

# Final Results 2017

## Presentation

21 March 2018

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- 3 CCP OPERATION REVIEW
- 4 KWIK FIT ACQUISITION
- 5 EGM Nov 17
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# OVERVIEW OF FY 2017

- Spring REIT will pay a final distribution of HK 11.6 cents. Total distribution for the Reporting Year amounts to HK 21.1 cents per Unit (2016: HK23.0 cents per Unit).
- Revenue and net property income increased 1.7% and 0.4% YoY respectively in USD terms, thanks to the consistent performance of the China Central Place (“CCP”) Property and the maiden contribution from the UK Portfolio.
- The CCP Property achieved consecutive growth for two halves since the second half of FY 2016 in RMB terms.
- The UK Portfolio enhanced Spring REIT’s cash flow with a 95.9% pass through of its revenue.
- Successful capital management initiatives including a reduction in the interest margin has strengthened Spring REIT’s balance sheet.
- The results of the EGM held in November 2017 confirmed investors’ trust in Spring REIT with over 80% of unitholders voted to support the Manager.





# AGENDA



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# FY2017 RESULTS SUMMARY

- Both growth at the CCP Property and the maiden contribution of the UK Portfolio offset the adverse effects of the 2016 B2V reform, real estate tax change and a weak RMB/USD exchange rate.
- Total cash interest expenses remained largely unchanged as margin reduction exercise offset a higher USD LIBOR and the additional interest charges attributable to the financing for the UK portfolio
- Total distributable income experienced a decline due to expenses associated with the EGM held in Nov 2017.

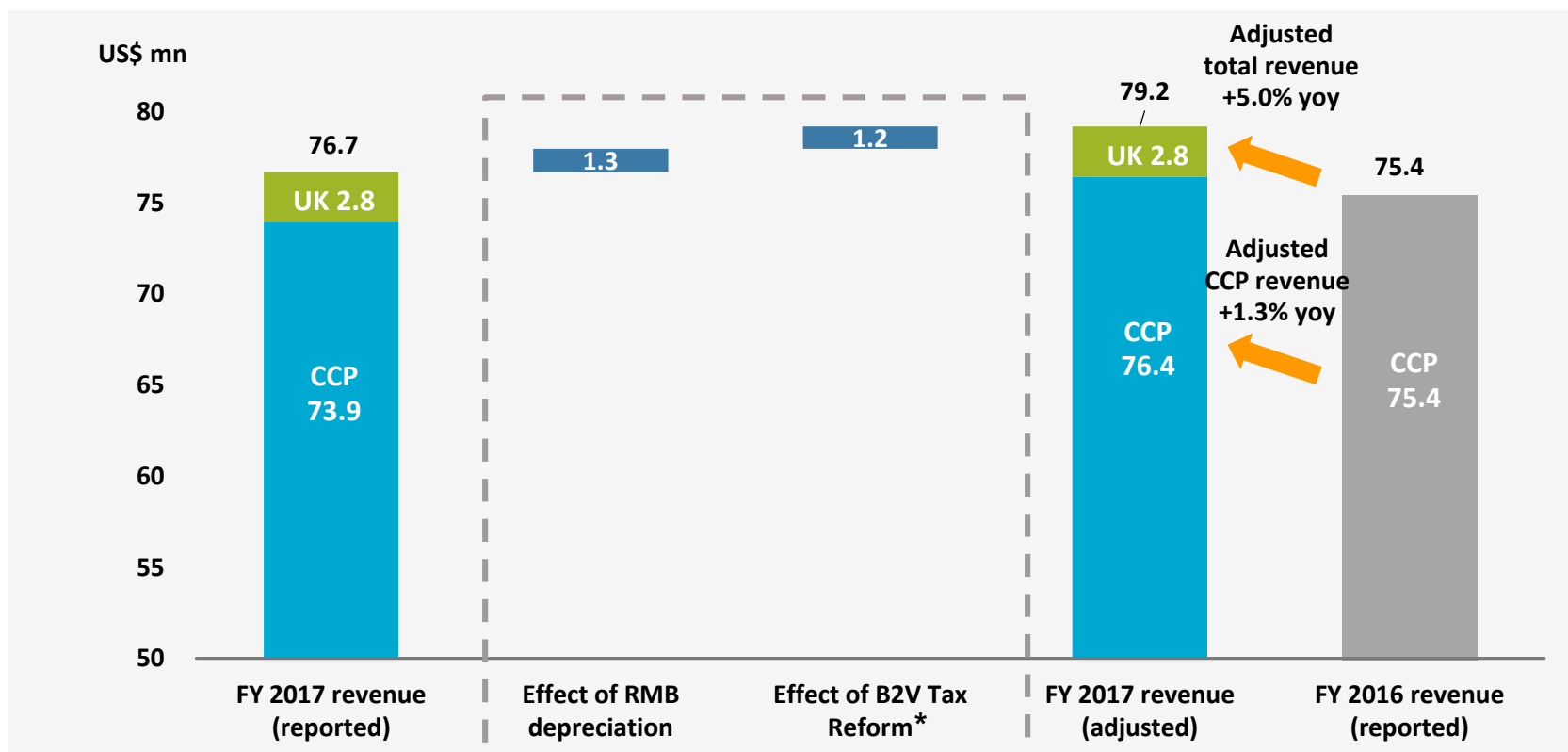
Operating Results			2016	2017	Change
Revenue		US\$m	75.43	76.70	+1.7%
Property operating expenses		US\$m	(18.59)	(19.62)	+5.5%
Net property income		US\$m	56.84	57.08	+0.4%
Net property income margin		%	75.4	74.4	-1.0 ppts
Total distributable income		US\$m	35.87	33.97	-5.3%

Financial Positions			2016	2017	Change
Portfolio valuation	CCP Property	US\$m	1,296.62	1,387.78	+7.0%
	UK Portfolio	US\$m	-	100.28	-
	Total	US\$m	1,296.62	1,488.06	+14.8%
Net asset value		US\$m	866.68	1,000.40	+15.4%
Gearing ratio		%	34.8	34.5	-0.3 ppts

# FINANCIAL PERFORMANCE: TOTAL REVENUE

Top-line underpinned by solid operation at CCP Property, also UK acquisition

- Excluding certain external factors, i.e. RMB depreciation and effect from B2V Tax Reform, adjusted CCP Property revenue +1.3% yoy on the back of moderate improvements in passing rent
- Adjusted total revenue +5.0% yoy as the newly acquired UK Properties contributed from July 2017



