

SpringREIT

Spring REIT announces 2022 Annual Results

- ***Diversified portfolio by acquiring Huamao Place in Huizhou, Greater Bay Area, to capture the region's robust growth potential***
- ***Maintained a steady distribution for unitholders despite challenging business environment***

(Hong Kong, 22 March 2023) – **Spring Asset Management Limited** (the “**Manager**”), as manager of Spring Real Estate Investment Trust (“**Spring REIT**”, stock code: 1426), is pleased to announce the annual results of Spring REIT for the year ended 31 December 2022 (the “**Reporting Year**”).

The Board of Directors of the Manager is pleased to declare a final distribution of HK\$ 10.0 cents per Unit (2H2021: HK\$11.2 cents per Unit). Together with the interim distribution already paid, total distribution for the year amounts to a total of HK 21.2 cents per Unit (FY2021: HK\$ 22.0 cents per Unit), representing a decrease of 3.6 % year-on-year (“YoY”). Based on the closing price of HK\$ 2.40 per Unit as at 30 December 2022, the Reporting Year DPU represents a distribution yield of 8.8% (FY2021: 8.5%).

During the Reporting Year, Spring REIT’s revenue was RMB 577.85 million, 9.4% higher than that in FY2021 (FY2021: RMB 528.44 million). Net property income amounted to RMB 440.43 million (FY2021: RMB 396.37 million), representing an increase of 11.1% YoY and a net property income margin of 76.2% (FY2021: 75.0%). Offset by higher cash interest expenses, total distributable income was RMB 292.61 million, representing a decrease of 1.7% YoY.

Resilient performance from CCP Property amid tough market condition in Beijing

The China Central Place Office Tower 1 and 2 and the relevant portion of the car park (the “**CCP Property**”) showed its resilience in the face of some powerful headwinds. During the Reporting Year, revenue of the CCP Property was RMB 490.89 million, representing a 0.4% increase YoY, with rental income generated from the office space decreasing by 0.5% YoY. A 4.5% YoY decrease in property operating expenses was recorded, which was mainly due to a drop in leasing commission. As a result, net property income was RMB 365.36 million, up by 2.2%.

The CCP Property registered an average occupancy of 93.0% at the end of 2022 (End-2021: 96.3%), and a total area of 40,868 sqm being leased out and renewed during the Reporting Year. Average passing rent (net of value-added tax) increased marginally to RMB 349 per sqm in 2H 2022, implying a positive rental reversion rate of 0.3%, and a full year reversion of negative 0.3% (FY2021: negative 4.5%).

First acquisition in the Great Bay Area - Huamao Place (華貿天地) in Huizhou

Spring REIT completed the acquisition of Huamao Place in Huizhou on 28 September 2022, and the operation of the property contributed to the REIT's financial performance in Q4 of 2022. Huamao Place is the #1 shopping mall in Huizhou in terms of gross merchandise value in 2022¹. As a retail property, Huamao Place has diversified Spring REIT's portfolio and balanced its exposure, which was previously dominated by its Beijing office property. Despite the severe impact of the COVID-19 pandemic on consumer sentiment during the final quarter of 2022, Huamao Place registered a robust operating results with an average occupancy of 92.2% and limited rental arrears. For the period from 28 September 2022 to 31 December 2022, Huamao Place reported revenue of RMB 50.0 million, and the contribution of Huizhou Huamao Place in terms of Net Property Income amounted to RMB 39.0 million.

The Huizhou local team of Spring REIT undertook several initiatives to improve the market position and competitiveness of Huamao Place, including the transformation of a portion of the basement area into a new-concept marketplace. A further initiative involved the introduction of a cluster of international cosmetics brands to the shopping mall that are currently exclusive to Huamao Place. Over the year, the local property management team has been working tirelessly to optimise the trade mix within the shopping mall to provide a more enhanced shopping experience.

Stable contribution from UK Portfolio

The portfolio of 84 properties occupied by the vehicle servicing company Kwik Fit (GB) Limited (“**UK Portfolio**”) continued to operate steadily throughout the year. Currently, the UK Portfolio has an occupancy rate of 100%, with an annual contract rental income of approximately GBP 4.55 million. Spring REIT enjoys substantial pass through of rental income as the leases are “full repairing and insuring” in nature, under which the tenant pays all real estate taxes, building insurance, and maintenance (the triple “nets”) on the properties in addition to any normal fees that are specified under the agreement (e.g. rent, utilities, etc.).

