

July 2024

**(1) ISSUANCE OF SUBJECT 2024 MANAGER FEE UNITS
(2) APPLICATION FOR WHITEWASH WAIVER**

Transaction Overview

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Section 1

Executive Summary

- **Manager's Fees structure:** Pursuant to the Trust Deed, the Manager is entitled to receive Manager's Fees (including Base Fee and Variable Fee) in the form of Units and/or cash. Since Spring REIT's IPO in 2013, 80% of the Base Fee has been paid in units annually (except for 2013-2014 when 80% of both Base Fee and Variable Fee were paid in units and 2017-2019 when 100% of the Base Fee was paid in units).
- **Reasons for and Benefits of this Manager's Fees payment structure:** Paying Manager's Fees partly in Units is a common arrangement among Hong Kong REITs. This practice has consistently preserved cash for Spring REIT, enhancing distributions per unit (DPU) to the Unitholders over the years.
- **Current situation:** An upcoming portion of Manager Fee Units to be issued by Spring REIT may trigger a mandatory offer threshold (being the interests of the Manager Concert Group to reach 30%). Unless (i) a Whitewash Waiver is granted by the SFC and approved by the Independent Unitholders and (ii) the issuance of that portion of the Manager Fee Units is approved by the Independent Unitholders, the excess portion of the Base Fee would need to be paid in cash, pursuant to the Trust Deed.
- **Whitewash Waiver application:** The Manager considers the cash savings from partly paying the Manager's Fees in Units is crucial for maintaining stable distributions to Unitholders. Continuing this arrangement will help avoid a significant 14.7% decrease in DPU (as illustrated in Section 3). Therefore, the Manager has applied for the Whitewash Waiver of the obligation on the part of the Manager to make a general offer as a result of the Manager's receipt of the abovementioned portion of Manager Fee Units.
- **EGM:** The Extraordinary General Meeting to seek the approval of the Independent Unitholders on the Whitewash Waiver and the issuance of Subject 2024 Manager Fee Units will be held on 9 August 2024.

Note: Unless otherwise defined herein, capitalised terms used in this presentation have the same meanings as given to them in the Circular dated 23 July 2024.

Section 2

Transaction Overview

Transaction Overview

Issue of Manager Fee Units in lieu of cash

- Spring Asset Management Limited acts as the Manager of Spring REIT. Pursuant to the Trust Deed, the Manager's Fees include a Base Fee of 0.4% p.a. of the amount of the Deposited Property and a Variable Fee of 3.0% p.a. of net property income (before certain deductions), in the form of Units and/or cash.
- It is common arrangement for managers of REITs in Hong Kong to receive units in partial or full settlement of manager's fees in lieu of cash. Since Spring REIT's listing in 2013, 80% of the Base Fee has been paid in the form of Units every year other than 2013-2014 (during which 80% of the Base Fee and Variable Fee were paid in the form of Units) and 2017-2019 (during which all of the Base Fee were paid in the form of Units). (For details of the historical payment structure of Manager's Fees, please refer to the Appendix in Section 8.)
- On 13 Dec 2023, the Manager has elected to continue receiving 80% of the Base Fee for FY 2024 in the form of Units (and the remaining 20% of the Base Fee and entire Variable Fee in the form of cash). The Manager considers that continuing such longstanding policy of receiving **80% of the Base Fee in the form of Units**, is in the interests of the Unitholders, as the cash savings will increase the distributions paid to Unitholders.
- Under the Trust Deed, one condition is if any thresholds for triggering a mandatory offer under the Takeovers Code will be reached as a result, then payment of that excess part of the Manager's Fee shall be paid in the form of cash instead of Units.

Transaction Overview

Triggering of Mandatory General Offer

- As at 19 July 2024, the Manager Concert Group was collectively interested in ~29.77% of the total number of issued Units. (For details of the illustrative unitholding structure of Spring REIT, please refer to the Appendix in Section 8.)
- It is anticipated that the issuance of one of the further tranches of the 2024 Manager Fee Units (being the Subject 2024 Manager Fee Tranche) will result in a mandatory offer threshold under Rule 26 of the Takeovers Code being reached by the Manager Concert Group, unless the **Whitewash Waiver** is granted by the Executive, under Note 1 on dispensations from Rule 26 of the Takeovers Code of the obligation on the part of the Manager to make a general offer as a result of the Manager's receipt of the Subject 2024 Manager Fee Units (being those 2024 Manager Fee Units that, if issued to the Manager at any given Issue Date, would cause the aggregate unitholding of the Manager Concert Group to **first** exceed 30%).
- Whether the aggregate unitholding of the Manager Concert Group will exceed 30% on the 2Q24 Fees Issue Date (Aug 2024), or later on the 3Q24 Fees Issue Date (Oct 2024) or the 4Q24 Fees Issue Date (Mar 2025), will depend on the actual number of 2024 Manager Fee Units to be issued at each Issue Date. Such actual number of 2024 Manager Fee Units to be issued depends on, among other things, the value of the Deposited Property, the Market Price of the Units and HKD:RMB exchange rate applicable at the relevant time.