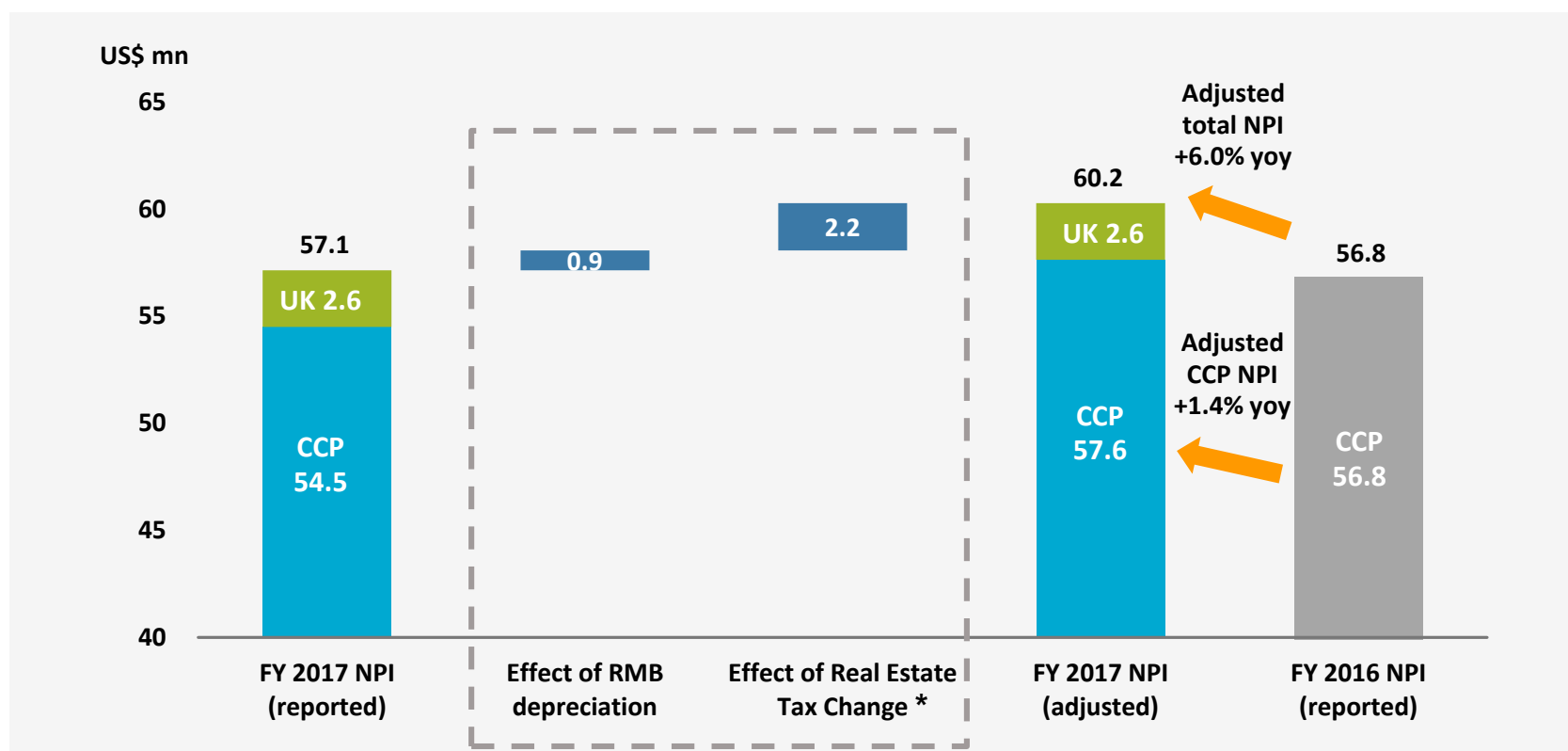
Note:

\* Subsequent to the Business Tax to VAT ("B2V") Tax Reform in the PRC, which took effect from 1 May 2016, Spring REIT's total revenue are recognized net of the 5% business tax, which is replaced by VAT and no longer applicable. Spring REIT's NPI was not materially affected.

# FINANCIAL PERFORMANCE: NET PROPERTY INCOME

Adjusted NPI also grew inline with revenue

- Results supported by healthy PRC leasing operation and contribution from UK Properties since July 2017
- Excluding certain external factors, i.e. RMB decline and Real Estate Tax Change in Beijing, adjusted CCP NPI +1.4% yoy; adjusted total NPI +6.0% yoy.



**Note:**

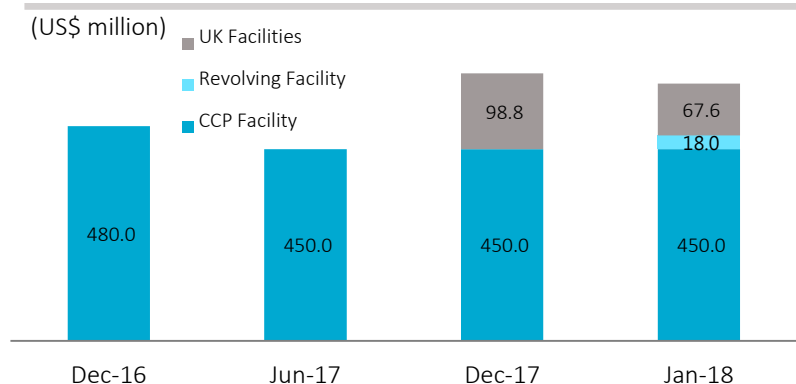
\*With effect from 1 July 2016, real estate tax applicable to Spring REIT's Beijing properties is calculated as (a) for leased area, at 12% of rental income; and (b) for vacant area, at 1.2% of the residual value of the relevant area. Prior to the change, real estate tax charged at 1.2% of the residual value of the Beijing properties.



# DEBT PROFILE

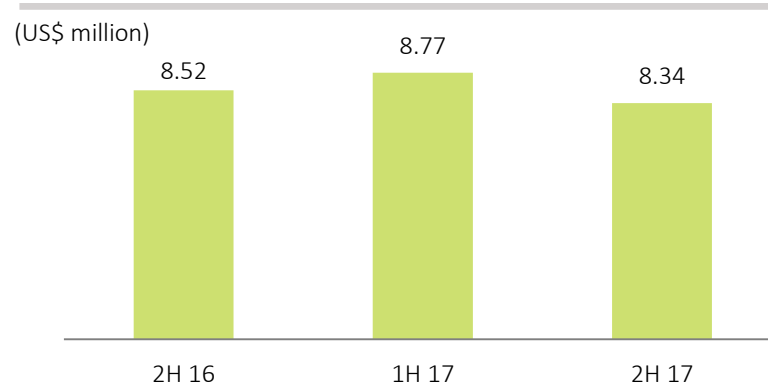
- New equity was raised in April 2017 primarily for partial loan repayment, reducing outstanding USD loan to US\$450 mn at end-2017.
- Spring REIT negotiated a reduction in the interest margin from 2.75% to 1.65% for its USD loan, effective 27 Jun 2017. This represents an interest saving thereafter of approximately US\$4.95 mn annually.
- With UK Acquisition financed by debt, total borrowings amounted to US\$547.5 mn at end-2017. Gearing remained healthy at 34.5%.

