

# Interim Results 2022

## Presentation

23 Aug 2022

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## Performance Review

- With the onset of Omicron outbreaks, China's economic growth was derailed during the reporting period. Amid the volatility, distributable income in 1H 2022 grew by 3.8% YoY to RMB152.65 million and 3.7% YoY in DPU to HK11.2 cents. Payout ratio was maintained at 90%.
- Recognising the importance of resilience in such a volatile environment, the Manager placed a strong emphasis on maintaining occupancy at the CCP Property and exercising rent flexibility. As a result, Spring REIT's total revenue in 1H 22 was RMB267.31 million, representing a slight decrease of 1.6% HoH and an increase of 4.0% YoY. After taking into account property operating expenses, net property income amounted to RMB202.58 million, representing an increase of 0.6% HoH and 3.9% YoY respectively.
- Cash interest expenses increased slightly for the period, as interest rate hikes kicked in later in the second quarter and was mitigated by our proactive interest rate hedge. With 74% of our interest rate exposure hedged, our cash interest expenses has slightly increased by 4.5% HoH and 3.6% YoY to RMB 32.34 million .
- The CCP Property was appraised at RMB8,690.00 million as at 30 June 2022, representing a 0.6% increase compared to its valuation as at 31 December 2021 while the UK Portfolio was appraised at GBP78.66 million (equivalent to RMB641.82 million) as at 31 December 2021, representing a 1.2% increase in GBP terms compared to its valuation as at 31 December 2021. Total borrowings increased by 4.3% HoH to RMB 3,089.40 million. As such, gearing ratio slightly increased to 30.8% as at 30 June 2022 (31 Dec 2021: 30.0%).
- On 29 April 2022, Spring REIT entered into an agreement to acquire a 68% interest in Huamao Place (華貿天地) in Huizhou, Greater Bay Area for approximately RMB1,637 million. Completion of the transaction is expected to take place in 2H 2022.



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# 2022 1H RESULTS SUMMARY

- The marginal decline in revenue was mainly attributable to a challenging operating environment in Beijing due to the onset of Covid in 1Q 2022. Rent and occupancy faced some degree of pressure as a result.
- Cash interest expense increased slightly for the period as interest rate hikes kicked in later in the 2Q2022.
- With a slight increase in the valuation of Spring REIT's overall portfolio offset by the increase in total borrowings, gearing ratio stood at a comfortable level of 30.8%

Operating Results (in RMB' million)	1H 2022	HoH Chg	2H 2021	HoH Chg	1H 2021
Revenue	267.31	(1.5%)	271.51	5.7%	256.93
Property operating expenses	(64.73)	(7.8%)	(70.17)	13.4%	(61.90)
Net property income	202.58	0.6%	201.35	3.2%	195.02
Net property income margin	75.8%	1.6 pts	74.2%	-1.7 pts	75.9%
G&A expenses	(32.91)	(2.5%)	(33.75)	7.1%	(31.52)
Cash interest expense	(32.34)	4.5%	(30.96)	(0.8%)	(31.22)
Total distributable income	152.65	1.3%	150.62	2.4%	147.07
Payout Ratio	90%	-	90%	-	90%
DPU (HK cents)	11.2	-	11.2	3.7%	10.8

