

Interim Results 2019

Presentation

22 August 2019

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- 1 OVERVIEW OF 1H 2019**
- 2 1H 2019 RESULTS SUMMARY
- 3 CCP OPERATION REVIEW
- 4 UK PORTFOLIO OPERATION REVIEW
- 5 OUTLOOK & STRATEGIC PRIORITIES

OVERVIEW OF 1H 2019

- Spring REIT has changed its presentation currency from US\$ to RMB.
- An interim distribution of HK 10.0 cents, representing an increase of 38.9% HoH and a decrease of 16.7% YoY, will be paid.
- A challenging macro economic environment which manifests into weaker Beijing office market and volatile RMB has adversely affected Spring REIT result.
- Revenue and net property income decreased by 4.7% and 4.6% HoH respectively, due to a temporary decline in occupancy rate at the CCP Property.
- CCP Property has proven to be resilient, registering an average occupancy rate of 92.2% and a rental reversion of 1.8%.
- Total distributable income stood at RMB113.3 million, representing a 38.6% increase HoH and a 11.4% decrease YoY.
- Gearing ratio remained stable at 35.1% (31 Dec 2018: 35.5%).
- CCP Property was valued at RMB9,159 million, representing a 0.7% increase HoH.





- 1 OVERVIEW OF 1H 2019
- 2 1H 2019 RESULTS SUMMARY**
- 3 CCP OPERATION REVIEW
- 4 UK PORTFOLIO OPERATION REVIEW
- 5 OUTLOOK & STRATEGIC PRIORITIES

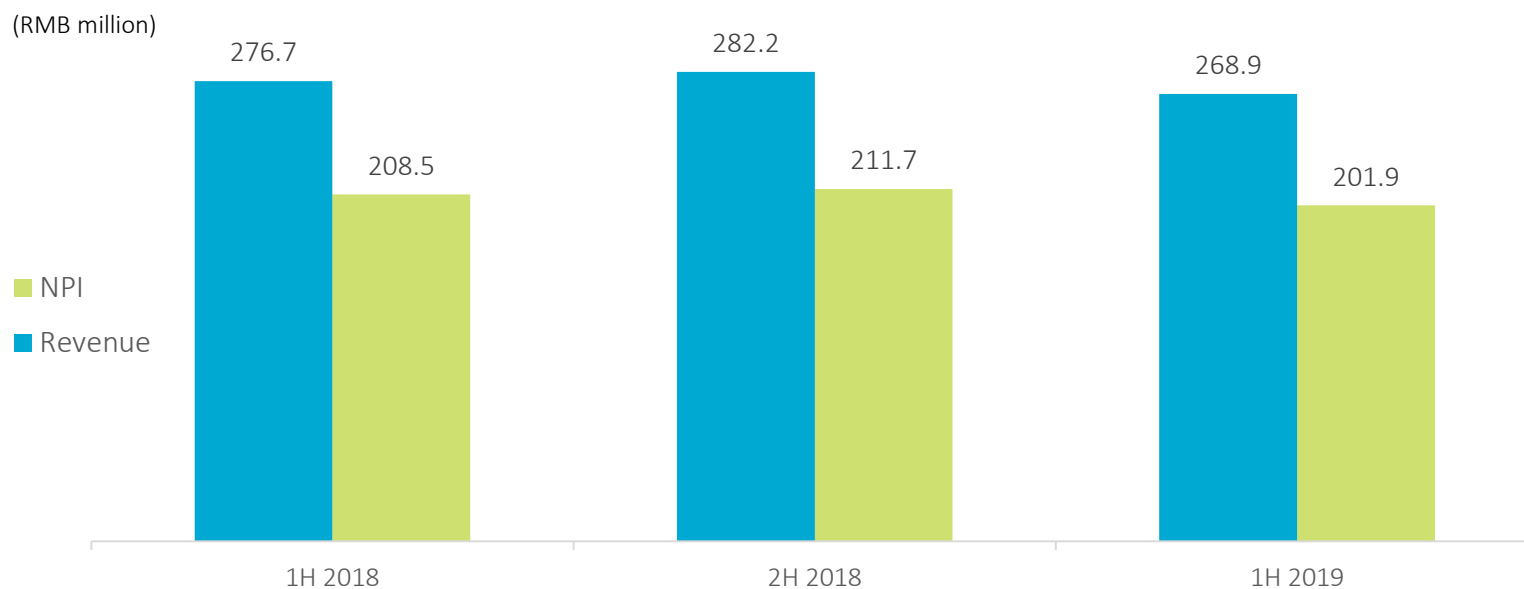
1H 2019 RESULTS SUMMARY

- Temporary dip of occupancy at the CCP Property in the first quarter has resulted in a decline in both revenue and net property income.
- Total distributable income rebounded from 2H 2018 during which a substantial amount of one-off expenses arising from extraordinary events was incurred.
- Net asset value and gearing ratio improved as valuation of our investment properties increased.