Transaction Overview

Application of Whitewash Waiver

- As the mandatory offer threshold under the Takeovers Code would be triggered as a result of the issuance of the quarterly tranche of the 2024 Manager Fee Units, the excess Units will not be issued and the corresponding amount of Base Fee will instead be settled in cash, unless the Whitewash Waiver is granted by the Executive and the issuance of the Subject 2024 Manager Fee Units and the Whitewash Waiver are approved by the Independent Unitholders.
- As the Manager considers that the cash savings achieved from paying the Manager's Fees in the form of Manager Fee Units to be crucial to maintaining stable distributions to Unitholders, the Manager has applied to the Executive for the Whitewash Waiver of the obligation on the part of the Manager to make a general offer as a result of the Manager's receipt of that tranche of Manager Fee Units.
- The Manager will seek the approval of Independent Unitholders for the Whitewash Waiver and the issuance of Subject 2024 Manager Fee Units by way of the EGM Resolutions.
- **The EGM will be held at 4:00 p.m. on Friday, 9 August 2024 at Room 2401-2 One Admiralty Centre, 18 Harcourt Road, Hong Kong**

Section 3

Illustrative Financial Effects of the Transaction

Illustrative Financial Effects of the Transaction

Distribution per Unit (DPU)

- (1) Assume issuance of the Subject 2024 Manager Fee Units is approved: **No change to DPU.**
- (2) Assume EGM Resolutions are not passed (i.e. 80% of Base Fee settled in cash in lieu of Units): **Decrease in DPU of approximately 14.7%** (i.e. HK\$2.8 cents lower), due to higher cash outlay for Manager's Fees, reducing total distributable income of Spring REIT, with no increase in the total number of Units issued.

DPU	(1) Actual (after issuance of 2023 Manager Fee Units)	(2) Illustrative (assuming 2023 Manager Fee Units paid in cash)	% Change in DPU (if Unit-holders' approval not obtained)
Total Distributable Amount (RMB million)	252.14	213.53	
Issued Units	1,444,637,952	1,424,310,268	
Payout Ratio	97.5%	97.5%	Unchanged
DPU (RMB cents equivalent)	17.1	14.6	- 14.7%
DPU (HK cents)	19.0	16.2	- 14.7%

Note:

The above illustrative financial effects of the issuance of the Subject 2024 Manager Fee Units on Spring REIT's Distribution per Unit (DPU) attributable to Unitholders are strictly for illustrative purposes. The analysis is based on the audited consolidated income statement of the Group for the year ended 31 December 2023 and takes into consideration two scenarios: (1) the issuance of the Subject 2024 Manager Fee Units is approved by Unitholders and takes place as contemplated; and (2) the EGM Resolutions are not passed and the Manager does not receive the Subject 2024 Manager Fee Units and the equivalent amount of Manager's Fee (that is 80% of the Base Fee) was instead paid in cash. The Issued Units represent the sum of (i) number of issued units as at 31 December 2023, being 1,440,497,110 units; and (ii) 5,227,842 Manager Fee Units issued on 25 March 2024 as partial payment of the Manager's Fee for the fourth quarter of 2023 less bought-back units cancelled on 29 January 2024, being 1,087,000 units.

Illustrative Financial Effects of the Transaction

Net Asset Value (NAV) attributable to Unitholders per Unit

- (1) Assume issuance of the Subject 2024 Manager Fee Units is approved: **No change to NAV per Unit.**
- (2) Assume EGM Resolutions are not passed (i.e. the Manager does not receive the Subject 2024 Manager Fee Units and the equivalent amount of Manager's Fee was instead paid in cash): **Increase in NAV per Unit of approximately 0.79%**, taking into account of the lower cash balance, with 20,327,684 lower in the total number of Units in issue.

NAV per Unit	(1) Actual (after issuance of 2023 Manager Fee Units)	(2) Illustrative (assuming 2023 Manager Fee Units paid in cash)	% Change in NAV per Unit (if Unitholders' approval not obtained)
NAV attributable to Unitholders (RMB '000)	6,130,664	6,092,053	
Issued Units	1,444,637,952	1,424,310,268	
NAV attributable to existing Unitholders per Unit (RMB)	4.24	4.28	+ 0.79%
NAV attributable to existing Unitholders per Unit (HK\$)	4.68	4.72	+ 0.79%

Note:

The above illustrative financial effects of the issuance of the Subject 2024 Manager Fee Units on Spring REIT's Net Asset Value (NAV) per Unit attributable to Unitholders are strictly for illustrative purposes. The analysis is based on the audited consolidated statement of financial position of the Group as at 31 December 2023 and takes into consideration two scenarios: (1) the issuance of the Subject 2024 Manager Fee Units is approved by Unitholders and takes place as contemplated; and (2) the EGM Resolutions are not passed and the Manager does not receive the Subject 2024 Manager Fee Units and the equivalent amount of Manager's Fee (that is 80% of the Base Fee) was instead paid in cash.

