS

On 2 June 2022, Golden Bauhinia Logistics Holdings Limited (the "Golden Bauhinia"), wholly-owned subsidiary of SF REIT, entered into the Sale and Purchase Deed with SF Fengtai Industrial Park Holdings Limited, wholly-owned subsidiary of SFH, pursuant to which Golden Bauhinia agreed to acquire 100% of the issued shares of the Changsha Industrial Park Limited, which after the reorganisation indirectly holds 100% of the equity interest of the Changsha Property Company.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 31 December 2021 and up to the date of this report. No dividend or distribution has been declared or made in respect of any period subsequent to 31 December 2021.

This appendix summarises the management discussion and analysis of the Changsha Property Company 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 2B to this Circular.

FACTORS AFFECTING RESULTS OF OPERATIONS

During the years ended 31 December 2019, 2020 and 2021, the Changsha Property Company had one business segment, which was operation of the Changsha Property.

The major factors affecting Changsha Property Company's financial condition and results of operation include the following:

General Economic Conditions in the PRC

As the Changsha Property is located in the PRC, general economic conditions in the PRC have a significant effect on the Changsha Property Company's financial conditions, operations and prospects.

In 2021, with the successful roll-out of vaccination programmes, major economies around the world began gradual uplift of lockdown restrictions and made great progress towards recovery. However, the advent of different variants of the coronavirus disrupted the recovery pace and geo-political concerns continues to affect sentiments. In Mainland China, disruptions from sporadic outbreaks of COVID-19, interruptions to industrial production, power outages, protracted financial stress among property developers and continuing Sino-US tensions all contributed to a slowdown in the second-half of 2021.

Despite the above, according to China Logistics Information Center, logistics industry in China continued to develop. In 2021, total value of social logistics goods in China (an indication of the domestic market demand for logistics services) as released by the National Development and Reform Commission of the PRC grew by approximately 9.2% year-on-year to approximately RMB335.2 trillion. The prosperity index of China's logistics industry (an early indication of logistics activities in China's logistics sector as released by China Federation of Logistics and Purchasing, a social organization of logistics industry in China established in Beijing and approved by the State Council of the PRC) was approximately 53.4% in 2021, an increase of 1.7 percentage point as compared to that of 2020. The above reflects an expansion trend in logistics economic activities. Based on the above and the Manager's observation, demand in industrial logistics in China remained strong and active. Continuous demand driven by expansion of e-commerce, retail and third-party logistics has been supplemented by growing demand from cold chain and medical supplies industries. According to the Market Consultant, even under ample new supply, overall vacancy rate of warehouses and related facilities in major logistics markets across the China has remained relatively stable attributable to strong rental demand. Any positive or negative trends among the above factors could have an impact on the demand for the Changsha Property Company's logistics facilities, which may ultimately affect the Changsha Property Company's financial condition and results of operations.

Changes in Fair Value of Investment Properties

The revaluation of the Changsha Property has had an impact on the results of operations of the Changsha Property Company, and may in the future cause significant fluctuations of the Changsha Property Company's results of operations. The fair values of the Changsha Property are valued by the Independent Property Valuer based on appropriate methods and assumptions so as to reflect the market conditions. During the years ended 2019, 2020 and 2021, the fair values of the Changsha Property were arrived at using income capitalisation method (when the Changsha Property was completed) and residual method (when the Changsha Property was under construction). Income capitalisation method is primary affected by the existing rental income, market rent and capitalisation rate. Residual method is primarily affected by the gross development value of the development and the outstanding construction cost. Details of the key inputs in the valuation of the investment properties are also set forth in Note 13 to the Accountant's Report as set out in Appendix 2B to this Circular.

Occupancy Rates and Rental Rates

The Changsha Property Company's profitability may vary from year to year depending on the occupancy rates and rental rates of the Changsha Property. Factors affecting occupancy rates and rental rates include the overall attractiveness of the logistics facilities held by the Changsha Property Company, local supply and demand of comparable properties and their rental rates, the ability to minimise downtime as a result of expiries or early terminations of leases, tenant mix and general economic conditions.

Historically, the Changsha Property Company generally maintained a consistently high occupancy rate for stabilised logistics facilities in Changsha, the PRC. As at 31 December 2019, 2020 and 2021, the Occupancy Rate was 86.6%, 98.2% and 98.9%, respectively. For the years ended 31 December 2019, 2020 and 2021, the Average Monthly Rental per Lease Square Metre was RMB28.4, RMB29.7 and RMB30.0, respectively. The increase in the Average Monthly Rental per Lease Square Metre and the increase in the Occupancy Rate were primarily attributable to the steady increase in demand of modern logistics warehouses in Changsha.

The Changsha Property Company generated revenue primarily from (i) rental income; and (ii) management service income. For the years ended 31 December 2019, 2020 and 2021, the revenue generated by the Changsha Property Company amounted to RMB3.1 million, RMB26.5 million and RMB38.9 million, respectively, in which the SFH Group collectively contributed approximately 81.6%, 53.1% and 64.1% of the total revenue, respectively.

Rental income represents the income recognized from tenants under their tenancies for warehouses, distribution centres, and office buildings. For the years ended 31 December 2019, 2020 and 2021, rental income generated by the Changsha Property Company amounted to RMB2.8 million, RMB23.4 million and RMB31.5 million, respectively.

Management service income represents the management fees. For the years ended 31 December 2019, 2020 and 2021, management service income generated by the Changsha Property Company amounted to RMB0.3 million, RMB2.4 million and RMB6.6 million, respectively.

The following table sets forth a breakdown of the Changsha Property Company's revenue for the years indicated:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Rental income (i)	2,812	23,437	31,472
Management service income	274	2,444	6,558
Others	–	665	918
	3,086	26,546	38,948

(i) Rental income

The following table sets forth information on the Average Monthly Rental per Lease Square Metre derived from the Changsha Property for the years indicated:

	As at 31 December		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Warehouse	28.4	29.0	30.1
Distribution centre	N/A	N/A	28.3
Office building	N/A	34.7	35.7

The following table sets forth the Occupancy Rates of the Changsha Property for the years indicated:

	As at 31 December		
	2019	**2020**	**2021**
	%	%	%
Warehouse	86.6	100.0	100.0
Distribution centre	N/A[(1)]	N/A[(1)]	100.0
Office building	N/A	98.2	98.9

The Changsha Property Company's rental income increased year by year, and such increase was primarily due to rental reversions achieved upon the renewal of the expiring tenancy leases and the higher effective unit rent in respect of the new leases entered into.

Note:

1. The distribution centre was still under construction in 2019 and 2020.

OPERATING EXPENSES

The Changsha Property Company's property operating expenses principally consist of (i) employee benefit expenses; (ii) other taxes; (iii) property management fee; and (iv) repairs and maintenance. For the years ended 31 December 2019, 2020 and 2021, the Changsha Property Company's property operating expenses amounted to RMB3.6 million, RMB9.0 million and RMB13.2 million, respectively.

The following table sets out a breakdown of the Changsha Property Company's operating expenses for the years indicated:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Employee benefit expense	1,820	1,896	–
Other taxes	1,410	4,087	4,966
Property management fee	337	2,755	8,019
Repairs and maintenance	30	207	180
Others	10	52	25
	3,607	8,997	13,190

The Changsha Property Company's operating expenses (a) increased by approximately RMB5.4 million, or approximately 149.4%, from approximately RMB3.6 million for the year ended 31 December 2019 to approximately RMB9.0 million for the year ended 31 December 2020; and (b) increased by approximately RMB4.2 million, or approximately 46.6%, from approximately RMB9.0 million for the year ended 31 December 2020 to approximately RMB13.2 million for the year ended 31 December 2021.

The changes in operating expenses normally was in line with the changes in rental income. There was an increase in operating expense from the year ended 31 December 2019 to the year ended 31 December 2020, which was primarily due to the full operation of the logistic park located in the Phase 1 Land Parcel since its completion in August 2019.

The increase in operating expense from the year ended 31 December 2020 to the year ended 31 December 2021 was primarily due to the full operation of the logistic park located in the Phase 2 Land Parcel since its completion in May 2021. Starting from the second half of 2020, the Operations Manager has been engaged to provide operation and property management services to the Changsha Property. Therefore, the increase in operations and property management service fees from year ended 31 December 2020 to year ended 31 December 2021 was due to the full-year effect of operations and property management service fees paid in 2021.

As part of the business delineation process of the Changsha Property Company, all employees under the Changsha Property Company were transferred to the Operations Manager during 2020. Therefore, there was no employee benefit expense recognised for the year ended 31 December 2021.

Change in fair value of investment properties

The fair value of the Changsha Property Company's investment property as at 31 December 2019, 2020 and 2021 amounted to RMB384.3 million, RMB466.7 million and RMB550.1 million, respectively. The fair value changes in the Changsha Property Company's investment property resulted in gains of RMB29.5 million, RMB5.8 million and RMB2.0 million for the years ended 31 December 2019, 2020 and 2021, respectively.

The Changsha Property Company's change in fair value of investment property (a) decreased from a gain of approximately RMB29.5 million for the year ended 31 December 2019 to a gain of approximately RMB5.8 million for the year ended 31 December 2020; and (b) decreased from a gain of approximately RMB5.8 million for the year ended 31 December 2020 to a gain of approximately RMB2.0 million for the year ended 31 December 2021.

In the beginning of 2019, the Phase 1 Land Parcel was under construction without any committed leases, which was later completed in August 2019. Majority of the spaces were leased out with 86.6% Occupancy Rate as at 31 December 2019. Therefore, the Changsha Property Company recorded a relatively higher fair value gain of investment property for the year ended 31 December 2019 which amounted to RMB29.5 million, reflecting the higher fair value of the Changsha Property upon completion of the Phase 1 Land Parcel and the high Occupancy Rate of the Changsha Property as at 31 December 2019.

The Occupancy Rate of the Changsha Property became more stable for the years ended 31 December 2020 and 2021, which had reached 98.2% and 98.9% as at 31 December 2020 and 2021, respectively. Therefore, the Changsha Property Company recorded a smaller fair value gain of investment property which amounted to RMB5.8 million and RMB2.0 million for the years ended 31 December 2020 and 2021, respectively.

Finance costs

Finance costs of the Changsha Property Company consists of interest expense on loan from related companies.

The following table sets out the loans from related companies, finance costs and respective effective interest rates over the years ended 31 December 2019, 2020 and 2021.

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Loans from related companies	139,071	198,807	258,506
Finance costs	682	2,240	4,013
Effective interest rates range	1.50%– 1.73%	1.50%– 3.30%	3.2%

The Changsha Property Company's finance costs (a) increased by approximately 228.4%, from approximately RMB0.7 million for the year ended 31 December 2019 to approximately RMB2.2 million for the year ended 31 December 2020; and (b) increased by approximately 79.2%, from approximately RMB2.2 million for the year ended 31 December 2020 to approximately RMB4.0 million for the year ended 31 December 2021.

The abovementioned increase in the Changsha Property Company's finance costs was primarily due to additions of borrowings for repayment of certain construction payables and working capital demands, together with the increase in the effective interest rates over the years.

Income tax expense

For the years ended 31 December 2019, 2020 and 2021, the Changsha Property Company's income tax expense amounted to RMB7.0 million, RMB5.0 million and RMB6.0 million, respectively. The effective tax rate for each of the years ended 31 December 2019, 2020 and 2021 was 25.2%, 25.1% and 25.0%, respectively.

RESULTS OF OPERATIONS

The following discussions of the results of operations of the Changsha Property Company should be read in conjunction with the Changsha Property Company's combined financial statements and the accompanying notes thereto set out in Appendix 2B to this Circular.

The Changsha Property Company's results of operation (a) decreased from a profit of approximately RMB20.7 million for the year ended 31 December 2019 to a profit of approximately RMB14.9 million for the year ended 31 December 2020; and (b) increased from a profit of approximately RMB14.9 million for the year ended 31 December 2020 to a profit of approximately RMB17.9 million for the year ended 31 December 2021.

The fluctuations of the Changsha Property Company's results of operation in each of the years referred to above were primarily attributable to the reasons as discussed above.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, there were 6 employees under the Changsha Property Company. The total remuneration paid to the Changsha Property Company's employees for the year ended 31 December 2019 was approximately RMB1.8 million. During 2020, there were 7 employees under the Changsha Property Company. The total remuneration paid to the Changsha Property Company employees for the year ended 31 December 2020 was approximately RMB1.9 million. As at 31 December 2020 and 2021, there was no employee under the Changsha Property Company.

LIQUIDITY AND CAPITAL RESOURCES

The Changsha Property Company financed its operations and working capital requirements primarily through a combination of capital injection from holding companies and borrowings from related companies.

Cash and Cash Equivalents

As at 31 December 2019, 2020 and 2021, the Changsha Property Company had cash and cash equivalents amounting to RMB8.7 million, RMB4.2 million, and RMB2.2 million, respectively. All the cash and cash equivalents held by the Changsha Property Company were denominated in RMB.

Borrowings

As at 31 December 2019, loans from related companies represent (i) loans from related companies of approximately RMB139.0 million with weighted average interest at a fixed rate of 1.7% per annum with the term of one year, and (ii) interest payables for the loan from related companies of approximately RMB71,000, which are paid at maturity.

As at 31 December 2020, loans from related companies represent (i) loans from related companies of approximately RMB198.7 million with weighted average interest at a fixed rate of 1.8% per annum with the term of one year, and (ii) interest payables for the loan from related companies of approximately RMB0.1 million, which are paid at maturity.

As at 31 December 2021, loans from related companies represent (i) loans from related companies of approximately RMB257.5 million which bore interest at a fixed rate of 3.20% per annum with the maturity date of 15 June 2022, and (ii) interest payables from the loan from related companies of approximately RMB1.0 million, which are paid at maturity.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT FINANCIAL RISKS

Foreign Exchange Risk

The Changsha Property Company conducts its business in the PRC and all transactions are denominated in RMB. Therefore, the Changsha Property Company has no foreign exchange risk exposure.

Fair Value Interest Rate Risk

The Changsha Property Company's interest rate risk is mainly attributable to its amounts due to related companies. The Changsha Property Company's amounts due to related companies are obtained at fixed rates which exposed the Changsha Property Company to fair value interest rate risk. Details of the Changsha Property Company's amounts due to related companies have been disclosed in Note 27 of the Accountant's Report as set out in Appendix 2B to this Circular. The Changsha Property Company currently has not entered into any interest rate swap contract and will only consider hedging if there is significant interest rate risk. Other than amounts due to related companies, the Changsha Property Company does not have significant interest-bearing assets or liabilities.

Liquidity Risk

The management of the Changsha Property Company monitors and maintains a level of cash and cash equivalents deemed adequate by it to finance the Changsha Property Company's operations. As at 31 December 2019 and 2020, the Changsha Property Company had net current liabilities of RMB191.4 million and RMB251.8 million, respectively.

As at 31 December 2021, the Changsha Property Company had net current liabilities of RMB313.3 million. Taking into account the available resources as set out in Note 2.1 of the Accountant's Report as set out in Appendix 2B to this Circular, the Changsha Property Company will be able to meet its financial obligation when they fall due.

Gearing Ratio

As at 31 December 2019, 2020 and 2021, the gearing ratio (being the total borrowings divided by total assets) of the Changsha Property Company was 33.7%, 40.5% and 45.8%, respectively. Total borrowings are equal to the Changsha Property Company's total loan from related companies under amounts due to related companies.

As or as soon as practicable following Completion, the gearing ratio of the Enlarged Group is approximately 35.5%. The Manager believes that this level is prudent under the current market conditions, and notes that it does not exceed 50.0%, being the borrowing limit as permitted under the REIT Code. For details of the gearing ratio of the Enlarged Group, please refer to section 5.5 headed "Financing of the Acquisition – Gearing Ratio" in the Letter to the Unitholders as set out in this Circular.

SIGNIFICANT INVESTMENTS

Save for being the registered legal owner of the land use rights and property ownership rights underlying the aboveground levels of the Changsha Property, the Changsha Property Company does not have other significant investments nor any material acquisitions or disposals of subsidiaries and affiliated companies during the years ended 31 December 2019, 2020 and 2021.

CHARGES ON ASSETS

As at 31 December 2019, 2020 and 2021, there were no charge over any asset of the Changsha Property Company.

FUTURE PLANS AND PROSPECTS

The Changsha Property is expected to be leased out for rental income and may have potential appreciation in value in the long run.

As at the Latest Practicable Date, the Changsha Property Company did not plan to launch new business or make material investments or capital assets.

OFF-BALANCE SHEET ARRANGEMENTS

As at 31 December 2019 and 2020, the capital commitments of the Changsha Property Company amounted to RMB27.3 million and RMB42.4 million, respectively. As at 31 December 2019 and 2020, the Changsha Property Company did not have any material contingent liabilities or other off-balance sheet arrangements.

As at 31 December 2021, the Changsha Property Company did not have any capital commitments, nor did it have any material contingent liabilities or other off-balance sheet arrangements.

NO MATERIAL ADVERSE CHANGE

The Directors have confirmed that, since 31 December 2021 and up to the date of this Circular, there was no material adverse change in the Changsha Property Company's financial or trading position or prospects and no event had occurred that would materially and adversely affect the financial information in the Accountant's Report as set out in Appendix 2B to this Circular.

(A) BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma consolidated statement of assets and liabilities and unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group (the "Unaudited Pro Forma Financial Information") have been prepared on the basis of the notes set out below and in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effects of the Acquisition on the consolidated statement of assets and liabilities and the consolidated statement of comprehensive income of the Enlarged Group, as if the Acquisition had been completed on 31 December 2021 for the unaudited pro forma consolidated statement of assets and liabilities and on 29 April 2021 (date of establishment of SF REIT) for the unaudited pro forma consolidated statement of comprehensive income.

The Unaudited Pro Forma Financial Information has been prepared based on (i) the use of accounting policies consistent with that of SF REIT, as set out in the audited consolidated financial statements of SF REIT for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021; (ii) the audited consolidated balance sheet as at 31 December 2021, the audited consolidated income statement and the audited consolidated statement of comprehensive income of SF REIT for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021, as set out in its consolidated financial statements for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021; (iii) the consolidated balance sheet and the consolidated statement of comprehensive income of the Target Company and its subsidiary and the balance sheet and the statement of comprehensive income of the Changsha Property Company as at and for the period ended 31 December 2021; and (iv) other pro forma adjustments prepared to reflect the effects of the Acquisition as explained in the notes set out below that are directly attributable to the Acquisition and not relating to future events or decisions and are factually supportable.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of SF REIT as contained in the consolidated financial statements of SF REIT for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021, as extracted from the annual report of SF REIT for the same period, and other financial information contained in this Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Manager for illustrative purposes only and is based on a number of assumptions, estimates and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position and the financial performance of the Enlarged Group had the Acquisition been completed as at 31 December 2021 or 29 April 2021 (date of establishment of SF REIT), where applicable, or at any future date.

I. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AS AT 31 DECEMBER 2021

		Pro forma adjustments							
					Other adjustments				
	The SF REIT Group as at 31 December 2021	The Target Company and its subsidiary as at 31 December 2021	The Changsha Property Company as at 31 December 2021	The Changsha Property Company as at 31 December 2021					Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 31 December 2021
	HK$'000	*HK$'000*	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
	Audited	Audited	Audited						
Assets									
Non-current assets									
Investment properties	6,541,755	–	550,100	673,212			(11,107)	9,694	7,213,554
Property, plant and equipment	14,171	–	–	–					14,171
Land use rights	673	–	–	–					673
Intangible assets	312	–	–	–					312
	6,556,911	**–**	**550,100**	**673,212**			**(11,107)**	**9,694**	**7,228,710**
Current assets									
Trade receivables	344	–	129	158					502
Amounts due from related companies	6,460	–	176	215					6,675
Prepayments, deposits and other receivables	16,332	–	11,974	14,654					30,986
Restricted cash	32,060	–	–	–					32,060
Cash and cash equivalents	397,453	–	2,176	2,663	2,850		(603,564)	327,041	375,599
								259,000	
								(9,844)	
	452,649	**–**	**14,455**	**17,690**	**2,850**		**(603,564)**	**576,197**	**445,822**
Total assets	**7,009,560**	**–**	**564,555**	**690,902**	**2,850**		**(614,671)**	**585,891**	**7,674,532**

		Pro forma adjustments							
	The SF REIT Group as at 31 December 2021	The Target Company and its subsidiary as at 31 December 2021	The Changsha Property Company as at 31 December 2021	The Changsha Property Company as at 31 December 2021	Other adjustments				Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 31 December 2021
	HK$'000	*HK$'000*	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
	Audited	Audited	Audited						
Liabilities									
Current liabilities									
Trade payables	1,547	–	233	285					1,832
Other payables	94,262	–	61,780	75,607					169,869
Borrowings	35,338	–	–	–				8,176	43,514
Amounts due to related companies	87,696	22	264,659	323,889		284,979	(327,041)		84,566
							(284,979)		
Current tax liabilities	1,510	–	1,069	1,308					2,818
	220,353	22	327,741	401,089		284,979	(612,020)	8,176	302,599
Non-current liabilities, other than net assets attributable to unitholders									
Long term borrowings	2,106,153	–	–	–				318,865	2,684,018
								259,000	
Deferred tax liabilities	561,095	–	7,780	9,521			(9,521)		561,095
Deferred government grants	30,285	–	4,095	5,011					35,296
	2,697,533	–	11,875	14,532			(9,521)	577,865	3,280,409
Total liabilities, other than net assets attributable to unitholders	2,917,886	22	339,616	415,621		284,979	(621,541)	586,041	3,583,008
Net assets attributable to unitholders/Net assets	4,091,674	(22)	224,939	275,281	2,850	(284,979)	6,870	(150)	4,091,524

II. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ENLARGED GROUP FOR THE PERIOD FROM 29 APRIL 2021 (DATE OF ESTABLISHMENT OF SF REIT) TO 31 DECEMBER 2021

		Pro forma adjustments										
	The SF REIT Group for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021	**The Target Company and its subsidiary for the period from 30 November 2021 (date of incorporation) to 31 December 2021**	**The Changsha Property Company for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021**	**The Changsha Property Company for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021**	**Other adjustments**							**Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021**
	HK$'000	*HK$'000*	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 7	*Note 8*	*Note 8*	*Note 8*	*Note 6*	*Note 9*	*Note 10*	*Note 11*	*Note 12*	*Note 13*	*Note 14*	
	Audited	Audited	Audited									
Revenue	244,274	–	28,939	35,060						1,689		281,023
Property operating expenses	(49,386)	–	(9,562)	(11,584)							4,351	(56,619)
Net property income	**194,888**	**–**	**19,377**	**23,476**						**1,689**	**4,351**	**224,404**
General and administrative expenses	(29,328)	(22)	(93)	(113)	(150)				(1,393)			(31,006)
Fair value changes on investment properties	80,838	–	21	25		1,727						82,590
Other (loss)/income, net	(2,924)	–	100	121								(2,803)
Operating profit/ (loss)	**243,474**	**(22)**	**19,405**	**23,509**	**(150)**	**1,727**			**(1,393)**	**1,689**	**4,351**	**273,185**
Finance income	109	–	70	85								194
Finance costs	(22,693)	–	(3,232)	(3,916)				(10,056)				(36,665)
Profit/(Loss) before tax and transactions with Unitholders	**220,890**	**(22)**	**16,243**	**19,678**	**(150)**	**1,727**		**(10,056)**	**(1,393)**	**1,689**	**4,351**	**236,714**
Income tax (expense)/credit	(46,619)	–	(4,067)	(4,927)		(432)	(538)	2,005	–	(422)	(1,088)	(52,021)
Profit/(Loss) after income tax before transactions with unitholders	174,271	(22)	12,176	14,751	(150)	1,295	(538)	(8,051)	(1,393)	1,267	3,263	184,693
Transactions with unitholders	–	–	–	–								–
Profit/(Loss) after income tax and transactions with unitholders	174,271	(22)	12,176	14,751	(150)	1,295	(538)	(8,051)	(1,393)	1,267	3,263	184,693

	Pro forma adjustments											
	The SF REIT Group for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021	**The Target Company and its subsidiary for the period from 30 November 2021 (date of incorporation) to 31 December 2021**	**The Changsha Property Company for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021**	**The Changsha Property Company for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021**	**Other adjustments**							**Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021**
	HK$'000	*HK$'000*	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 7	*Note 8*	*Note 8*	*Note 8*	*Note 6*	*Note 9*	*Note 10*	*Note 11*	*Note 12*	*Note 13*	*Note 14*	
	Audited	Audited	Audited									
Other comprehensive income for the period:												
Exchange gain on translation of financial statements	2,213	–	–	–								2,213
Other comprehensive income for the period, net of tax	2,213	–	–	–								2,213
Total comprehensive income/(loss) for the period	**176,484**	**(22)**	**12,176**	**14,751**	**(150)**	**1,295**	**(538)**	**(8,051)**	**(1,393)**	**1,267**	**3,263**	**186,906**
Total distributable income *(Note 16)*	137,915											149,662
Distribution per unit (HK) *(Note 17)*	17.24 cents											18.71 cents

Notes:

1. The balances are extracted from the audited consolidated balance sheet of SF REIT as at 31 December 2021.

2. The balances are extracted from the audited consolidated balance sheet of the Target Company and its subsidiary the Changsha Intermediary Company, and the audited balance sheet of the Changsha Property Company as at 31 December 2021 as set out in the Appendices 2A and 2B to this Circular, which are converted from its presentation currency of RMB to HK$ at the period-end closing rate on 31 December 2021 of RMB1 to HK$1.2238.

3. As part of the Reorganisation, pursuant to the capital increase agreement dated 6 April 2022 entered into among the Investor (being an independent third party of the SFH Group and the SF REIT Group), Shenzhen Fengtai (being the previous holding company of the Changsha Property Company) and the Changsha Property Company, the Investor agreed to make a capital contribution of RMB2,329,000 (equivalent to approximately HK$2,850,000) to the Changsha Property Company in exchange of 1% of the equity interest in the Changsha Property Company, which was accounted as net assets of the Changsha Property Company.

4. As part of the Reorganisation, pursuant to the equity transfer agreement entered into between Shenzhen Fengtai and the Changsha Intermediary Company date 27 April 2022, the Changsha Intermediary Company agreed to purchase 99% of the equity interest in the Changsha Property Company from Shenzhen Fengtai at the cash consideration of RMB230,535,000 (equivalent to approximately HK$282,129,000). Pursuant to the equity transfer agreement dated 27 April 2022 entered into between the Investor and the Changsha Intermediary Company, the Changsha Intermediary Company agreed to purchase 1% of the equity interest in the Changsha Property Company from the Investor at the cash consideration of RMB2,329,000 (equivalent to approximately HK$2,850,000). The consideration for the above transfer of 1% of the equity interest in the Changsha Property Company was fully settled on 18 May 2022 by SF Holding (being an indirect wholly-owned subsidiary of SFH) on behalf of the Changsha Intermediary Company. Upon completion of the above equity transfers, the Changsha Property Company becomes wholly-owned by the Target Company (through the Changsha Intermediary Company). The aggregate considerations for the above transfers of the 100% equity interest of Changsha Property Company amounting to RMB232,864,000 (equivalent to approximately HK$284,979,000) is recorded as the reorganisation payable (the "Reorganisation Payable"). The Reorganisation Payable forms part of the consideration of the Acquisition which will be settled by SF REIT at Completion as set out in note 5 below.

5. For the purpose of the preparation of the unaudited pro forma financial information, the total consideration for the Acquisition of RMB493,188,000 (equivalent to approximately HK$603,564,000) which is calculated as follow:

	RMB'000	*HK$'000 Equivalent*
The Initial Share Consideration:		
Agreed Property Value	540,000	660,852
Target Group Adjusted NAV	(546,910)	(669,308)
Represented by:		
Proforma net asset value of the Target Group (i)	(5,614)	(6,870)
Carrying amount of investment properties as at 31 December 2021	(550,100)	(673,212)
Deferred tax liabilities in relation to changes in fair value of investment properties as at 31 December 2021	8,804	10,774
Total Initial Share Consideration	(6,910)	(8,456)
The Intercompany Payables (ii)	500,098	612,020
Total Consideration	493,188	603,564

(i) The adjusted net asset value of the Target Group was determined based on the aggregate net asset value of the Target Company, the Changsha Intermediary Company and the Changsha Property Company as at 31 December 2021 of approximately RMB224,921,000 (equivalent to approximately HK$275,259,000) and effects on net asset value of approximately RMB2,329,000 (equivalent to approximately HK$2,850,000) and negative RMB232,864,000 (equivalent to approximately HK$284,979,000) as set out in notes 3 and 4, respectively.

(ii) The Intercompany Payables means collectively, the Onshore Payable of RMB267,234,000 (equivalent to approximately HK$327,041,000) and the Reorganisation Payable of RMB232,864,000 (equivalent to approximately HK$284,979,000).

For the purpose of the preparation of the unaudited pro forma financial information, the Acquisition is accounted for as an acquisition of assets in accordance with IFRS 3 "Business Combination". Accordingly, the corresponding pro forma adjustments of the consideration is adjusted to the investment properties. In accordance with IAS 12 Income Taxes, deferred tax liabilities shall not be recognised for all taxable temporary differences if it is arising from the initial recognition of an asset in a transaction which is not a business combination, and at that time of the transaction, affects neither accounting profit nor taxable profit. As such, the deferred tax liabilities recognised by the Changsha Property Company as at 31 December 2021 have been reversed.

	RMB'000	*HK$'000 Equivalent*
Total Consideration	493,188	603,564
Less: Adjusted net asset value of the Target Group as at 31 December 2021 *(note (a))*	(502,264)	(614,671)
Proforma adjustment to the investment properties	(9,076)	(11,107)

Note (a):

	RMB'000	*HK$'000 Equivalent*
Proforma net asset value of the Target Group (i)	(5,614)	(6,870)
Adjusted by:		
Intercompany Payables (ii)	500,098	612,020
Deferred tax liabilities as at 31 December 2021	7,780	9,521
Adjusted net asset value of the Target Group as at 31 December 2021	502,264	614,671

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.

6. For the purpose of preparing the pro forma financial information, the Total Consideration for the Acquisition of approximately RMB493,188,000 (equivalent to approximately HK$603,564,000) and the estimated transaction costs of approximately HK$9,844,000 (equivalent to approximately RMB8,044,000), of which approximately HK$9,694,000 (equivalent to approximately RMB7,921,000) are directly attributable to the Acquisition, and the remaining HK$150,000 (equivalent to approximately RMB123,000) is recognised in the profit or loss as it is not directly attributable to the Acquisition. The Total Consideration and the estimated transaction costs will be settled by: 1) the drawdown of Onshore Term Loan of approximately RMB267,234,000 (equivalent to approximately HK$327,041,000), in which approximately RMB6,681,000 (equivalent to approximately HK$8,176,000) to be repaid within 2022 and the remaining balance to be repaid over the years from 2023 to 2030, 2) the drawdown of the Extended Offshore Term Loan of HK$259,000,000 (equivalent to approximately RMB211,636,000); and 3) the cash and bank balance of SF REIT of RMB22,362,000 (equivalent to approximately HK$27,367,000), in which it has taken account into the receipt of Initial Share Consideration from Seller amounting to approximately RMB6,910,000 (equivalent to approximately HK$8,456,000).

7. The amounts represent the financial results of SF REIT for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021, which are extracted from the audited consolidated statement of income statement and comprehensive income of SF REIT for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021.

8. The amounts are derived from the consolidated statement of comprehensive income of the Target Company and its subsidiary the Changsha Intermediary Company, and the statement of comprehensive income of the Changsha Property Company for the period ended 31 December 2021 included in the Accountant's Report as set out in Appendices 2A and 2B to this Circular, which are converted from its presentation currency of RMB to HK$ at the average rate for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021 of RMB1 to HK$1.2115.

9. The amount represents the fair value adjustment to the carrying amount of the investment properties and related tax expense as if the Acquisition had been completed on 29 April 2021. Assuming the Acquisition had completed on 29 April 2021, the fair value of the investment properties of the Changsha Property Company would be RMB550,079,000 (equivalent to approximately HK$673,187,000), which was the total of the fair value as at 29 April 2021 based on the valuation performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited and the additions of the construction cost incurred during the period from 29 April 2021 to 31 December 2021. The valuation methodology used and related assumptions are consistent with those valuations as at 31 December 2019, 2020 and 2021.

10. The adjustment on deferred tax liabilities for withholding tax on the unremitted earnings of the Changsha Property Company for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021 is calculated at a tax rate of 10%. The adjustment has a recurring nature.

11. The adjustment represents the net impact of 1) the reversal of finance costs on the loans from related companies of the Target Group of RMB3,232,000 (equivalent to approximately HK$3,915,000), and related income tax expenses of RMB808,000 (equivalent to approximately HK$979,000) for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021 due to the assumed settlement of the loans from related companies immediately before Completion, 2) finance costs assumed to be incurred by the Changsha Property Company of RMB9,850,000 (equivalent to approximately HK$11,933,000), and related income tax expenses of RMB2,463,000 (equivalent to approximately HK$2,984,000) for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021 for the drawdown of the Onshore Term Loan as set out in note 6 above; and 3) finance costs assumed to be incurred by SF REIT of RMB1,682,000 (equivalent to approximately HK$2,038,000) for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021 for the Extended Offshore Term Loan draw down set out in note 6 above.

12. Pursuant to the Trust Deed, the Manager of SF REIT is entitled to receive a base fee calculated at 10.0% per annum of the Base Fee Distributable Income of SF REIT. After taking into account the effect of the Acquisition, should the terms in the Trust Deed remain unchanged, an additional base fee of HK$1,305,000 for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021 would be charged. The adjustment has a recurring nature.

    Also, pursuant to the Trust Deed, SF REIT will pay the Trustee a fee of 0.02% per annum of the carrying value of the Deposited Property, where the value of the Deposited Property is, or is greater than, HK$5 billion but less than HK$9 billion. After taking into account the effect of the Acquisition, should the terms in the Trust Deed remain unchanged, an additional trustee fee of HK$88,000 for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021 would be charged. The adjustment has a recurring nature.

13. Pursuant to the lease agreements entered into for the Changsha SF Leases, the rental and the related management service income from the SFH Group will be determined by reference to the then current open market rent. The adjustment represents the recognition of rental income and related management service income from the SFH Group of RMB20,936,000 (equivalent to approximately HK$25,364,000), and related income tax expenses of RMB5,234,000 (equivalent to approximately HK$6,341,000) and the reversal of the existing rental income and related management service income from the SFH Group of RMB19,542,000 (equivalent to approximately HK$23,675,000), and related income tax expenses of RMB4,886,000 (equivalent to approximately HK$5,919,000) for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021. The net effect of the above adjustments on the revenue and the income tax expense is RMB1,394,000 (equivalent to approximately HK$1,689,000) and RMB348,000 (equivalent to approximately HK$422,000) respectively. The adjustment has a recurring nature.

14. Pursuant to the Operations Management Agreement entered into on 1 March 2022, the property management service of the Target Group will be handled by Changsha Hongjie Industrial Park Operation Management Co., Ltd. The adjustment represents the property management service fee of RMB549,000 (equivalent to approximately HK$665,000) calculated based on 2% of the sum of the monthly rental income and property management fee (inclusive of VAT) of the Changsha Property Company, and related income tax credit of RMB137,000 (equivalent to approximately HK$166,000) for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021 and the reversal of the existing property management service fee of RMB4,140,000 (equivalent to approximately HK$5,016,000) incurred by the Target Group and related income tax credit of RMB1,035,000 (equivalent to approximately HK$1,254,000) for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021. The net effect of the above adjustments on the property operating expenses and the income tax expense is RMB3,591,000 (equivalent to approximately HK$4,351,000) and RMB898,000 (equivalent to approximately HK$1,088,000) respectively. The adjustment has a recurring nature.

15. Unless otherwise stated the adjustments above do not have a recurring effect.

16. The total distributable income in respect of the Enlarged Group is determined in accordance with the Trust Deed, and annual report of SF REIT for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021, being the profit for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021, before transactions with Unitholders attributable to Unitholders, after adjusting (a) fair value changes on investment properties, (b) negative goodwill, (c) differences between finance cost and interest paid in accordance with contractual obligations, (d) deferred tax charges, (e) depreciation and amortization, (f) appropriation to Chinese statutory reserve, (g) listing expense, (h) amortization of cost of debt, (i) historical tax loss utilised, (j) amortization of government grants, (k) net reversal for impairment losses of financial assets, (l) differences between accounting rental income and contractual rental income and (m) amounts not available for distribution, related to the profit after tax for the period from 29 April 2021 (date of establishment) to 16 May 2021, since pursuant to the Trust Deed, the first distributable period represented the period from and including 17 May 2021 (listing date of SF REIT) to and including 31 December 2021.

17. The distribution per unit of SF REIT for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021 is disclosed in annual report of SF REIT for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021.

    The calculation of distribution per Unit of the Enlarged Group is arrived at adjusting the amounts not available for distribution related to profit after tax for the period from 29 April 2021 (Date of Establishment) to 16 May 2021 for SF REIT Group, Target Group and Changsha Property Company and on the basis of the total distributable income after additional items of the Enlarged Group of HK$149,662,000 and on the basis that 800,000,000 Units were in issue as at 31 December 2021.

(B) INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report on the unaudited pro forma financial information of the Enlarged Group received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of SF REIT Asset Management Limited, the Manager of SF Real Estate Investment Trust (the "Manager")

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of SF Real Estate Investment Trust ("**SF REIT**") and its subsidiaries (collectively the "**Group**"), Changsha Jietai e-commerce Industrial Park Management Co., Ltd. (the "**Changsha Property Company**") and Changsha Industrial Park Limited and its subsidiary (the "**Target Group**") by the directors of the Manager (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2021, the unaudited pro forma consolidated statement of comprehensive income for the period from 29 April 2021 to 31 December 2021 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages A4-1 to A4-9 of SF REIT's circular dated 7 June 2022, in connection with the proposed acquisition of the Target Company (the "**Transaction**") by SF REIT. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages A4-1 to A4-9 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Transaction on the Group's financial position as at 31 December 2021 and its financial performance for the period from 29 April 2021 to 31 December 2021 as if the Transaction had taken place at 31 December 2021 and 29 April 2021 respectively. As part of this process, information about the Group's financial position and financial performance has been extracted by the Directors from the Group's financial statements for the period ended 31 December 2021, on which an audit report has been published.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7, Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, as if paragraph 4.29(7) of the Listing Rules were applicable to SF REIT, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules, as if paragraph 4.29(7) of the Listing Rules were applicable to SF REIT and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 31 December 2021 or 29 April 2021 respectively would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules, as if paragraph 4.29 of the Listing Rules were applicable to SF REIT.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 7 June 2022

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this Circular received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 31 March 2022 of the Property.

JLL®
仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
7/F, One Taikoo Place, 979 King's Road Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No: C-030171

7 June 2022

SF REIT Asset Management Limited
(in its capacity as manager of SF Real Estate Investment Trust, the "REIT Manager")
Room 2002, 20/F, Lee Garden Six,
111 Leighton Road,
Causeway Bay,
Hong Kong

DB Trustees (Hong Kong) Limited
(in its capacity as trustee of SF Real Estate Investment Trust, the "Trustee")
Level 60, International Commerce Centre,
1 Austin Road West,
Kowloon,
Hong Kong

Dear Sirs,

In accordance with the instructions of SF REIT Asset Management Limited (in its capacity as manager of SF Real Estate Investment Trust, "**SF REIT**") to value Changsha Fengtai Industrial Park (the "**Property**") in the People's Republic of China (the "**PRC**") for the purpose of the proposed acquisition of the Property by SF REIT and its subsidiaries (hereafter together referred as the "**SF REIT Group**"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at 31 March 2022 (the "**valuation date**") for disclosure purpose.

Our valuation is carried out on a market value basis. Market value 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".

We have valued the Property by the Income Capitalisation Method which is appropriate for valuation of properties with stable and uniform tenancy terms, by taking into account the fully leased net rental income of the Property derived from the existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases, which have been then capitalised to determine the market value at an appropriate capitalisation rate.

Our valuation has been made on the assumption that the seller sells the property interest in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

We are not aware of any significant overseas taxes expected to be charged in respect of the Property.

In valuing the Property, we have complied with all requirements contained in paragraph 6.8 of the Code on Real Estate Investment Trust (the "REIT Code") published by the Securities and Futures Commission, the RICS Valuation – Global Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors, and the International Valuation Standards published by the International Valuation Standards Council.

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 tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of title documents including State-owned Construction Land Use Rights Grant Contracts, Real Estate Ownership Certificates and other official plans relating to the property interest in the PRC and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the Property and any material encumbrance that might be attached to the Property or any tenancy amendment. We have relied considerably on the advice given by the REIT Manager's PRC Legal Advisers – King & Wood Mallesons, concerning the validity of the property interest in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the Property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the Property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the Property are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the Property was carried out in February 2022 by Mr. Samuel Feng. Mr. Samuel Feng has more than 4 years' experience in the valuation of properties in the PRC and holds a master degree of Engineering Management from the University of Melbourne.

We have examined the copies of the lease agreements to verify the details of the tenancies provided by the REIT Manager. We have had no reason to doubt the truth and accuracy of the information provided to us by the REIT Manager. We have also sought confirmation from the REIT Manager that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive at an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB) in respect of the Property.

We are instructed to provide our opinion of value as per the valuation date only. It is based on economic, market and other conditions as they exist on, and information made available to us as of, the valuation date and we assume no obligation to update or otherwise revise these materials for events in the time since then. In particular, the outbreak of the Novel Coronavirus (COVID-19) since declared Global Pandemic on 11 March 2020 has caused much disruption to economic activities around the world. As of the report date, China's economy is experiencing gradual recovery and it is anticipated that disruption to business activities will steadily reduce. We also note that market activity and market sentiment in this particular market sector remain stable. However, we remain cautious due to uncertainty for the pace of global economic recovery in the midst of the outbreak which may have future impact on the real estate market. Therefore, we recommend that you keep the valuation of this property under frequent review.