## Loan Notional Outstanding



- USD 5-yr Term Loan (till 2020) with a notional amount of US\$450.0 mn
- 2 GBP denominated bank loans combined to a notional amount of approx. US\$98.8 mn at the end of 2017
- Gearing ratio at 34.5% (2016 : 34.8%)

## Cash Interest Expenses



- Cash interest expenses for 2H 2017: US\$8.34 mn, -4.9% HoH, thanks to reduced interest margin
- For FY2017, total cash interest expense is US\$17.11 mn, of which US\$16.41 mn (96%) was attributable to the CCP facility.

## Subsequent Event

In January 2018, Spring REIT fully repaid the two GBP denominated bank borrowings, amounting approximately US\$98.8 million. The repayment was financed by a GBP50 million (approximately US\$67.6 million) drawn down from a new facility and a USD18 million drawn down from a revolving facility and internal resources.

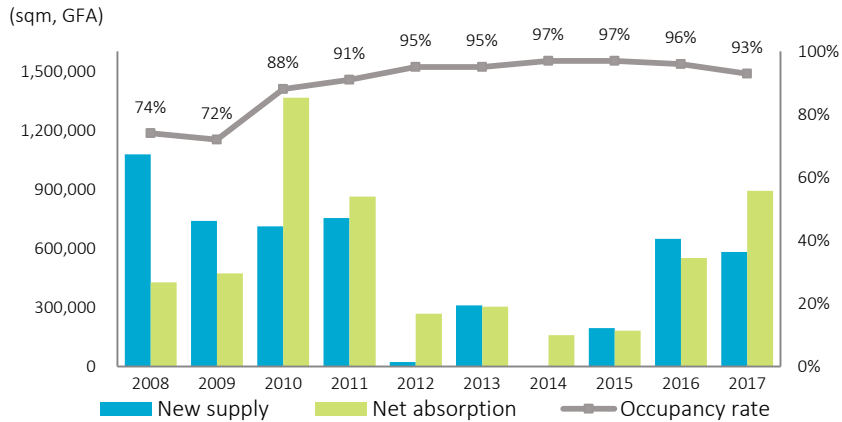


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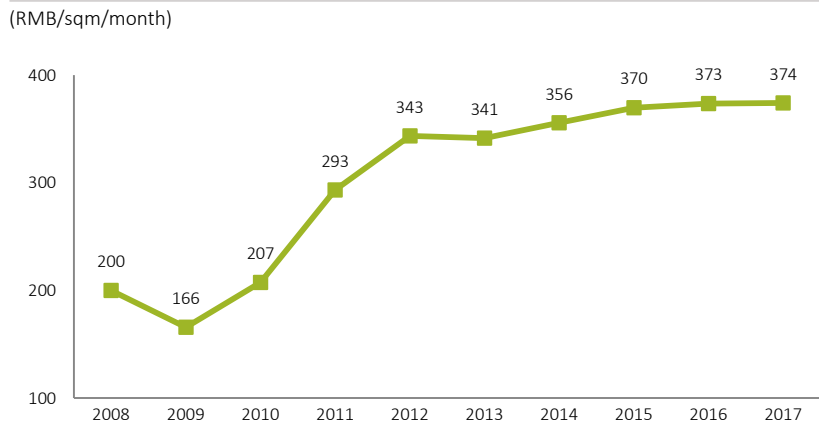
# LEASING MARKET CONDITION