Prudent capital management to mitigate rising interest rate

The high inflation environment of 2022 led to significant rises in global interest rates and volatilities in the RMB exchange rates, posing challenges to Spring REIT in terms of maintaining stable distributions to Unitholders and a sustainable capital structure following the debt-funded Huizhou acquisition. Vigilant capital management strategies have always been a hallmark of Spring REIT's approach, underpinning Spring REIT's ongoing interest rate hedging initiatives over the years. At the end of 2022, around 81% of all Spring REIT's HKD loan principal was covered by its interest rate hedging programme. The manager is continuing to closely monitor market conditions and interest rate movements with a view to enhancing the existing interest rate hedging arrangements as appropriate.

¹ According to market research by China Insights Consultancy, December 2022
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Staying cautiously optimistic in 2023

While the global economy battles inflation and geopolitical tension, the Chinese economy will need time to adapt to government policies promoting balanced and healthy growth in such strategic sectors as technology and real estate. Spring REIT therefore anticipates continued volatility in the office market in Beijing. Nonetheless, market sentiment in Beijing has improved with a pickup in activities across all areas of life. The number of tenant enquiries has also risen to an extent, and the situation regarding rental arrears and concessions and early terminations has continued to improve. Stiff market competition to fill up existing vacancies is still expected to weigh on rental levels in the short term. However, the Manager remains cautiously optimistic that the dynamics of the Beijing office market will gradually improve as business activities recover.

In the coming year, Spring REIT anticipates a normalised full-year contribution from its Huizhou operation. The Greater Bay Area has been designated an area of strategic importance for the future development of the nation. Its population, including that of Huizhou City, is expected to become more affluent in the coming years as a result of economic development, ongoing urbanisation, consumption upgrades and continued government support. As Huizhou's premier shopping mall, Huamao Place is well placed to profit from the long-term success of this special region.

Mr. Toshihiro TOYOSHIMA, Chairman of Spring Asset Management Limited, said "We finished the year in a strong position, having expanded our portfolio and further strengthened our capital management structure. Despite the temporary economic headwinds, recovery was in sight by the end of 2022, driven by policy stimulus measures and the easing of domestic COVID-19 restrictions. Given our firm footing, we are optimistic that our efforts to create value through our asset management strategies will translate into an enhanced distribution for unitholders."

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About Spring Real Estate Investment Trust (stock code: 1426)

Spring Real Estate Investment Trust ("Spring REIT", stock code: 1426) is a real estate investment trust which invests in high quality income-producing real estate. Listed on 5 December 2013 on the Hong Kong Stock Exchange, Spring REIT's property portfolio comprises (i) two Premium Grade office buildings strategically located in the Central Business District of Beijing, (ii) a landmark shopping mall Huamao Place in Huizhou, Greater Bay Area, and (iii) a long-income portfolio of commercial properties in the United Kingdom. Spring REIT seeks to offer to Unitholders stable distributions and the potential for sustainable long-term growth through investing in a diversified portfolio of income-producing real estate.

Spring REIT is managed by Spring Asset Management Limited, a company incorporated in Hong Kong. As at 31 December 2022, the Manager is 80.4 % owned by Mercuria Holdings Co., Ltd. ("Mercuria Holdings"), which is an investment holding company listed on the Tokyo Stock Exchange (Stock Code: 7347) with notable shareholders such as Development Bank of Japan, Itochu Corporation and Sumitomo Mitsui Trust Bank, Limited.

For press enquiries:

Strategic Financial Relations Limited

Cindy Lung Tel: (852) 2864 4867
Christina Cheuk Tel: (852) 2114 4979
Chloe Chen Tel: (852) 2864 4806

Email: cindy.lung@sprg.com.hk
Email: christina.cheuk@sprg.com.hk
Email: chloe.chen@sprg.com.hk

RESULTS HIGHLIGHT

(in RMB millions unless otherwise specified)			
For the Year Ended 31 December	2022	2021	Change
Revenue	577.85	528.44	9.4%
Property operating expenses	(137.42)	(132.07)	4.1%
Net property income	440.43	396.37	11.1%
Net property income margin	76.2%	75.0%	1.2 ppt
G&A expenses	(74.65)	(65.27)	14.4%
Cash interest expenses	(110.18)	(62.18)	77.2%
Profit after taxation attributable to Unitholders	28.35	509.95	(94.4%)
Total distributable income	292.61	297.69	(1.7%)
Units Information	2022	2021	Change
DPU (HK cents)	21.2	22.0	(3.6%)
Payout ratio	92.5%	90.0%	2.5 ppts
Net asset value per Unit (HK\$)	4.95	5.56	(11.0%)
Number of Units outstanding	1,484,931,187	1,472,383,580	0.9%
As at 31 December	2022	2021	Change
Property valuation	12,082.95	9,307.10	29.8%
Total assets	12,930.99	9,884.00	30.8%
Total borrowings	4,857.35	2,960.83	64.1%
Net asset value attributable to Unitholders	6,558.84	6,671.65	(1.7%)
Gearing ratio	37.6%	30.0%	7.6 ppts