Operating Results (in RMB' million)	1H 2018	Change	2H 2018	Change	1H 2019
Revenue	276.67	2.0%	282.16	(4.7%)	268.92
Property operating expenses	(68.22)	3.2%	(70.42)	(4.8%)	(67.02)
Net property income	208.45	1.6%	211.74	(4.6%)	201.90
Net property income margin (%)	75.3	-0.3 ppts	75.0	+0.1 ppts	75.1
G&A expenses	(42.06)	81.4%	(76.31)	(55.9%)	(33.68)
Cash interest expense	(55.16)	31.9%	(72.74)	3.2%	(75.09)
Total distributable income	127.90	(36.1%)	81.78	38.6%	113.32

Financial Positions		30-Jun-2018	Change	31-Dec-2018	Change	30-Jun-2019
Portfolio valuation	CCP Property	9,031.00	0.7%	9,096.00	0.7%	9,159.00
	UK Portfolio	660.50	1.1%	668.06	(0.3%)	665.78
	Total	9,691.50	0.7%	9,764.06	0.6%	9,824.78
Total borrowings		3,530.08	3.5%	3,654.54	(0.2%)	3,646.28
Net asset value		6,460.55	(1.5%)	6,363.44	1.5%	6,461.50
Gearing ratio (%)		34.4	+1.1 ppts	35.5	-0.4 ppts	35.1

- As the main driver of our profit, CCP Property rental income decreased by 3.8% HoH, as the time needed to replace a major tenant resulted in a temporary dip in occupancy, averaging 92.2% during 1H 2019.
- Occupancy at CCP Property recovered to 94.6% as of 30 June 2019.
- Overall net property income margin maintained at 75.1% (2H 2018: 75.0%)
- Revenue from the UK Portfolio remained stable, contributing around 7% and 9% of the total revenue and NPI respectively.

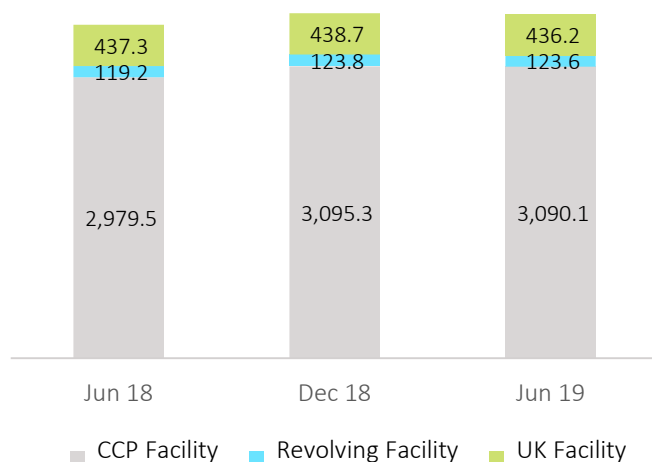


DEBT PROFILE

- No change in debt facilities outstanding during 1H 2019.
- Gearing ratio remained stable at 35.1%.
- To mitigate USD interest rate risk, 32.1% of USD loan principal amount is hedged by plain vanilla float-to-fixed interest rate swap contracts

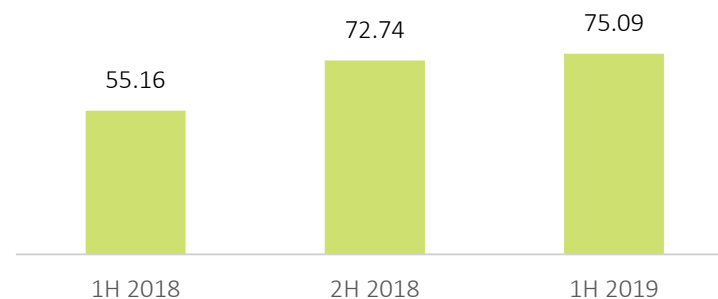
Loan Notional Outstanding

(RMB million)



Cash Interest Expenses

(RMB million)



Spring REIT's debt facilities:

- US\$468 mil under CCP Facilities (5-year term, till Apr 2020) :
 - (i) USD Term Loan with a notional amount of US\$450 mil
 - (ii) Revolving facility of US\$20 mil (with US\$18 mil drawn down)
- GBP50 mil under UK Facility (4-yr term, till Jan 2022)
- Gearing ratio at 35.1% (Dec 2018 : 35.5%)

Interest rate exposure and counter-measures:

- Cash interest expense increased by 3.2% HoH due to a higher GBP and US\$ Libor rate.
- Float-to-fixed IRS entered during 1H 2018, covering USD150mn of USD loan with an average swap rate of 2.68%. Maturity date the same as the USD loan.

