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Spring Real Estate Investment Trust

春泉產業信託

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

(Stock code: 01426)

Managed by

Spring Asset Management Limited

ANNOUNCEMENT

CONTINUING CONNECTED PARTY TRANSACTION IN RELATION TO RENEWAL OF THE EXISTING MERCURIA BEIJING LEASE

The board of directors of the Manager wishes to announce that on 29 December 2020, Spring REIT (through a wholly-owned subsidiary) as landlord and Mercuria Beijing as tenant entered into an agreement in writing to renew the Existing Mercuria Beijing Lease for a further term of 36 months with effect from 1 January 2021. As Mercuria Beijing is a wholly-owned subsidiary of Mercuria Investment, which is an associate of the Manager, Mercuria Beijing is an associate of the Manager and a connected person of Spring REIT pursuant to paragraph 8.1(f) of the REIT Code. Accordingly, the Renewed Mercuria Beijing Lease constitutes a continuing connected party transaction of Spring REIT under Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules.

Given that the Existing Mercuria Beijing Lease and the Renewed Mercuria Beijing Lease were entered into within a 12-month period, the transactions thereunder are required to be aggregated pursuant to rule 14A.81 to 14A.83 of the Listing Rules.

As the highest applicable percentage ratio exceeds 0.1% but is less than 5%, the entry into of the Renewed Mercuria Beijing Lease is subject to the announcement, reporting and annual review requirements but is exempted from the unitholders' approval requirement under Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules.

This announcement is made pursuant to paragraphs 10.3 and 10.5A of the REIT Code.

A. BACKGROUND

Reference is made to the announcement of Spring Real Estate Investment Trust (“**Spring REIT**”) dated 28 February 2020 (the “**Relocation Announcement**”) in respect of, among other things, the continuing connected party transaction relating to the tenancy agreement entered into by MIBJ Consulting (Beijing) Co., Ltd.* (“**Mercuria Beijing**”) for certain office premises at Office Tower 2 of China Central Place for a term of 10 months expiring on 31 December 2020 (the “**Existing Mercuria Beijing Lease**”).

B. RENEWAL OF THE EXISTING MERCURIA BEIJING LEASE

On 29 December 2020, RCA01 (which is a wholly-owned subsidiary of Spring REIT) as landlord and Mercuria Beijing as tenant entered into an agreement in writing to renew the Existing Mercuria Beijing Lease for a further term of 36 months with effect from 1 January 2021 (the “**Renewed Mercuria Beijing Lease**”).

Information about Spring REIT and Mercuria Beijing

Spring REIT is a real estate investment trust, the units of which were first listed on The Stock Exchange of Hong Kong Limited on 5 December 2013. Spring REIT’s current portfolio includes all office floors of Office Tower 1 and Office Tower 2 of China Central Place (which are located in Beijing, the People’s Republic of China (the “**PRC**”)) and a portfolio of 84 commercial properties in the UK which is leased to Kwik Fit, a leading car servicing provider in the UK with over 600 centres nationwide.

The principal business activity of Mercuria Beijing is investment management. The ultimate beneficial owner of Mercuria Beijing is Mercuria Investment Co., Limited (“**Mercuria Investment**”), which is listed on the First Section of the Tokyo Stock Exchange, and the principal business activity of Mercuria Investment is investment management.

Key terms of the Existing Mercuria Beijing Lease and the Renewed Mercuria Beijing Lease

Key terms of the Existing Mercuria Beijing Lease and the Renewed Mercuria Beijing Lease are as follows:

	Existing Mercuria Beijing Lease <i>(expiring on 31 December 2020)</i>	Renewed Mercuria Beijing Lease <i>(commencing from 1 January 2021)</i>
Premises	Unit 1407, Office Tower 2 of China Central Place, No. 79 Jianguo Road, Chaoyang District, Beijing, the PRC	Same as the Existing Mercuria Beijing Lease
Lease commencement date	1 March 2020	1 January 2021
Term	10 months, expiring on 31 December 2020	36 months, expiring on 31 December 2023
Rental amount	RMB 79,457.39 per month (exclusive of property management fee and value added tax) payable in cash	Same as the Existing Mercuria Beijing Lease
Rental deposit	RMB 280,628.88	Same as the Existing Mercuria Beijing Lease
Early termination option	The tenant does not have the right to terminate the lease prior to its expiry, except in limited circumstances such as when there are major defects in the leased premises that are not corrected within a reasonable time	Same as the Existing Mercuria Beijing Lease

	Existing Mercuria Beijing Lease <i>(expiring on 31 December 2020)</i>	Renewed Mercuria Beijing Lease <i>(commencing from 1 January 2021)</i>
Renewal option	The tenant has an option to renew the lease for an additional term by providing at least six months' prior written notice before the expiry of the current term and entering into a new lease three months before the expiry of the current term. The rental amount for the additional term is determined through negotiation in accordance with the then prevailing market level	Same as the Existing Mercuria Beijing Lease