## Beijing Overall

### Beijing Overall – Supply, Absorption, Occupancy

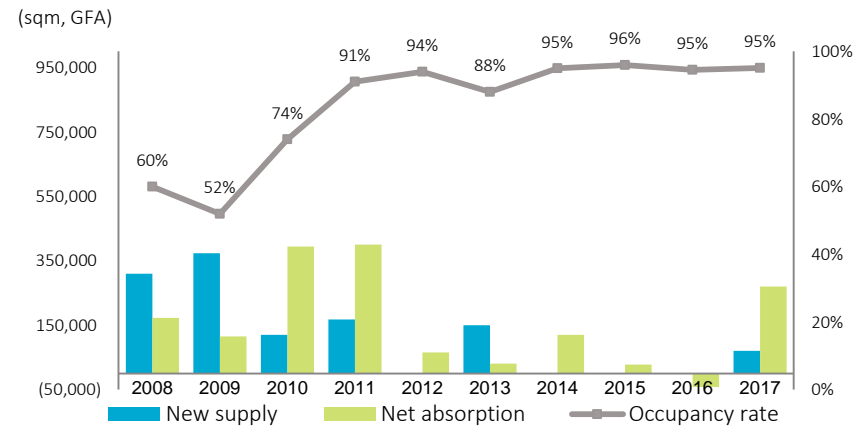


### Beijing Overall – Effective Rental Rate

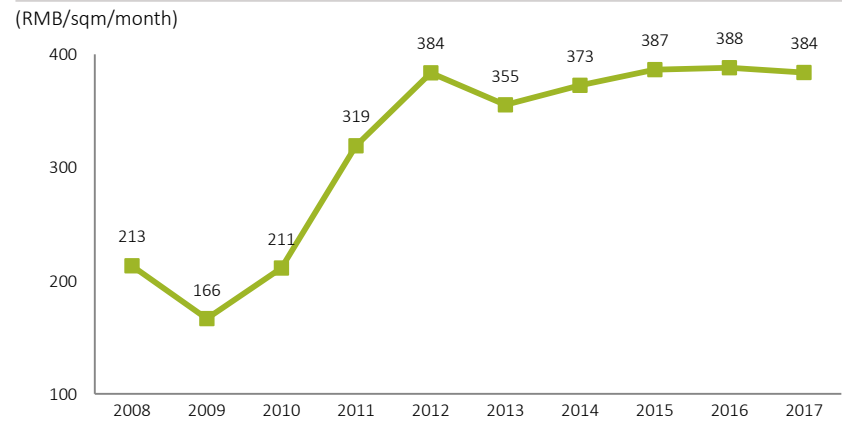


## Beijing CBD

### Beijing CBD – Supply, Absorption, Occupancy



### Beijing CBD – Effective Rental Rate

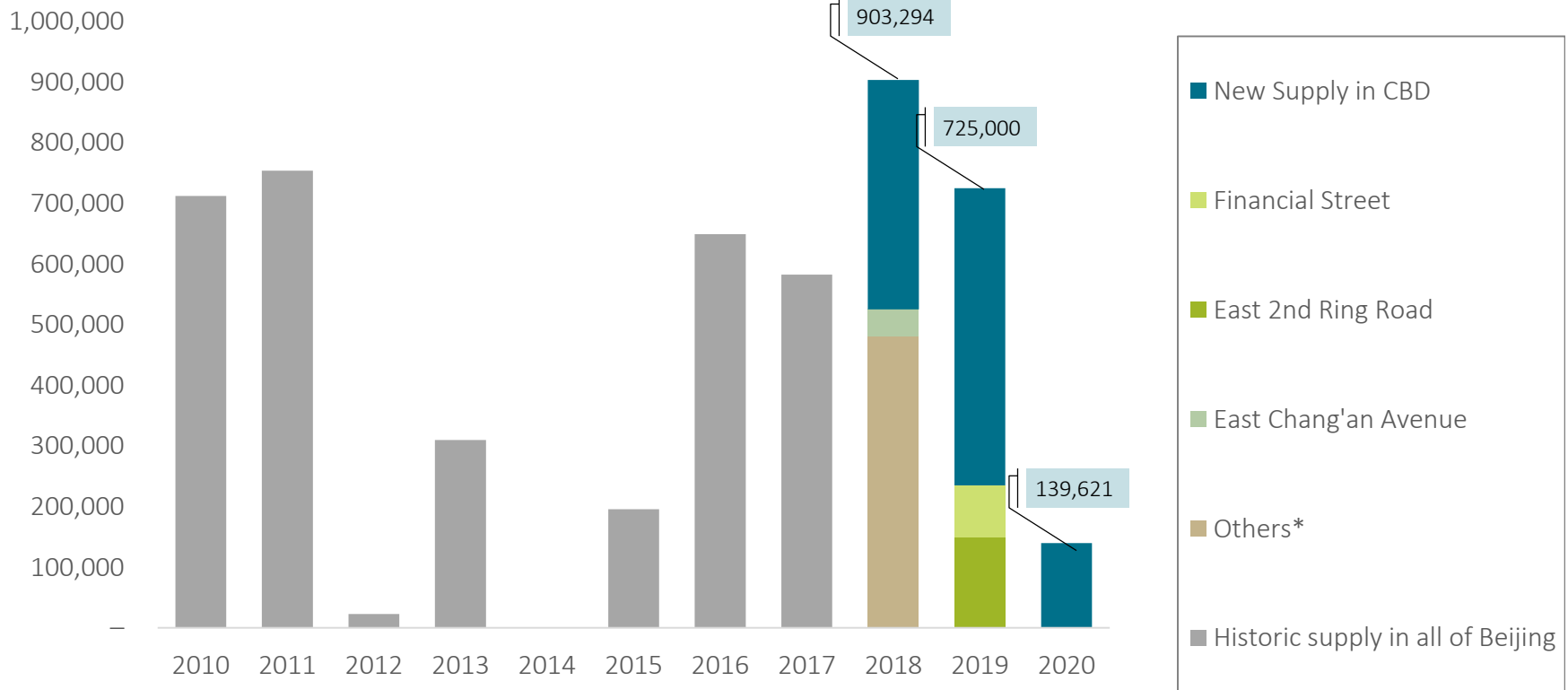


# FUTURE GRADE-A OFFICE SUPPLY

Beijing CBD to see more supply in 2018-19

## Grade-A office supply by year

(sqm, GFA)



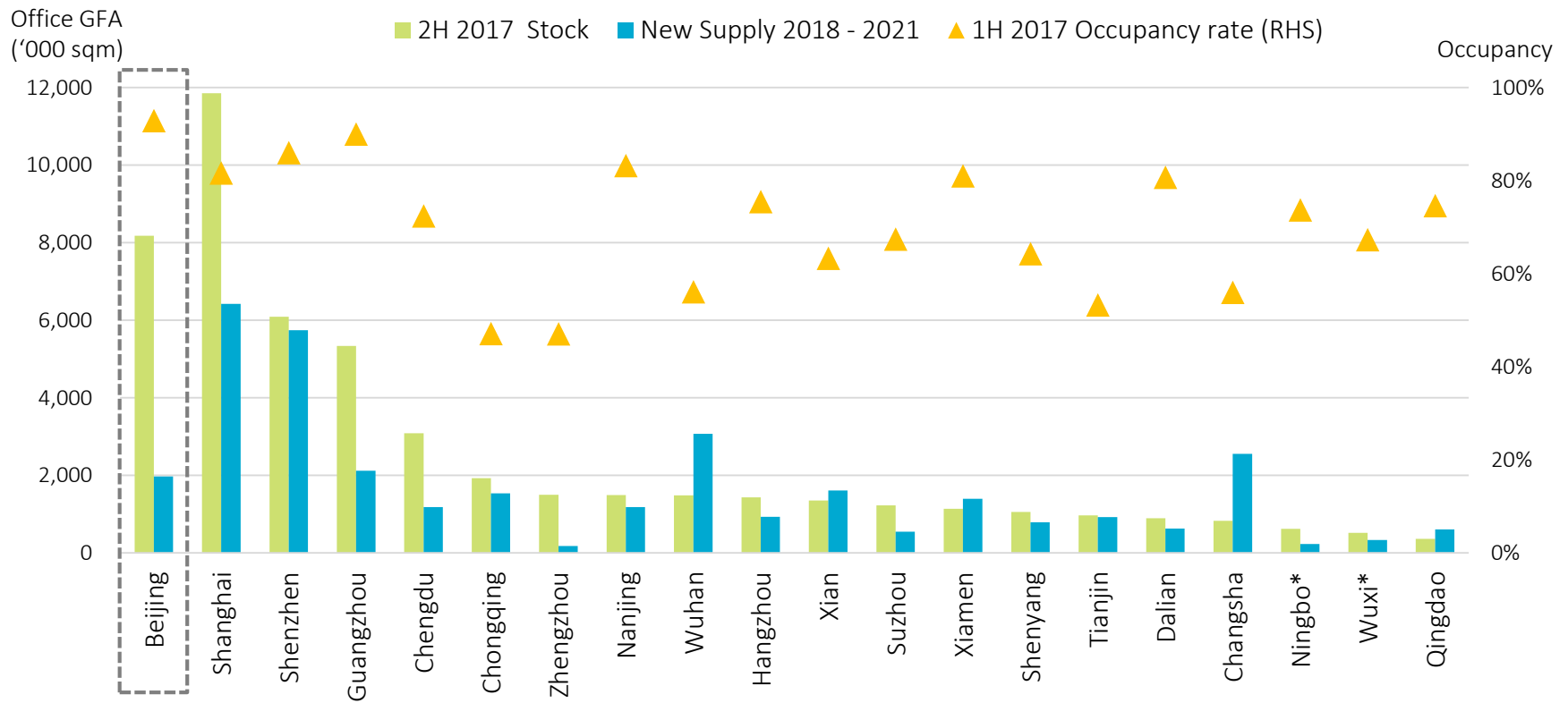
Note:

Others included Wangjing, Lize and Olympic Park

All of the above data are based on JLL Research in December 2017.