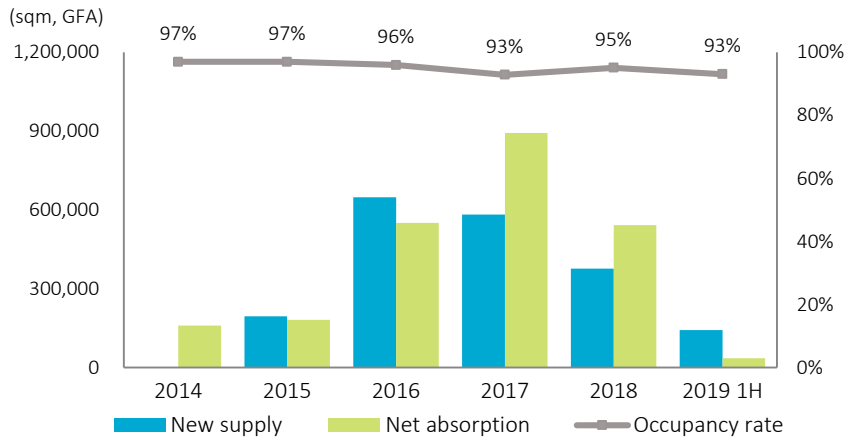


- 1 OVERVIEW OF 1H 2019
- 2 1H 2019 RESULTS SUMMARY
- 3 CCP OPERATION REVIEW**
- 4 UK PORTFOLIO OPERATION REVIEW
- 5 OUTLOOK & STRATEGIC PRIORITIES

