

[For immediate release]



Spring REIT announces 2019 Annual Results

Spring REIT achieved steady performance despite weak macro environment

(Hong Kong, 27 March 2020) – **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 2019 (the “**Reporting Year**”).

The Board of Directors of the Manager is pleased to declare a final distribution of HK8.9 cents per Unit. Before any such adjustment and together with the interim distribution of HK10.0 cents per Unit, total distribution for the year amounts to a total of HK18.9 cents per Unit (FY 2018: HK19.2 cents per Unit), representing a payout ratio of approximately 100%. Based on the closing price of HK\$3.22 per Unit as at 31 December 2019, the Reporting Year DPU represents a distribution yield of 5.9%. Based on the closing price of HK\$2.27 per Unit as at 27 March 2020, the Reporting Year DPU represents a distribution yield of 8.3%.

During the Reporting Year, Spring REIT’s revenue was RMB546.59 million, 2.2% lower than that in FY2018. The decline was mainly due to a temporary setback in the operating performance of the China Central Place Office Towers 1 and 2 and the relevant portion of the car park (the “**CCP Property**”) in 1H 2019. After taking into account property operating expenses, net property income amounted to RMB406.82 million, representing a 3.2% decrease year-on-year (“**YoY**”) and a property income margin of 74.4% (FY 2018: 75.2%). Spring REIT’s total distributable income was RMB232.29 million, representing an increase of 10.8% YoY. The net asset value per Unit as at 31 December 2019 was HK\$5.61 (30 June 2019: HK\$5.74; 31 December 2018: HK\$5.69).

Further, since the onset of COVID-19 in early 2020, global capital markets have reacted negatively and risk premium in all asset types have risen significantly across the board. In this environment, the Manager will seek unitholders’ approval in the upcoming Annual General Meeting tentatively scheduled in May for a general mandate to repurchase Spring REIT units as and when appropriate.

Solid operational performance

Negative business sentiment continued to spread through the market in the second half of 2019. This, combined with the effect of new supply becoming available, contributed to a decline in average rental rate of 5.4% and occupancy rate of 11.4 percentage points to 83.6% in the CBD submarket. Most gratifyingly, CCP Property outperformed the office market in Beijing CBD, registering a solid average rental reversion of 2.1% for the full year of 2019 and having an occupancy rate of 95.1% as at 31 December 2019.

For the full year of 2019, the CCP Property registered an average occupancy of 94.2% in 2H 2019 (1H 2019: 92.2%), and a total area of 42,492 sqm was leased out and renewed during the Reporting Year. Average passing rent (net of Value-Added Tax ("VAT")) stood at RMB362.3 per sqm for 2H 2019, on the back of respectable average rental reversions of 1.8% in the first half and 2.7% in the second half of 2019, rendering a full year reversion of 2.1% (FY2018: 4.7%).

Strengthening financial position for future growth

During the Reporting Year, Spring REIT set in motion a two-part refinancing exercise, partly comprised of a new bank loan facility of a potential amount of US\$555 million and partly of the issuance of convertible bonds. A total of HK\$585 million (equivalent to approximately US\$75 million) of convertible bonds was issued to an investment consortium led by Sino-Ocean Group, a major Hong Kong-listed Chinese property developer, developing and investing in residential, office and retail real estate projects located primarily in Beijing. By combining the new loan facilities and the convertible bonds, the Manager has not only successfully reduced the overall interest cost, but has also diversified source of funds by introducing an alternative debt instrument. Moreover, the new arrangement has enabled Spring REIT to strengthen its financial position, providing it with a stronger balance sheet as well as additional financial resources in the form of undrawn bank loan facilities available for future draw-down as acquisition opportunities arise. The timing of the refinancing could not have been completed at a more opportune time given the rapid deterioration in economic conditions since December 2019.

Furthermore, Spring REIT will benefit from having additional headroom and Sino-Ocean Group as a strategic partner. In addition to the long-standing support from Japanese sponsor, the Manager also intends to explore future cooperation opportunities with Sino-Ocean Group to leverage its experience in commercial property space and its strong portfolio of commercial properties in China.

Entering 2020 with confidence despite challenging market

As we enter 2020, there has been no sign of improvement of the China-US trade relation nor is there a clear indication of how the virus outbreak will impact the real estate market. Analysts continue to predict weakened demand for office space in Beijing in the current environment with higher vacancy rates putting downward pressure on rents. The continued influx of new office supply in the CBD market will also exacerbate the existing headwinds. In this context, a great deal hangs on the quality possessed by specific office premises. As evident in its operating performance in 2019, Spring REIT's CCP Property remains one of the best on the market in terms of location, management, building facilities. These are features which, Spring REIT believes, will always command a premium to our tenants.

"It is my strong belief that the steps taken by the Manager in 2019 has laid a solid foundation to further Spring REIT's prospects with an enhanced capital structure and introduction of Sino-Ocean Group as a strategic partner. Further, in light of recent stock market volatility as COVID-19 outbreak continued, the Manager will seek unitholders' approval in the upcoming Annual General Meeting tentatively scheduled in May for a general mandate to repurchase Spring REIT units as and when appropriate," said **Mr. Toshihiro TOYOSHIMA, Chairman of Spring Asset Management Limited.**

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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 offers direct exposure to two Premium Grade office buildings strategically located in the Central Business District of Beijing and 84 separate 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 around the world.

Spring REIT is managed by Spring Asset Management Limited (the "Manager"), a company incorporated in Hong Kong and is 90.2% owned by Mercuria Investment Co., Limited, which is a private equity investment firm listed on the Tokyo Stock Exchange (stock code: 7190).

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RESULTS HIGHLIGHT

(in RMB millions unless otherwise specified)

For the Year Ended 31 December	2019	2018	Change
Revenue	546.59	558.83	(2.2%)
Property operating expenses	(139.77)	(138.64)	0.8%
Net property income	406.82	420.19	(3.2%)
Net property income margin	74.4%	75.2%	-0.8 ppts
G&A expenses	(67.35)	(118.37)	(43.1%)
Cash interest expenses	(151.93)	(127.89)	18.8%
Profit after taxation	223.06	29.99	643.8%
Total distributable income	232.29	209.68	10.8%

Units Information	2019	2018	Change
DPU (<i>HK cents</i>)	18.9¹	19.2	(1.6%)
Payout ratio	100%	98%	+2 ppts
Net asset value per Unit (<i>HK\$</i>)	5.61	5.69	(1.4%)
Number of Units outstanding	1,285,813,315	1,272,356,925	1.1%

As at 31 December	2019	2018	Change
Property valuation	9,873.27	9,764.06	1.1%
Total assets	10,429.37	10,283.93	1.4%
Total borrowings	3,704.84	3,654.54	1.4%
Net asset value	6,447.78	6,363.44	1.3%
Gearing ratio	35.5%	35.5%	-

¹ Subsequent to the year ended 31 December 2019, on 12 February 2020, a total of 160,626,029 new Units were issued upon the conversion of the convertible bonds. Together with the interim distributions per unit of HK10.0 cents, the final distribution per unit of HK8.9 cents for the year ended 31 December 2019 is calculated based on the final distribution to be paid to Unitholders and 1,446,439,344 units in issue as at 27 March 2020, being the date of declaration of the final distribution.