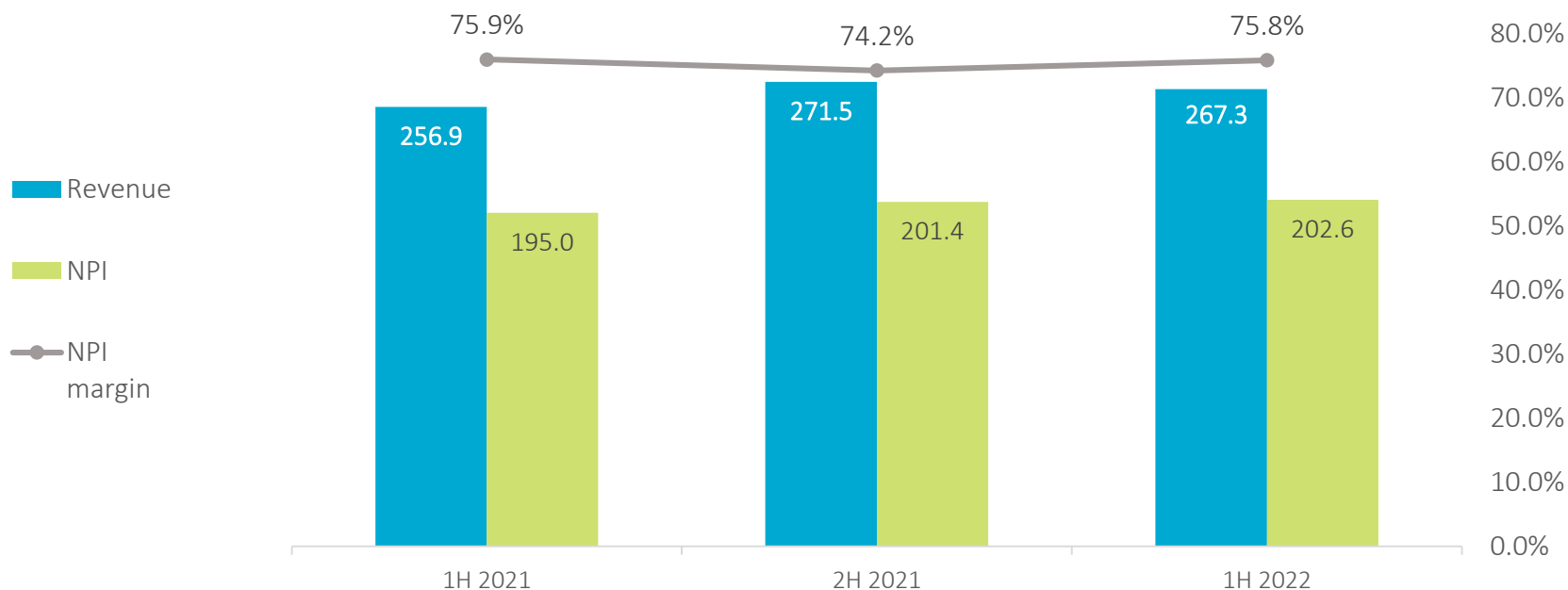
Financial Positions (in RMB' million)		30-6-2022	HoH Chg	31-12-2021	HoH Chg	30-6-2021
Portfolio valuation	CCP Property	8,690.00	0.6%	8,638.00	0.8%	8,566.00
	UK Portfolio	641.82	(4.1%)	669.10	0.7%	664.51
	Total	9,331.82	0.3%	9,307.10	0.8%	9,230.51
Total borrowings		3,089.40	4.3%	2,960.83	(1.5%)	3,006.47
Net asset value		6,685.28	0.2%	6,671.65	2.4%	6,515.41
Gearing ratio		30.8%	0.8 ppt	30.0%	-0.8 ppt	30.8%



# OPERATING PERFORMANCE

- **Spring REIT:** Overall stable operation despite weakness in the macro environment. Revenue declined by 1.5% HoH while NPI increased slightly to 0.6% HoH respectively. NPI margin improved by 0.6 ppt HoH.
- **CCP Property:** The CCP Property registered an average occupancy of 96% in 1H 2022. Average passing rent declined marginally to RMB348 per sqm in 1H 2022, implying a negative rental reversion rate of 0.9%. This resulted a 1.3% HoH decrease in total revenue to RMB 248.76m. After deducting property operating expenses, net property income was RMB 184.33 m, representing an increase of 1.3% HoH.
- **UK Portfolio:** All properties are under long-term leases with UK's #1 car servicing chain (Kwik Fit). Car servicing is considered an essential service by UK government and garages remained open during COVID. Rental contribution from UK Portfolio remained rock solid, contributing 7% and 9% of the total revenue and NPI respectively.

(RMB million)

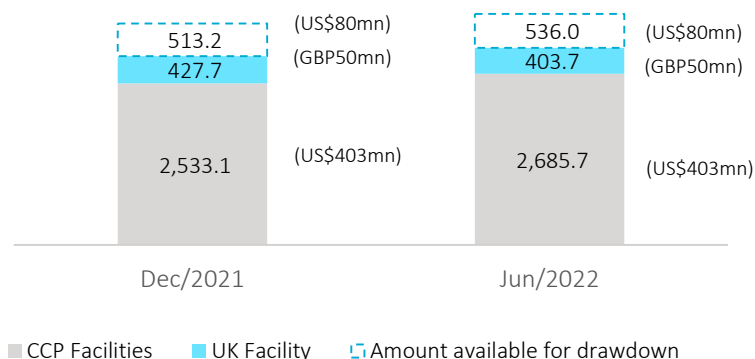


# CAPITAL MANAGEMENT

Gearing at 30.8%; Strong balance sheet with debt headroom for growth

## Debt Profile (Notional Amounts)

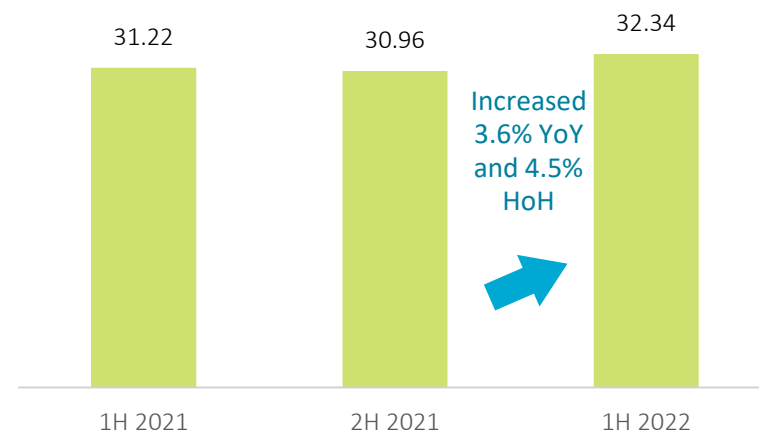
(RMB million)



Note 1: The figures represent the carrying amounts of the loans in RMB.