# COMPARISON OF GRADE-A OFFICE MARKETS ACROSS CHINA

- Beijing has highest office occupancy of 93%
- Low new supply in the next 4 years, only 6.0% p.a. of existing stock (vs avg. 18.6% p.a. of other selected cities)



Source: Jones Lang LaSalle Research, December 2017

\*Note: Ningbo and Wuxi figures are as of 3Q17 & their forecast horizon extends to 2020 only

# CCP PROPERTY OPERATIONS SUMMARY

- Rental income has increased by 4.8% yoy.
- Operating expenses increased in line with revenue growth, except leasing commission & others

	2H 2016	Change	1H 2017	Change	2H 2017
	RMB mn		RMB mn		RMB mn
<b>Revenues</b>					
- Rental income	233.70	+1.8%	237.81	+3.0%	244.99
- Car park and other income	9.79	-28.4%	7.01	+36.2%	9.55
Total revenue	243.49	-0.5%	244.82	+4.0%	254.54
<b>Property Operating Expenses</b>					
- Property management fee	(5.54)	-2.7%	(5.39)	+2.8%	(5.54)
- Property tax	(29.72)	-2.7%	(28.92)	+2.8%	(29.72)
- Other taxes	(3.72)	-6.5%	(3.48)	-0.6%	(3.46)
- Withholding tax	(24.23)	-0.1%	(24.20)	+3.1%	(24.94)
- Leasing commission & others	(2.33)	-35.6%	(1.50)	+200.0%	(4.50)
Total property expenses	(65.54)	-3.1%	(63.49)	+7.4%	(68.16)
<b>Net Property Income</b>	177.95	+1.9%	181.33	+2.8%	186.38

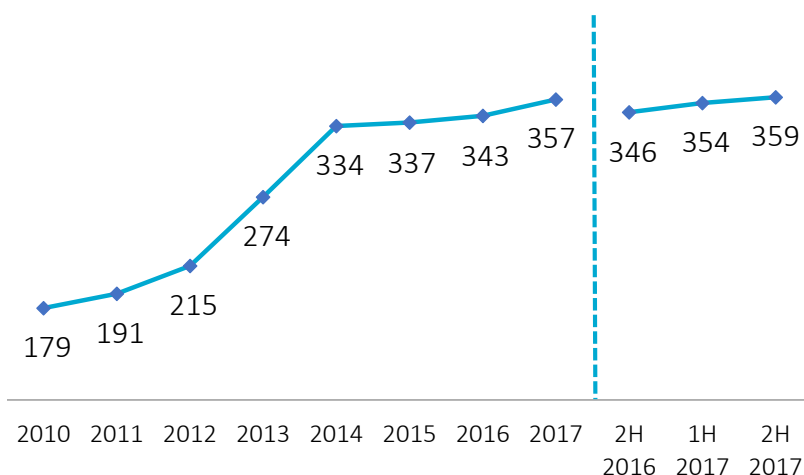


# LEASING PERFORMANCE

Solid performance despite growing CBD supply in the pipeline

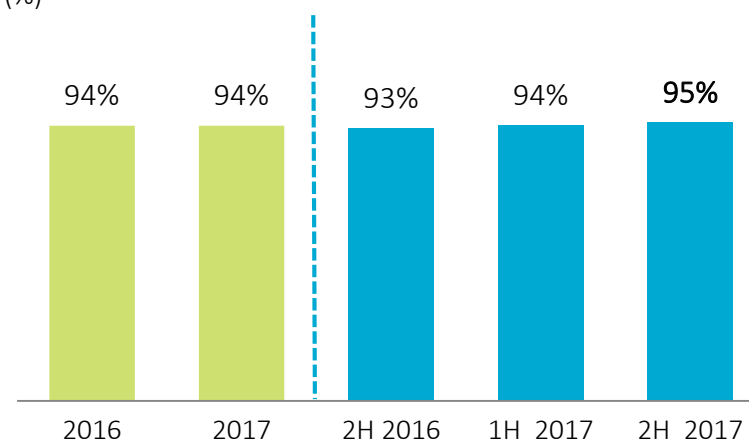
## Net Average Passing Rents

(RMB per sqm per month)



## Average Occupancy Rates

(%)



- Net passing rent of FY17 up 4.1% YoY; that of 2H17 up 1.4% HoH,
- Positive rental reversion of 5.8% for 2017 (2016: 7.5%)
- Retention rate 64.4%

- Average occupancy consistently above 90% since 2010
- Average occupancy sustained a consistent improvement to 95% for 2H 2017

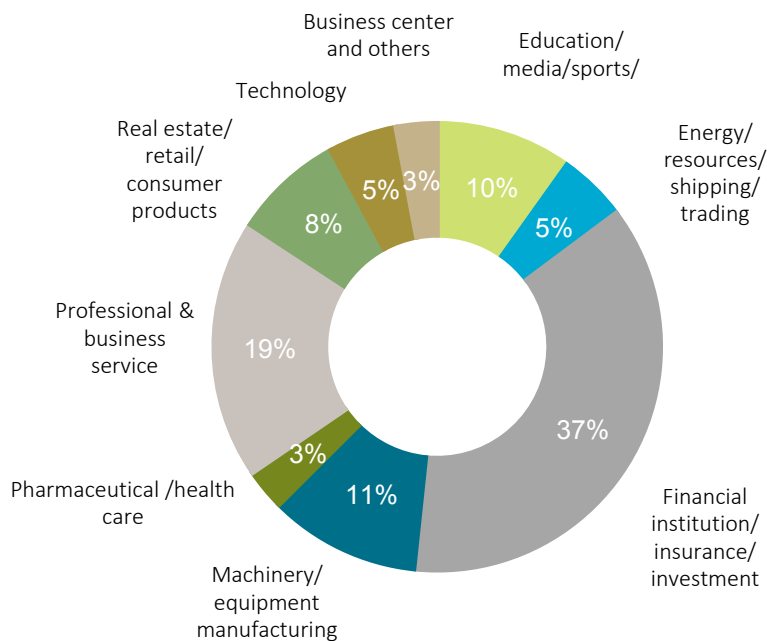
# TENANT BASE

Diverse and high quality tenant mix

## Tenants by Industry

### As % of leased office GFA

(As of 31 December 2017)