We are independent of SF REIT, the Trustee, the REIT Manager and each of the substantial unitholders of SF REIT and are considered independent in every respect set out in paragraph 6.5 of the REIT Code. Mr. Eddie T. W. Yiu possesses the necessary experience for the valuation of the Property and has no potential conflict of interest. The valuation of the Property is prepared on fair and unbiased basis.

Our valuation certificate is attached below for your attention.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Eddie T. W. Yiu
MRICS MHKIS RPS (GP)
Senior Director

Note: Eddie T. W. Yiu is a Chartered Surveyor who has 28 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

VALUATION CERTIFICATE

Property to be acquired and held for investment in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2022 *RMB*
Changsha Fengtai Industrial Park No. 102 Hexin Road Huangxing Town Changsha County Changsha City Hunan Province The PRC (長沙豐泰產業園)	The Property occupies 2 parcels of land with a total site area of approximately 169,844.84 sq.m., which had been developed into an industrial park in two phases. The Property comprises two single-storey warehouses, a three-storey warehouse (with two underground levels with 218 car parking spaces), a ramp-up two-storey distribution centre, a nine-storey office building and three ancillary buildings which were completed between 2019 and 2021. The Property has a total gross floor area of approximately 113,466.74 sq.m. The usage, gross floor area and gross lettable area details of the Property are set out in note 7. The land use rights of the Property have been granted for terms expiring on 30 December 2066 and 28 February 2068 for warehouse use.	As at the valuation date, portions of the Property with a total gross lettable area of approximately 118,784.62 sq.m. were rented to various lessees for various terms with the expiry dates between 14 June 2022 and 22 May 2025 at a total monthly rent of approximately RMB3,565,297 before profit tax, inclusive of management fee but exclusive of value-added tax, water and electricity charges and other outgoings.	550,400,000 (As at the valuation date, based on the aforesaid total monthly rent, the net yield of the Property is approximately 7.8%)

Notes:

1. The Property is situated on the northern side of Hexin Road close to its junction with Shengxiang Road to the east. The locality is characterized by industrial/warehouse buildings of various ages.

2. Pursuant to a State-owned Construction Land Use Rights Grant Contract – No. 003859 dated 13 December 2016, the land use rights of a parcel of land with a site area of approximately 117,333 sq.m. were contracted to be granted to Changsha Jietai E-Commerce Industrial Park Asset Management Co., Ltd. (長沙捷泰電商產業園管理有限公司, "Changsha Property Company") for a term of 50 years for warehouse use commencing from the land delivery date. The total land premium was RMB62,780,000.

3. Pursuant to a State-owned Construction Land Use Rights Grant Contract – No. 003957 dated 16 January 2018, the land use rights of a parcel of land with a site area of approximately 52,511.84 sq.m. were contracted to be granted to Changsha Property Company for a term of 50 years for warehouse use commencing from the land delivery date. The total land premium was RMB28,100,000.

4. Pursuant to 2 Real Estate Ownership Certificates (for land) – Xiang (2017) Chang Sha Xian Bu Dong Chan Quan Di No. 0042751 and Xiang (2018) Chang Sha Xian Bu Dong Chan Quan Di No. 0032109, the land use rights of 2 parcels of land with a total site area of approximately 169,844.84 sq.m. have been granted to Changsha Property Company for terms expiring on 30 December 2066 and 28 February 2068 for warehouse use.

5. Pursuant to 8 Real Estate Ownership Certificates – Xiang (2020) Chang Sha Xian Bu Dong Chan Quan Di Nos. 0005814, 0005816, 0005821, 0005834, 0005836, 0008304 and Xiang (2021) Chang Sha Xian Bu Dong Chan Quan Di Nos. 0047767 and 0066059, the aboveground levels of the Property with a total gross floor area of approximately 113,466.74 sq.m. are owned by Changsha Property Company.

6. For the two underground levels (including 218 car parking spaces) within warehouse No. 3 of the Property, we have not been provided with any Real Estate Ownership Certificates.

7. According to the information provided by the REIT Manager, the gross floor area and gross lettable area of the Property as at the valuation date are set out as below:

Usage	**Gross Floor Area** *(sq.m.)*	**Gross Lettable Area** *(sq.m.)*
Warehouse	63,500.85	68,273.94
Distribution Centre	38,386.89	40,386.89
Office building	11,340.76	11,394.40
Ancillary	238.24	–
218 car parking spaces	N/A	N/A
Total:	113,466.74	120,055.23[Note]

Note: According to the approved building plan and information provided by the REIT Manager, the Gross Lettable Area of the Property includes the areas of facilities and structures such as material handling system that are partially or completely not required to be recorded on the title certificates. These facilities and structures can be used and leased out. As a result, the Gross Lettable Area of the Property is larger than Gross Floor Area in this circumstance.

8. Our valuation has been made on the following basis and analysis of the tenancy profile as at the valuation date provided by the REIT Manager:

Occupancy Profile

Type	**Gross Lettable Area** *(sq.m.)*	**% to Total Gross Lettable Area**
Leased	118,784.62	98.9%
Vacant	1,270.61	1.1%
Total:	120,055.23	100%

Lease Expiry Profile

Expiry year	**Gross Lettable Area** *(sq.m.)*	**% to Total Gross Lettable Area**	**Monthly Rent** ***(RMB)***[Note]	**% to Total Monthly Rent**
2022	59,240.00	49.3%	1,716,258	48.1%
2023	11,673.09	9.7%	416,478	11.7%
2024	36,716.40	30.6%	940,118	26.4%
2025	11,155.13	9.3%	492,443	13.8%
Total:	118,784.62	98.9%	3,565,297	100%

Lease Duration Profile

Lease Duration	**Gross Lettable Area** *(sq.m.)*	**% to Total Gross Lettable Area**	**Monthly Rent** ***(RMB)***[Note]	**% to Total Monthly Rent**
Up to 1 year	18,015.85	15.0%	522,125	14.6%
1 – 2 years	26,973.17	22.4%	776,993	21.8%
2 – 3 years	51,839.31	43.2%	1,471,077	41.3%
3 – 4 years	9,717.87	8.1%	276,785	7.8%
4 – 5 years	12,238.42	10.2%	518,317	14.5%
Total:	118,784.62	98.9%	3,565,297	100%

Note: The monthly rent is inclusive of management fee but exclusive of value-added tax, water and electricity charges and other outgoings.

9. The PRC Legal Advisers noted that the real estate ownership certificates of the Changsha Property have not covered the underground car parking spaces and equipment rooms of the Property. In response to the PRC Legal Advisers' due diligence enquiries, the Development and Utilization Department of Changsha County Natural Resources Bureau（長沙縣自然資源局開發利用科）confirmed that the Changsha Property Company is currently unable to apply for a real estate ownership certificate for the underground car parking spaces and equipment rooms as the prevailing local policy has not provided for such application. The PRC Legal Advisers are of the view that (a) the Changsha Property Company is entitled to apply for such real estate ownership certificate in respect of the underground car parking spaces and equipment rooms as and when the relevant policy allows for such application in due course subject to the requirements of the relevant PRC laws and regulations and the PRC Legal Advisers do not foresee any material legal impediment for such application and the Changsha Property Company to obtain such real estate ownership certificate if the requirements of the relevant PRC laws and regulations and local policies will be met; (b) the risk of the underground car parking spaces and equipment rooms being formally requisitioned and repossessed as a result of the absence of real estate ownership certificate covering such areas is low subject to the existing PRC regulations and policies; (c) the Changsha Property Company can legally occupy, use and lease out the underground car parking spaces and equipment rooms and derive and receive income therefrom, and the absence of real estate ownership certificate in respect of the underground car parking spaces and equipment rooms would not adversely affect the Changsha Property Company's right in this regard; and (d) there is no material legal impediment for the remittance of the dividends on the retained earnings of the Changsha Property Company, provided that such remittance is legally permissible and complies with the procedures required by the applicable PRC laws and regulations relating to foreign exchange and the withholding tax provisions under the PRC Enterprise Income Tax Law (Please refer to the section 3.6.1 "Ownership and title certificates" headed LETTER TO THE UNITHOLDERS of the circular for more details). In the course of our valuation, we have taken into account the aforesaid legal issues and have included the income gained from the underground car parking spaces in our valuation.

10. The PRC Legal Advisers' due diligence revealed certain minor irregularities (i.e. delay in certain payment instalments in the acquisition of land use rights of the Property, delay in commencement and completion of construction works, and some unauthorised decoration and modification works) at the acquisition and construction phases of the Property. Based on the advice of the PRC Legal Advisers, the Manager estimates that SF REIT's maximum exposure arising from the abovementioned minor irregularities after Completion amounts to RMB0.9 million. In response to the PRC Legal Advisers' due diligence enquiries, the Natural Resources Bureau of Changsha County（長沙縣自然資源局）issued a written confirmation on 25 March 2022 that the Changsha Property Company conducted its business and operations and acquired the land use rights of the Changsha Property in compliance with the relevant laws and regulations of the PRC regarding land and planning management, and the industry management section of the Bureau of Housing and Urban-Rural Development of Changsha County（長沙縣住房和城鄉建設局行業管理科）issued a written confirmation on 24 March 2022 that it had not identified any illegal construction by the Changsha Property Company within Changsha County from 1 March 2019 to 24 March 2022. Having regard to the above, the PRC Legal Advisers are of the view that these issues present no material adverse impact on the ownership of the Changsha Property by the Changsha Property Company (Please refer to the section 3.6.3 "Other minor irregularities" headed LETTER TO THE UNITHOLDERS of the circular for more details). We have relied on the above PRC Legal Advisers' opinion and considered the abovementioned issues and are of the view that such issues would not affect the market value of the Property.

11. We have been provided with a legal opinion regarding the property interest by the REIT's PRC Legal Advisers, which contains, *inter alia*, the following:

    a. Changsha Property Company has obtained the land use rights of the Property for a term of 50 years and such land use rights is not subject to any mortgages, seizing or other encumbrances;

    b. Changsha Property Company has obtained the building ownership rights of portions of the Property mentioned in note 5, and such building ownership rights are not subject to any mortgages, seizing or other encumbrances. In compliance with the relevant laws and regulations, Changsha Property Company has the rights to occupy, use, earn income or otherwise dispose of such portions of the Property;

    c. There are no respective Real Estate Ownership Certificates for the two underground levels of the warehouse No. 3 (currently used as car parking spaces and equipment room) of the Property mentioned in note 6. According to Civil Code of the People's Republic of China and other relevant PRC laws and regulations, Changsha Property Company, as the owner of the land use rights and the developer of such underground levels, has the rights to occupy, use, earn income from such underground levels, and has the rights to lease or transfer the right of use of such portions of the Property to earn income. As and when Changsha Property Company is legally allowed to apply for the real estate registration procedures of the underground levels in Changsha County, the Changsha Property Company has the rights to apply for the real estate registration of the underground levels to obtain the Real Estate Ownership Certificates in compliance with and meeting relevant requirements of the relevant PRC laws and regulations on the occasion;

    d. Changsha Property Company has fully paid the land premium and deed tax of the land use rights of the Property;

    e. Changsha Property Company has obtained investment initiation documents, construction work planning permits and construction work commencement permits for the development of the Property and has finished the procedure of the filing of construction work completion and inspection acceptance. The construction of the Property complies with the relevant laws and regulations in engineering and planning in material aspects; and

    f. The lease agreements of the Property are legal and valid. Such agreements are legally binding on all related parties. The non-registration of the abovementioned lease agreements does not affect the validity or the binding effect of the lease agreements. The Changsha Property Company has the rights to lease the leased portions of the Property and earn income within the lease terms in accordance with the lease agreements and the lessees has the rights to legally use the leased portions of the Property within the lease terms in accordance with the lease agreements.

12. A summary of major certificates/approvals is shown as follows:

a.	State-owned Construction Land Use Rights Grant Contract	Yes
b.	State-owned Land Use Rights Certificate/Real Estate Ownership Certificate (for land)	Yes
c.	Real Estate Ownership Certificate	Yes

13. In valuing the property, we have adopted Income Capitalisation Method. The key parameters used in the Income Capitalisation Method are summarised below:

Usage	**Monthly Market Rent** ***(RMB/sq.m.)*** *Note*	**Term Yield**	**Reversionary Yield**
Warehouse	30.2	4.75%	5.25%
Distribution center	29.3	4.75%	5.25%
Office building	29.5	4.75%	5.25%

Note: The monthly market rent is inclusive of management fee but exclusive of value-added tax, water and electricity charges and other outgoings.

14. For the purpose of this report, the property is classified as property to be acquired and held for investment in the PRC according to the purpose for which it is held.

15. Market Overview

Changsha, the provincial capital and the largest city of Hunan Province, is located in the northeastern part of Hunan Province and the lower reaches of the Xiang River, bordering Jiangxi Province to the east. Changsha covers a land area of approximately 11,819 square kilometers and has approximately 10.05 million permanent residents as of 2020. Changsha is one of the core cities of the Yangtze River Middle Reaches Megalopolis, a grain production base of China, and a national comprehensive transportation hub. The city is also an important high-speed railway hub in central China, which is the junction of several prime railways, including the Beijing-Guangzhou railway, the Shanghai-Kunming railway and the Chongqing-Xiamen railway. In terms of economy, Changsha has witnessed an impressive growth from 2015 to 2021. In 2021, Changsha's GDP achieved RMB1,327.1 billion, representing a y-o-y growth of 7.5%.

Situated in Central China, Changsha is an important node city that connects the Yangtze River Delta Area and the Greater Bay Area to the inland regions. With such a strategic position, as a national comprehensive transportation hub, Changsha has developed a mature transportation system, laying a solid groundwork for the development of the modern logistics industry. Besides, Changsha is also known as the city of entertainment with vibrant retail sector and e-commerce industry. Furthermore, the production chains of various industries, including advanced manufacturing, biomedicine, new energy and advanced material, cluster in the city. The aforementioned industries provide adequate logistics and warehousing demand and boost the development of the modern logistics industry.

On the supply side, Changsha had a scarce Grade A warehouse supply before 2018. As the strategic position of Changsha gradually revealed, logistics property developers started to focus on Changsha's market, and the new supply of Grade A warehouses picked up in 2018. As of 2021, renowned developers, such as GLP, Mapletree and VX, developed their Grade A warehouse projects in Changsha, mainly distributed in Kaifu District, Changsha County and Wangcheng District. Based on the logistics property land transactions and long-term logistics planning, the total Grade A warehouse supply in 2022-2023 will come to over 3 million sq.m. Despite the continuous impact of the COVID-19 pandemic, supported by the dynamic economy of Changsha, it can be expected that increasing new supply will enter the market and enlarge the market scale in the foreseeable future.

On the demand side, possessing a great strategic position and mature and comprehensive transportation facilities, leasing demand in Changsha is relatively strong. The major tenants are 3PLs, e-commerce, retailers and manufacturers. And according to the recent trend, 3PLs and e-commerce tenants are the major demand driver, absorbing most of the Grade A warehouse stock in Changsha. On the other hand, the prime manufacturing industries in Changsha, including machinery, automobile and new energy industry, have been growing steadily. Though these manufacturers may tend to develop self-use warehouses due to various concerns, they are still the drivers of the modern logistics industry that constitute around 15% of the Grade A warehouse leasing demand in Changsha. With the support of related planning and the growing maturity of the modern logistics industry, the demand in Changsha market is anticipated to stably increase.

As mentioned above, in conclusion, the adequate demand is boosting the market growth, while the new supply of Grade A warehouses is increasing to match the existing and potential market demand. As of 2021, the rental level of Grade A warehouses in Changsha was approximately RMB28.9 per sq.m. per month. Meanwhile, the vacancy rate was approximately 16.4%. In the future, driven by the solid demand, the market rent in Changsha is expected to grow in a stable manner. As a decent amount of new supply will appear in the short-term, the vacancy rate may fluctuate, yet the figure is expected to stably decline as the market is getting mature.

Along with the continuous industrial improvement, strong local consumption demand, as well as economic prosperity, the strategic importance of Changsha emerged and such factors have attracted investors to enter Changsha's logistics market. In recent years, Changsha witnessed several en-bloc transactions engaging well-known participants such as Mapletree, Suning, etc.

The following is the market study report prepared for the purpose of incorporation in this Circular provided by Cushman and Wakefield Limited.

CUSHMAN & WAKEFIELD
戴德梁行

7 June 2022

SF REIT Asset Management Limited
(in its capacity as manager of SF Real Estate Investment Trust)
Room 2002, 20/F, Lee Garden Six,
111 Leighton Road,
Causeway Bay,
Hong Kong

DB Trustees (Hong Kong) Limited
(in its capacity as trustee of SF Real Estate Investment Trust)
Level 60, International Commerce Centre,1 Austin Road West,
Kowloon,
Hong Kong

Dear Sirs,

INTRODUCTION

Cushman and Wakefield Limited ("C&W") was engaged by SF REIT Asset Management Limited (the "Company") to provide a market study (the "C&W Report") of the logistic centre comprising of two phases: Phase I – 102 Hexin Road, Huangxing Town, Changsha, Hunan Province, the PRC & Phase II – 157 Dayuan East Road, Huanghua Town, Changsha, Hunan Province, the PRC (the "Property"), in which SF Group (the "Group") operates. This C&W Report is prepared for use in part in the Company's Circular.

SCOPE OF SERVICES

Our scope of work comprises the following contents:

- *Overview of the PRC Economy*

  Main economic indicators of the PRC, the PRC's economic outlook and government policies.

- *Overview of the PRC Property Market*

  Economic indicators of the PRC logistics property market, analysis of the PRC logistics sectors and historical price trends of raw materials.

- *Overview of the Local Economy and the Logistics Property Market*

  Overview of the cities, local economies and the logistics property markets of the cities in which the Group operates.

- *Outlook*

  Outlook of the logistics property markets of the PRC, and the cities in which the Group operates.

STATEMENT OF PECUNIARY INTEREST

We confirm that C&W has no pecuniary or other interest in the market that would conflict with a proper assessment or could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion. The position will be maintained until the purpose for which this C&W Report is obtained is completed.

INFORMATION UTILISED

This report contains forward-looking statements, bearing the views, expectations, projections or predictions of Cushman & Wakefield Limited (the "Consultant") for the future. The Consultant hereby emphasizes that all projections and statements, except statements relating to historical facts, shall be considered as indicative assessments of the possibilities, rather than fully determining assessments. The process of projections involves assumptions on a large number of variables, which can easily be subject to changing circumstances. The Consultant would like to ask you to note that any changes in the variables may have a significant impact on the results of the projections.

Therefore, the Consultant cannot guarantee that the projections contained in this report will be fulfilled, or that projections and forward-looking statements will be proved to be correct. Thus, you should not rely too much on those statements. The Consultant has no obligation to publicly update or revise any forward-looking statements contained in this report as a result of any new data, future events or otherwise, except as required by law. All forward-looking statements contained in this report are subject to this warning statement.

This report is prepared by the Consultant for reference only. Although the Consultant has prepared the report in a reasonable and prudent manner, the facts described in the report may change, and such data does not constitute a contract or part thereof. Interested parties shall not rely on any statements concerning the facts and shall verify the accuracy in other ways. This report does not express or imply any declarations, warranty or covenants, or guarantee accuracy, reasonability or integrity of the data. While preparing the report, the Consultant relied on data and statistical models from third parties to draw a forward-looking statement. Please be well noted that we would like to make it clear that the documents and data from third parties have not been independently verified. This report is only relevant to the matters referred in the report. For any matters not mentioned in this report, there are no any suggestions or inferences.

Yours sincerely,

Cushman & Wakefield Limited

1. INTRODUCTION

1.1 Basis of Study

C&W as an independent consultant, has been commissioned to conduct an analysis of the logistics industry. C&W is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners by providing a wide range of professional services including property, facilities and project management, leasing, capital markets, valuation and other services across all sectors of the real estate market. Across Greater China, there are 22 offices servicing the local market.

This C&W Report is based on current as well as the likely future market conditions as perceived by the markets. The estimation of the future demand and supply for the logistics property markets may not materialise, and unanticipated events and circumstances may occur; therefore, actual results may vary from our estimates and the variations may be material. We do emphasise that the estimation of the future market conditions and outlook should be regarded as an indicative assessment of possibilities rather than absolute certainties.

During the preparation of the C&W Report, it was based on the following assumptions:

- The macro-economic environment of each of the cities in which the Group operates is expected to grow at a steady rate;
- All collected information relating to the Company from relevant financial reports and web pages of the Company and other sources in the public domain were true and accurate;
- Social, economic and political environments in relevant markets are expected to remain stable in the forecast period, with no warranty given to predict the future conditions of the market;
- The logistics property industry of the city in which the Group operates is expected to grow at a steady rate;
- All documents provided by the Company were factually true;
- Key market drivers such as increasing disposable income and service upgrades are assumed to boost the development of relevant markets; and
- Where subscribed data was obtained from renowned public institutions, the analysis relies on the apparent integrity and expertise of such institutions.

