mapletree commercial

(Constituted in the Republic of Singapore pursuant to a trust deed dated 25 August 2005 (as amended))

ANNOUNCEMENT

RESPONSES TO QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

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1. INTRODUCTION

The board of directors of Mapletree Commercial Trust Management Ltd., as manager of Mapletree Commercial Trust ("**MCT**", and as manager of MCT, the "**MCT Manager**" or the "**Manager**"), refers to:

(a) the joint announcements dated 31 December 2021 and 28 January 2022 (the "**Joint Announcements**") issued by the MCT Manager and Mapletree North Asia Commercial Trust Management Ltd., as manager of Mapletree North Asia Commercial Trust ("**MNACT**" and the manager of MNACT, the "**MNACT Manager**"), in relation to the proposed merger of MCT and MNACT (the "**Merger**"), to be effected through the acquisition by MCT of all the issued and paid-up units of MNACT (the "**MNACT Units**") by way of a trust scheme of arrangement (the "**Trust Scheme**") in accordance with the Singapore Code on Take-overs and Mergers (the "**Code**");

(b) the announcement dated 4 February 2022 issued by the MCT Manager informing the MCT Unitholders of the date of the first Court hearing;

(c) the announcement dated 14 February 2022 issued by the MCT Manager informing the MCT Unitholders of the change in the first Court hearing date; and

(d) the queries from the Securities Investors Association (Singapore) ("**SIAS**") on 21 February 2022 in relation to the Merger and the Trust Scheme.

Unless otherwise defined, all capitalised terms used and not defined herein shall have the same meanings given to them in the Joint Announcements.

2. RESPONSES TO SIAS

The MCT Manager notes that SIAS had on 21 February 2022 published on its website certain queries in relation to the Merger and the Trust Scheme. The MCT Manager sets out its responses to the queries raised by SIAS in the **Appendix** to this Announcement.

3. RESPONSIBILITY STATEMENT

The directors of the MCT Manager ("**MCT Directors**") (including those who may have delegated detailed supervision of this Announcement) have taken all reasonable care to ensure that the facts stated and opinions expressed in this Announcement (including the responses in the Appendix) which relate to MCT and/or the MCT Manager (excluding those relating to MNACT and/or the MNACT Manager) are fair and accurate and that there are no other material facts not contained in this Announcement (including the responses in the Appendix), the omission of which would make any statement in this Announcement (including the responses in the Appendix) misleading. The MCT Directors jointly and severally accept responsibility accordingly.

Where any information has been extracted or reproduced from published or otherwise publicly available sources or obtained from a named source (including MNACT and/or the MNACT Manager), the sole responsibility of the MCT Directors has been to ensure through reasonable enquiries that such information is accurately extracted from such sources or, as the case may be, reflected or reproduced in this Announcement (including the responses in the Appendix). The MCT Directors do not accept any responsibility for any information relating to MNACT and/or the MNACT Manager or any opinion expressed by MNACT and/or the MNACT Manager.

By Order of the Board
Wan Kwong Weng
Joint Company Secretary
Mapletree Commercial Trust Management Ltd.
(Company Registration No. 200708826C)
As Manager of Mapletree Commercial Trust

23 February 2022

Any queries relating to this Announcement, the Merger or the Trust Scheme should be directed to one of the following:

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Appendix

Responses To SIAS

Date: February 21, 2022

To: **Mapletree Commercial Trust Management Ltd., manager of**
Mapletree Commercial Trust

Through: Ms. Sharon Lim, Executive Director and Chief Executive Officer

Questions to Mapletree Commercial Trust ("MCT")

On December 31, 2021, MCT and Mapletree North Asia Commercial Trust ("MNACT") announced a merger to create a flagship commercial REIT, to be named Mapletree Pan Asia Commercial Trust ("MPACT"). MCT will acquire all the issued and paid-up units of MNACT by way of a trust scheme of arrangement. On paper, the scheme consideration is $1.1949 per MNACT unit with the scheme issue price of new MCT units at $2.0039. MNACT unitholders will have the option to receive 16% in cash ($0.1912), along with 0.5009 new units per MNACT unit.