## Top 5 Tenants

Tenants	% of total leased GFA	
Epson	5.8%	23.7%
Delsk	4.8%	
Condé Nast	4.7%	
Zhong De Securities	4.2%	
Deutsche Bank	4.2%	

Note: as of 31 December 2017

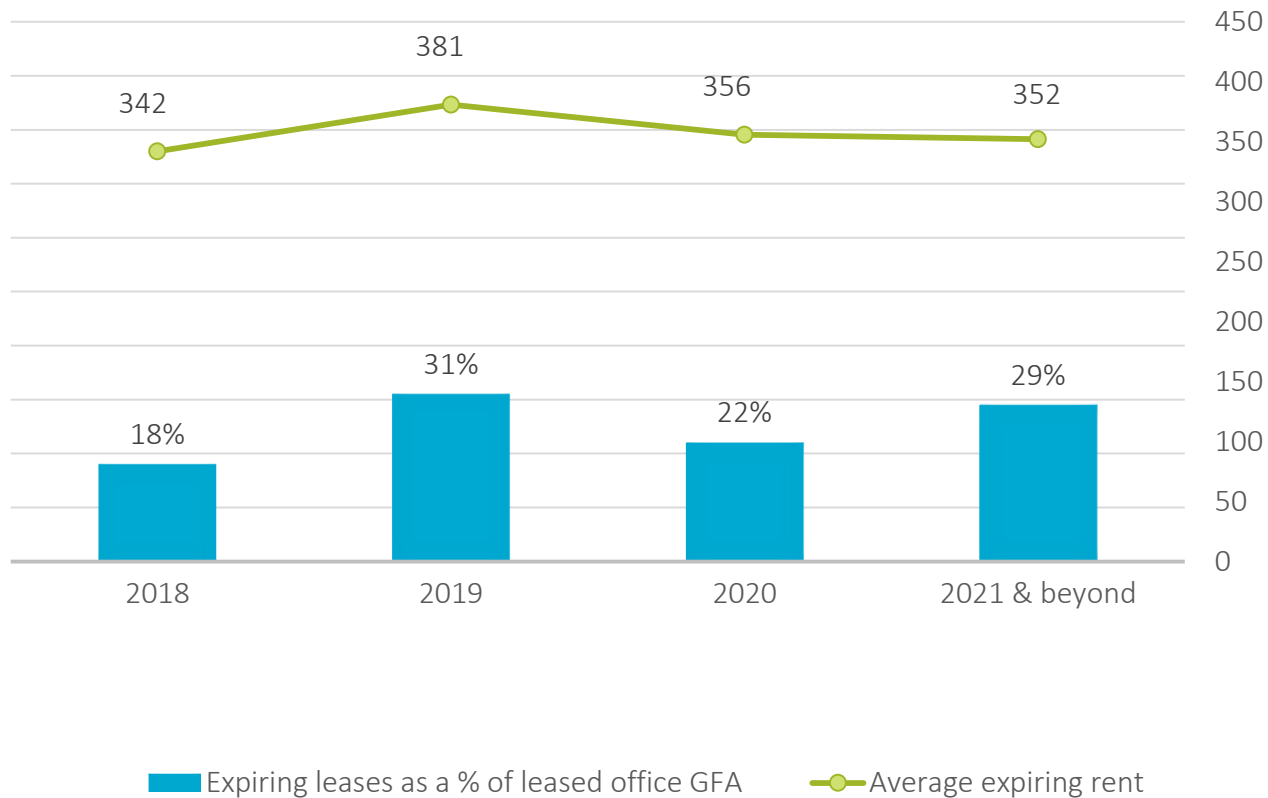
## Other industry-leading tenants

- Global Law Office
- White & Case
- Goodman
- NBA
- Baxter
- Itochu
- AECOM
- Bain & Company
- Brazil Embraer
- Richemont

Note: as of 31 December 2017

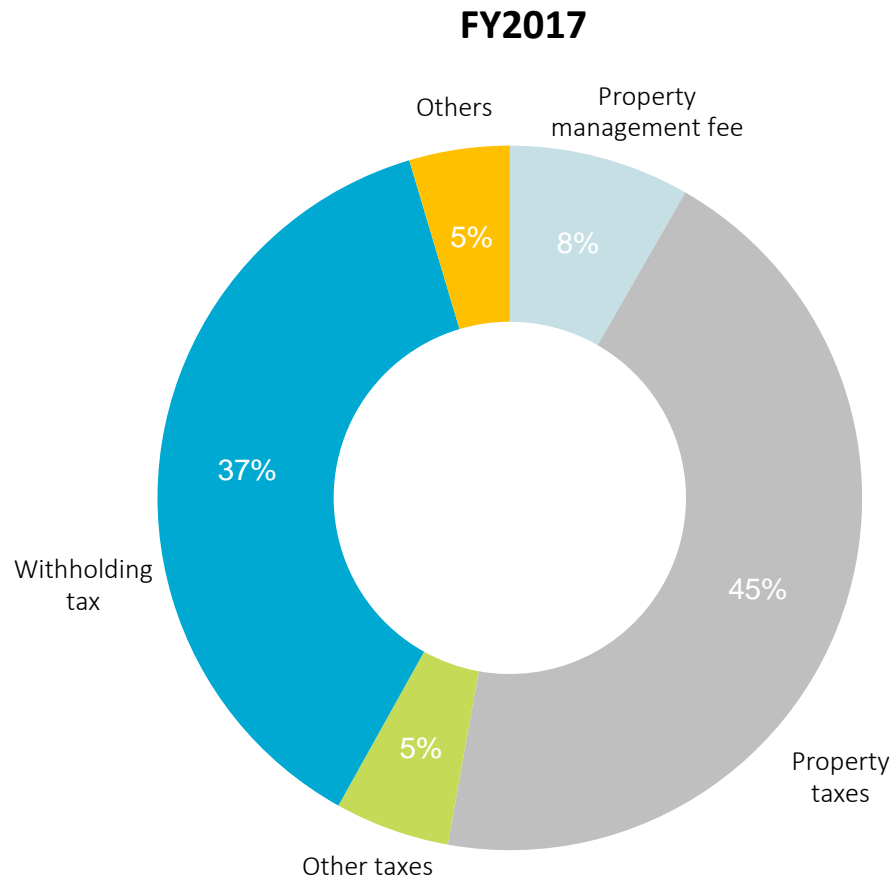
# EXPIRING LEASE PROFILE

- Average lease expiry of existing leases (in GFA terms) as of 31 December 2017 was 814 days.
- Good progress on negotiations with upcoming expiries.