Historical rentals and Annual Cap

The historical rental amount payable in each of the financial years ended 31 December 2018 and 31 December 2019 and the financial year ending 31 December 2020 is as follows:

Period	Rental Amount
For the financial year ending 31 December 2018 <i>(Note 1)</i> :	RMB966,952.80
For the financial year ending 31 December 2019 <i>(Note 1)</i> :	RMB966,952.80
For the financial year ending 31 December 2020 <i>(Note 1)</i> :	RMB955,732.70

(Note 1) As disclosed in the Relocation Announcement, Mercuria Beijing was previously occupying the premises at Unit 1407, Office Tower 1 of China Central Place, No. 81 Jianguo Road, Chaoyang District, Beijing, the PRC (the “**Terminated Mercuria Beijing Lease**”) and relocated to the current premises of smaller size at Unit 1407, Office Tower 2 of China Central Place, No. 79 Jianguo Road, Chaoyang District, Beijing, the PRC, with effect from 1 March 2020. The rental amount under the Terminated Mercuria Beijing Lease is based on the same rate as that of the Existing Mercuria Beijing Lease and reflects the difference in the size of the two premises. For each of the financial years ended 31 December 2018 and 31 December 2019, the rental amount comprises the sums payable under the Terminated Mercuria Beijing Lease during such period. For the financial year ending 31 December 2020, the rental amount comprises the sums payable under the Terminated Mercuria Beijing Lease during the period from 1 January 2020 to 29 February 2020 and the sums payable under the Existing Mercuria Beijing Lease during the period from 1 March 2020 to 31 December 2020.

The annual cap (the “**Annual Cap**”) applicable to each of the following periods has been determined based on the rental amount payable under the Renewed Mercuria Beijing Lease and is as follows:

Period	Annual Cap
For the financial year ending 31 December 2021:	RMB953,488.86
For the financial year ending 31 December 2022:	RMB953,488.86
For the financial year ending 31 December 2023:	RMB953,488.86

Reasons for entering into the Renewed Mercuria Beijing Lease

The principal business of Spring REIT is property investment for rental income. Pursuant to the Existing Mercuria Beijing Lease, Mercuria Beijing has exercised its right to renew the Existing Mercuria Beijing Lease for another term. The rental amount under the Renewed Mercuria Beijing Lease was arrived at after arm’s length negotiation between the parties with reference to the prevailing market level. Based on the opinion of the independent property valuer, the rental amount under the Renewed Mercuria Beijing Lease is fair and reasonable and represents the prevailing market rent for similar properties in the locality that are used for similar purposes in the PRC. The Renewed Mercuria Beijing Lease will contribute towards the occupancy rate for Office Tower 2 of China Central Place. Therefore, having regard to the foregoing, the directors of the Manager believe that the entry into and terms of the Renewed Mercuria Beijing Lease are fair and reasonable and in the interests of Spring REIT and its unitholders as a whole.

Regulatory implications

As Mercuria Beijing is a wholly-owned subsidiary of Mercuria Investment, which is an associate of the Manager, Mercuria Beijing is an associate of the Manager and a connected person of Spring REIT pursuant to paragraph 8.1(f) of the Code on Real Estate Investment Trusts (the “**REIT Code**”). Accordingly, the Renewed Mercuria Beijing Lease constitutes a continuing connected party transaction of Spring REIT under Chapter 8 of the REIT Code and Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (modified as appropriate pursuant to paragraph 2.26 of the REIT Code) (the “**Listing Rules**”).

Given that the Existing Mercuria Beijing Lease and the Renewed Mercuria Beijing Lease were entered into within a 12-month period, the transactions thereunder are required to be aggregated pursuant to rule 14A.81 to 14A.83 of the Listing Rules.

As the highest applicable percentage ratio exceeds 0.1% but is less than 5%, the entry into of the Renewed Mercuria Beijing Lease is subject to the announcement, reporting and annual review requirements but is exempted from the unitholders' approval requirement under Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules.

C. OPINIONS

Directors of the Manager

Save for Mr. Toshihiro Toyoshima and Mr. Hideya Ishino, the directors (including the independent non-executive directors) of the Manager are of the view that: (i) the terms of the Renewed Mercuria Beijing Lease are fair and reasonable; (ii) the Renewed Mercuria Beijing Lease is on normal commercial terms or better and in the ordinary and usual course of business of Spring REIT; and (iii) the Renewed Mercuria Beijing Lease is in the interests of Spring REIT and its unitholders as a whole.

Each of Mr. Toshihiro Toyoshima and Mr. Hideya Ishino has a material interest in the Renewed Mercuria Beijing Lease and accordingly, each of them has abstained from voting on the board resolution of the Manager to approve the Renewed Mercuria Beijing Lease.