In order to help MCT unitholders better understand the proposed merger, SIAS has prepared the following questions for MCT:

Key FAQs	
	The market's reaction **Since the announcement of the proposed merger, the unit price of MCT has declined by about 10% from $2 to as low as $1.78 in early February. With this proposed merger, MCT has to expand its mandate to include key Asia gateway markets from the current focus on Singapore. This proposed merger comes as a surprise to some unitholders who have invested in MCT for exposure to the stable and resilient Singapore market.**
1	***Is MCT acting outside its mandate to acquire MNACT which has assets in North Asia?*** <u>MCT'S RESPONSE</u> • To realise the benefits of the proposed Merger, the MCT Manager has announced its intention to expand the investment mandate for the enlarged MPACT entity to invest on a long-term basis in a diversified portfolio of income-producing real estate used primarily for office and/or retail real purposes, as well as real estate-related assets, in the key gateway markets of Asia (including but not limited to Singapore, China, Hong Kong SAR, Japan and South Korea). • Under the MCT Trust Deed, the MCT Manager may from time-to-time change MCT's investment policies subject to compliance with the listing manual (the "Listing Manual") of Singapore Exchange Securities Trading Limited (the "SGX-ST"), so long as it has given not less than 30 days' prior notice of the change to the MCT Trustee and the unitholders of MCT ("MCT Unitholders") by way of an announcement to the SGX-ST. The notice of the MCT Manager's intention to expand the investment mandate has been given in the MCT Announcement dated 31 December 2021. • In any event, the expansion of the investment mandate will only take place if the proposed Merger is approved by MCT Unitholders at the EGM, and the Trust Scheme being approved by unitholders of MNACT and becoming effective.

2 ***Can the manager provide clearer justification on this proposed merger with MNACT given that the market has reacted negatively to it?***

MCT'S RESPONSE

- Driving growth and maximising value for MCT Unitholders have always been the goal for us, and we aim to provide stable and sustainable distributions and capital appreciation to MCT Unitholders whilst maintaining an efficient and robust capital structure.
- MCT is a Singapore-focused commercial REIT and we are mindful that investors have appreciated and rewarded MCT for its stability and track record. However, based on feedback that we have been receiving over the years, we recognise that the lack of growth has been a concern for MCT Unitholders.
- Being a Singapore-focused REIT brings its own unique set of challenges. With the city having relatively limited transaction volumes for office and retail assets as compared to other key gateway markets in Asia, opportunities for growth remain sparse for us.
- As such, we believe that the next step in enabling long-term sustainable growth for MCT is to merge into a ready platform that has scale and reach in North Asia.
- This Merger provides a pathway for growth by merging MCT with a ready and established platform. This gives MCT Unitholders immediate financial benefits and access to attractive footholds into North Asia supported by established local operating teams with extensive experience and a strong track record. Growth and expansion in Pan Asia is therefore much easier as opposed to buying individual assets and trying to build an operational team from scratch.
- The key benefits of the Merger are as follows:
    - **Creating a platform for growth across key gateway markets of Asia -** Better unlock the upside potential of a multiple-geography platform, put the merged entity onto a new growth trajectory, and crystallise MPACT's position as a distinctive proxy to the long-term rise of Asia.
    - **Enhanced financial flexibility -** Well-placed to benefit from the enhanced financial flexibility to pursue more growth opportunities such as larger acquisitions and capital recycling opportunities.
    - **Increased liquidity and index representation -** MPACT will leapfrog to one of the top 10 largest REITs in Asia which will benefit from enhanced free float, trading liquidity and increased index representation.
    - **Reduced asset and tenant concentration risk -** Immediate benefits including enhanced geographic diversification, reduced single asset concentration and improved tenant diversification. Best-in-class assets, namely Festival Walk, Mapletree Business City and VivoCity, will continue to constitute a significant proportion of MPACT's asset base. Together, these will improve overall cash flow stability and resilience through market cycles.
    - **Attractive financial benefits -** These are in addition to the immediate financial benefits in terms of DPU and NAV accretion on a historical pro forma basis to the MCT Unitholders

Growth at what cost?