It is confirmed that, as of the Latest Practicable Date, to the best of our knowledge and after taking reasonable care, there have been no material changes in the market information since the date of the industry report or the date of the relevant data contained in the industry report which may discredit, contradict or impact on the information and findings discussed in this section.

1.2 Source of Information

Our review is based on data from the PRC government, reliable research institutions and the proprietary databases of C&W. In the course of the research, C&W conducted interviews with local marketing agents in the logistics property sector.

The findings are based on the following data sources which are generally considered by market professionals to provide reliable statistical information:

- Data from various Chinese government official websites and publications;
- Large proprietary database and research reports published by the Greater China Region of C&W;
- Subscription data, including those published by third parties; and
- Research material from recognized domestic and overseas research centres and academic institutions.

The data sources adopted or quoted in the industry analysis are mainly as follows:

- Official data released by government agencies, used to underpin the basic research;
- Large databases jointly constructed by multiple professional teams across more than 20 branches of C&W; and
- Publicly available data from third-party or secondary data sources and materials cited in the market study.

When compiling industry reports, the market study mainly relies on the following standards as its main principles:

- Reference from the public data and reports of the China Federation of Logistics & Purchasing（中國物流與採購聯合會）, China Index Academy（中國指數研究院）and CPMRI（中物研協）;
- Reference from the annual reports and official websites of listed logistics companies and the research reports of different institutions and think tanks; and

- As a leading global real estate services firm in China, the market study relies on the knowledge and experience of professional teams from all provinces and cities.

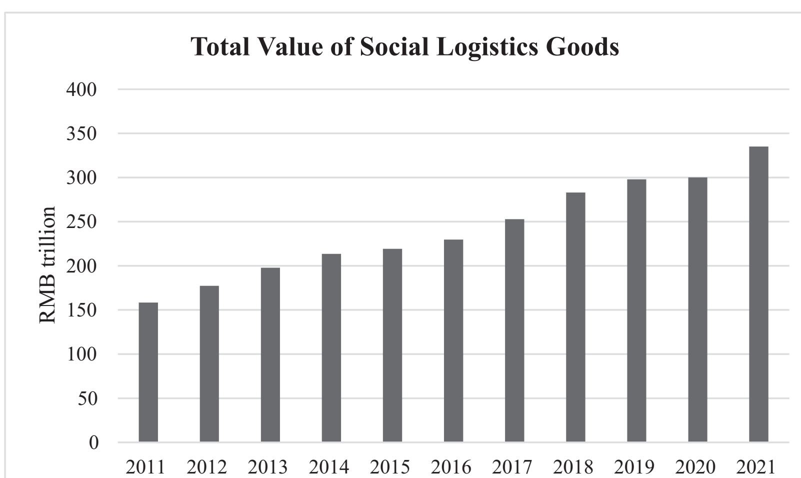
While due care has been undertaken in the application of the information, C&W has no responsibility to warrant or represent that such information is accurate or correct. We also have no responsibility to update this C&W Report for events and circumstances occurring after the date of issuance.

2. INDUSTRY OVERVIEW

2.1 Logistics

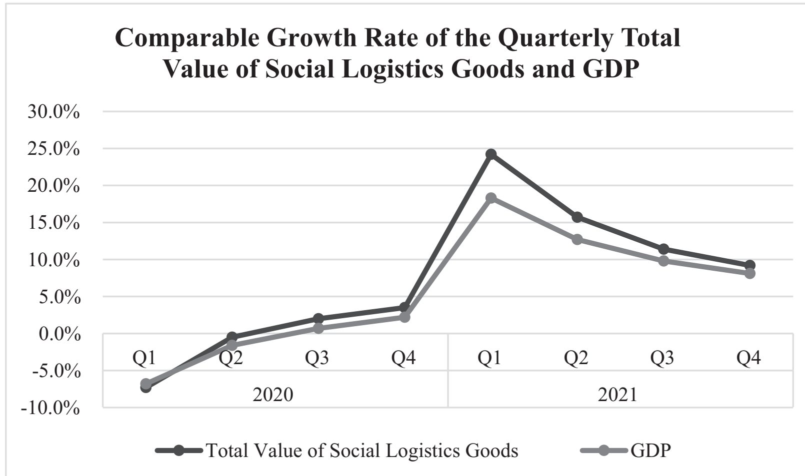
Steady growth in logistics demand supports stable economic recovery

In 2021, logistics demands in China reached a new high and the growth rate of the total value of social logistics goods returned to the average level of normal years. The annual total value of social logistics goods was RMB335.2 trillion, which was 1.5 times the initial stage of the 13th Five-Year Plan. Calculated at comparable prices, there was a year-on-year increase of 9.2% with an average annual growth rate of 6.2% for two years. Due to the pandemic and the higher base in the previous year, the growth rate was high at first and then low in the second half of 2021. The quarter-on-quarter growth rate had even reached 24.2%.



Source: National Bureau of Statistics of China, C&W Research

Comparing the total value of social logistics goods and GDP, the growth rate of the total value of social logistics goods has been higher than that of GDP since 2020. The continuous increase of the coefficient of logistics demand shows that the recovery of logistics services such as production, export, and consumption maintained a good momentum under the pandemic. The recovery of logistics demand was mainly driven by the real economy.



Source: National Bureau of Statistics of China, C&W Research

From the structure of total value of social logistics goods, the structure of logistics demand was changing synchronously with that of the economy and industrial upgrading. Industrial logistics were generally stable with steady expansion. International import logistics was under great downward pressure while domestic consumption logistics maintained steady growth. The high-tech manufacturing logistics demand brought by industrial upgrading enhanced with strengthening leading effect.

Innovation has been an important driving force. The overall demand for industrial logistics maintained significant growth throughout the year. In 2021, the total value of industrial goods logistics increased by 9.6% year on year. The growth rate was 6.8% higher than the previous year and the two-year growth rate was close to the level before the pandemic.

The downward pressure on import logistics increases while the import of high-tech products grows steadily. The high base effect combined with the weakening of domestic demand has increased the downward pressure on import logistics since the fourth quarter. The volume of imports changed to a decrease of 1.0% from an increase of 8.9% in the previous year.

Consumption logistics maintained a recovery growth, and new business forms and models grew rapidly. In 2021, the total institutional and households logistics volume of goods increased by 10.2% year on year and maintained a growth rate of more than 10% for consecutive months. Under the influence of the pandemic, e-commerce and online shopping have become important channels for household consumption, which accelerate the expansion of the e-commerce express delivery business. The China E-commerce Logistics Index showed that the average of 2021 was 110.3 points, up 2.4 points from 2020. The growth rate of business volume on the demand side and rural areas exceeded 20% while the supply side has recovered more rapidly.

Enhancing the vitality of the logistics market in line with new changes in demand

In 2021, the logistics system was steadily advanced to adapt to changes in market demands. The annual total revenue of the industry was RMB11.9 trillion with a year-on-year increase of 15.1%. The revenue of the industry maintained a growth rate of more than 15.0% in each quarter. The rapid development of the industry and the strengthening market vitality are reflected in the following aspects:

First, the competitiveness of logistics companies has improved, and the industry concentration has increased. As of the end of 2021, there were nearly 8,000 A-level logistics companies in the country, and the top 50 logistics companies accounted for a combined revenue of RMB1.4 trillion, with a year-on-year increase of 16.6%. Leading industry companies accelerated the pace of mergers, reorganizations, and listings.

Second, the recovery of logistics activities is significant, and the industry is booming. The average logistics industry climate index for 2021 was 53.4%, an increase of 1.7 percentage point from the previous year. The business volume and number of orders of logistics companies were relatively prosperous, bringing an overall improvement and an enhancement of the industry vitality.

Improving the resilience of the supply chain and facilitate the domestic and international dual circulation

2021 was the start of a new development structure. The complex international environment and the pandemic have accelerated the improvement of logistics operation efficiency and supply chain response level in the country. The logistics industry has played an important role in facilitating the "dual circulation" economy and stabilizing the industry chain, which helps to steadily decrease the unit logistics cost.

Besides, the integration of logistics and other industries has accelerated, and the level of synergy has been improved. In recent years, industrial and commercial companies have increasingly coordinated supply chains and have promoted upstream and downstream cooperation, especially since the pandemic. The ratio of the total revenue of the logistics industry to the total cost of social logistics was 72%, showing the continual increase of the breadth, density, and depth of professional logistics services.

Geographical Distribution of Logistic Industry

The demand for high-standard warehousing and logistics properties has been driven by the corresponding performance of the regional economies, economic structure, and availability of transportation infrastructure. In the PRC, due to the regional differences in economic and infrastructure development, more than two-thirds of the nation's high-standard logistics warehouses are currently distributed in the three major economic circles, namely the Yangtze River Delta, the Greater Bay Area, and the Bohai Rim.

Demand Drivers of the Logistics Market in the PRC

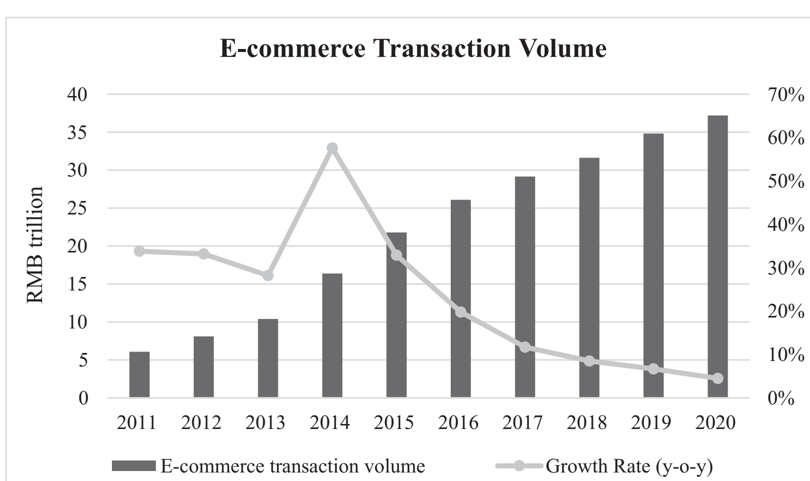
With the rapid expansion of China's e-commerce sector, the increasing concentration of traditional retail businesses, the booming development of third-party logistics companies, and the upgrade of domestic manufacturing industries, the demand for warehousing and logistics support would be steadily growing.

2.2 E-Commerce

E-commerce took the lead in retail recovery amid the COVID-19 pandemic. In 2020, with the tighter social distancing measures and the declining retail sales sentiment, e-commerce sales achieved growth for the first time in April 2020. Since the outbreak of COVID-19, more consumers have purchased goods through e-commerce platforms and online supermarkets, and more enterprises have expanded new online sales channels through mini-programs, WeChat communities, and live streaming. The proportion of e-commerce sales of physical goods in total retail sales of consumer goods increased from 20.7% in 2019 to 24.9% in 2021, showing the strong vitality of e-commerce in driving consumption. In 2021, logistic service enterprises completed delivery of a total of 108.3 billion pieces, a year-on-year increase of 29.9%, and it is estimated that 80% of the logistic volume was serving e-commerce sector. The rapid development of e-commerce platforms has also penetrated different market segments, especially in third-tier cities and rural areas.

E-commerce Transaction Volume

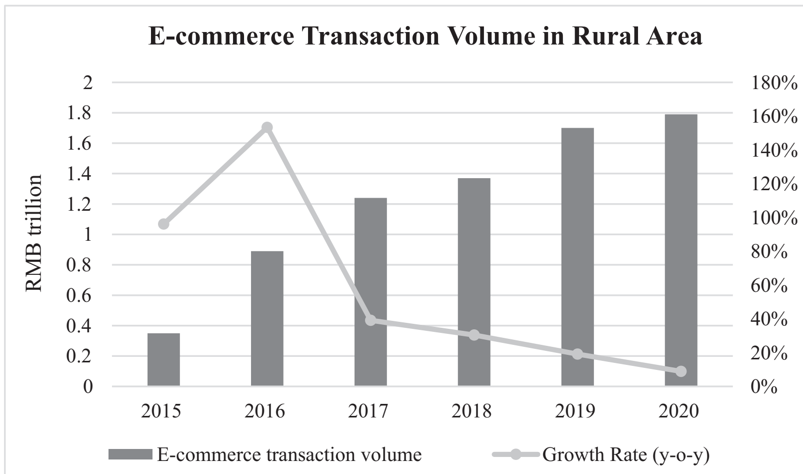
According to data from the National Bureau of Statistics of China, the e-commerce transaction volume in 2020 has reached RMB37.2 trillion, a year-on-year increase of 4.5%.



Source: Ministry of Commerce, C&W Research

E-commerce Sales in Rural Areas

E-commerce accelerates the industrialization and digitalization of agriculture, and vigorously promotes poverty alleviation and rural revitalization. In 2020, the e-commerce retail sales in rural areas reached RMB 1.80 trillion, a year-on-year increase of 8.9%. Among them, the sales of physical goods were RMB1.63 trillion, representing 90.9% of the e-commerce retail sales in rural areas, with a year-on-year increase of 10.5%.



Source: Ministry of Commerce, C&W Research

E-commerce Drives the Logistics Industry

E-commerce has driven the rapid growth of the logistics industry in the PRC. In 2020, the logistic service enterprises completed a total of 83.4 billion pieces, a year-on-year increase of 31.2%; the cumulative business revenue was RMB879.5 billion, a year-on-year increase of 17.3%. It is estimated that 80% of the logistic volume was serving e-commerce.

E-commerce has become a New Force to Fight Against the Pandemic

Since the outbreak of the pandemic, e-commerce has played an important role in the financing of epidemic prevention materials, guaranteeing people's livelihood supply, stabilizing employment, assisting the resumption of production and work, and solving the problem of agricultural products sales.

Continue Improvement of E-commerce Business Environment

With the 13th Five-Year Plan, the 'E-commerce Law' was officially implemented. E-commerce standards and integrity systems were continuously improved, and market regulations were further improved. In 2020, the number of national e-commerce demonstration bases will be expanded to 127.

3. Macroeconomic

3.1 Overview of the PRC

The Chinese economy has shown significant growth over the last decade. According to the National Bureau of Statistics of China, the nominal GDP of China grew at a CAGR of 8.9% from 2016 to 2021. China's GDP in 2021 stood at RMB114 trillion, an increase of 12.8% from RMB101 trillion in 2020. The per capita GDP also witnessed an extraordinary growth of 20.4% to USD12,554 in 2021 from USD10,434 in 2020. The per capita GDP CAGR increase from 2016 to 2021 was at 9.2%, which is similar to the growth rate of nominal GDP. Chinese economy accounting for 18% of the global economy and ranked 2nd in the world in 2021, is the major contributor to the world's economic development.

	2016	2017	2018	2019	2020	2021
Nominal GDP *(RMB billion)*	74,639.50	81,203.60	91,928.10	98,651.52	101,356.70	114,366.97
YOY increase in GDP	8.4%	8.8%	13.2%	7.3%	2.7%	12.8%
Real GDP Growth	6.8%	6.9%	6.7%	6.0%	2.3%	8.1%
Per Capita GDP (USD)	8,094.00	8,816.00	9,905.00	10,143.00	10,434.00	12,554.00
Primary industry *(% in GDP)*	8.6%	7.9%	7.2%	7.1%	7.7%	7.3%
Secondary industry *(% in GDP)*	39.8%	40.5%	40.7%	39.0%	37.8%	39.4%
Tertiary industry *(% in GDP)*	51.6%	51.6%	52.2%	53.9%	54.5%	53.3%
Total Population (million)	1,383	1,390	1,395	1,400	1,411	1,413
Imports *(RMB trillion)*	10.49	12.46	14.09	14.23	14.31	17.37
Exports *(RMB trillion)*	13.84	15.33	16.42	17.93	17.23	21.73
CPI	102	101.6	102.1	102.9	102.5	100.9
PMI – Manufacturing	51.4	51.6	49.4	50.2	51.9	50.3
PMI – Non-manufacturing	54.5	55	53.8	53.5	55.7	51.1
Unemployment Rate	4%	3.9%	3.8%	3.6%	4.2%	5.1%
Foreign Property Investment	1,965,528	1,685,559	2,246,740	2,347,188	2,033,057	N.A
Online and Offline Retail Sales *(billion)*	31,580.62	34,732.67	37,778.31	40,801.72	39,198.06	44,082.30
Fixed-assets Investment Growth	7%	6%	6%	5%	3%	N.A
Utilised Foreign Direct Investment *(US$ billion)*	126	131.04	134.97	141.23	144.37	173.48
Express Delivery Volume *(billion)*	31.28	40.06	50.71	63.52	83.36	108.5

Source: National Bureau of Statistics of China, C&W Research

Uptrend in Household Consumption Power

The mean disposable income per capita in China attained RMB35,128 in 2021 with an increase of 9.1% from RMB32,189 in 2020. The Consumer Price Index (CPI) in 2021 had the lowest increase in the recent 6 years at 100.9, compared to 102.5 in 2020. The steadily increasing household income and decline in the rate of inflation enhanced the household purchasing power. It supported the market consumption demand, resulting in a tremendous increase in overall (including both online and offline) retail sales of China. The sales of 2021 were RMB44.1 trillion with a year-to-year increase of 12.5% and a CAGR increase of 6.9% from 2016 to 2021. The consumption power of Chinese residents has been increasing and facilitating the economic development of China.

Steady Increase in the Volume of Trade with Trade Surplus

The volume of imports and exports rise remarkably in the year 2021. For imports, it maintained at about RMB14 trillion with a slight increase rate from 2018 to 2020 but turned up to RMB17.4 trillion in 2021. As well as exports, the volume growth was 26% to RMB21.7 trillion, after a continuous increase of about 10% from 2017 to 2019 and a slight decrease of 4% in 2020. The expansion of the trading market of China supports the development of the logistics industry in China. The trade surplus provides sustainable economic growth for the Chinese economy.

Express Delivery Volume

The express delivery volume attained a peak of RMB108.5 billion in 2021. With a year-on-year growth rate of 31.2%, it was the first time to achieve a breakthrough volume of more than 100 billion. Ever since 2016, the express delivery volume maintained a gradual annual growth rate between 25% and 31%. The compound annual growth rate between 2016 and 2021 was 28.2% and the total express delivery volume has increased significantly from RMB31.3 billion in 2016.

3.2 Overview of Hunan Province

Hunan Province is located in the central part of the PRC and the middle reaches of the Yangtze River.

As a major economic province in the PRC, in 2021, the nominal GDP of Hunan reached RMB4.6 trillion, ranked 9th in the country and recorded a 2016-2021 CAGR growth of 8.4%. The two-year average growth rate was 5.7%, which was 0.6% higher than the national average two-year growth rate, representing the economic operation of Hunan continued to recover steadily from the influence brought by the pandemic.

Stabilizing Employment Rates and Commodity Prices

With the solid implementation of the employment-first policy by Hunan, Hunan has maintained a stable employment situation in 2021, with 753,000 new jobs created in urban areas. In 2021, the Consumer Price Index (CPI) of Hunan only increased by 0.5% over the previous year, lower than the expected annual target of around 3.0%. Therefore, the employment situation and price level in Hunan remained stable in 2021.

Satisfactory Industrial Development and More Vibrant in Economic Development

By implementing the "Three Highlands" vision（三個高地）instructed by the PRC President Xi Jinping, Hunan has obtained solid progress in building the province as a centre for National Important Advanced Manufacturing Industry, Innovation and Technology Industry with core comparatives and a leading place for the Reform and Opening Up in inland areas. In 2021, the added value of Hunan Province's manufacturing industry accounts for 27.7% of the provincial GDP, an increase of 0.8% over the previous year. Meanwhile, the pace of technological innovation has accelerated, both the high-tech enterprises and warehousing technology-based SMEs exceeded 10,000 units.

Growing Foreign Economy

The total import and export volume of the whole year increased by 22.6% to USD86.5 billion, with a 2016-2021 CAGR increase of 26.3%. The actual domestic investment in the province increased by 29.1% while the actual use of foreign direct investment increased by 72.3%. Consequently, Hunan ranked 13th in the country in terms of total foreign capital utilization and ranked 3rd in the country in terms of growth rate. This represents that the foreign economy is becoming more important in the economic structure of Hunan.

Steady Recovery of Domestic Demand

The total retail sales of social consumer goods reached RMB1.9 trillion, an increase of 14.4% year-on-year. The added value of computer, communication and other electronic equipment manufacturing industries above designated size increased by 26.3%. The integration of online and offline consumption accelerated, and online retail sales increased by 12.5%, driving a 34.4% increase in the express delivery business in 2021. New products with high technology content, green and low carbon grew up rapidly. The output of industrial robots, microcomputer equipment and new energy vehicles increased by 45.5%, 60.3% and 110% respectively. The consumer market in Hunan continued to recover, and consumer demand was steadily released in 2021.