## Cash Interest Expenses

(RMB million)



### Spring REIT's debt facilities:

- US\$483mn under CCP Facilities (5-year term, till Dec 2024) :
  - (i) Drawdown amount of US\$403mn
  - (ii) Undrawn amount of US\$80 mn
- GBP50 mn under UK Facility (3-year term, till Jan 2025)
- Gearing ratio at 30.8% (Dec 21: 30.0%)

### Interest rate exposure well managed:

- Cash interest expense slightly increased in 1H 2022 to RMB 32.34 million. The interest rate risk was mitigated to a certain extent as Spring REIT has implemented float-to-fixed interest rate hedges covering about 75% of the USD loan exposure.
- Float-to-fixed IRS was in place, covering 74.4% of our US\$ denominated loan with an average swap rate of 0.52%.



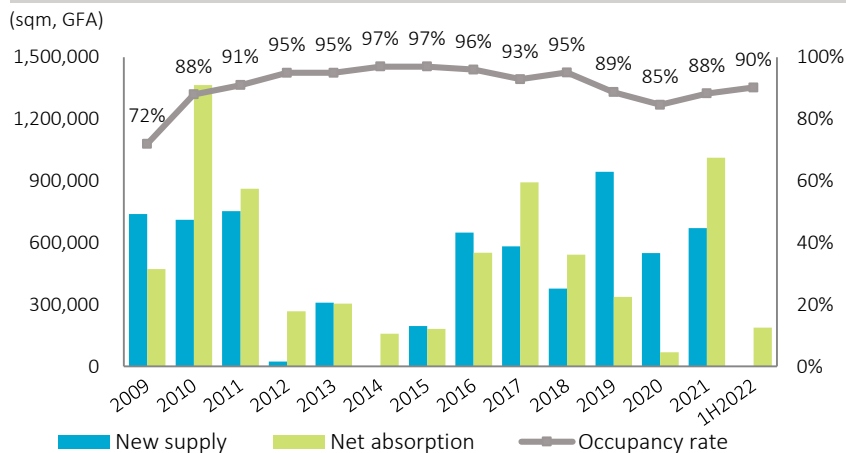


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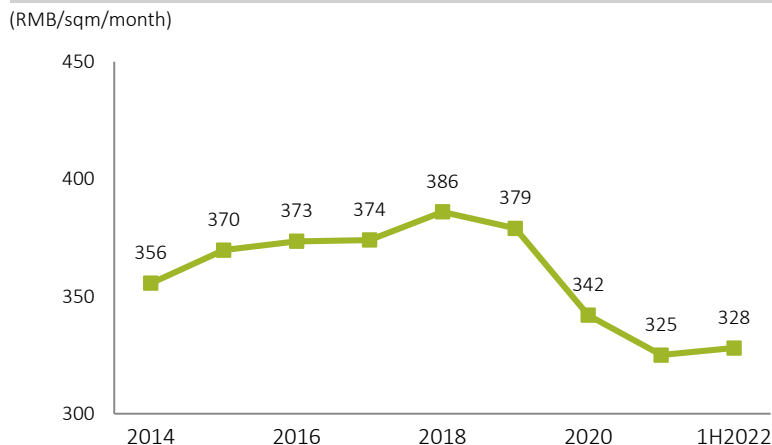
# LEASING MARKET CONDITION