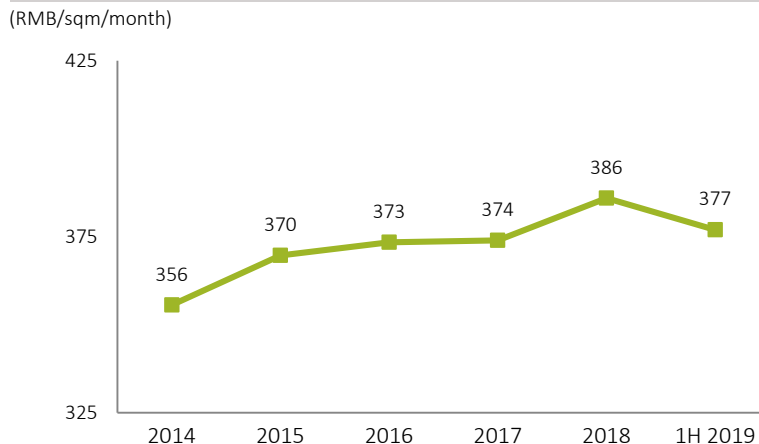
LEASING MARKET CONDITION

Beijing Overall

Beijing Overall – Supply, Absorption, Occupancy

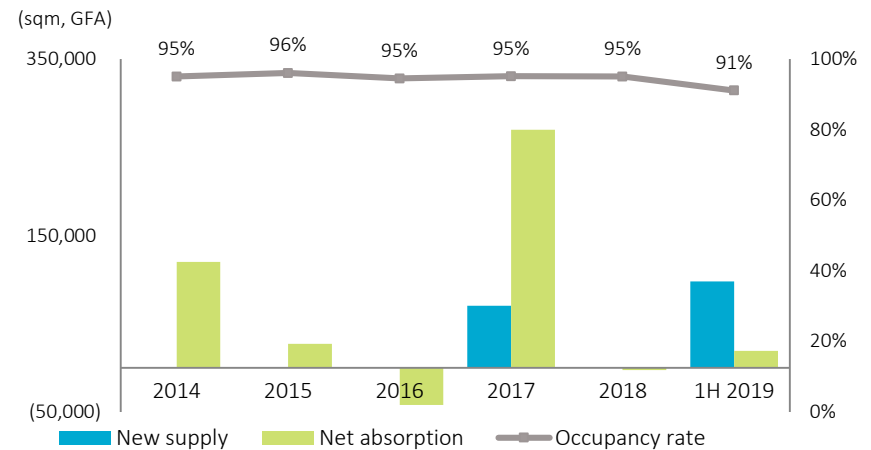


Beijing Overall – Effective Rental Rate

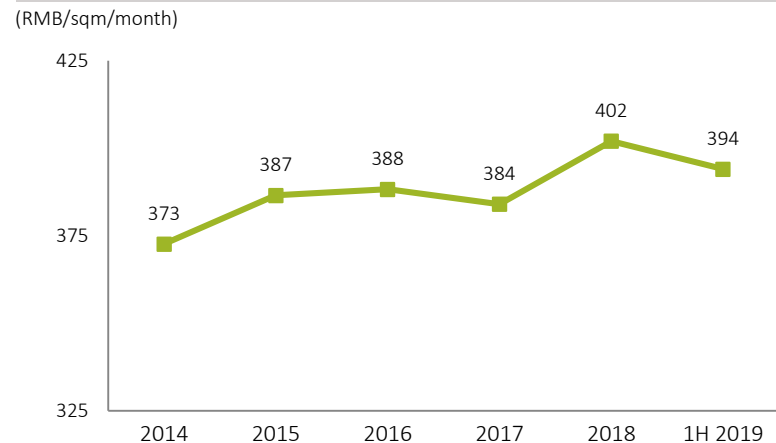


Beijing CBD

Beijing CBD – Supply, Absorption, Occupancy



Beijing CBD – Effective Rental Rate



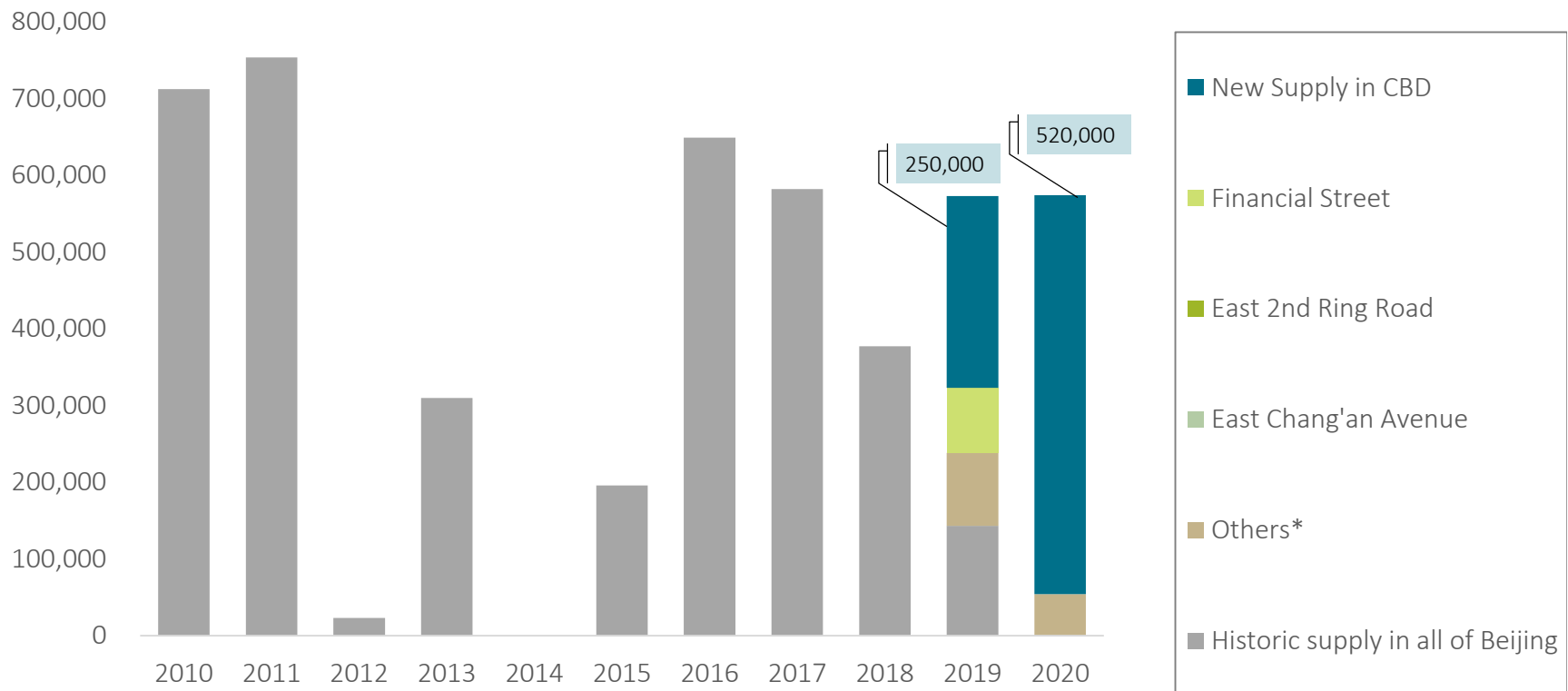
FUTURE GRADE-A OFFICE SUPPLY

Of the 1,004,000 sqm GFA of new supply in 2019 and 2020:-

- 77% of the GFA will be located in the CBD area
- Of which, 65% of the GFA is held of self-use or pre-committed

Grade-A office supply by year

(sqm, GFA)