# COST STRUCTURE OF CCP PROPERTY

Approximately 95% of property expenses are revenue-linked or fixed



## ■ Withholding tax

- 10% of revenues received from rental operations

## ■ Other taxes

- Under construction and maintenance tax and education surcharge
- Stamp duty of 0.1% on total rental income payable over the term of each lease

## ■ Property taxes

- Includes real estate tax and land use tax
- Starting from 2H 2016, real estate tax calculated based on 12% of revenue for leased area, and 1.2% of the residual value of vacant area
- Land use tax based on the site area of the development

## ■ Property management fee

- 2% of the total revenue



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# Location of the properties



## KEY:

- LARGE RENT
- MEDIUM RENT
- SMALL RENT

TRADING NAME	TOWN	ADDRESS	POSTCODE
Kwik Fit	Chelmsford	103 New London Road	CM2 0PP
Kwik Fit	South Croydon	453 Brighton Road	CR2 6EW
Kwik Fit	Tottenham	32 Monument Way	N17 9NX
Kwik Fit	Bridlington	32-36 St Johns Street	YO16 7JS
Kwik Fit	Chapel Allerton	Leeds, 232 Harrogate Road	LS7 4QD
Kwik Fit	Edinburgh	107/109 Dundee Street	EH11 1AW
Kwik Fit	Croydon	3 Mitcham Road	CR0 3RU
Kwik Fit	Wigan	Wallgate	WN5 0XG
Kwik Fit	Edinburgh	19 Corstorphine Road	EH12 6DD
Kwik Fit	Llandudno	Conway Road	LL30 1DE
Kwik Fit	Altrincham	1-3 Church Street	WA14 4DB
Kwik Fit	Middlesbrough	3 Lansdowne Road	TS4 2LW
Kwik Fit	Plymouth	125-129 Alexandra Road	PL4 7EG
Kwik Fit	Loughborough	24-29 The Rushes	LE11 5BG
Kwik Fit	Truro	Treaswalls Road	TR1 3PY
Central Tyres	Gloucester	Unit 3 Northbrook Road	GL4 3DP
Kwik Fit	Portsmouth	94 East Surrey Street	PO1 1JY
Kwik Fit	Bridgewater	48-54 St John's Street	TA6 5HY
Kwik Fit	Worcester	1 Carden Street, City Walls	WR1 2AX
Kwik Fit	Yoker	2369-2375 Dumbarton Road	G14 0NT
Tyre City	Northwich	Leicester Street	CW9 5LQ
Kwik Fit	Blyth	Cowpen Road	NE24 5TT
Kwik Fit	Stirling	11 Burghmuir Road	FK8 2DY
Kwik Fit	Sunderland	Monk Street	SR6 0BD
Kwik Fit	Motherwell	99a Airbles Road	ML1 2TJ
Kwik Fit	Kilmarnock	32/36 Low Glencairn Street	KA1 4DD
Kwik Fit	Skegness	50 Roman Bank	PE25 2SP
Kwik Fit	Hornchurch	Ardleigh Green Road	RM11 2ST
Kwik Fit	Glasgow	381 Pollokshaws Road	G41 1QZ
Kwik Fit	Sheffield	Townhead Street	S1 1YG
Kwik Fit	Glenrothes	Fullerton Road	KY7 5QR
Kwik Fit	Alloa	Clackmannan Road	FK10 1RR
Kwik Fit	Great Yarmouth	90 North Quay	NR30 1JT
Kwik Fit	Edinburgh	81/91 Dundee Street	EH11 1AW
Kwik Fit	Carmarthen	Pensarn Road	SA31 2BS
Kwik Fit	Preston	Market Street	PR1 2HP
Kwik Fit	Kirkcaldy	182 The Esplanade	KY1 2AQ
Kwik Fit	Rutherglen	273 Main Street	G73 1EE
Kwik Fit	Ayr	22/26 Maybole Road	KA7 2PZ
Kwik Fit	Liverpool	232 Aigburth Road	L17 0BJ
Kwik Fit	Stonehaven	110 Barclay Street	AB39 2AP
Non-Op	Edinburgh	40a Portobello Road	EH8 7EH

TRADING NAME	TOWN	ADDRESS	POSTCODE
Kwik Fit	Otley	Bondgate	LS21 3AB
Kwik Fit	Thornaby-On-Tees	212 Thornaby Road	TS17 8AA
Kwik Fit	Edinburgh	69b Saughton Road North	EH12 7JB
Kwik Fit	Shipley	58 Briggate	BD17 7BT
Kwik Fit	Oldham	Huddersfield Road	OL1 3HR
Kwik Fit	Ellesmere Port	116 Whitby Road	CH65 0AA
Kwik Fit	Pontypridd	Sardis Road	CF37 1BA
Kwik Fit	Hyde	26-28 Manchester Road	SK14 2BD
Kwik Fit	Lincoln	148-150 Newark Road	LN5 8QJ
Kwik Fit	Coatbridge	320 Main Street	ML5 3RX
Kwik Fit	Goole	Boothferry Road	DN14 6AG
Kwik Fit	Huddersfield	Lockwood Road	HD1 3QU
Kwik Fit	Congleton	46a West Road	CW12 4EU
Kwik Fit	Barrhead	17 Cross Arthurlie Street	G78 1QY
Budget	Ayr	38 Fort Street	KA7 1DE
Central Tyres	Stirling	1 Whitehouse Road	FK7 7SS
Kwik Fit	Keynsham	Ashton Way	BS31 2UF
Kwik Fit	Sheffield	726 City Road	S2 1GJ
Kwik Fit	Leven	The Promenade	KY8 4PJ
Kwik Fit	Oban	Market Street	PA34 4HR
Kwik Fit	Nelson	130 Leeds Road	BB9 9XB
Kwik Fit	Burnley	Caldervale Road	BB11 1BS
Kwik Fit	Helensburgh	3 Charlotte Street	G84 7PH
Winterstoke	Weston-Super-Mare	Winterstoke Road	BS23 3YE
Kwik Fit	Warrington	Priestley Street/Garibaldi Street	WA5 1TE
Kwik Fit	Eltham	727 Sidcup Road	SE9 3AQ
Kwik Fit	Clevedon	119-120 Kenn Road	BS21 6JE
Kwik Fit	Keighley	Worthway	BD21 5ET
Kwik Fit	Thornbury	14 Mead Court	BS35 3UW
Kwik Fit	Southport	8 Ash Street	PR8 6JH
Kwik Fit	Forfar	Queenswell Road	DD8 3JA
Kwik Fit	Castleford	Leeds, 92 Bridge Street	WF10 4LA
Kwik Fit	Raddcliffe	Bury Road	M26 2UG
Kwik Fit	Oldham	Middleton Road/Lansdowne Road	OL9 9EG
Kwik Fit	Birmingham	900/902 Coventry Road	B10 0UA
Kwik Fit	Montrose	24 George Street	DD10 8EW
Kwik Fit	Islington	379 Camden Road	N7 0SH
Kwik Fit	Kidderminster	20 Churchfields	DY10 2JL
Kwik Fit	Doncaster	Wheatley Hall Road	DN2 4LP
Tyre City	Lichfield	8-9 Europa Way	WS14 9TZ
Budget	Dumfries	40 Lauricknowe Road	DG2 7DA
Kwik Fit	Bishop Auckland	Cockton Hill Road	DL14 6JN