## Beijing Overall

### Beijing Overall – Supply, Absorption, Occupancy

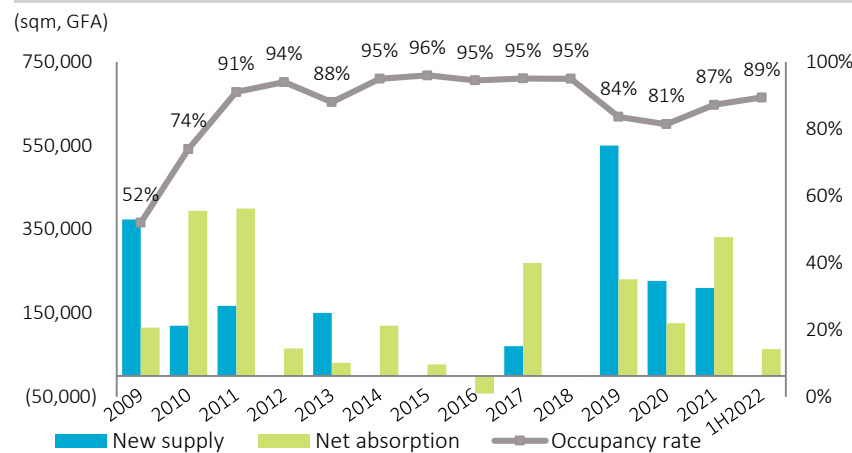


### Beijing Overall – Effective Rental Rate

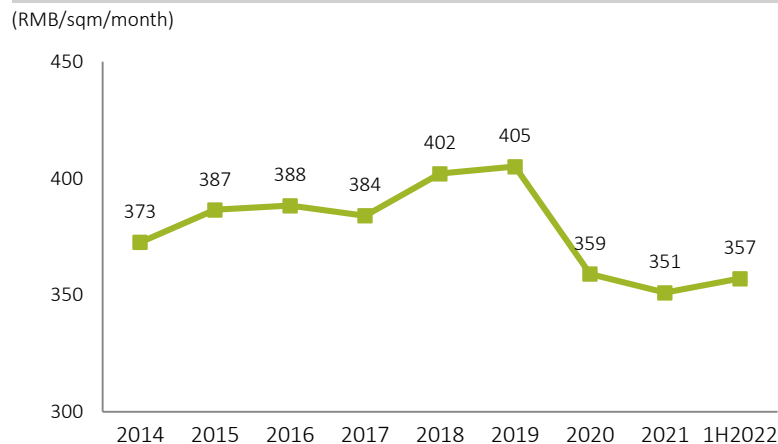


## Beijing CBD

### Beijing CBD – Supply, Absorption, Occupancy



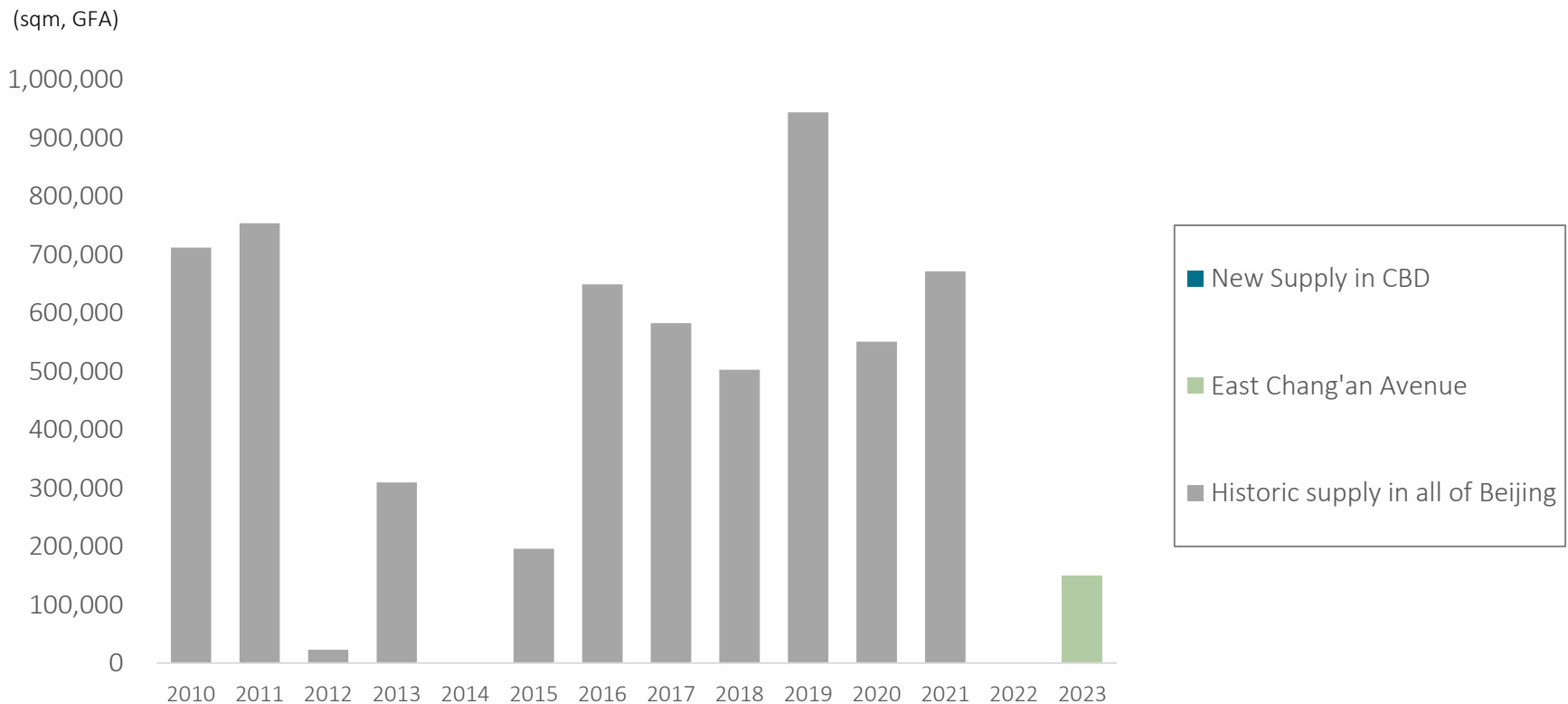
### Beijing CBD – Effective Rental Rate



# FUTURE GRADE-A OFFICE SUPPLY

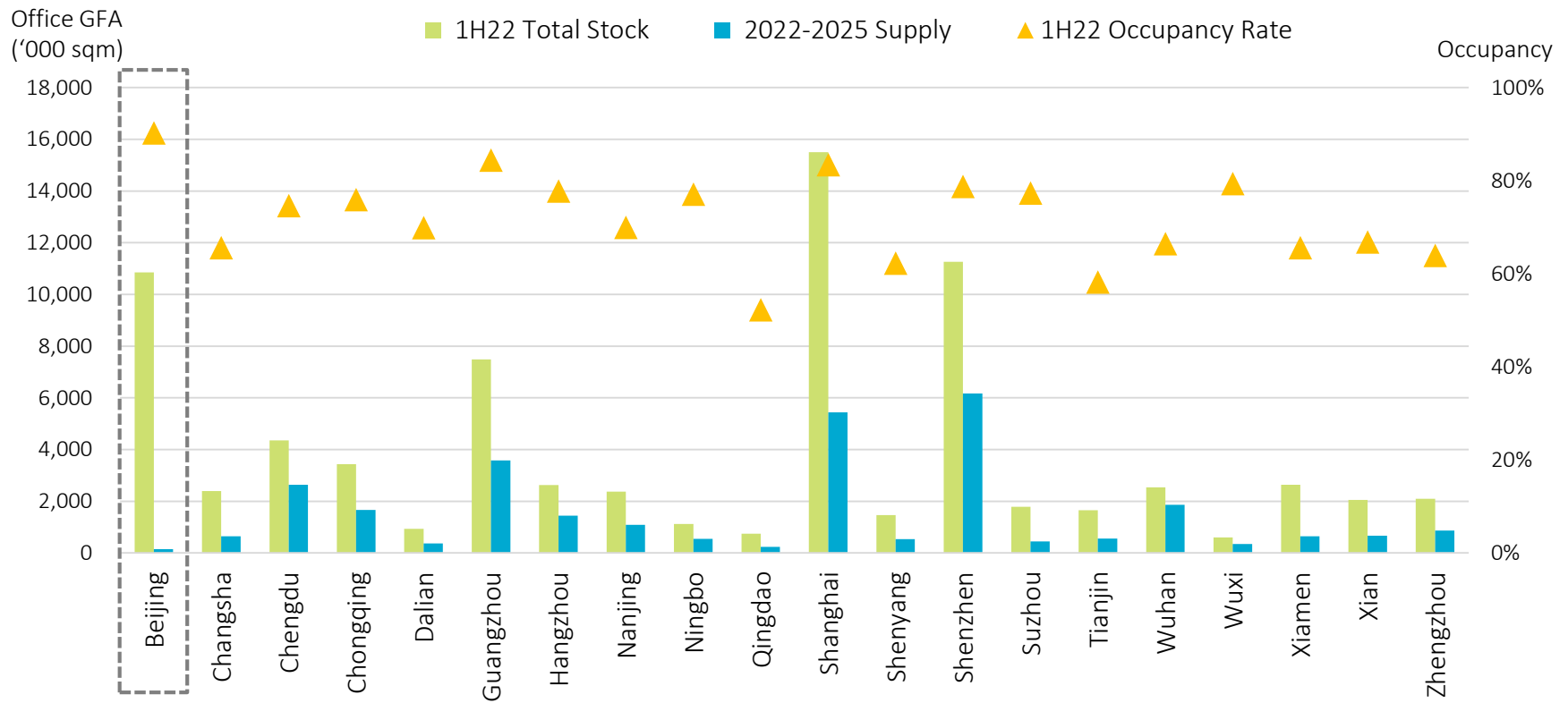
Of the 150,000 sqm GFA of new supply in 2022 and 2023, none will be located in the CBD area

## Grade-A office supply by year



# COMPARISON OF GRADE-A OFFICE MARKETS ACROSS CHINA

- Beijing has highest office occupancy of 90%. Guangzhou and Shanghai have occupancy rate of over 80%.
- Low new supply in the next 4 years, only 0.4 % p.a. of existing stock (vs avg. 12.7% p.a. of other selected cities)



Source: JLL Research, Jun 2022

# CCP PROPERTY: OPERATIONS SUMMARY

- Rental income at CCP Property decreased by 0.7% HoH. Total revenue was down by 1.3% HoH due to a slightly negative rental reversion and a mild decline in occupancy rate in 1H 2022
- Property operating expenses declined by 7.8% HoH, mainly due to a lower commission expenses as renewals dominated leasing activities during the period.
- Cost structure remained stable, with NPI margin at 75.8% (2H 2021: 74.2%; 1H 2021: 75.9%)