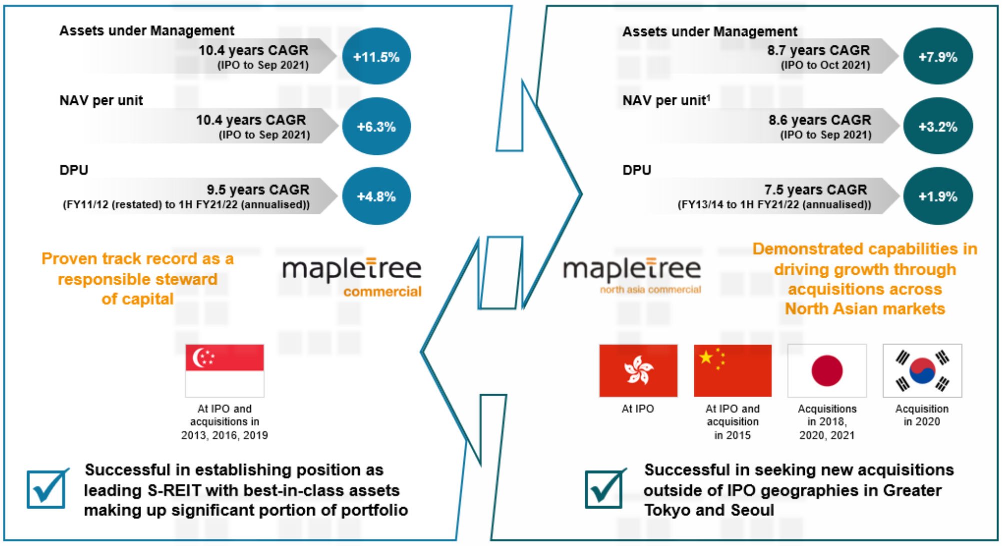
The proposed merger was also justified on the basis that it will enable MCT to grow quickly, rather than incrementally. MCT already has $8.8 billion in AUM.

For MCT, the benefits of the proposed merger include access to key gateway markets of Asia and enhanced diversification anchored by MNACT's "high quality portfolio". (See Appendix A) The proposed merger has no apparent operational synergies and the key assets, namely Festival Walk and Gateway Plaza, saw their rental reversion accelerate to negative 30% and negative 24% respectively for the 6 months ended 30 September 2021 from negative 21% and negative 7% in FY20/21 respectively. MNACT has also disclosed that a major tenant at Gateway Plaza is up for renewal in December 2023.

3 ***Is this acquisition critical to MCT? What can the enlarged REIT achieve due to its larger scale that MCT would not be able to do on its own? Has MCT considered the operational challenges of the two largest assets in MNACT's portfolio?***

<u>MCT'S RESPONSE</u>

- As previously addressed, we believe that the key to long-term sustainable growth is through a ready platform with scale and reach in Pan Asia.
- Both MCT and MNACT have had strong track records in delivering consistent and sustainable growth in AUM, NAV and DPU since their respective IPOs:



- We believe that the creation of MPACT will be better for both MCT and MNACT Unitholders in capitalising on opportunities to further drive growth and delivering long-term sustainable value and returns.
- Subject to unitholders' approval on the proposed Merger, we have envisaged a post-Merger plan which pursues a proactive strategy to fully realise the benefits of the Merger and crystallise MPACT's position as a proxy to Asia's long-term growth story.
- The immediate focus post-Merger will be to harness valuable best-practices and resources from both teams to capture efficiencies, optimise the portfolio and capitalise on market trends to drive NPI and DPU growth. The enlarged scale and stronger financial muscle will enable MPACT to undertake capital recycling opportunities, value-enhancing asset enhancement and development initiatives, and pursue larger acquisitions in Asia's key gateway markets.

- MPACT will continue to pursue a prudent capital management approach that ensures that the vehicle will be resilient and positioned for sustainable growth.
- We believe that with the combination of both teams into MPACT, unitholders can be assured that the enlarged REIT is best positioned to leverage on the growth story in Pan-Asia.

- Festival Walk
  - (i) Festival Walk is a highly regarded property in the Hong Kong SAR market that is popular amongst local consumers, particularly within the residential catchment around the property. Festival Walk is directly linked to the Kowloon Tong MTR station of Kwun Tong line and the overland East Rail line that links Hong Kong SAR directly to the Shenzhen border. In addition, Festival Walk is in close vicinity to two universities and schools, easily accessible by bus and road networks, providing the mall with multiple sources of shopper footfall.
  - (ii) Performance reached peak levels in FY18/19 but has been affected by COVID-19 and social incidents since.
  - (iii) Although short to mid-term challenges remain amidst uncertainties in recovery, we continue to see value in Festival Walk and in the long-term prospects of Hong Kong SAR. The property is well-positioned for growth when the impact of COVID-19 recedes and when the Hong Kong SAR retail market recovers.

- Gateway Plaza
  - (i) Gateway Plaza remains a high-quality Grade-A office building located in the established and mature Lufthansa Area in Beijing, China, with high quality international tenants and good tenancy profile.
  - (ii) As at 31 December 2021, Gateway Plaza reported a high occupancy rate of 94.5%, better than the 83.9% average occupancy rate of Beijing offices.
  - (iii) Over the next years, domestic insurance, wealth management and media companies, and international tenants in the financial services and media sector will form the bulk of leasing demand at Lufthansa. This aligns with Beijing's opening up of the services industry which is expected to benefit Gateway Plaza.