3.3 Overview of Changsha

Changsha, as the provincial capital of Hunan, is the center of the province in terms of politics, economy, culture, transportation, technology, finance, etc. In 2021, the city has a residential population of 10 million, while the GDP has reached RMB1.3 trillion, up 9.3% from 2020 and achieved a 2016-2021 CAGR of 7.3%. Among which, the primary industry has increased its value to RMB42.5 billion, with a growth of 9.1%; the secondary industry has increased its value to RMB525 billion, with a growth of 5.2%; the tertiary industry has increased its value to RMB759 billion, with a growth of 8.9%.

With only 5.6% of the land area and 12.1% of the population in the province, Changsha has created 29.0% of the province's GDP, indicating the importance and the leadership role of Changsha in promoting economic development of Hunan Province.

Despite the COVID-19 pandemic is still influencing the global economic development, the city has experienced a quick recovery from the outbreak of the COVID-19 pandemic, which slowed down the economic growth of Changsha in 2020. Regarding the aspect of economic growth, consumption is one of the major impetus factors, while the industrial industry is also a major support to the GDP of Changsha.

Stabilizing Employment Rates and Commodity Prices

Changsha has maintained a stable employment situation, with a total of 147,100 new urban jobs created in the city, and an urban surveyed unemployment rate of 5.1% in 2021. The Consumer Price Index (CPI) rose by 1.6% year-on-year, which is 0.2% slightly slower than the increase in the previous year, representing a steady increase in customer inflation is achieved.

Thriving Culture and Tourism Industry

On the back of the pandemic, in 2021, the Culture and Tourism industry of Changsha bucked the trend and firmly seized the strategic opportunity to vigorously promote the high-quality development of cultural and tourism integration. According to the statistics, in 2021, Changsha received 182 million domestic and foreign tourists and achieved a total tourism revenue of RMB192.6 billion, with a 2016-2021 CAGR of 3.5%.

Rapid Growth of Industrial Production

In 2021, the value-added growth of industries above designated size (with annual main business revenue of RMB20 million or more) increased by 7.2% year-on-year. To boost industrial development, the Changsha government has planned 1,575 major projects in the city, with a total investment of RMB1.8 trillion and an annual estimated investment of RMB391.6 billion. In 2021, the actual completed investment is about RMB500.5 billion, accounting for 127.8% of the annual plan. A total of 722 projects in the city have been started, of which 291 projects started earlier than planned.

Consumption and Domestic Demand Continues to Accelerate

As the economy gradually recovered from the pandemic, in 2021, the city's total retail sales of consumer goods were RMB511.2 billion, an increase of 14.4% over the previous year. With the recent announcement made by the Hunan Province Government regarding building Changsha as an International Consumption Center City, the consumption activities in the city are expected to be more prosperous. For real estate investment, Changsha has recorded RMB186.8 billion in 2020, with a 2016-2020 CAGR of 10.3%.

High-Tech Industries Out-perform the Market

In 2021, under multiple pressures such as epidemic prevention and control, Changsha's high-tech industries achieved growth against the trend. According to the statistics provided by the Hunan Provincial Bureau of Statistic, following a 10.5% growth of the city's high-tech industry added value to RMB350.9 billion in 2020, the added value of Changsha's high-tech industry reached a new peak to RMB400 billion in 2021, with a growth rate of about 15%. The number of high-tech enterprises in the city increased from 1,110 in 2016 to 4,142 in 2020, marking a 2016-2020 CAGR increase of 30.1%.

4. MARKET DRIVERS

4.1 Logistics Policy

Over the past several years, a series of favourable policies are put into practice. To support the development of the logistics sector in Changsha, the industry and the market players have been greatly benefitted. These policies generally pertain to logistics infrastructure, taxation, and technology.

4.1.1 National Policy

Year	Policy	Impact / Implications
2021	**Opinions on the Implementation of Further Reducing the Logistics Costs** 《關於進一步降低物流成本的實施意見》	• Reforming key elements in the sector • Strengthening land and capital security • Providing tax incentives and other discounts • Reinforcing transparency and promoting information sharing • Forming a network of logistics facilities • Enhancing service quality and logistics efficiency • Reducing costs in terms of institutional cost, cost of information, administrative burden, tax, and operational cost

Year	Policy	Impact / Implications
2021	**Notice on Printing and Distributing the Cold Chain Logistics Development Plan of the "14th Five-Year Plan"**《關於印發"十四五"凍鏈物流發展規劃的通知》	• The below targets are to be achieved by 2025 • Forming a cold chain logistics network • Bridging production and sales market • Covering both urban and rural areas • Linking up the domestic and international market
2021	**Notice on Printing and Distributing the "Special Action Plan for High-Quality Development of Commercial Logistics (2021-2025)"**《關於印發商貿物流高品質發展專項行動計劃（2021-2025年）的通知》	• The below targets are to be achieved by 2025 • Cultivating a group of business logistics enterprises with brand influence and international competitiveness • Establishing a modern logistics network for commercial services and international trade • Building a modern network that is expected to be efficient, collaborative, integrated, standardized, smart, green, and open
2021	**Opinions on Accelerating the Construction of the Rural Delivery Logistics System**《關於加快農村寄遞物流體系建設的意見》	• The below targets are to be achieved by 2025 • Providing outlets and services in villages that agricultural products are to be transported, and consumer goods are to be entered • Forming a fundamental rural delivery logistics system • Building a system that is expected to be open, beneficial to people, collaborative, safe, efficient, and two-way

Year	Policy	Impact / Implications
2021	**The Opinions on Facilitating the Synergistic Development of E-commerce and Express Logistics**《關於推進電子商務與快遞物流協同發展的意見》	• Improving infrastructure construction through collaboration between the Ministry of Commerce and the State of Post Bureau • Promoting learning and exchange of knowledge • Optimizing distribution and transportation management • Enhancing terminal service capabilities • Boosting collaborative operation efficiency • Fostering green development
2020	**Implementation Plan for Promoting Deep Integration and Innovative Development of the Logistics and Manufacturing Industries**《推動物流業製造業深度融合創新發展實施方案》	• Optimizing supply chain management in manufacturing • Forming a smart supply chain network • Improving operational efficiency • Promoting efficient coordination • Enhancing security and sustainability
2020	**Implementation Opinions on Further Reducing the Costs of Logistics**《關於進一步降低物流成本的實施意見》	• Building up a nationwide logistics network • Modernizing supply chain • Improving service quality and cost-efficiency in the logistics sector
2020	**Notice of Further Effectively Conducting the Pilot Program of Innovation in and Application of Supply Chain**《關於進一步做好供應鏈創新與應用試點工作的通知》	• Applying modern supply chain management technologies proactively, such as blockchain and big data • Accelerating the digitalization of the supply chain and the development of smart supply chain
2019	**Opinions on Promoting High-quality Development of Logistics Industry to Facilitate the Formation of a Strong Domestic Market**《關於推動物流高質量發展促進形成強大國內市場的意見》	• Building a nationwide logistics infrastructure system of high quality • Encouraging innovation and digitalization in supply chain operation and management • Improving enterprises' operational efficiencies

Year	Policy	Impact / Implications
2018	**The Notice on the Construction of a Modern Supply Chain System in the Field of Distribution in 2018**《關於開展2018年流通領域現代供應鏈體系建設的通知》	• Encouraging data normalization • Developing data interfaces • Enhancing supply chain intelligence
2017	**Guiding Opinions on Vigorously Advancing the Innovation on and Application of Supply Chains**《關於積極推進供應鏈創新與應用的指導意見》	• Coordinating supply chain management • Coordinating supply chain management among manufacturing enterprises • Bringing down operating and transaction costs • Promoting visualization and digitalization of supply chain • Accelerating the development of a global supply chain • Expanding supply chain infrastructure networks with the Belt and Road Initiative
2016	**Outline of the 13th Five-Year Plan for the National Economic and Social Development of the People's Republic of China**《中華人民共和國國民經濟和社會發展第十三個五年規劃綱要》	• Promoting modernized transportation and logistics system, especially in China's rural areas • Supporting the development of third-party logistics

Source: C&W Research

4.1.2 Changsha/ Hunan Policy

Year	Policy	Impact / Implications
2021	**Hunan "14th Five-Year Plan" Modern Logistics Development Plan** 《湖南省"十四五"現代物流發展規劃》	• Developing logistics infrastructure for Hunan • Highlighting 10 important missions and 10 key construction projects • Fully developing a modern, innovative, smart and green logistics system by 2025 to support economic growth
2021	**Changsha's 14th Five-Year Logistics and Port Development Plan (2021-2025)**《長沙市"十四五"物流與口岸發展規劃(2021-2025)》	• Serving as an action program to promote the high-quality development for Modern Logistics and Port in Changsha during the "14th Five-Year" period • Serving as a guide to optimize the spatial distribution of logistics industry and build an economical and efficient modern logistics and port system in Changsha
2021	**Changsha County Logistics Industry "14th Five-Year" Development Plan (2021-2025)**《長沙縣物流產業"十四五"發展規劃(2021-2025)》	• Providing development objectives and positioning, specifying the spatial layout principles for the logistics industry in Changsha County in response to the requirements of provincial and municipal governments • Providing major development directions, namely the aviation logistics, express logistics, platform economy, production service logistics and cold chain logistics
2021	**Hunan Province Transportation and Logistics Park Layout Planning (2018-2035)**《湖南省交通運輸物流園區布局規劃(2018-2035)》	• Providing medium and long-term layout planning to Transportation and Logistics Parks in Hunan • Giving specific development guidelines to the construction projects within the park

Year	Policy	Impact / Implications
2021	**Changsha "14th Five-Year Plan" Modern Service Industry Development Plan (2021-2025)**《長沙市"十四五"現代服務業發展規劃(2021-2025) 年》	• Confirming the overall target of establishing Changsha as a leading regional modern service industry centre of Central China • Establishing the vision of "One City Four Centres" • Identifying ten key actions to facilitate the development of the modern service industry
2020	**Notice on the second batch of Hunan Province Logistics Model Zone**《關於湖南省第二批省級示範物流園區的公示》	• Confirming the second batch of Provincial Logistics Demonstration Zone with 7 Logistic Zones including Wantian, Hunan Hengyuan etc
2020	**Hunan Government's Notice on various policies on the High-quality development of Cold Chain Logistics**《湖南省人民政府辦公廳關於促進冷鏈物流業高質量發展的若干政策措施》	• Providing various supportive measures to address issues associated with small and medium logistics enterprises, such as outdated integration of informatization and standardization, lack of innovation and the unstable flow of capital for development
2019	**Notice on Printing and Distributing "Changsha Three Year Action Plan on High-Quality Development of the Delivery industry (2019-2021)"**《關於印發長沙市快遞業高質量發展三年(2019-2021年)行動計劃的通知》	• Identifying the overall target of establishing "China's Delivery Industry Model City" • Improving current delivery zones, • Sharing delivery facilities and general delivery service • Speeding up the establishment of the delivery industry agglomeration zone • Highlighting the development of green delivery, smart delivery and rural delivery services

Year	Policy	Impact / Implications
2015	**Hunan Province Three Year Action Plan on High-Quality Development of the Modern Logistics industry**《湖南省現代物流業發展三年行動計劃》	• Confirming three important missions on a macro-level • Boosting the development of infrastructure within the Changsha-Zhuzhou-Xiangtan logistics hub • Improving the structure of the delivery industry • Proposing supportive measures on various aspects, including policies, financing channels, legislation and market supervision
2015	**Hunan Province Three Year Action Plan on High-Quality Development of Agricultural Cold Chain Logistics**《湖南省農產品冷鏈物流三年實施計劃》	• Analyzing the current development of Hunan Province Agricultural Cold Chain Logistics • Proposing six major missions such as spatial improvement in terms of the distribution of Cold Chain Logistics and system construction of Agricultural Cold Chain Logistics
2015	**Notice on the commencement of construction of the provincial logistics demonstration zone**《關於開展省級物流園區示範工程的通知》	• Confirming the first batch of Provincial Logistics Demonstration Zone with 8 Logistic Zones including Jinxia, Hunan Apower, Hetang Modern Comprehensive Logistics etc.

Source: C&W Research

4.2 Other Drivers

4.2.1 Modern development of logistics and port service

With the 14th Five-Year Plan, Changsha is integrating into the new development pattern – dual circulation. Since then, the domestic and international circulations have been creating momentum for each other, therefore promoting the development of the logistics system. With the realization of "one industry, one park, and one corridor" (《一產業、一園區、一走廊》) in the China (Hunan) Pilot Free Trade Zone, Changsha's transport development and the construction of logistics infrastructures are to be speeded up by building a "channel + hub + network" (《通道+樞紐+網絡》) full-chain logistics operation system in the city.

4.2.2 The "Three highlands and four new missions" strategy in Changsha

With the 14th Five-Year Plan, the strategy of "three highlands and four new missions" is put into practice in Changsha. The National Advanced Manufacturing Center, National Science and Technology Innovation Center, International Cultural and Creative Center, and National Comprehensive Transportation Hub Center are to be built. It is the primary focus of Changsha to improve the quality and efficiency of logistics development, as facilitated by big data technology, and smart operation and management.

4.2.3 A logistics network for regional development and new form of urbanization

With the 14th Five-Year Plan, the importance of cross-boundary planning and development is demonstrated in Changsha. Through the development of Changsha-Zhuzhou-Xiangtan City Cluster, The Rise of Central China, and the Yangtze River Economic Belt, logistics networks are expanded, from local to regional.

4.2.4 Building a comprehensive transportation network for the "Global 1-2-3 Logistics Circle"

With the 14th Five-Year Plan, Changsha is associated with high-quality development, for a modern, green and efficient logistics network. The logistics network will advance the development of cold chain logistics, e-commerce delivery, high-speed rail express delivery and oversized shipping. Changsha would be a part of the national integrated transportation hub by reinforcing the logistics network between cities and towns.

4.2.5 Improving living standards and increasing demand for personalized logistics services

With Changsha's economic upgrading, reallocation of land resources, and technological advancement, unprecedented changes are brought as associated with the improving living standards. People urge for further reduction of logistics costs, but emphasize service quality and efficiency at the same time. Speedy and reliable personalized services are requested.

4.2.6 Realizing China's emission targets by promoting green and modern logistics

With the 14th Five-Year Plan, constraints on resources, energy, and the environment are further strengthened. The national strategy is placing green development under the spotlight. Therefore, the development of green logistics has also been placed in a more prominent position. The transformation of Changsha's logistics sector would be significant to the country's green development. By modernizing ports and the logistics sector, Changsha is to be transformed into a green and smart logistics hub in China.

5. MARKET AND SUBMARKET DESCRIPTIONS

5.1 Changsha Positioning in Hunan

With the continuous economic integration of Changsha-Zhuzhou-Xiangtan, the corresponding logistics integration is facilitated as well. With the "Action Plan for Integrated Development of Changsha-Zhuzhou-Xiangtan City Cluster (2018-2019)" (《長株潭城市群一體化發展行動計劃(2018-2019)》, the development of the three cities as a national logistics hub is placed under the spotlight since then. The Action Plan is to utilize logistics resources across the three cities. Therefore, to strive to be included in the national development plan of logistics hubs. Later in 2019, the "Changzhou-Zhuzhou-Xiangtan City Cluster Co-construction of National Logistics Hub Cooperation Framework Agreement" (《長株潭城市群共建國家物流樞紐合作框架協議》) is released. The idea of building a two-way circular network with effective connection and round-trip interaction among the three cities is promoted, aiming to accelerate the development as a national logistics hub.

The development of Changsha logistics market in recent years

1. *Before 2013: Mainly with logistics parks for trading, with few high-standard warehouse projects*

Logistics parks in Changsha, before 2013, were mainly commercial and trade-oriented. Land reserve in the city was also mostly for accommodating commercial and trade wholesale activities. There were comparatively a limited amount of projects specialized for the operation of high-standard warehouse. The warehousing demand of merchants and dealers in the city's commercial wholesale market was high. Warehousing facilities at the time were simple. Spaces were mostly obtained and converted from the reconstruction of residential buildings and even temporary construction.

2. *2013-2015: Incentives to promote the development of the logistics industry from the government*

With the advancement of supply chain and logistics technology, the business model of the sector has been reshaped. Since then, it has been pressing to deploy facilities and resources to cater for the alarming increase of logistics demands associated with e-commerce and express delivery. Changsha, in addition to Wuhan, is expected to support the general logistics development by providing more warehouse and logistics facilities of high-standard, for the giants in the sector especially.

3. *2015-2018: Demolition of illegal construction and centralization of logistics land resources*

In 2015, the largest demolition of illegal structures and construction has launched in Changsha. In the central urban area, it is announced that illegal structure and construction would all be demolished within a year, and entirely cleared in two years. As a result, a large number of illegally built storage areas in Yaqipu and Lituo were demolished. According to the government, it is estimated that the demolition volume has reached 10 million or above.

Meanwhile, The Changsha Municipal People's Government has speeded up the centralization of land resources for logistics and warehousing development.

4. 2018-Present: Rise of self-use infrastructure of high-standard

In 2018, warehouses built by logistics real estate developers have commenced operation one after another. As a result, the market supply of high-standard warehouses has surged and exceeded 1 million sq m. Starting from 2017 onwards, logistics giants have been strategically positioning themselves in Changsha. E-commerce platforms, such as JD.com, Suning, and Gome built their own logistics centres. Meanwhile, express delivery operators, such as Zhongtong, Yuantong, Yunda, and SF Express also built their own trans-shipment centres for their own use. The construction of high-standard warehouses has been accelerated, but mostly for self-use.

5.2 Changsha Submarkets

Source: C&W research

Recently in Changsha, the logistics and warehousing industry has been developing rapidly. Positioning the City as a backbone of Hunan's and even regional logistics and warehousing development, industrial development in Changsha's submarkets tends to be specialized respectively. Standing out with logistics specialties and targeting different demands generated from various industries, the logistics industry in Changsha is to blossom as a whole. The below table sets forth the stock, vacancy, and average monthly rent of warehouses in Changsha's submarket.

	Stock *(sq m)*	Vacancy	Average Rent* *(RMB/sq m/month)*
Wangcheng District 望城區	709,742	22.2%	27.1
Changsha County 長沙縣	601,406	18.8%	29.5
Kaifu District 開福區	402,513	40.8%	24.6
Liuyang City 瀏陽市	377,039	10.9%	24.9
Yuhua District 雨花區	304,000	0.0%	26.5
Yuelu District 嶽麓區	296,984	3.4%	28.3
Ningxiang City 寧鄉市	111,987	0.0%	28.9
Furong District 芙蓉區	42,718	0.0%	28.9

** Note: inclusive of tax, but exclusive of management fee*

Source: C&W Research

6. CHANGSHA LOGISTICS MARKET

6.1 An Overview of the Development of Changsha's Logistics

The past 10 years, along with the expansion of consumer market in medium-sized cities, has been the flourishing period of logistics real estate. Taking Changsha as an example, the development of logistics real estate could be summed up by three important milestones.

The First Stage: The Change in Space Configuration from Government-dominant to Market-dominant

In October 2012, the Changsha Municipal Bureau of Commerce had published the "Development Plan of the Contemporary Logistics Industry in Changsha", which aims at promoting the development of Changsha's logistics real estate. In 2014, GLP Pte Ltd. took the lead in investing in Changsha, establishing their office in Wangcheng District.

The Second Stage: The Transformation of Warehouse from Low-end to High-end

Since the living standard of locals in Changsha has been gradually increasing, their demand for fresh groceries has also been escalating, leading to the surging need for products from cold-chain warehouses. The current ratio of the number of single-storey warehouses, multi-storey warehouses and cold-chain warehouses in Changsha is 47:33:20 respectively, while it is anticipated that the portions of multi-storey warehouse and cold-chain warehouse would gradually increase in the future.

The Third Stage: The Transformation of Developers' Attribute from Single to Diversification

Over the past few years, the domestic development of various newly-rising industries, including medical biotechnology and telecommunication, has been surging, which brings the export trading structure of Changsha to a more diversified state.

Under the global pandemic of Covid-19, Sansure Biotech Inc., which headquarter is stationed in Hunan Changsha, had been exported a total amount of RMB0.87 billion of COVID-19 antigen test boxes in the first half of 2021, having a year-on-year increase of 25.3%. While benefiting from the work-from-home situation of most Changsha citizens, the amount of export trade regarding products of communication technology and computers was RMB9.64 billion, increased by 36.8%. Moreover, along with the escalating degree of openness, Changsha has been expanding its international trade partners to more than 200 countries or cities; over one-third of the global top 500 enterprises have invested in Changsha. In conclusion, under the promotion by the demand of medical biotechnology, computer, and products of communication technology, logistics warehouses, or even logistics parks of Changsha have been gradually transforming to high-end intellectual forms.

6.2 The Demand and Supply of Warehouse of High-Standard

Under the stimulation by both the demand shift of e-commerce logistics, third-party logistics, and Eastern China's warehousing, together with the transformation and improvement of the local manufacturing industry, Changsha's market demand of the logistics real estate has been continuously increasing over the past 5 years. Meanwhile, the previous supply boom of warehouses has brought Changsha, especially in the aspect of high-standard warehouses, a great amount of supply in these two years, thus leading to the growth of relevant vacancy rate.