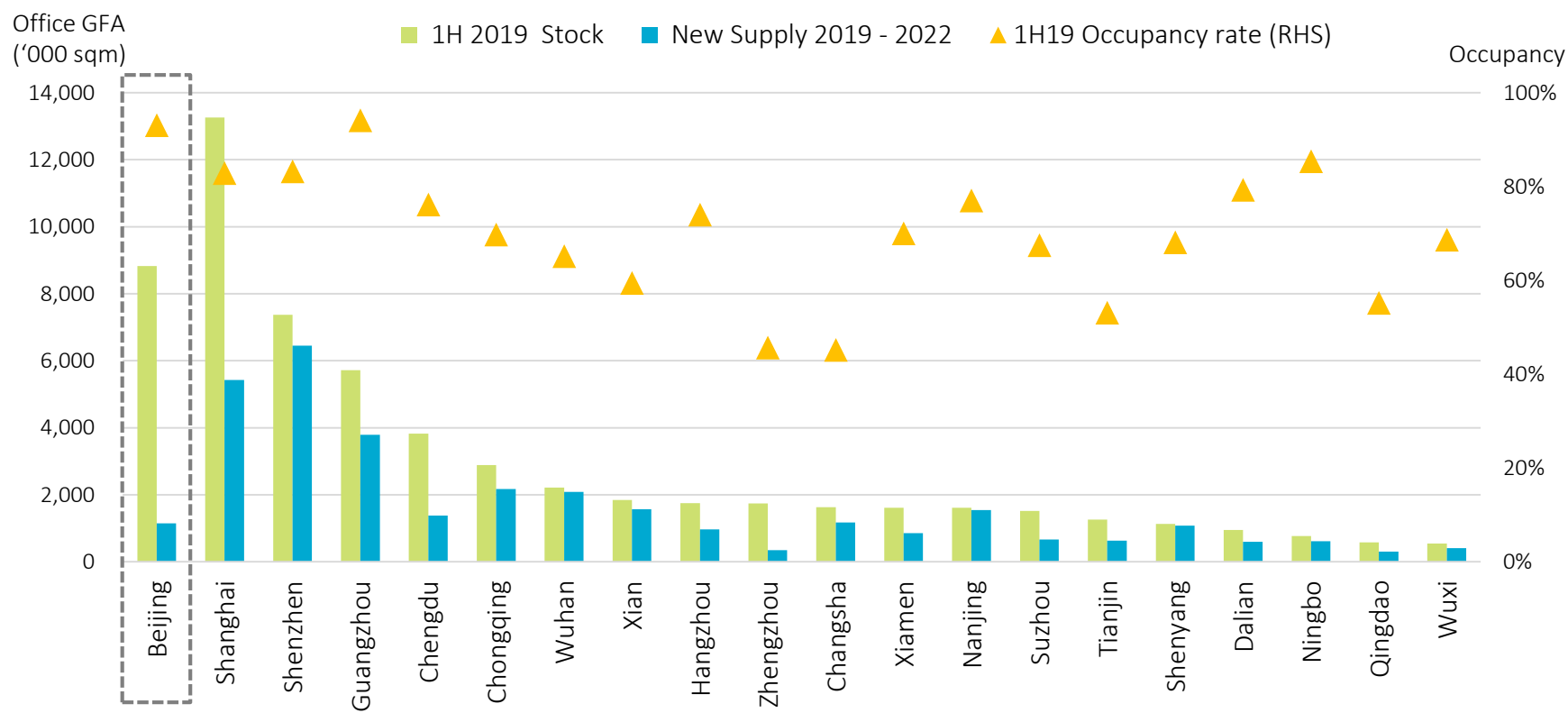
Note:

Others included Wangjing, Lize and Olympic Park

All of the above data are based on JLL Research in June 2019.

COMPARISON OF GRADE-A OFFICE MARKETS ACROSS CHINA

- Beijing and Guangzhou have highest office occupancy of above 93%.
- Low new supply in the next 4 years, only 3.3% p.a. of existing stock (vs avg. 15.4% p.a. of other selected cities)