- Post-Merger we will work towards the long-term stabilisation and improvement of the properties to maintain high occupancy and drive asset performance.

What is the fair price for MNACT?

The CEO of MNACT has said that MNACT has historically traded below its NAV because of its geographical exposure. On the other hand, MCT has consistently traded above its NAV – the units were trading at as high as 1.28 times its Price-to-NAV ratio in the past six months. Since the announcement, the premium has fallen to 1.05 times and MCT has lost over $660 million in market capitalisation.

4	***Is MCT overpaying for MNACT's portfolio when even MNACT has openly stated that the market has historically valued MNACT's units at below NAV?***
5	***What is the basis of the scheme consideration of $1.1949 per MNACT unit? MCT's offer is at a 14-17% premium to the 1-month to 12-month VWAP of MNACT and is in-line with MNACT's NAV. How does this proposed merger create value for MCT unitholders when there are no operational synergies and MCT is paying MNACT its full NAV?***

MCT'S RESPONSE

The Scheme Consideration was the outcome of a robust process with extensive negotiations

- The proposed terms are a result of extensive negotiations between MCT and MNACT Managers on an arm's length basis.
- In determining the Scheme Consideration, we have taken into account factors including *inter alia*:
  - (i) the short to medium-term uncertainties of the respective property portfolios and the resulting potential benefits to be derived from the Merger of MCT and MNACT;
  - (ii) prevailing and historical relative market prices (including pre-COVID), distribution yields, and price to NAV per Unit of MCT and MNACT;
  - (iii) relevant precedent trust scheme mergers in Singapore;
  - (iv) latest available ex-dividend NAV of each MCT Unit and each MNACT Unit;
  - (v) resulting pro forma consolidated financial effects of the Merger;
  - (vi) amount of Permitted Distributions, to be made by the MCT and MNACT Managers; and
  - (vii) market value of the respective property portfolios.
- The directors of the MCT Manager, who are considered independent for the purpose of the proposed Merger, acted in accordance with their fiduciary duties and after extensive evaluation, decided that the proposed Merger should be put to vote by the independent MCT unitholders.
- The Scheme Consideration is backed by the latest independent valuations of MNACT's underlying properties as at 31 October 2021. An audit opinion will also be issued by an independent accounting firm confirming whether the latest carrying value of MNACT's underlying properties as reflected in its statement of investment properties have been prepared in all material respects in accordance with the relevant accounting policies. These reports and opinions are objective and independent assessments of MNACT's overall intrinsic value. Each of MCT and MNACT managers have also engaged an independent financial adviser who will provide their respective opinions on the Scheme Consideration.

The MCT Manager is of the view that the Scheme Consideration is fair and balanced

- The Scheme Consideration is the outcome of extensive negotiations, having given full consideration to the historical price and performance of both MCT and MNACT across various time periods including its pre-COVID performance to the last trading day prior to announcement.
- The MCT Manager is of the view that the Scheme Consideration is fair and balanced as it is premised on:
  - (i) P/NAV multiple of 1.0x of MNACT's adjusted NAV per unit of S$1.1949; and
  - (ii) Issue Price of MCT Units at S$2.0039, which is based on MCT's 1-day VWAP on 27 December 2021, being the Last Traded Day before the Joint Announcement.
- Scheme Consideration of S$1.1949 per MNACT Unit was based on *inter alia*:
  - o MNACT's NAV per Unit of S$1.265 as of 30 September 2021;
  - o less MNACT's reported 1H FY21/22 DPU of 3.426 Singapore cents paid on 24 December 2021; and
  - o adjusting for the valuation of MNACT's Investment Properties and Joint Venture held as of 30 September 2021 based on valuation as of 31 October 2021 as announced on 31 December 2021.
  - o Accordingly, the Scheme Consideration per MNACT Unit of S$1.1949 is equivalent to MNACT NAV per MNACT Unit and represents a P/NAV multiple of 1.0x.

- Issue Price of MCT Units of S$2.0039 was based on *inter alia*:
  - MCT's 1-day VWAP on 27 December 2021, the Last Traded Day before the Joint Announcement.
  - The following table shows MCT various VWAPs on 27 December 2021 over various time periods.