Currently, there are 8 major sub-market sections regarding Changsha's high-standard logistics real estate, including: Jinxia, Wangcheng District, Yuhua District, High-tech Zone, Airport Economic Demonstration Zone, Economic Development Zone, Ningxiang and Liuyang. As of the end of 2021, Changsha had constructed an approximate total area of 2.8 million sq m high-standard logistics warehouse, which has increased by a factor of approximately 2.5 when compared to that of 2017. Regarding the rent, the average monthly rent of Changsha's high-standard logistics warehouse was RMB27.7 per sq m in 2021, having a total growth of 16.7% over the past five years. Among the submarkets in the City, the rent of Liuyang is the lowest while that of the Airport Economic Demonstration Zone is the highest, reaching about RMB30.5 per sq m. In view of the recent increasing demand of the market towards warehouse of high-standard, the growth in rent from 2015 to 2018 is 4%-6%, while that in the recent three years (i.e. from 2019 to 2021) is 3% annually, with a capitalisation rate of 5.5%. One of the reasons regarding the decelerated growth of rent in recent years is the agglomeration of a great supply of high-standard warehouses in 2019, while the vacancy rate of high-standard warehouses in Changsha's market at the end of 2021 is approximately 20%.

It is expected that in 2022 there will be more than 0.47 million sq m of high-standard warehouses being brought to the market. Since the proportion of high-standard warehouses is still relatively low in the whole Changsha's market, in order to develop the contemporary logistics industry, the government has been devoting a relatively stable amount of land to construct high-standard logistics facilities.

	2017	**2018**	**2019**	**2020**	**2021**
Stock *(sq m)*	1,139,158	1,222,668	1,821,946	2,230,789	2,843,892
Vacancy	15%	15%	10%	17%	20%
Average Rent* *(RMB/sq m/ month)*	23.7	24.9	26.2	26.8	27.7

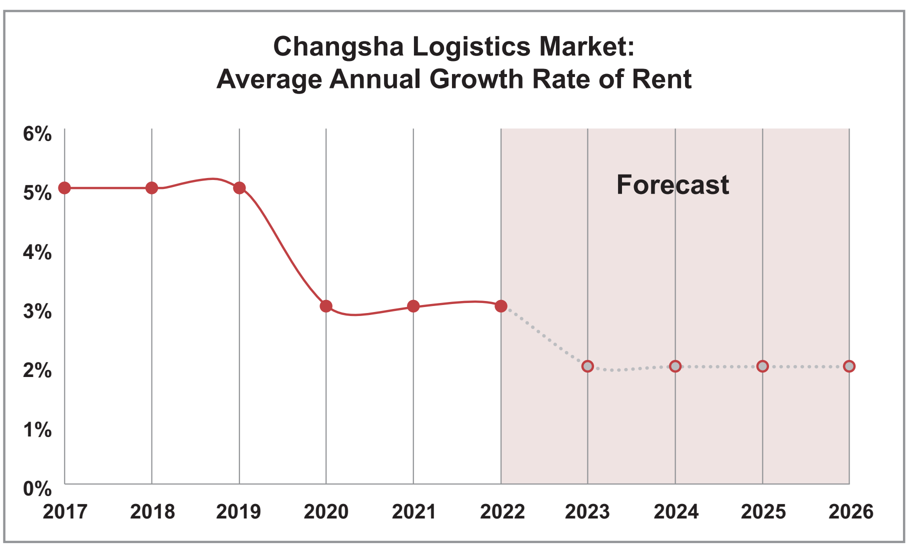
** Note: Inclusive of rent, but exclusive of management fee*

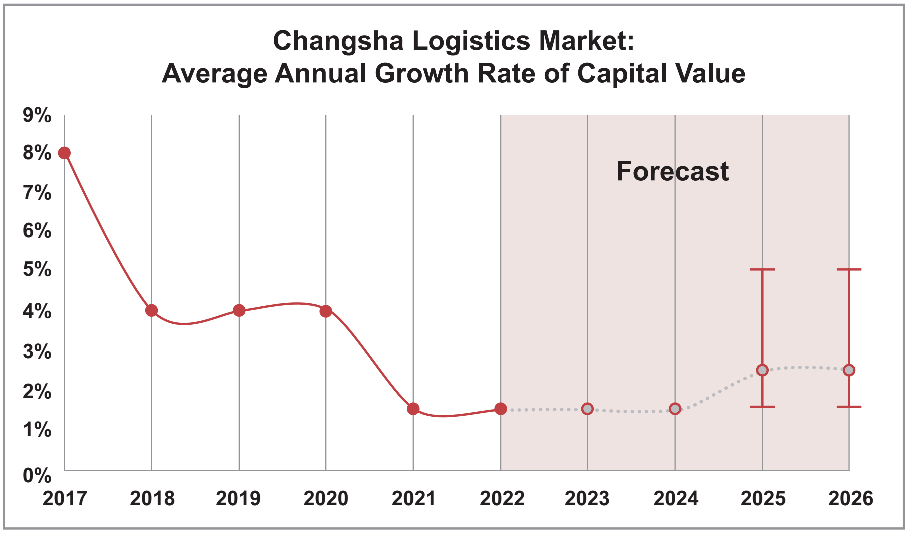
Source: C&W Research

Most of the high-standard warehouses in Changsha are mainly for self-use. According to previous rental and sales transaction, the net capitalisation rate of local high-standard warehouses in the past two years is about 5.25%-6%. It reflected that the balance of supply and demand in the market still needs to be adjusted. Given the trend of increasing number of high-standard warehouses supply, the capitalisation rate is expected to slightly decrease in the near future.

According to C&W database, the rent of warehouses in Changsha kept growing at around 5% per year between 2017 and 2019. The annual growth rate, however, slowed down at 3% in 2020 and 2021, amid the influence being brought by the pandemic: the subsequent lock-down of local cities owing to Covid-19 had adversely impacted the development of almost every industry, including the warehouse industry, resulting in the declined growth of rent during the period. According to C&W database, it is expected that the stock of warehouses of high-standard is to reach 3 million sq m by 2024, with their vacancy rate remaining at a relatively high level, anticipated to increase slightly from 20% in 2021 to 21.8% in 2024. Despite the abovementioned situation, considering a number of tenants might still with a lease or rental agreement with traditional logistics warehouses solely for storage purpose – it is anticipated these tenants would tend to settle their demand in newly commenced warehouses of high-standard after the completion of the agreement. Such impact, as introduced by the current high vacancy rate, on the overall growth of rent would thus be insignificant. After the surges of new supply in 2022 and 2023, the vacancy rate would soon be declined, owing to the combined effects of uncertain supply after 2023 along with the expected growth of e-commerce, cold storage, and express delivery services. After balancing the future supply and the growth rate in Changsha's logistics market, it is expected that the growth of rent would be increased by about 1 to 2% per year between 2022 and 2026.

In reference to C&W transaction data, the capital value for Changsha warehouses of high-standard grew at 3 to 5% between 2018 to 2020, due to the increasing demand on logistics infrastructure and warehouses especially. With the recent expanding supply pool in the City, the growth rate of capital value was slowed down at 1.2% in 2021. Supported by the latest release of "Changsha's 14th Five-Year Logistics and Port Development Plan (2021-2025)" in January 2022 and other favourable policies, the growth rate would continue to sustain at about 2% per year between 2022 and 2024. As it takes time for the policies to come into effect, such as the development of transportation network, the construction of logistics supporting infrastructure, therefore the magnetic effect in attracting local and foreign investment, and eventually the growth showcased in the capital market. According to C&W forecast, the growth rate would be 2% or above per year, depending on market situation from 2025 onwards. As the abovementioned, considering a number of tenants might still have a lease or rental agreement with traditional logistics warehouses solely for storage purpose – it is anticipated these tenants would tend to settle their demand in newly commenced warehouses of high-standard after the completion of the agreement. Therefore, the stimuli could even be amplified by the gradual shift of operation model from traditional to smart and modern warehousing and logistics practices that the growth rate could reach up to 5% per year.





Source: C&W Research

6.3 Logistics Park

Changsha's logistics park has an early start-up; 4 logistics agglomeration areas are being divided according to the city's economic functionality at that time, including the Jinxia Logistics Park in the North, Xingsha Industrial Park in the Northern East, Furong Yuhua District in the East, and APower Logistics Park in the South. In 2011, Changsha had started the new "Planning of Changsha's Contemporary Logistics Industry Development 2010-2030", which defines 5 logistics park zones: the East, the West, the South, the North, and the Airport Area Logistics Park.

6.4 Cold-chain Logistics

In recent years, the domestic cold-chain logistics market has grown rapidly, and enterprises have accelerated their layout. According to the notice of the "Development Plan for Cold-Chain Logistics Industry in Hunan Province (2020-2025)", as of the end of 2019, there were about 600 cold-chain logistics-related enterprises in Hunan Province. However, it is worth-noting that the national cold-chain circulation rate for meat and agricultural products were 30% and 20% respectively in 2021. Meanwhile in Hunan, the circulation rate of cold-chain comprehensive agricultural products was only 14% in 2019, according to Agriculture Industry Observation's estimation. Corrosion rate during transportation could be as high as 21% at the same time, with the national corrosion rate of agricultural products ranging between 20% and 30%. The development of cold-chain logistics thus requires further strengthening. Therefore, the cold-chain infrastructure and facilities in Hunan Province are continuously improving. In 2019, Hunan Province has built a cold storage capacity of 3.485 million tons, of which the freezer accounts for 51.8%, and the cold storage accounts for 31.6%, while the preservation warehouse accounts for 16.6%, and the cold storage for the agricultural product wholesale market accounts for the highest proportion among all types of cold storage.

Currently, Changsha has the largest number of cold-chain-logistics-related enterprises, with a total of 1,353. Many first-tier cities such as Beijing, Tianjin, and Shanghai have their cold storage often in a state of null vacancy or even in shortage, for example in Changsha, the vacancy rate is ranging between 8% and 13%, leading to the tight amount of cold storage; yet, some second-tier cities such as Hefei, Changsha, Taiyuan, etc. would sometimes have an oversupply phenomenon, the rent of cold storage thus still exist a certain lowering tendency.

7. COMPETITIVE LANDSCAPE

7.1 Key Land Transaction

The below table sets forth key land transactions in the region in the recent years.

Date	Property	District	Land Area *(sq m)*	Price *(RMB million)*	Price *(RMB/ sq m)*	Buyer	Remarks
1/2021	No. 124, Changsha	Kaifu District	25,784	29.6	1,148	Pharmaceutical retailer	Class B logistics warehousing land
1/2021	No. 126, Changsha	Changsha County	6,667	4.0	600	Construction machinery and equipment leasing company	Class A logistics warehousing land
8/2021	No. 090, Changsha	Yuhua District	103,628	117.0	1,129	Logistics operator	Class A logistics warehousing land
9/2021	No. 051, Changsha	Changsha County	26,675	24.2	907	Technology development, and logistics and warehousing company	Logistics warehousing land
9/2021	No. 097, Changsha	Yuhua District	36,892	40.0	1,084	Wholesale and retailing company	Logistics warehousing land
10/2021	No. 130, Changsha	Changsha County	25,219	38.4	1,523	Logistics and warehousing operator	Class A logistics warehousing land
11/2021	No. 133, Changsha	Yuhua District	39,875	44.0	1,103	Logistics and warehousing operator	Logistics warehousing land
11/2021	No. 042, Changsha	Wangcheng District	42,326	23.1	546	Petro-retailing company	Class C logistics warehousing land
12/2021	No. 139, Changsha	Yuhua District	44,309	36.0	812	Cold-chain storage operator	Logistics warehousing land
1/2022	No. 080, Changsha	Changsha County	90,404	75.94	840	Trading operator	Class A logistics warehousing land

Source: The Changsha Municipal People's Government, C&W Research

7.2 Future Supply

The below table sets forth some of the future key supply in the region that may bring the Property potential competition.

Developer	District	Address	GFA *(sq m)*	Status	Expected Completion
GLP	Zhuzhou	GLP Zhuzhou Yunlong Logistics Park, Yunlong Demonstration Area	49,251	Construction schedule is currently lagging behind, completion and commencement of project is to be determined.	
Mapletree	Zhuzhou	Xinma Industrial Park, Tianyuan District	57,000	Under Construction	2022
	Xiangtan	Xiangtan Economic Development Zone	70,000	Under Construction	2022
	Yueyang	Jinlong New District, Xiangyin	59,000	Under Construction	2023
Vanke	Kaifu District	Jinxia Economic Development Zone	112,000	Under Construction	2023
Changsha Xingnas Supply Chain Management Co., Ltd. (長沙星納斯供應鏈管理有限公司)	Changsha County	Changsha Economic Technological Development Zone	109,000	Under Construction	2023

Source: C&W Research

7.3 SWOT Analysis

The below sets forth the SWOT framework used to evaluate the Property's competitive position. To develop strategic planning, internal and external factors, as well as current and future potential are assessed.

7.3.1 Strength

- Strong transportation connection by the development of transportation infrastructure in China
  - o China's railway operation mileage increased from 121,000 km in 2015 to 139,900 km in 2019
  - o Mileage of high-speed railways increased from 19,800 km to 35,400 km in the same period
- Strong economy in China
  - o Being the 2nd largest economy in the globe in terms of nominal GDP, increasing integration of the PRC in the global economy and the continuous development of global trade
  - o 2021 trade surplus hits record high
- Scale economy in Changsha
  - o Changsha's GDP ranked 1st among Hunan Provinces in 2021
  - o As a Category I Large City with population of 3.85 million
  - o As one of the "China's Logistics Industry Model City" with the support being brought by the Implementation Plan for Building China's Logistics Industry Model City in Changsha (《長沙市建設中國快遞示範城市實施方案》), building regional distribution centers with numerous delivery service spots, expanding the infrastructure network to more than 6,000 express service facilities

7.3.2 Weakness

- Uneven distribution logistics development especially in cold chain logistics facilities
- The scale of industrial industry in Changsha has room for improvement
- The proportion of warehouse of high-standard is relatively low in the entire Changsha's market

7.3.3 Opportunities

- The growing popularity of E-commerce in China
- The rise of third-party logistics operators in the country's logistics industry
- Favorable policy
  - o The Belt and Road Initiative that increases overseas cooperation and trade therefore generating demand
  - o The development of the Greater Bay Area that expands the infrastructure network and reduces transportation cost
  - o The 14th Five-Year Plan that promotes the national development of "dual circulation" paradigm to build a strong domestic market and promote the smooth circulation
  - o The 14th Five-Year Plan that also promotes the coordinated development of the Yangtze Mid-River Cluster and accelerates the integrated development of the Wuhan and Changsha-Zhuzhou-Xiangtan metropolitan circles

7.3.4 Threats

- China-United States Trade War
  - o With more than half of the goods in the cross-border logistics market destined to the US market, raised costs would pose a threat on the logistics industry due to lower consumption demand and the increased tariffs
- The COVID-19 Pandemic
  - o Hindering the operation of manufacturing and logistics activities due to lockdowns
  - o The slowdown of global economic growth in the light of the decline of exports
- Increasing consumer demand but emphasizing on service quality
  - o More quality capital and leading-edge technologies to maintain competitiveness are expected

- Strengthened constraints on resources, energy, and the environment
    - o Greater demand on green logistics and human and capital input

8. CONCLUSION

With the dedicated support of national policies such as the Belt and Road Initiative and the "Greater Bay Area Development Plan", the volume of local and international trading and exchange has been accelerating, facilitating the growth of the overall logistics industry in China. Changsha, as an important leading city in the China (Hunan) Pilot Free Trade Zone, copes with the national strategic plan in serving as the regional logistics hub and building a nationwide logistics network. The integration to "dual circulation" and the development of transportation infrastructure in Changsha have increased the connectivity within the city, the nation and even overseas. The construction of logistics infrastructures such as additional sharing delivery facilities and smart and high-standard warehouses builds the full-chain logistics operation system in the city. These have shaped Changsha to become a successful China's Delivery Industry Model City. To conclude, the logistics industry in Changsha is expected to have a bright prospect that makes it worth-investing.

An investment in real estate involves risk. Unitholders should consider carefully, together with all other information contained in this Circular, the risk factors described below before deciding voting in the Acquisition Matters Requiring Approval.

RISKS RELATING TO SF REIT

1. Adverse changes in global and local economic, political and social conditions in Hong Kong and the PRC could affect SF REIT's business, financial condition, results of operations and cash flow

The Enlarged Portfolio are located in Hong Kong and the PRC. This exposes SF REIT to the risk of any negative change in global and local economic, political and social conditions in Hong Kong and the PRC. The frequency and magnitude of public demonstrations, protests and strikes are unpredictable. The effects of any social instability may adversely affect the economy in Hong Kong, which in turn could have a negative impact in leasing demand, rental levels and occupancy rates of logistics properties and adversely affect SF REIT's results of operations and future growth.

While the PRC Government has implemented economic reform measures emphasising utilisation of market forces in the development of the PRC economy and the PRC economy has experienced significant growth in the past 40 years, growth has been uneven both geographically and among different sectors of the economy and there is no guarantee that the PRC economy will continue to grow. In addition, the PRC Government continues to regulate industries' development by imposing control over foreign currency denominated payment obligations. Recent lockdowns in some cities in the PRC have raised doubts about the ability of China in meeting its gross domestic product (GDP) growth target and may adversely affect its economy beyond the Manager's control.

Geopolitical tension and trade dispute between the PRC and the U.S. also has significant impact on both the regional and worldwide economy, and the outlook for financial markets and the world economy is uncertain. It remains unclear what actions, if any, will be taken by the PRC, the U.S. or other governments with respect to international trade agreements, foreign policies or other matters. In the near term, the trade dispute may result in a reduction in business activities and income levels in the PRC, Hong Kong and the rest of the world.

The pervasive and fundamental disruptions in the global financial markets have prompted extensive and unprecedented intervention by governments across the world. It is uncertain when such governmental intervention will end or what, if any, additional temporary or permanent restrictions and/or increased regulation governments may impose on the financial markets. Any government intervention, restrictions or regulation could have a material adverse effect on the business, financial condition, results of operations and prospects of SF REIT. The likelihood or duration of any economic slowdown or downturn is also uncertain, and any such economic slowdown or downturn could have a material adverse impact on the business, financial condition, results of operations, prospects and distributions of SF REIT.

2. The COVID-19 pandemic and the occurrence of other natural or man-made disaster could present challenges to SF REIT

The COVID-19 pandemic is having a significantly negative impact on the global economy. It has severely disrupted business operations, supply chains and workforce availability across the world, leading to substantial declines in business activities. The COVID-19 pandemic, as well as the responses and measures taken in Hong Kong, the PRC and elsewhere by the governments and society as a whole, could present challenges to SF REIT and its tenants. These challenges include, but are not limited to, lock-down and mandatory or voluntary social distancing measures, such as closure of offices and facilities, quarantine requirements and disruptions to or even suspensions of normal business operations and supply chains. In particular, recent lockdowns in some cities in the PRC have disrupted such business operations. Given the uncertainties as to the development of the pandemic at the moment, it is difficult to predict how long these conditions will exist and the extent to which SF REIT may be affected. If any of the Enlarged Portfolio were identified to be clusters for the COVID-19 pandemic, they may be required to be suspended or closed, adversely affecting the operations of tenants. Contagion in any one of the Enlarged Portfolio could also negatively impact the occupancy rates as well as the reputation and attractiveness of SF REIT.

If the tenants are so affected, they may experience difficulties in maintaining their financial strength and default on their lease obligations, terminate their leases early or seek relief from SF REIT as the landlord, which may adversely affect the business and results of operations of SF REIT.

SF REIT may also be adversely affected by external uncontrollable events, such as natural disasters, severe weather conditions, outbreak of epidemics and other pandemics, terrorist attacks, riots, civil commotions, acts of war and other events beyond its control. The Manager cannot predict the occurrence of these events and the extent to which they will, directly or indirectly, impact distributions to Unitholders or the business, financial condition, results of operations and prospects of SF REIT in the future.

3. There are potential conflicts of interest between SF REIT and SFH

SF REIT invests in income-generating real estate globally with an initial focus on logistics properties located in Hong Kong and the PRC. While SFH's principal business is not in the leasing of properties, it is engaged in and manages entities that are engaged in the investment, development and management of logistics properties in the PRC. The Manager which manages SF REIT is an indirect subsidiary of SFH. Therefore, there may be circumstances where conflicts of interest amongst the Manager, SF REIT and SFH may arise. For example, the Manager may have conflicts of interest with potential acquisitions from SFH or its affiliates and in agreeing to the terms of such potential acquisitions. SF REIT may compete for suitable investment opportunities with other subsidiaries or affiliates of SFH. Any such potential conflicts of interest may not necessarily be resolved in favour of SF REIT. Although the Manager and the property manager and operations managers are capable of performing, and shall perform, their duties in relation to SF REIT independently and in the best interests of SF REIT and the Unitholders, the Manager (as a subsidiary of SFH) and the property manager and operations managers (as indirectly wholly-owned subsidiaries of SFH) may also face conflicts of interest in other activities of SFH and their subsidiaries or affiliates at an operational level. There is no assurance that SF REIT will not be affected by the abovementioned circumstances of potential conflicts which may arise in the future due to the relationships between SF REIT, SFH and the Manager.