Source: Jones Lang LaSalle Research, June 19

*Note: Suzhou, Ningbo and Wuxi figures are as of 1Q19

CCP PROPERTY OPERATIONS SUMMARY

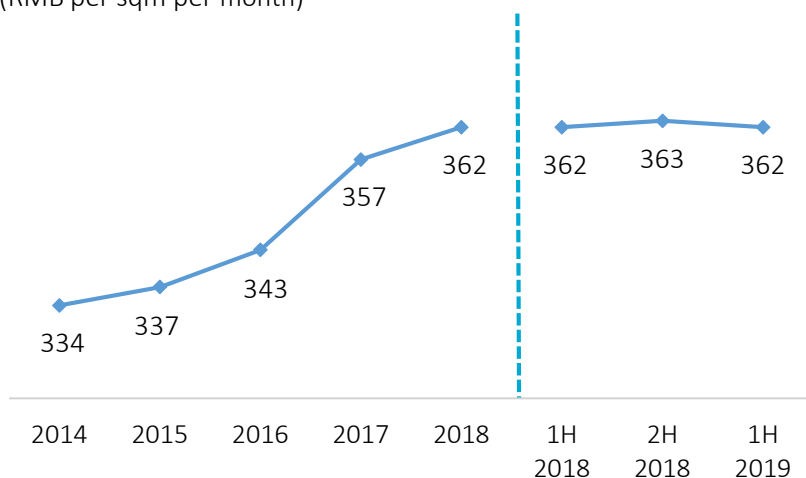
- Rental income at CCP Property declined by 3.8% HoH, due to a temporary dip in occupancy in the first quarter.
- Property operating expenses all decreased as tax expenses and property management fee are revenue-linked.
- Cost structure remained stable, with NPI margin at 73.4% (2H 2018: 73.5%)

	1H 2018	Change	2H 2018	Change	1H 2019
(in RMB' million)					
Revenues					
- Rental income	250.32	(0.6%)	248.81	(3.8%)	239.27
- Car park & other income	7.51	81.6%	13.64	(16.9%)	11.33
Total revenue	257.83	1.8%	262.45	(4.5%)	250.60
Property Operating Expenses					
- Property management fee	(5.66)	1.8%	(5.76)	(5.7%)	(5.43)
- Property tax	(30.11)	2.3%	(30.81)	(6.5%)	(28.82)
- Withholding tax	(26.44)	0.6%	(26.61)	(6.6%)	(24.86)
- Other taxes	(3.56)	(3.9%)	(3.42)	(6.1%)	(3.21)
- Leasing commission & others	(1.80)	67.8%	(3.02)	46.7%	(4.43)
Total property expenses	(67.57)	3.0%	(69.92)	(4.1%)	(66.75)
Net Property Income	190.26	1.4%	192.83	(4.7%)	183.85

- Stable passing rent and temporary dip in occupancy rates amid upcoming CBD office supply

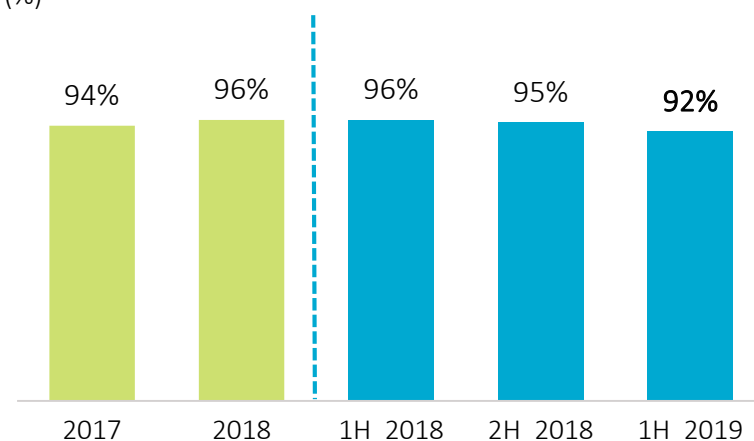
Average Passing Rents

(RMB per sqm per month)



Average Occupancy Rates

(%)



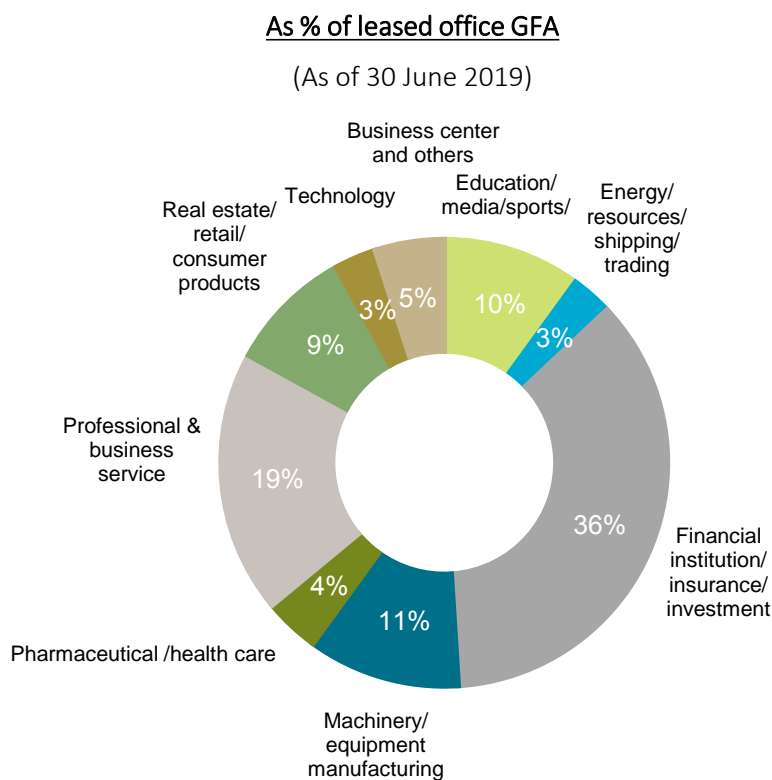
- Net passing rent remains relatively flat
- Positive rental reversion of 1.8% for 1H 2019 (FY18: 4.7%)
- Retention rate 68.4% (FY18: 74.7%)