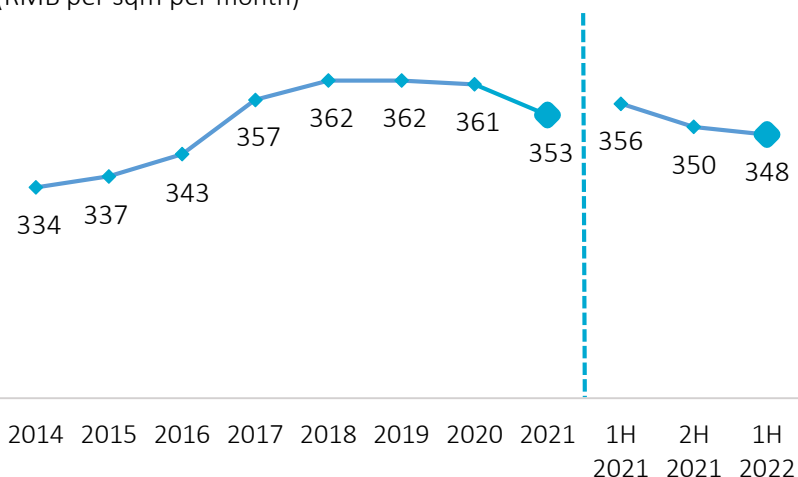
(in RMB million)	1H 2022	HoH Chg	2H 2021	HoH Chg	1H 2021
<b>Revenues</b>					
- Rental income	243.48	(0.7%)	245.07	4.9%	233.73
- Car park income	2.72	32.0%	2.06	(26.7%)	2.81
- Other income	2.56	(41.4%)	4.78	769.1%	0.55
Total revenue	248.76	(1.3%)	251.91	(6.3%)	237.09
<b>Property Operating Expenses</b>					
- Property management fee	(5.50)	6.4%	(5.17)	-	(5.17)
- Property tax	(30.38)	5.1%	(28.90)	2.5%	(28.19)
- Withholding tax	(25.50)	5.0%	(24.28)	2.9%	(23.60)
- Other taxes	(0.15)	(86.5%)	(1.11)	(62.0%)	(2.92)
- Leasing commission	(0.94)	(90.0%)	(9.37)	643.7%	(1.26)
- Others	(1.96)	86.7%	(1.05)	156.10%	(0.41)
Total property expenses	(64.43)	(7.8%)	(69.88)	13.5%	(61.55)
<b>Net Property Income</b>	<b>184.33</b>	<b>1.3%</b>	<b>182.03</b>	<b>3.7%</b>	<b>175.54</b>

# CCP PROPERTY: LEASING PERFORMANCE

- Average passing rent declined marginally to RMB348 per sqm in 1H 2022, as lease enquiries and new lettings were limited, and Beijing landlords concede on pricing to fill up vacant spaces.
- Average occupancy rate for 1H 2022 was 96%, which was the same as 2H 2021.

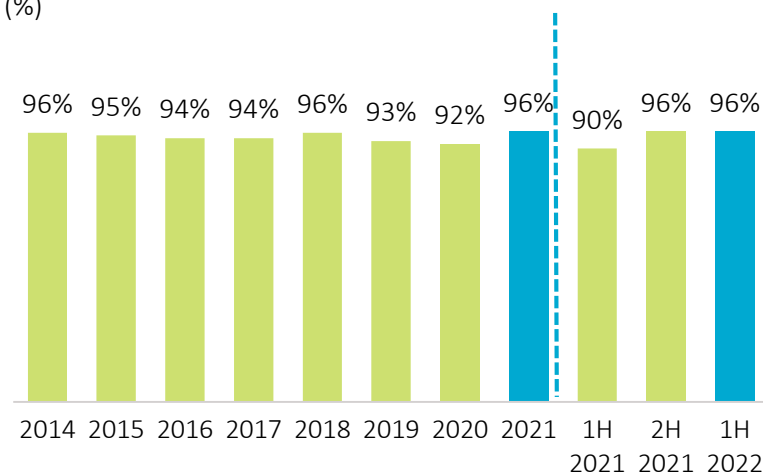
## Average Passing Rents

(RMB per sqm per month)



## Average Occupancy Rates

(%)



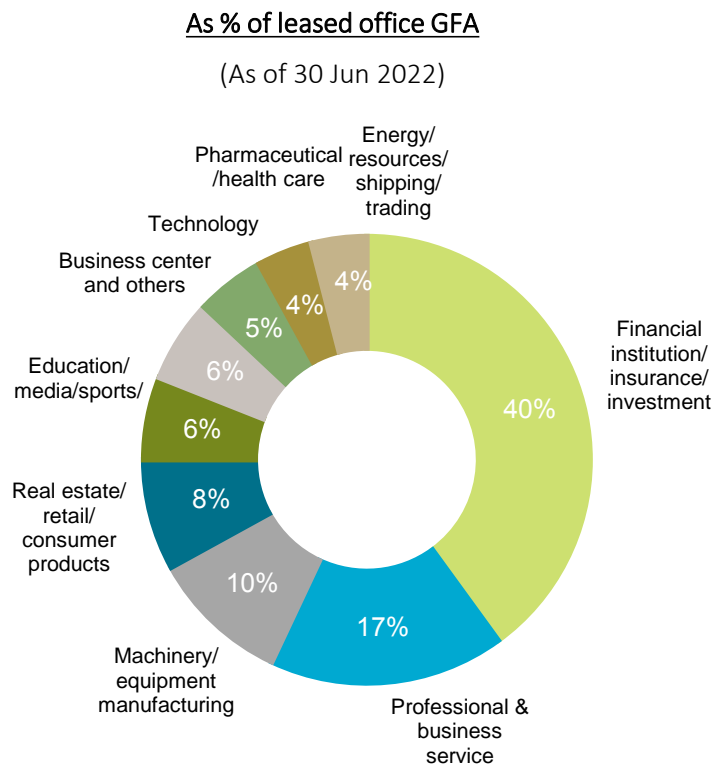
- Passing rent continued to trend downward by 0.6% HoH amid Covid Outbreak and landlord prioritized occupancy over rent
- Negative rental reversion of 0.9% for 1H 2022 (2H 2021: -2.6%)
- Retention rate 74.9% (FY21: 81.3%)