1-day (S$)	1-month (S$)	3-months (S$)	6-months (S$)	12-months (S$)
2.0039	2.0356	2.0917	2.1034	2.1002

  - Ultimately, the 1-day VWAP was agreed as MCT's Issue Price as we believed that it was the most relevant in representing the prevailing market conditions and MCT's fair market value.

- In arriving at the Scheme Consideration, we have given full consideration for not just the MNACT assets but also from the benefits that can be derived from the ready platform that MNACT offers. This is unlikely to be achieved through a piecemeal purchase of its assets and unitholders would be deprived from the benefit of participating in the merged entity.
- Given the above, we believe that we have put forward the best available offer to MNACT Unitholders that also takes care of the interests of MCT Unitholders. This is because the Scheme Consideration:
  - continues to give both MNACT and MCT Unitholders the opportunity to stay invested in an enlarged platform poised for growth into key gateway markets in Asia; and
  - delivers a balanced outcome for both sets of unitholders, resulting in a merged entity with an optimal capital structure which is best positioned to capture the benefits of the Merger.

Management fee structure

The manager has also proposed to change MCT's management fee structure. The new base fee will be 10% of distributable income (originally 0.25% of total assets). The new performance fee will be 25% of the y-o-y growth in DPU (originally 4% of net property income):

6 ***If MCT were to apply this fee structure in the past three years (or even five years since the last two years would not have been representative due to COVID), would the total management fees have been higher or lower?***

<u>MCT'S RESPONSE</u>

<u>MPACT's new fee structure promotes closer alignment of interests with unitholders</u>

- The existing fee structure for the MCT Manager is based on 0.25% per annum of total assets and 4.0% per annum of net property income. Under this structure, the MCT Manager would be entitled to a performance fee regardless of DPU growth.
- The proposed new fee structure for MPACT is based on 10.0% of Distributable Income ("DI") and 25.0% of the year-on-year growth in DPU. By pegging management fees to DI and DPU growth, it can promote closer alignment of interests with unitholders by incentivising long-term sustainable growth. The Merger provides a timely opportunity for the MCT Manager to propose this fee structure change.
- This is further illustrated below retrospectively on MCT and on a pro-forma basis on the enlarged REIT.

<u>Lower management fees if the revised management fee structure is retrospectively applied to MCT</u>

- Under the new management fee structure, MCT's total management fees would be lower over the assessment period when taken as a percentage of total assets.
- Despite the accretive acquisition of MBC II in FY19/20 (completed on 1 November 2019), management fees are comparatively lower under the new management fee structure.

Comparison of management fee structure			
Actual Management Fee Calculations	**FY18/19**	**FY19/20**	**FY20/21**
Manager's base fee (S$'m)	17.0	20.0	22.5
Manager's performance fee (S$'m)	13.9	15.1	15.1
Total (S$'m)	30.9	35.1	37.5
Total assets (S$'m)	7,100.8	9,007.1	8,950.6
Total management fee as a % of total assets	**0.43%**	**0.39%**	**0.42%**
Management Fee Calculations Under Revised Fee Structure	**FY18/19**	**FY19/20[1]**	**FY20/21[2]**
Manager's base fee (S$'m)	27.9	30.6	30.9
Manager's performance fee (S$'m)	0.8	2.3	-
Total (S$'m)	28.8	32.9	30.9
Total management fee as a % of total assets	**0.41%**	**0.37%**	**0.35%**

Note (1): Fees are calculated based on DI before retention of S$43.7 million of cash in FY19/20. The cash retention was to boost MCT's financial flexibility to tackle the evolving COVID-19 pandemic.
Note (2): Fees are calculated based on DI without the release of retained cash in FY20/21. Note that S$28.0 million of the cash retained in FY19/20 was released and included in the distributions to Unitholders in FY20/21.

<u>Lower management fees for the merged entity based on the revised fee structure</u>

- The new fee structure will also result in lower fees for MPACT as a percentage of total assets.

Annualised based on the 6-month period ended 30 September 2021		**MPACT Pro forma basis**	
Management fee estimates	**MCT (based on MCT's current fee structure)**	**Assuming MPACT continues to apply MCT's current fee structure**	**Based on the proposed new fee structure**
Manager's base fee (S$'m)	22.3	43.4	53.8[(1)] - 55.1[(2)]
Manager's performance fee (S$'m)	15.2	28.4	13.2[(2)] – 14.6[(1)]
Total (S$'m)	**37.4**	**71.8**	**68.2[(2)] – 68.3[(1)]**
Total assets (S$'m)	8,904.7	17,366.6	17,366.6
Total management fee as a % of total assets	**0.42%**	**0.41%**	**0.39%**

Note (1): Assuming all MNACT Unitholders except for MIPL Entities elect to receive the Cash-and-Scrip Consideration.
Note (2): Assuming all MNACT Unitholders elect to receive the Scrip-Only Consideration.