- Average occupancy consistently above 90% since 2010
- Average occupancy rate receded to 92% for 1H 2019, from 95% in 2H 2018.
- As at 30 June 2019, occupancy had recovered to 95%.

TENANT BASE

Diverse and high-quality tenant mix

Tenants by Industry



Top 5 Tenants

Tenants	% of total leased GFA
Epson	5.9%
Condé Nast	4.2%
Zhong De Securities	4.2%
Deutsche Bank	4.2%
Xinyuan	4.2%

22.7%

Note: as of 30 June 2019

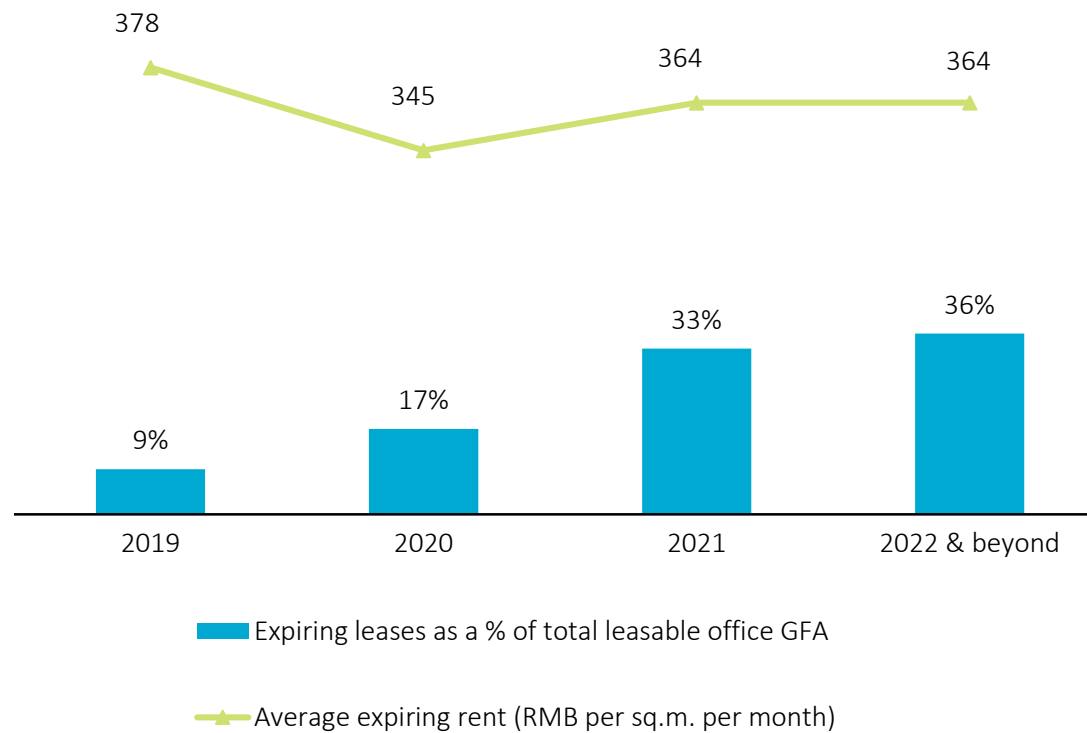
Other industry-leading tenants

- Global Law Office
- White & Case
- Goodman
- Baxter
- Chanel
- AECOM
- Bain & Company
- Richemont
- AIG
- Pandora Jewelry