4. RMB is not freely convertible

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

Transactions involving conversion between foreign currencies and RMB are subject to significant foreign exchange controls and the approval of the State Administration of Foreign Exchange of PRC. There is no assurance that the current policies regarding conversion of RMB into foreign currencies will not be subject to tighter controls or restrictions in the future. In this regard, with respect to SF REIT's investments in the PRC property market, any changes to the foreign exchange regulations of the PRC may result in foreign exchange losses to SF REIT and subsequently reduce the distribution payable to Unitholders.

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

5. The ability of SF REIT's PRC-incorporated companies to declare and pay dividends is limited by the availability of retained earnings and other factors, which may in turn impact SF REIT's distributions to Unitholders

SF REIT holds the Existing Properties (and the Changsha Property upon Completion) situated in the PRC through the Property Companies established in the PRC (including the Changsha Property Company upon Completion) and relies on dividend payments and other payments and/or distributions from the these companies to partly finance its offshore payment obligations and distributions to Unitholders.

Under PRC law, a PRC enterprise is only permitted to declare and repatriate dividends on after-tax earnings after deducting amounts for mandated reserves. These reserve funds, if set aside discretionally by the board of directors, shareholders decision, 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 Property Companies established in the PRC (including the Changsha Property Company upon Completion) can declare will be limited, thereby potentially reducing the amount of cash that can be used for distribution to Unitholders.

Further, the profits available for distribution by the Property Companies established in the PRC (including the Changsha Property Company upon Completion) are determined in accordance with PRC GAAP. Such profits available for distribution by the Property Companies established in the PRC (including the Changsha Property Company upon Completion) may differ from those by SF REIT, which will be determined using IFRS, in certain significant respects, including but not limited to differences in the accounting treatments of depreciation, amortisation and impairment loss in the properties and other fixed assets of the Property Companies established in the PRC (including the Changsha Property Company upon Completion) and deferred tax thereon. Thus, the amount of profit which is available for distribution by the Property Companies established in the PRC (including the Changsha Property Company upon Completion) 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 SF REIT to the Unitholders under IFRS pursuant to its distribution policy.

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

6. PRC regulation concerning loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent SF REIT from loaning to or making additional capital contributions to its PRC subsidiaries, which could materially and adversely affect SF REIT's liquidity and its ability to fund and expand its operations

PRC regulation concerning loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent SF REIT from loaning to or making additional capital contributions to its PRC subsidiaries. Any funds that SF REIT transfers to its PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration, filing and/or reporting (as applicable) with relevant governmental authorities in the PRC.

SF REIT may not obtain the requisite government approvals or complete such registration, filing and/or reporting (as applicable) on a timely basis, if at all, with respect to future capital contributions or foreign loans by SF REIT to its PRC subsidiaries. If SF REIT fails to receive such approvals or complete such registration, filing and/or reporting (as applicable), SF REIT's ability to capitalise its PRC operations may be negatively affected, which could adversely affect SF REIT's liquidity and its ability to fund and expand its operations.

7. SF REIT faces risks inherent in concentrating in one asset class

While SF REIT can invest in income-generating real estate globally, its portfolio and initial investment focus on logistics properties located in Hong Kong and the PRC may expose it to the risks inherent in having only one asset class in its property portfolio. Such concentration of investments may cause SF REIT to be susceptible to a downturn in the real estate market as well as the logistics industry in Hong Kong and the PRC. This may lead to a corresponding decline in rental income for such real estate assets in SF REIT's portfolio and/or a decline in the capital value of its portfolio.

8. The success of SF REIT is likely to correlate with the demand of the e-commerce sector and retailing industry in Hong Kong and the PRC

The performance of the Enlarged Portfolio is likely to correlate, in part, with the volume of trades flowing through Hong Kong and the PRC. A significant portion of the Enlarged Portfolio have been leased to logistics companies (including the SF Connected Tenants and third-party logistics providers), whose business is closely linked with the e-commerce industry and the emergence and development of e-commerce platforms. The growth of the e-commerce sector and retailing industry in Hong Kong and the PRC has generated an increased demand for cross border logistics and express delivery services, which has led to an increase in demand for logistics facilities and warehouses and boosted the local modern logistics property markets.

There can be no assurance as to the sustainability of this rising demand in Hong Kong and the PRC. The e-commerce sector and retailing industry evolve rapidly with technological updates, changes in user preferences, product innovation and the availability, reliability and security of e-commerce platforms. Factors such as more favourable taxation and tariff regimes, cheaper terminal costs and cost competitiveness of competing ports may divert trade away from Hong Kong and the PRC. Any negative development in the e-commerce sector or retailing industry could reduce the demand for logistics properties by the logistics tenants.

9. SF REIT's portfolio growth depends on its ability to obtain external source of capital or at commercially acceptable terms

The Manager's policy is to distribute to Unitholders at least 90% of the audited net profit after tax of SF REIT for each financial year. Also, in order to maintain SF REIT's qualification as a REIT, the REIT Code requires SF REIT to annually distribute at least 90% of its audited net income after tax. In addition, the Manager has the discretion to distribute any additional amounts (including capital). Therefore, SF REIT may not be able to fund future capital needs, including any necessary acquisition financing, from operating cash flow. Consequently, it may need to rely on external sources of funding to expand its property portfolio, which may not be available on commercially acceptable terms or at all. If

SF REIT cannot obtain capital from external sources, it may not be able to acquire properties when strategic opportunities exist, satisfy its debt obligations or make the necessary cash distributions to the Unitholders to maintain its qualification as a REIT.

10. The amount that SF REIT may borrow is limited, which may affect the operations of SF REIT

SF REIT's borrowings are limited by the REIT Code to no more than 50% of its Gross Asset Value of the Deposited Property. There can be no assurance that SF REIT's borrowings will not at any time exceed 50% of its Gross Asset Value of the Deposited Property as a result of a decrease in the market value of its properties, whether following any valuation of its assets or otherwise. Even though SF REIT would not be required to dispose of its assets to pay off part of the borrowings to reduce its gearing ratio where such disposal is prejudicial to the interest of the Unitholders, it would not be allowed to borrow more. From time to time, SF REIT may need to draw down on its own banking facilities and to use other short-term facility for general corporate or other purposes, but will not be able to do so in such case. SF REIT may also face difficulties in securing financing in a timely manner and on favourable commercial terms. In addition, the use of leverage may increase the exposure of SF REIT to adverse economic factors such as rising interest rates and economic downturns.

SF REIT's gearing ratio immediately following Completion is expected to be approximately 35.5%. The Manager believes that this level is prudent under the current market conditions and is within the borrowing limit under the REIT Code. However, there can be no assurance that SF REIT's borrowings will not exceed the 50% borrowing limit due to circumstances beyond the Manager's control.

11. SF REIT may face risks associated with debt financing and the debt covenants in the facility agreements could limit or adversely affect or restricts SF REIT's operations

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

Failure of SF REIT to meet any payment obligation or to comply with any covenant may, after expiration of the applicable remedy period, constitute an event of default. SF 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 repayment of all outstanding loans and other sums payable under such loan agreements.

If any one of these events were to occur, SF 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.

12. SF REIT is subject to interest rate risks

The business of SF REIT is affected by local, regional and international economic conditions. In particular, fluctuations in interest rates may increase the interest costs under borrowings obtained by SF REIT and may adversely affect the financial position of SF REIT and the ability of SF REIT to make distributions to Unitholders. Additionally, fluctuations in interest rates, as well as changes in other economic market conditions, may have an adverse effect on the property market, and may have a material adverse effect on the revenue of SF REIT, the value of its properties, and its financial performance and condition. In particular, SF Logistics has entered into the Extended Offshore Term Loan to fund part of the Reorganisation Payable and SF REIT will assume the Onshore Term Loan upon Completion. For details of such borrowings and their interest rates, please refer to section 5.2 headed "Financing of the Acquisition – Onshore Term Loan" and section 5.3 headed "Financing of the Acquisition – Extended Offshore Term Loan" in the "Letter to the Unitholders" of this Circular.

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

SF REIT may be subject to exchange rate risk in satisfying its foreign currency denominated obligations. SF REIT's income from its PRC properties are denominated in RMB, which will have to be converted into Hong Kong dollars for the payment of the distributions to the Unitholders. While the PRC is lowering its loan prime rate, some of the developed countries are raising interest rate, resulting in a relatively weaker RMB against major currencies and the Hong Kong dollar. Fluctuations in the exchange rate of RMB against Hong Kong dollars may therefore have a material adverse impact on the level of distributions to Unitholders. The value of RMB against Hong Kong dollar and other foreign currencies fluctuates and is affected by changes in the PRC and international political and economic conditions and many other factors outside SF REIT's control.

14. A decrease in the fair value of the properties at revaluation may constrain distributions and further borrowings of SF REIT

The properties held by SF REIT are subject to regular revaluation as required under the REIT Code. Under SF REIT's accounting policy, any decrease in the valuation of its investment properties could result in non-cash charges to the income statement, and may result in a substantial decline in annual consolidated net profit. Property revaluation loss will reduce the Gross Asset Value of the Deposited Property. As a result, SF REIT's borrowings as a proportion of its Gross Asset Value of the Deposited Property may rise above the gearing limit set out in the REIT Code, in which case the Manager may be required to retain funds that would otherwise be distributable to the Unitholders so as to increase Gross Asset Value of the Deposited Property and SF REIT would be constrained from further borrowing.

RISKS RELATING TO THE ACQUISITION

15. The representations, warranties, indemnities and covenants under the Sale and Purchase Deed are subject to limitations

The representations, warranties, indemnities and covenants given by the Seller and SF Holding (as guarantor) under the Sale and Purchase Deed are subject to limitations as to their scope and as to the amount and timing of claims which can be made thereunder. Generally, all claims made under the Sale and Purchase Deed must be made within three years from the date of the Sale and Purchase Deed (other than (a) claims relating to fundamental or tax warranties and claims under the tax covenants in respect of events occurring on or before Completion, which must be made within seven years from the date of the Sale and Purchase Deed, and (b) claims under the indemnities, which must be made before the expiry of the land use rights pertaining to the Changsha Property). In addition, the aggregate maximum liability of the Seller and SF Holding in respect of all claims under the representations and warranties shall not exceed the sum equal to the Total Consideration, and such claims shall only be recoverable from the Seller and SF Holding if (a) the amount of each of such claims exceeds RMB0.5 million; and (b) the aggregate amount recoverable in respect of all of such claims exceeds RMB5 million. Further, the maximum liability of the Seller and SF Holding under any claim under the indemnities and the tax covenants in respect of events occurring on or before Completion shall be limited to the sum equal to the Total Consideration. There is no assurance that any breaches by the Seller and/or SF Holding of such representations, warranties, indemnities and covenants can be identified and claimed within such limitation periods or that SF REIT will be compensated for all losses or liabilities suffered or incurred as a result of such breaches. Failure to any extent by the Seller and/or SF Holding to perform their obligations under the Sale and Purchase Deed could have a material adverse effect on the business, financial condition and results of operations of SF REIT. For further descriptions of the obligations of the Seller and SF Holding under the Sale and Purchase Deed, please refer to section 2.2.5 headed "The Acquisition – Key terms of the Sale and Purchase Deed – Representations, warranties, indemnities and covenants in the Sale and Purchase Deed" in the "Letter to the Unitholders" of this Circular.

16. There is no assurance that the Manager will disregard expenses incurred during the Acquisition when calculating distributable income, should the Acquisition fails to complete

There is no assurance that the Acquisition can be completed. If the Acquisition fails to complete, the expenses incurred for the Acquisition estimated to be approximately HK$6.5 million will be charged to the profit and loss account. There will be an adverse impact on the distributable income of SF REIT in that case.

17. Completion of the Acquisition is conditional upon external financing

The completion of the Acquisition will depend on, among others, successfully obtaining the external financing being the loan amounts under the Onshore Term Loan and the Extended Offshore Term Loan being available at or before Completion. As such, should SF REIT be unable to obtain the necessary external financing, it cannot complete the Acquisition. For further descriptions of the conditions precedent under the Sale and Purchase Deed, please refer to section 2.2.2 headed "The Acquisition – Key terms of the Sale and Purchase Deed – Conditions precedent under the Sale and Purchase Deed" in the "Letter to the Unitholders" of this Circular.

RISKS RELATING TO THE CHANGSHA PROPERTY

18. The Changsha Property is subject to risks of non-renewal of expiring land use rights

The land use right in the PRC is not perpetual and is granted by the PRC Government with an expiry date. The Changsha Property is directly held by the Changsha Property Company under land use rights granted by the PRC Government. 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 non-resident land use rights do not have automatic rights of renewal and the holders of such 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 interest), the holder of land use rights will be required to, among other things, pay a land grant premium.

If no application for extension is made, or such application is not granted, the properties upon the land use rights will be disposed of in accordance with the land use right grant contracts. As none of the land use rights granted by the PRC Government similar to those granted for the Changsha 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 Changsha Property Company will have to pay and any additional conditions which may be imposed if the Manager decides to seek an extension of the land use rights for the Changsha Property upon the expiry thereof.

If the PRC Government charges a high land grant premium, imposes additional conditions, or does not grant an extension of the term of the land use rights of the Changsha Property, the operations and business of the Changsha Property Company could be disrupted, and the business, financial condition and results of operations of SF REIT could be materially and adversely affected.

19. The land which the Changsha Property occupy or parts thereof may be resumed compulsorily by the PRC Government where a legitimate public interest for requisition of such land is established and any compensation paid to SF REIT may not be adequate

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 Changsha Property is subsequently resumed by the PRC Government, the level of compensation paid to SF REIT pursuant to this basis of calculation may be less than the price which SF REIT has paid or would have paid for the Changsha 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 SF REIT may not be entitled to any compensation. The above case may have a material adverse effect on the business, financial condition, results of operations and prospects of SF REIT.

20. SF REIT may face property transferral risk in the future arising from the absence of the real estate ownership certificate in respect of the underground car parking spaces and equipment rooms of the Changsha Property

The PRC Legal Advisers have advised that the Changsha Property Company has legally obtained the state-owned land use rights and is the sole registered legal user of the land use rights in respect of the Changsha Property. The PRC Legal Advisers have also advised that the Changsha Property Company is the sole owner of the property ownership rights of the aboveground levels underlying the Changsha Property free of encumbrances and the real estate ownership certificates (不動產權證書) issued in respect of the Changsha Property.

However, the PRC Legal Advisers have noted that the real estate ownership certificates of the Changsha Property have not covered the underground car parking spaces and equipment rooms of the Changsha Property.

In response to the PRC Legal Advisers' due diligence enquiries, the Development and Utilization Department of Changsha County Natural Resources Bureau (長沙縣自然資源局開發利用科) confirmed that the Changsha Property Company is currently unable to apply for a real estate ownership certificate for the underground car parking spaces and equipment rooms as the prevailing local policy has not provided for such application. If the Changsha Property Company is unable to obtain the real estate ownership certificate in respect of the underground car parking spaces and equipment rooms of the Changsha Property, the

Changsha Property Company might be unable to transfer the underground car parking spaces and equipment rooms of the Changsha Property in the future. However, taking into account the present intention of the Manager for SF REIT to hold the Changsha Property as a whole for long-term investment purpose, the Manager considers the property transferral risk arising from the absence of the real estate ownership certificate in respect of the underground car parking spaces and equipment rooms of the Changsha Property is low.

21. SF REIT may face penalties for the non-registration of the leases in the PRC

According to Civil Code of the People's Republic of China (中華人民共和國民法典), the contents of a lease contract generally include terms such as the name, quantity and purpose of the leased property, lease term, rent as well as time limit and method for its payment, and maintenance of the leased property. According to Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法), the parties to a lease shall register and file with the relevant government authorities within 30 days after the execution of leases. As at the Latest Practicable Date, the Changsha Property Company was unable to register all of the 43 leases agreements (including all lease agreements with the SF Connected Tenants) in respect of the Changsha Property with the relevant land and real estate administration bureau, primarily due to the administrative burden resulted from the complex registration procedures.

As advised by the PRC Legal Advisers, 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 Changsha Property Company for non-registration of leases, and the maximum aggregate amount of penalty payable by the Changsha Property Company in respect of such unregistered leases is approximately RMB0.4 million.

As advised by the PRC Legal Advisers, non-registration of the abovementioned leases does not affect the Changsha Property Company's legal title to the aboveground levels of the Changsha Property, or the rights or entitlements of SF REIT to lease out the Changsha Property to tenants, or the validity or the binding effect of the lease agreements. However, SF REIT may be subject to requests by the local authorities to complete the registration formalities and/or penalties for the non-registration of leases imposed by the local authorities. As at the Latest Practicable Date, the Changsha Property Company has not received any request from any government authority in the PRC to complete the registration formalities or been penalised for the non-registration of the lease agreements. Although any loss arising out of or in connection with the Changsha Property Company's failure to register the subsisting leases in respect of the Changsha Property with the relevant government authorities within the prescribed time limit would be covered under the indemnities provided by SF Fengtai and SF Holding under the Sale and Purchase Deed, there can be no assurance that SF REIT will not be subject to such penalties and/or requests for undertaking the registration formalities in the future.

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

The Independent Property Valuer's Valuation Report is set out in Appendix 5 to this Circular. In conducting its valuation of the Changsha Property, the Independent Property Valuer primarily adopted an income capitalisation method. The valuation was based on certain assumptions and required a subjective determination of certain factors relating to the Changsha Property, such as its relative market position, financial and competitive strengths, location and physical condition.

There can be no assurance that the assumptions are accurate measures of the market or that the Changsha Property was valued accurately. Further, the Appraised Value of the Changsha 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 SF REIT may sell the Changsha Property in the future may be lower than the Appraised Value or the initial acquisition price of the Changsha Property. These factors may have a material adverse effect on the business, financial condition, results of operations and prospects of SF REIT.

23. The Changsha Property Company may be unable to renew the Changsha SF Leases and secure a replacement lessee on similar or better terms or at all, and Shenzhen SF Taisen may fail to meet its payment obligations under the Changsha SF Lease Guarantee

The Changsha Property Company presently relies on the Changsha SF Connected Tenants for a significant portion of its income. As at 31 March 2022, approximately 47.9%, 8.6% and 11.9% of leases of Changsha SF Connected Tenants (including Guangdong Shunxin) in terms of total monthly Gross Rental Income for the month ended 31 March 2022 were scheduled to expire during the years ending 31 December 2022, 2023 and 2024, respectively. As at the Latest Practicable Date, leases of all Changsha SF Connected Tenants have been renewed and approximately 68.4% of the Changsha SF Connected Leases in terms of total monthly Gross Rental Income for the month ended 31 March 2022 were scheduled to expire during 31 December 2026. Although renewal options of another 5 years leases have been granted to the Changsha SF Connected Tenants, the Manager cannot assure that such Changsha SF Connected Leases will be renewed or that replacement lessees could be secured on similar or better terms at all. As such, SF REIT's financial conditions and results of operations may be adversely affected by the bankruptcy, insolvency or downturn in the businesses of the Changsha SF Connected Tenants, as well as the decision of the Changsha SF Connected Tenants not to renew or terminate all or any of their leases before they expire.

If any Changsha SF Connected Tenant does not renew the leases on expiration or on the same or similar terms, SF REIT may not be able to find replacement lessees in a timely manner or at all. Although the rental deposit (payable under the Changsha SF Leases of Shenzhen Intra-city, Hunan SF Freight and Hunan SF Express) may be forfeited for early termination of the leases, the forfeited rental deposit may not be able to cover the loss in rental income if the amount of rent and terms on which the replacement leases are agreed are less favourable than the terminated leases.

In addition, there can be no assurance that Shenzhen SF Taisen will meet its payment obligations pursuant to the Changsha SF Lease Guarantee in the event Hunan SF Express breaches the relevant Changsha SF Lease. If Shenzhen SF Taisen fails to meet its payment obligations under the Changsha SF Lease Guarantee, the income of SF REIT will be negatively impacted, the rental yield of the Changsha Property may decrease and the financial performance and the distributions to Unitholders may be adversely affected.

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

Prior to the entry of the Sale and Purchase Deed, the Manager instructed the Building Consultant to conduct physical and technical inspection and investigation of the Changsha Property. Nevertheless, there can be no assurance that such reviews, surveys or inspections would have revealed all defects or deficiencies affecting the Changsha Property. In particular, there can be no assurance as to the absence of: (i) latent or undiscovered defects or deficiencies; or (ii) inaccuracies or deficiencies in such reviews, surveys or inspection reports.