- Average occupancy rate remained unchanged at 96% for 1H 22.
- As at 30 June 2022, occupancy rate dropped to 94.6% (End-2021: 98%), affected by tenant downsizing and early termination.

# CCP PROPERTY: TENANT BASE

Diverse and high-quality tenant mix

## Tenants by Industry



## Top 5 Tenants

Tenants	% of total leased GFA	
Epson	5.9%	22.4%
Zhong De Securities	4.2%	
Xinyuan	4.2%	
Global Law	4.1%	
TEC	4.0%	

Note: as of 30 June 2022

## Other industry-leading tenants

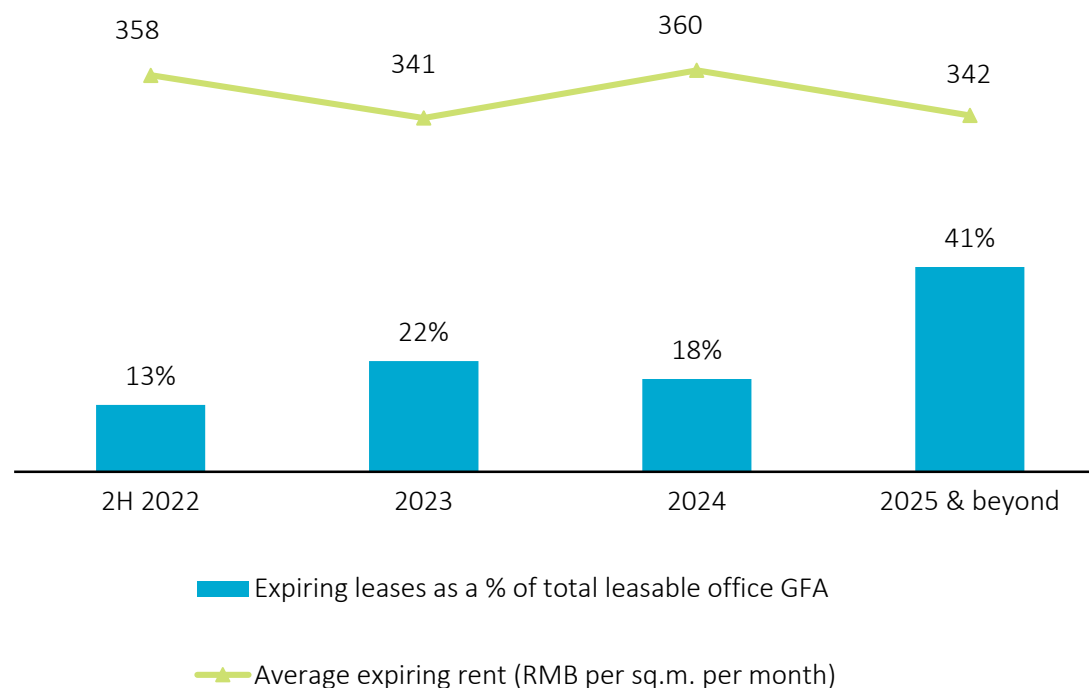
- White & Case
- Baxter
- DB
- SMBC Nikko Securities
- NBA
- AECOM
- Bain & Company
- Richemont
- AIG