Note that some of the figures on the above tables may not add up due to rounding differences.

- Assuming all MNACT Unitholders except for MIPL Entities elect to receive the Cash-and-Scrip Consideration, the total management fees for MPACT based on the new fee structure (pro forma basis) works to be approximately S$68.3 million (0.39% of MPACT's total asset base) which is lower than the S$71.8 million (0.41% of MPACT's total asset base) if MPACT were to continue with MCT's existing fee structure. This is in spite of a merger that is expected to deliver between 7.5% to 8.9% of accretion to DPU (depending on the final consideration mix as a result of the merger). This will also set a high watermark before any performance fees will be paid to the manager of MPACT in the subsequent years. On years without major transactions, we can expect the management fees to be lower.
- Looking forward on a stabilised basis, the new fee structure is one that is fundamentally aligned with unitholders' interest as it directly incentivises long-term sustainable DI and DPU growth.

7 ***Should the merger be successful, will MCT be honouring the performance fee waiver that the manager of MNACT has given to its unitholders? The manager of MNACT has waived its entitlement to any performance fees until such time that the DPU of MNACT (on a standalone basis) exceeds the threshold DPU of 7.124 cents.***

MCT'S RESPONSE

- Post-Merger, the portfolios of MCT and MNACT will be combined and performance will be evaluated from an overall combined basis. As such, any existing MCT and MNACT management fee arrangements will no longer apply.

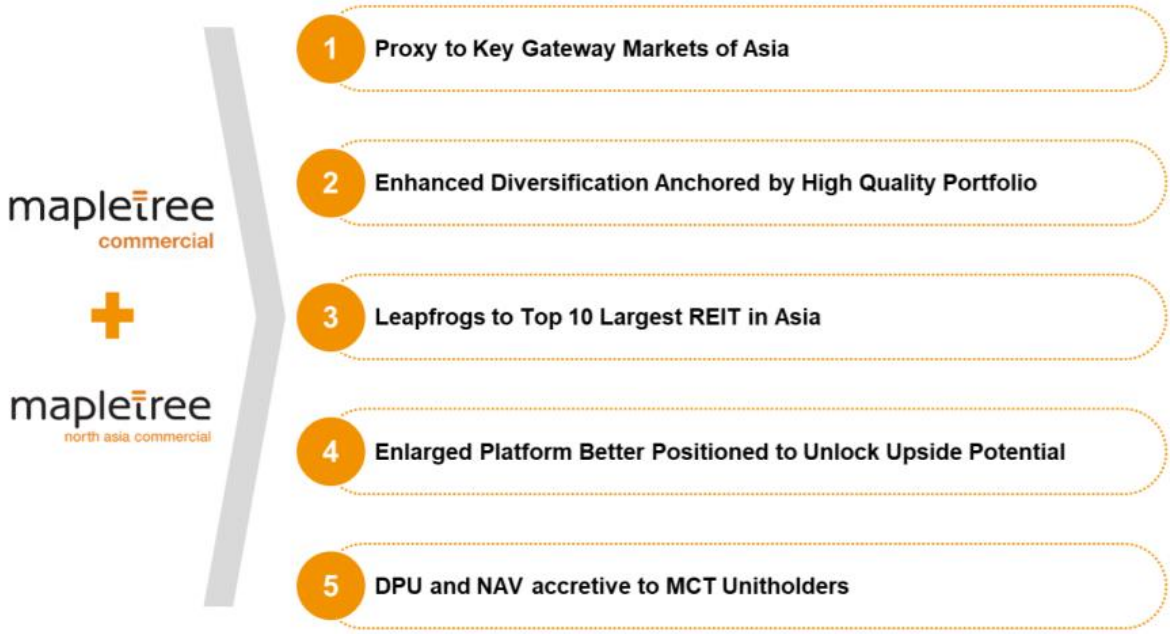
David Gerald

President and CEO

SIAS

Appendix A: Rationale and key benefits of this proposed merger

The rationale and key benefits of this proposed merger as shown in the REITs' joint announcement are as follows:



(Source: Joint announcement by MCT and MNACT dated 31 December 2021)