Save as disclosed, none of the other directors of the Manager has a material interest in the Renewed Mercuria Beijing Lease and/or is required to abstain from voting on the board resolution of the Manager to approve the Renewed Mercuria Beijing Lease.

Independent property valuer

The Manager has also obtained an opinion from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer and the principal valuer of Spring REIT, that the rental amount under the Renewed Mercuria Beijing Lease is fair and reasonable and represents the prevailing market rent for similar properties in the locality that are used for similar purposes in the PRC, and the terms of the Renewed Mercuria Beijing Lease are on normal commercial terms.

Trustee

Based and in sole reliance on the respective opinions of the independent non-executive directors of the Manager and the independent property valuer above and the information and assurances provided by the Manager, the Trustee, having taken into account its duties set out in the trust deed constituting Spring REIT (the “**Trust Deed**”) and the REIT Code:

- (i) has no objection to the entry into of the Renewed Mercuria Beijing Lease;
- (ii) is of the view that the Renewed Mercuria Beijing Lease is consistent with Spring REIT’s investment policy and in compliance with the REIT Code and the Trust Deed;
- (iii) is of the view that the Renewed Mercuria Beijing Lease is on normal commercial terms, fair and reasonable and in the interests of the unitholders as a whole; and
- (iv) confirms that unitholders’ approval is not required under the REIT Code or the Trust Deed.

These views are not to be taken as a recommendation or representation by the Trustee on the merits of the Renewed Mercuria Beijing Lease.

D. REVIEW PROCESS

The Renewed Mercuria Beijing Lease will also be subject to the following review processes:

(a) Annual review by the independent non-executive directors of the Manager

The independent non-executive directors of the Manager shall review the Renewed Mercuria Beijing Lease annually and confirm in Spring REIT’s annual report for the relevant financial period that the Renewed Mercuria Beijing Lease has been entered into:

- (i) in the ordinary and usual course of business of Spring REIT;
- (ii) on normal commercial terms or better; and

- (iii) in accordance with the agreement for the Renewed Mercuria Beijing Lease on terms that are fair and reasonable and in the interests of the unitholders of Spring REIT as a whole.

(b) Annual review by the auditors of Spring REIT

In respect of each relevant financial period, the Manager shall engage the auditors of Spring REIT to report on the Renewed Mercuria Beijing Lease annually. The auditors of Spring REIT must provide a letter to the board of directors of the Manager confirming whether anything has come to their attention that causes them to believe that the Renewed Mercuria Beijing Lease:

- (i) has not been approved by the board of directors of the Manager;
- (ii) was not, in all material respects, in accordance with the pricing policies of Spring REIT;
- (iii) was not entered into, in all material respects, in accordance with the terms of the agreement for the Renewed Mercuria Beijing Lease; and
- (iv) has exceeded the Annual Cap.

(c) Access to records

The Manager shall allow, and shall ensure that Mercuria Beijing allow, the auditors of Spring REIT sufficient access to its records for the purpose of reporting on the Renewed Mercuria Beijing Lease.

(d) Notification to the SFC

The Manager shall promptly notify the SFC and publish an announcement if the independent non-executive directors of the Manager and/or the auditors of Spring REIT cannot confirm the matters set out in (a) and/or (b) above.

E. GENERAL

Annual reports

A brief summary of the Renewed Mercuria Beijing Lease containing the information specified in rule 14A.71 of the Listing Rules shall be included in Spring REIT's annual report for the financial year ending 31 December 2021. Information about the Terminated Mercuria Beijing Lease and the Existing Mercuria Beijing Lease was also included in Spring REIT's interim report for the six-month period ended 30 June 2020 and information about the Existing Mercuria Beijing Lease will be included in Spring REIT's annual report for the financial year ending 31 December 2020.

Compliance with the REIT Code and the Listing Rules

The Manager will comply with all connected party transaction requirements under Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules in relation to the Renewed Mercuria Beijing Lease, including where it is further renewed or varied, unless any waiver is granted in respect of the same.

This announcement is made pursuant to paragraphs 10.3 and 10.5A of the REIT Code.

By order of the Board of
Spring Asset Management Limited
(as manager of Spring Real Estate Investment Trust)
Mr. Toshihiro Toyoshima
Chairman of the Manager

Hong Kong, 29 December 2020

As at the date of this announcement, the directors of the Manager are Toshihiro Toyoshima (chairman and non-executive director); Nobumasa Saeki (Chung Wai Fai, Michael as his alternate) and Leung Kwok Hoe, Kevin (executive directors); Hideya Ishino (non-executive director); and Simon Murray, Lam Yiu Kin and Liping Qiu (independent non-executive directors).

* *for identification purposes only*