25. SF REIT may suffer material losses not covered by insurance or in excess of insurance proceeds

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

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

RISKS RELATING TO THE REAL ESTATE INDUSTRY IN THE PRC

26. SF REIT may be adversely affected by the illiquidity of property investments

Compared to other types of investments, property investments are relatively illiquid. In particular, unlike residential properties, the market for acquiring or disposing of logistics properties has historically been less active in Hong Kong and the PRC and is affected by many factors, such as general economic conditions, availability of financing, interest rate, supply and demand of property and other factors beyond SF REIT's control. These factors may impact or act as an impediment to an exit or any contingency plan of SF REIT. In addition, logistics properties may become unprofitable due to competition, age, decreased demand or other factors, and logistics properties may not be readily converted for alternative uses. Contingency plans, such as conversion of a logistics building to a building with an alternative use, would also generally require extra capital expenditures. Such factors, together with the fact that the leases usually continue following the sale of logistics properties, may reduce the attractiveness of the properties to potential purchasers, thus affecting the ability of SF REIT to dispose of its property investments when required or warranted to do so. Although it is intended that the properties of SF REIT will be held on a long-term basis and the Manager will thus have a longer time horizon for implementing any plans to dispose of SF REIT's interest in any property that has reached a stage such that it offers only limited scope for growth, these factors could nonetheless have a material adverse effect on SF REIT's business, financial condition, results of operations, prospects and ability to make expected distributions to Unitholders.

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

The real estate industry is subject to extensive governmental regulations. As with other property owners, SF REIT must comply with various requirements mandated by laws and regulations, including 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 Hong Kong Government and the PRC Government are expected to be refined and improved over time. This refining and adjustment process may not necessarily have a positive effect on SF REIT's operations and future business development. The Manager cannot assure that the Hong Kong Government and the PRC Government will not adopt additional and more stringent industry policies and regulations governing, for example, property ownership and lease matters, in the future.

If SF 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 SF REIT's business prospects or cause SF REIT to incur additional costs, SF REIT's business, financial condition, results of operations and prospects may be adversely affected.

28. Uncertainties with respect to the PRC legal system could have a material adverse effect on SF REIT and limit the legal protection available to investors

SF REIT's operation in the PRC is subject to PRC laws and regulations. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value. The PRC Government has made significant progress in promulgating laws and regulations related to economic affairs and matters, such as corporate organisation and governance, foreign investments, commerce, taxation and trade. However, many of these laws and regulations are relatively new and there is a limited volume of published decisions. Thus, there are uncertainties involved in their implementation and interpretation, which might not be as consistent and predictable as in other jurisdictions.

The PRC legal system is based, in part, on government policies and internal rules, some of which are not published in a timely manner, or at all, but which may have retroactive effect. As a result, SF REIT may not always be aware of any potential violation of these policies and rules. Such unpredictability towards SF REIT's contractual, property and procedural rights could adversely affect SF REIT's business and impede its ability to continue the operations in the PRC.

1. RESPONSIBILITY STATEMENTS

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 herein misleading.

2. INFORMATION ON PARTIES TO THE ACQUISITION

(a) SF REIT and the Purchaser

SF REIT is a Hong Kong collective investment scheme constituted as a unit trust by the Trust Deed, and is authorised under section 104 of the SFO. Prior to the Acquisition, SF REIT principally engages in property investments in Hong Kong, and in Foshan and Wuhu in Mainland China. The Manager is SF REIT Asset Management Limited, a direct wholly-owned subsidiary of Sunny Sail, and the principal business activity of the Manager is being the manager of SF REIT.

The Purchaser is a special purpose vehicle wholly-owned by SF REIT that was incorporated in the BVI and principally engages in investment holding. The Purchaser is currently an indirect holding company for SF REIT's investment in the Existing Properties, and after Completion, the Purchaser will also be an indirect holding company for SF REIT's investment in the Changsha Property, which investments will be held, and may be sold, by the Purchaser, independently of each other.

(b) The Seller, Target Company, Changsha Intermediary Company and Changsha Property Company

The Seller was incorporated in the BVI and is directly wholly-owned by Sunny Sail. Prior to Completion, the Seller holds the entire issued share capital of the Target Company.

The Target Company is incorporated in the BVI and holds the entire issued share capital of the Changsha Intermediary Company, which in turn holds all of the equity interest in the Changsha Property Company. As at the Latest Practicable Date, the Changsha Property Company owns the Changsha Property.

To the best of the knowledge, information and belief of the Manager as at the Latest Practicable Date, (a) each of the Seller, Target Company, Changsha Intermediary Company and Changsha Property Company principally engages in investment holding; and (b) none of the Seller, Target Company, Changsha Intermediary Company and Changsha Property Company has any operation, asset or business, except the Changsha Property Company holds the Changsha Property and engages in the operations and business related thereto.

(c) SF Holding

SF Holding is a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of SFH. It principally engages in investment holding.

(d) Ultimate holding company and ultimate controlling person

To the best of the knowledge, information and belief of the Manager having made all reasonable enquiries, as at the Latest Practicable Date, the ultimate holding company of each of the Seller, SF Holding and the Purchaser was Mingde Holding (which principally engages in investment holding) and its ultimate controlling person was Mr. WANG Wei.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into a service contract with any member of the Enlarged Group which does not expire or is not determinable by the employer within one (1) year without payment of compensation (other than statutory compensation).

4. DISCLOSURE OF INTERESTS IN UNITS

The REIT Code requires that connected persons of SF REIT shall disclose their interests in Units. In addition, under the provisions of the Trust Deed, Part XV of the SFO is also deemed to be applicable, among other things, to the Manager, the Directors and the chief executive of the Manager.

Interests held by the Manager and the Directors and chief executive

The interests and short positions held by the Directors and chief executive of the Manager in the Units, underlying Units and debentures of SF REIT or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Manager and the Stock Exchange pursuant to the provisions of Part XV of the SFO as deemed to be applicable by virtue of Schedule 3 to the Trust Deed, or which were recorded in the register kept by the Manager under Schedule 3 of the Trust Deed are set out below:

Interests and short positions in the Units:

		As at the Latest Practicable Date	
Name of Director	**Nature of Interest**	**Number of Units held**	**Approximate percentage of total Units in issue**[3]
Mr. WANG Wei[1]	Interest in controlled corporations	280,000,000[2]	35.00%

Notes:

(1) Mr. WANG Wei, the Chairman of the Board and a non-executive Director, was deemed to be interested in 280,000,000 Units through a chain of companies including Mingde Holding, SFH, Shenzhen SF Taisen, SF Holding, Sunny Sail and the Seller. For further information, please refer to the section headed "Interests held by Substantial Unitholders" below.

(2) The above-mentioned interests were long position interests. There were no short position interests in the Units held by any Director or chief executive of the Manager as at the Latest Practicable Date.

(3) The approximate percentage was calculated based on a total of 800,000,000 Units in issue as at the Latest Practicable Date.

Interests held by Substantial Unitholders

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Manager, companies and/or 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 the Manager and the Stock Exchange 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:

Long position in the Units and underlying Units:

Name of Substantial Unitholder	Nature of Interest	Number of Units held	Approximate percentage of total Units in issue(3)
SF Fengtai(1)	Beneficial owner	280,000,000(2)	35.00%
SFH(1)	Interest in controlled corporations	280,000,000(2)	35.00%
Mingde Holding(1)	Interest in controlled corporations	280,000,000(2)	35.00%
China Orient Asset Management (International) Holding Limited (2)	Interest in controlled corporations	80,165,000	10.02%
CI Investments Inc.	Investment manager	40,169,029	5.02%

Notes:

(1) As at the Latest Practicable Date, 280,000,000 Units were held directly by SF Fengtai, a direct wholly-owned subsidiary of Sunny Sail, which is in turn directly wholly-owned by SF Holding. SF Holding is a direct wholly-owned subsidiary of Shenzhen SF Taisen, which is in turn directly wholly-owned by SFH. SFH is a company listed on the Shenzhen Stock Exchange, which is held as to approximately 55% by Mingde Holding. Mingde Holding is in turn owned as to 99.9% by Mr. WANG Wei, the Chairman and a non-executive Director.

Therefore, Mingde Holding, SFH, Shenzhen SF Taisen, SF Holding, Sunny Sail were all deemed to be interested in the 280,000,000 Units held directly by SF Fengtai. Mr. WANG Wei, by virtue of his 99.9% interests in Mingde Holding, was also deemed to be interested in the same batch of 280,000,000 Units.

(2) As at the Latest Practicable Date, 80,165,000 Units were held directly by China Orient Multi-Strategy Master Fund. China Orient Multi-Strategy Master Fund was 100% controlled by China Orient Multi-Strategy Fund and the latter was 98.3% controlled by China Orient International Fund Management Limited. China Orient International Fund Management Limited was 100% controlled by China Orient Asset Management (International) Holding Limited.

Therefore, as at the Latest Practicable Date, China Orient Asset Management (International) Holding Limited, China Orient International Fund Management Limited and China Orient Multi-Strategy Fund were all deemed to be interested in the same batch of 80,165,000 Units held directly by China Orient Multi-Strategy Master Fund.

(3) The above-mentioned interests were long position interests.

(4) The approximate percentage was calculated based on a total of 800,000,000 Units in issue as at the Latest Practicable Date.

Interests held by the Manager

As at the Latest Practicable Date, the Manager did not hold any interest in the Units.

Interests held by other connected persons

After making reasonable enquiries and based on the information available to the Manager, as at the Latest Practicable Date, the interests in the Units held by connected persons (other than the Manager, the Substantial Unitholders, the Directors or the chief executive of the Manager and their respective associates) were as follows:

	As at the Latest Practicable Date	
Name of Unitholder	**Number of Units held**	**Approximate percentage of total Units in issue[(2)]**
Dt. Australia Ltd[(1)]	2,377,000	0.30%
Deutsche Bank AG New York[(1)]	3,000,000	0.38%

Notes:

(1) Dt. Australia Ltd and Deutsche Bank AG New York are both associates of the Trustee.

(2) The approximate percentage was calculated based on a total of 800,000,000 Units as at the Latest Practicable Date.

Save as disclosed herein, the Manager is not aware of any connected persons of SF REIT holding any Units as at the Latest Practicable Date.

Directorship or employment with Substantial Unitholder

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Manager, the following Directors were the directors or employees of a company which had an interest or short position in the Units and underlying Units which would fall to be disclosed to the Manager and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Name of companies which had such discloseable interest or short position / Position held by the Director in such companies
Mr. WANG Wei	SFH / Director Mingde Holding / Director Shenzhen SF Taisen / Director and employee
Ms. NG Wai Ting	Sunny Sail / Director
Mr. HO Chit	SFH / Director SF Holding / Director Shenzhen SF Taisen / Employee

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) none of the Directors or the Unitholders with an interest in more than 5.0% of all Units in issue had an interest, direct or indirect, in the Acquisition;

(ii) no person (other than a Director) was interested (or deemed to be interested) in the Units, or held any short position in the Units, which were required to be disclosed to the Manager and the Stock Exchange pursuant to Divisions 2, 3 and 4 of Part XV of the SFO; and

(iii) none of the Directors or chief executive of the Manager had any interests or short positions in the Units of SF 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, 8 and 9 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), which the Trust Deed, subject to certain exceptions, deemed to apply to the Directors and chief executive of the Manager, the Manager and each Unitholder and all persons claiming through or under them.

5. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS AND IN COMPETING BUSINESSES

SF REIT invests in income-generating real estate globally with an initial focus on logistics properties located in Hong Kong and the PRC. While SFH's principal business is not the leasing of properties, its certain subsidiaries are engaged in the investment, development and management of logistics properties in the PRC (the "**Competing Businesses**"). Mr. WANG Wei, Ms. NG Wai Ting and Mr. HO Chit hold directorships, shareholding interests, senior management positions and/or advisory or consultancy role in SFH and/or its subsidiaries (including those engaged in the Competing Businesses) and may therefore have conflict of interests in their involvement in the businesses of both the SF REIT Group and the SFH Group.

Accordingly, Mr. WANG Wei, Ms. NG Wai Ting and Mr. HO Chit, all being non-executive Directors, are considered to have interests in the Competing Businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the SF REIT Group. Given that the Competing Businesses are managed by separate companies with management and administration functions distinct from SF REIT, it is considered that the SF REIT Group is capable of carrying on its businesses independently of, and at arm's length from, the 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 31 December 2021, being the date that the latest published audited financial statements of the SF REIT Group were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group;

(b) none of the Directors was materially interested in any contract or arrangement 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 close associates had interests in a business which competes or is likely to compete, either directly or indirectly, with SF REIT's business.

6. EXPERTS AND CONSENTS

Each of the Reporting Accountant, the Tax Advisers, the Independent Financial Adviser, the Market Consultant, the Independent Property Valuer, the PRC Legal Advisers and the Building Consultant has given and has not withdrawn its written consent to the inclusion and publication of its name in this Circular. Each of the parties above where relevant has also given their consent to the inclusion of its name in this Circular and/or its appendices and all references thereto, in the form and context in which they are included in this Circular.

The following are the qualifications of the experts (in alphabetical order) who have been named in this Circular and have given opinion or advice which are contained in this Circular.

Cushman & Wakefield Limited	Market Consultant
Cushman & Wakefield International Property Adviser (Shanghai) Co., Ltd	Building Consultant
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent Property Valuer
King & Wood Mallesons	PRC Legal Advisers
KPMG Advisory (China) Limited	Tax Advisers
PricewaterhouseCoopers	Certified Public Accountants under the Professional Accountants Ordinance (Cap. 50) and Registered Public Interest Entity Auditor under the Financial Reporting Council Ordinance (Cap. 588)
Somerley Capital Limited	Independent Financial Adviser, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, none of the above experts had any interest in the SF REIT Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the SF REIT Group.

As at the Latest Practicable Date, none of the above experts had any direct or indirect interest in any assets which have been, since 31 December 2021, being the date to which the latest published audited financial statements of the SF REIT Group were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

7. LITIGATION

As at the Latest Practicable Date, none of SF REIT, the Manager, the Trustee (in its capacity as trustee of SF REIT), the Target Company or the companies in the Target Group were involved in any litigation or claims of material importance and, so far as the Directors were aware, no litigation or claims of material importance, by or against the Enlarged Group, the Manager, the Trustee (in its capacity as trustee of SF REIT), the Target Company or the companies in the Target Group, was pending or threatened.

8. MATERIAL CONTRACTS

Save as disclosed in section headed "Material Agreements and Other Documents" in the Offering Circular, during the two years immediately preceding the date of this Circular, the following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Enlarged Group and are or may be material:

(a) the Trust Deed; and

(b) the Sale and Purchase Deed.

9. NO MATERIAL ADVERSE CHANGE

The Directors confirm that they were not aware of any material adverse change in the financial and trading position of the SF REIT Group since 31 December 2021, being the date that the latest published audited financial statements of the SF REIT Group were made up, and including the Latest Practicable Date.

10. DOCUMENTS ON DISPLAY

The following documents will be available on: (i) the website of the Stock Exchange (www.hkexnews.hk); and (ii) the website of SF REIT (www.sf-reit.com) from the date of this Circular up to and including the date of the EGM:

(a) the Sale and Purchase Deed;

(b) the Offshore Facility Agreement;

(c) the First Amendment Deed;

(d) the Second Amendment Deed;

(e) the Operations Management Agreement;

(f) the letter from the Independent Board Committee;

(g) the letter from the Independent Financial Adviser;

(h) the annual report of SF REIT for the period from 29 April 2021 (date of establishment of SF REIT) to 31 December 2021;

(i) the Accountant's Reports as set out in Appendix 2A and Appendix 2B to this Circular;

(j) the report on unaudited pro forma financial information of the Enlarged Group from PricewaterhouseCoopers relating thereto as set out in Appendix 4 to this Circular;

(k) the Valuation Report on the Changsha Property as set out in Appendix 5 to this Circular;

(l) the Market Consultant Report as set out in Appendix 6 to this Circular;

(m) the written consents referred to in the paragraph headed "Experts and Consents" in this Appendix; and

(n) the Offering Circular.

The Trust Deed will also be available for inspection at the registered office of the Manager for so long as SF REIT continues to be in existence.

11. MISCELLANEOUS

(a) The company secretary of the Manager is Ms. LEUNG Wai Yee, an associate of The Chartered Governance Institute and The Hong Kong Chartered Governance Institute.

(b) The registered office of the Manager is located at Room 2002, 20/F, Lee Garden Six, 111 Leighton Road, Causeway Bay, Hong Kong.

(c) The Unit Registrar and transfer office of SF REIT is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

SF Real Estate Investment Trust
順豐房地產投資信託基金

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

(Stock Code: 2191)

Managed by
SF REIT Asset Management Limited

Notice of Extraordinary General Meeting

NOTICE IS HEREBY GIVEN that an extraordinary general meeting ("**EGM**") of the unitholders ("**Unitholders**") of SF Real Estate Investment Trust ("**SF REIT**") will be held at Chatham Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Wednesday, 22 June 2022 at 11:00 a.m. for the following purposes.

Words and expressions that are not expressly defined in this notice of EGM shall bear the same meaning as that defined in the circular to Unitholders dated 7 June 2022 (the "**Circular**").

ORDINARY RESOLUTION

1. To consider, if thought fit, pass with or without modification, the following resolution as an ordinary resolution:

   THAT, approval (where relevant, shall include approval by way of ratification) be and is hereby given for the Acquisition Matters Requiring Approval, being the Acquisition (including the entry into of the Sale and Purchase Deed) and the consummation of transactions contemplated under the Sale and Purchase Deed, as more fully described in the Circular (a copy of which marked A and signed by the chairman of the meeting is produced to the meeting for identification purpose) and on the terms and conditions set out in the Sale and Purchase Deed **AND THAT** authorisation be granted to the Manager, any Director, the Trustee and any authorised signatory of the Trustee to complete and to do all such acts and things (including executing all such documents as may be required) as the Manager, such Director, the Trustee or such authorised signatory of the Trustee, as the case may be, may consider expedient or necessary or in the interest of SF REIT to give effect to all matters in relation to the Acquisition Matters Requiring Approval generally.

By Order of the Board
SF REIT Asset Management Limited
(as manager of SF Real Estate Investment Trust)
WANG Wei
Chairman of the Board

Hong Kong, 7 June 2022

Notes:

(i) Pursuant to the Trust Deed, any Unitholder entitled to attend and vote at the EGM (or any adjournment thereof) is entitled to appoint proxy to attend and vote in his/her stead at the EGM (or any adjournment thereof), but the number of proxies appointed by any Unitholder (other than HKSCC Nominees Limited or a recognised clearing house within the meaning of the Securities and Futures Ordinance) shall not exceed two. A proxy need not be a Unitholder. **In light of the current COVID-19 situation, Unitholders are strongly encouraged to appoint the chairman of the EGM as their proxy to vote on the resolution at the EGM instead of attending the EGM in person.**

(ii) In order to be valid, the proxy form, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or other authority (if any) must be deposited with the Unit Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours (excluding any part of a day that is a public holiday) before the time appointed for holding the EGM (or any adjournment thereof).

(iii) In the case of joint holders of any Unit, the vote of the senior joint holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders and for this purpose, seniority shall be determined by the order in which the names of the joint holders stand in the register of Unitholders of SF REIT in respect of the relevant Unit.

(iv) For the purpose of ascertaining entitlement to attend and vote at the EGM (or any adjournment thereof), the register of Unitholders of SF REIT will be closed from Tuesday, 21 June 2022 to Wednesday, 22 June 2022, both days inclusive, during which period no transfer of Units will be effected. In order to be eligible to attend and vote at the EGM (or any adjournment thereof), all transfer documents accompanied by the relevant unit certificates must be lodged with the Unit Registrar (at the address stated in point (ii) above) for registration no later than 4:30 p.m. on Monday, 20 June 2022.

(v) The voting on the proposed resolution as set out in this notice of EGM shall be taken by poll at the EGM.

(vi) With regard to details of the proposed ordinary resolution, please refer to the circular dated 7 June 2022 of SF REIT.

(vii) If a Typhoon Signal No. 8 (or above) is hoisted or a Black Rainstorm Warning Signal is in force in Hong Kong at or at any time after 7:00 a.m. on the date of the EGM, the EGM will be rescheduled. The Manager will publish an announcement on the website of SF REIT (www.sf-reit.com) and the HKEXnews website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) to notify Unitholders of the date, time and place of the rescheduled meeting. The EGM will be held as scheduled when an Amber or a Red Rainstorm Warning Signal is in force. Unitholders should decide on their own whether they would attend the EGM under bad weather conditions bearing in mind their own situations.

(viii) **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.

(ix) **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 SF REIT's website (www.sf-reit.com) for any update of latest arrangement of the EGM.**

(x) As at the date of this notice, the Board comprises Mr. WANG Wei as Chairman and Non-executive Director; Mr. Hubert CHAK as Executive Director and Chief Executive Officer; Ms. NG Wai Ting, Mr. HO Chit and Mr. LEONG Chong as Non-executive Directors; and Mr. TAN Huay Lim, Mr. HO Lap Kee, MH, JP, Mr. CHAN Ming Tak, Ricky, Mr. KWOK Tun Ho, Chester and Mr. Michael Tjahja SUSANTO as Independent Non-executive Directors.