Note: as of 30 June 2019

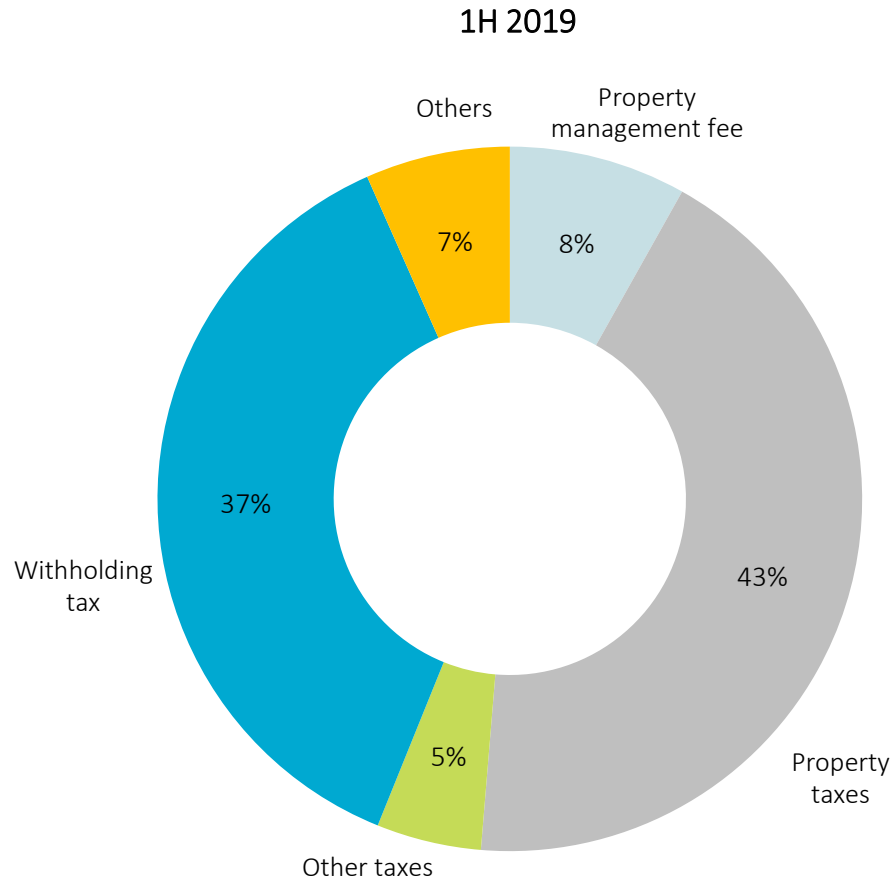
EXPIRING LEASE PROFILE

- Average lease expiry of existing leases (in GFA terms) as of 30 June 2019 was 787 days.
- Lease expiries in 2019 – about 9% in the second half of 2019, with an average expiring rental rate of RMB378 per sqm



COST STRUCTURE OF CCP PROPERTY

Most property expenses are revenue-linked or fixed



■ 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

■ Withholding tax

- 10% of revenues received from rental operations

■ Other taxes

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

■ Property management fee

- 2% of the total revenue



- 1 OVERVIEW OF 1H 2019
- 2 1H 2019 RESULTS SUMMARY
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- 4 UK PORTFOLIO OPERATION REVIEW**
- 5 OUTLOOK & STRATEGIC PRIORITIES

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

UK PORTFOLIO OPERATION SUMMARY

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

Portfolio Highlights

1. **The portfolio:** 84 separate commercial properties in the UK, with a total gross internal area of approx. 505,381 sq.ft.
2. **Purchase price:** £73,500,000, funded by debt (acquisition completed in July 2017)
3. **Initial gross rental yield:** 6.1% (unleveraged)
4. **Rental revisions:** Upward-only rental adjustment every five year
5. **Lease terms:** All but one leases expire in 2032; no break clause; the tenant has an option to extend for an additional 15 years
6. **Annual contract rental income:** approximately GBP 4.51 million
7. **NPI margin:** 95.9% pass through of its revenue
8. **Single tenant:** Kwik-Fit (GB) Limited



- 1 OVERVIEW OF 1H 2019
- 2 1H 2019 RESULTS SUMMARY
- 3 CCP OPERATION REVIEW
- 4 UK PORTFOLIO OPERATION REVIEW
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Outlook in 2H 2019

- The first half of 2019 was challenging for Spring REIT in a number of different respects. A subdued Beijing office market and lacklustre demand for office space was reflected by a sharp drop in occupancy rates and softer rental levels in the broader market.
- Given the weak economic backdrop, the Manager remains cautious about prospects for the second half of the year. Economic activity in Beijing has slowed, and in addition, further office supply in the CBD Core Area may continue to adversely impact office occupancy and rental rates. In the near term, our focus will be on managing the CCP Property leases expiring in the second half of 2019, which account for 9% of the total leased GFA and represent an average unit rent of RMB378 per sqm.
- With the intensification of the trade war between the US and the PRC, the downward trend in the RMB exchange rate may more than offset any achievements we accomplish. The cost of hedging the RMB remains prohibitive, and as such our Hong Kong dollar distribution may not fully reflect the resilience of our underlying operation.
- The Manager will continue to pursue potential acquisition opportunities, but at the same time remain diligent in its evaluation of such opportunities. Our priority will continue to be property that delivers a solid and stable cash flow, and China will remain the focus of Spring REIT's core investment activities.