Note: as of 30 June 2022



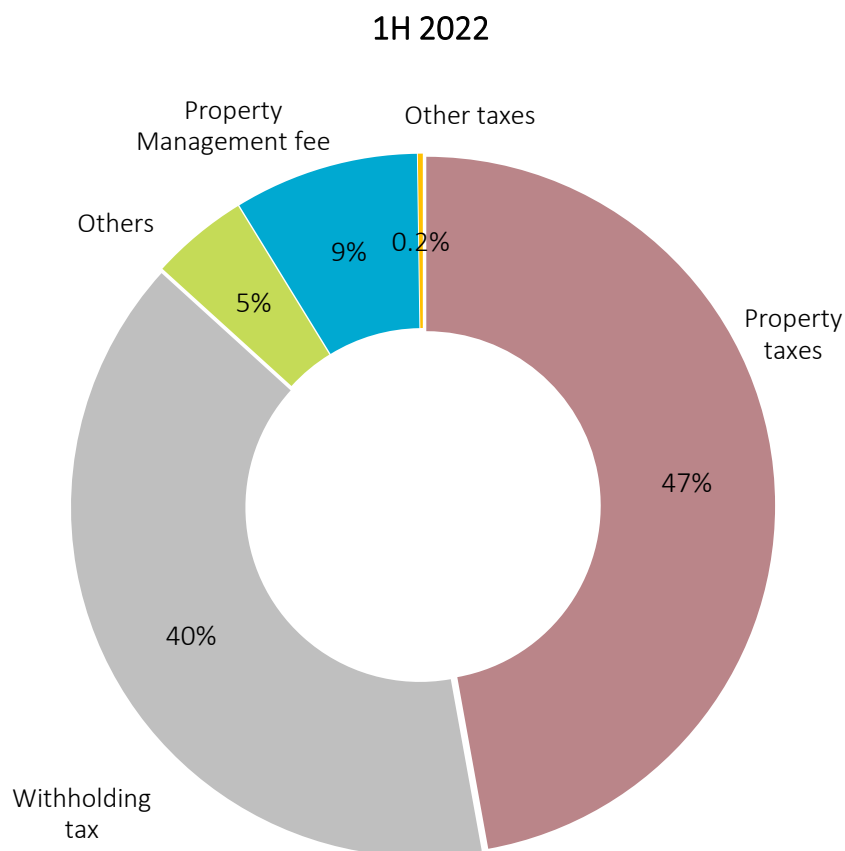
# CCP PROPERTY: EXPIRING LEASE PROFILE

- Average lease expiry of existing leases (in GFA terms) as of 30 June 2022 was 775 days.
- Lease expiries in 2H 2022 – about 13% of the leasable GFA, with an average expiring rental rate of RMB358 per sqm.
- Most of the major leases that were due to expire in the second half of 2022 have been secured for renewal.
- As of 30 Jun 2022, rental arrears amounted to RMB 2.82 million, representing 7.1% of the total rental income receivable in Jun 2022. 78.4% of the outstanding arrears as of 30 Jun 2022 was recovered by July.



# CCP PROPERTY: COST STRUCTURE

Most property expenses are revenue-linked or fixed. Stable NPI margin.



## ■ Property taxes

- Includes real estate tax and land use tax
- Land use tax based on the site area of the development

## ■ Withholding tax

- 10% of revenues received from rental operations

## ■ Property management fee

- 2% of the total revenue

## ■ Others

- Includes reinstatement costs, agent commission, insurance, etc.

## ■ Other taxes

- Stamp duty of 0.1% on total rental income payable over the term of each lease



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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 Laurieknowe 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

- Each of the 84 properties in the UK Portfolio is under a long-term lease with the tenant Kwik-Fit (GB) Limited, a leading car servicing operator in the United Kingdom, with all but one of the leases expiring in March 2032. (Save for the lease and head lease in respect of one property will expire in Sep 2024)
- Car servicing is considered an essential service by UK government and garages remained open during COVID.
- Currently, the UK Portfolio has an occupancy rate of 100%, with an annual contract rental income of approximately GBP4.55 million.
- Spring REIT enjoys substantial pass through of rental income as the leases are “full repairing and insuring” in nature. This means that the tenant agrees to pay 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.).



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- Economic growth slowed down during the reporting period, reflecting the impact of Omicron outbreaks along with structural adjustments in many industries (including the real estate sector) in line with national policies.
- The impact of the Omicron outbreak is expected to temporarily weigh on rental levels and occupancy in the near term, and the Manager will do its best to accommodate the needs of our tenants in this period. We do expect to see increases in the number of requests for concessions and early terminations due to the difficult operating environment faced by many of our tenants. Rental reversions are likely to continue to reflect soft rental rates in the broader market, and occupancy is likely to be affected by downsizing and early terminations.
- However, over the medium term, we expect the market to stabilize to reflect solid fundamentals in terms of supply and demand dynamics.
- With inflation pressures continuing to mount globally, we expect to see a volatile period in both interest rates and currencies. Fortunately, Spring REIT's earlier initiative to implement float-to-fixed interest rate hedges covering about 75% of its USD loan exposures has mitigated its interest rate risk to a certain extent.
- In June 2022, Spring REIT entered into a Deed of Amendment to upsize the existing CCP Facility. Upon satisfying the condition precedent, Spring REIT will upsize the CCP Facility and switch the loan and interest rate swaps currency from USD to HKD, ahead of USD LIBOR being officially replaced by the Secured Overnight Financing Rate (SOFR).
- On 29 April 2022, Spring REIT entered into an agreement to acquire a 68% interest in Huamao Place (華貿天地) for approximately RMB1,637 million. The acquisition, which will be fully debt funded, is expected to enlarge the value of Spring REIT's portfolio by approximately 27%. It also marks Spring REIT's first investment in a retail property asset in the PRC, and its first investment in the Greater Bay Area.