# THE UK ACQUISITION AND OPERATION SUMMARY

SpringREIT

Long-term, quality cash flow backed by guarantee, with upward-only revisions

	2H 2017
	GBP
<b>Revenues</b>	
- Rental income	2,058,626
<b>Expenditure</b>	
- Head rents on leasehold properties	(53,135)
- Property management fees	(32,400)
<b>Net Property Income</b>	<b>1,973,091</b>

## Portfolio Highlights

1. **The portfolio:** 84 separate commercial properties in the UK, with a total gross internal area of approx. 500,000 sq.ft.
2. **Purchase price:** £73,500,000 in line with appraised value of £73,566,000, funded by debt.
3. **Initial gross rental yield:** 6.1% (unleveraged)
4. **Rental revisions:** Only upward rental adjustment every five year
5. **Lease terms:** 15 years, no break clause; the tenant has an option to extend for an additional 15 years
6. **Single tenant:** Kwik-Fit (GB) Limited



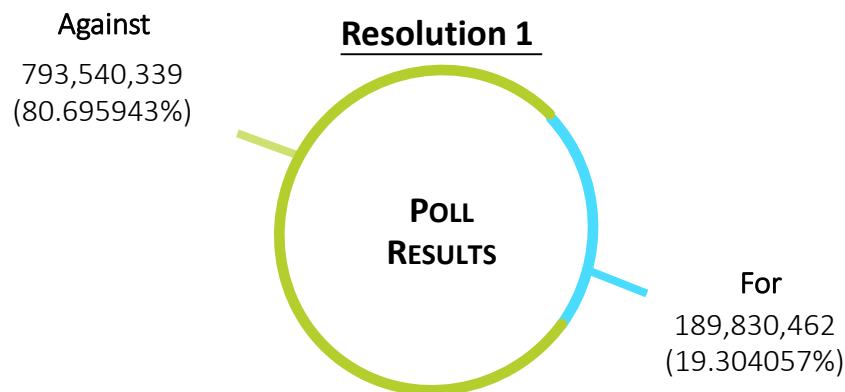
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# POLL RESULTS OF THE EXTRAORDINARY GENERAL MEETING **SpringREIT**

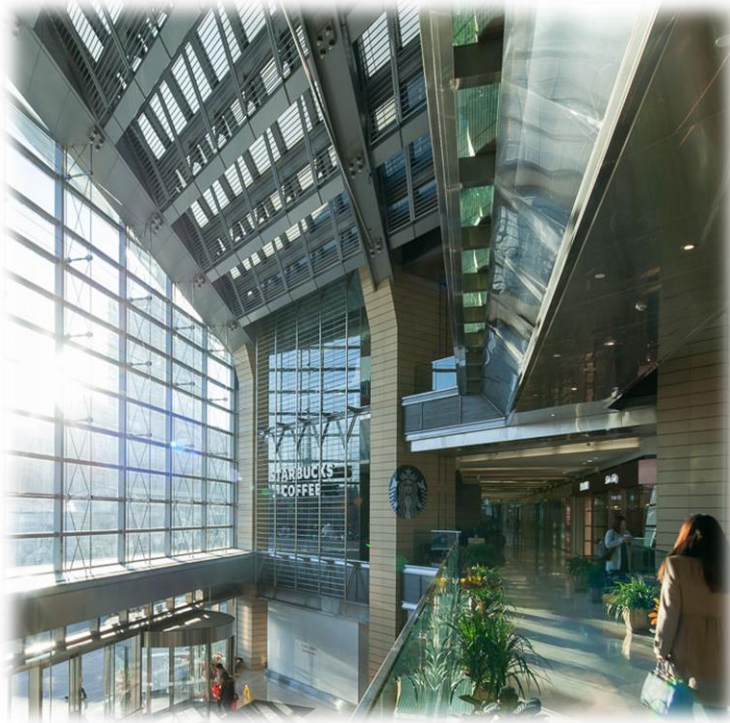
The PAG Unitholders issued a letter requesting the Board to convene an EGM to vote on the resolutions below:

1. Removal of the Manager
2. Internalisation of the REIT management function
3. Appointment of a PAG representative to the board of any manager of Spring REIT and adoption of certain corporate governance principles regarding board composition
4. Appointment of independent experts to review the strategy, performance and governance of Spring REIT

- ▶ Taking into account requirements under the Trust Deed and in alignment with the Manager's commitment to sound corporate governance, the Manager convened an EGM on 10 November 2017 (Friday), to consider the first two Resolutions, of which Resolution 2 is conditional upon the passing of Resolution 1.
- ▶ Resolution 3 and Resolution 4 shall be tabled and considered at a future EGM only if Resolution 2 is passed.



- ▶ As less than 50% of the votes were cast in favour of Resolution 1, which relates to the removal of the Manager, it was NOT passed as an Ordinary Resolution by way of a poll
- ▶ Accordingly, Spring Asset Management Limited remains as the Manager of Spring REIT



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## Outlook in 2018

- The real estate tax change in Beijing in 2H 2016 represents a permanent increase in tax burden, and has a rebasing effect to our Beijing operation.
- Meanwhile, our underlying operations have continued to improve, and our new UK investment portfolio has begun to make contributions. Further, our capital management initiatives have placed Spring REIT on a sounder footing.
- With this sound footing, the Manager is cautiously optimistic about the prospects for the year ahead. The general outlook for China corporate activity is strong and as noted, despite the high volume of construction currently being undertaken in Beijing, demand for premium office space remains high.
- We are achieving positive rental reversions for new lettings and renewals, and in this regard, barring unforeseen circumstances, we expect a steady leasing operation for the CCP Property in 2018.
- Last year, we placed importance in optimizing our capital structure to enhance the financial flexibility of Spring REIT. Going forward, the Manager will put more emphasis in managing interest rate risk now that major central banks have begun to tighten monetary policies and hiking interest rates.
- We remain committed to growth with a core focus in commercial properties in China, supplemented by non-core diversified exposures such as the UK Portfolio. Sourcing, timing, pricing, market conditions and operating efficiency are all important factors when assessing a target. DPU accretion and quality of cash flow remain the key considerations.