Section 4

Reasons for and Benefits of the Transaction

Reasons for and Benefits of the Transaction

In the interests of Spring REIT and all Unitholders

Preserve Cash and Maintain Higher DPU

- Avoid a significant decrease of 14.7% in the total distributable income and DPU (as illustrated in Section 3)
- Sustain a higher total distributable income and a higher DPU for Unitholders
- Contribute to cash savings available to Spring REIT

No Material Impact on Unit Price

- Issuing Manager Fee Units at the prevailing Market Price (as defined in the Trust Deed) is not anticipated to have any significant impact on the traded price of the Units
- Issuance of Manager Fee Units is spread out over multiple tranches throughout the year, with each tranche representing a relatively small proportion of Units issued, mitigating the risk of potential impact on Unit price

Continuation of an Established Practice

- The practice of paying manager's fees partly in units is common arrangement among other REITs in Hong Kong, with 7 managers out of 9 other externally-managed REITs listed in Hong Kong had elected to receive at least a portion of their fees in the form of units (which ranged from 50% to 100% in 2023-2024). The manager fee structure under the 2024 Election is therefore generally in line with the industry practice
- This longstanding and established practice ensures consistency and stability in fee payment structure as well as stability of DPU

Section 5

Regulatory Implications relating to the Transaction

Regulatory Implications relating to the Transaction

Requirements and restrictions relating to the Whitewash Waiver

- The Whitewash Waiver is subject to the approval of Independent Unitholders (either in person or by proxy) by way of a poll at the EGM under separate but inter-conditional resolutions:
 - The approval of the Whitewash Waiver (by way of a special resolution) by **at least 75%** of the votes cast by the Independent Unitholders present and voting (either in person or by proxy); and
 - The approval of the issuance of the Subject 2024 Manager Fee Units (by way of an ordinary resolution) by **more than 50%** of the votes cast by the Independent Unitholders present and voting (either in person or by proxy).
- The Maximum Subject 2024 Manager Fee Units, the issuance of which is subject to the Whitewash Waiver and Independent Unitholders' approval, is 6,469,200 Units. Any remaining amount of the Base Fee payable for the relevant period that cannot be fully settled by the issuance of the Maximum Subject 2024 Manager Fee Units will instead be settled in cash.

Regulatory Implications relating to the Transaction

What will happen if Whitewash Waiver is granted?

- If Independent Unitholders' approval for the issuance of the Subject 2024 Manager Fee Units and the Whitewash Waiver are obtained and Whitewash Waiver is granted by the Executive:
 - Spring REIT will issue the Subject 2024 Manager Fee Units (subject to the Maximum Subject 2024 Manager Fee Units) to settle the 80% of the Base Fee payable for the relevant period;
 - The obligation on the part of the Manager to make a general offer will be waived; and
 - Subsequent tranches of Manager Fee Units after issuance of the Subject 2024 Manager Fee Units (which are expected to be in Oct 2024 and Mar 2025 following the end of the preceding financial quarter) will continue to be subject to the 2024 Election (in the case of 2024 Manager Fee Units) and the applicable provisions of the Takeovers Code, including the **2% creeper** provisions, i.e. acquisitions by the Manager Concert Group of voting rights of Spring REIT of more than 2% in aggregate in any 12-month period thereafter will still trigger a separate mandatory general offer on the part of the Manager Concert Group.

Regulatory Implications relating to the Transaction

What will happen if Whitewash Waiver is NOT granted / approved ?

- If Independent Unitholders' approval for the issuance of the Subject 2024 Manager Fee Units or the Whitewash Waiver is NOT obtained or the Whitewash Waiver is NOT granted by the Executive:
 - Spring REIT will not issue the Subject 2024 Manager Fee Units;
 - Any remaining amount of the Base Fee payable for the relevant period that cannot be fully settled by the issuance of manager fee units will instead be settled in cash;
 - In accordance with Clause 11.1.1.4 of the Trust Deed, future payments of the Manager's Fee will be settled in cash in order not to exceed any thresholds for triggering a mandatory offer under the Takeovers Code; and
 - distributions to Unitholders for the year ending 31 December 2024 will be adversely impacted (based on the illustration in Section 3).

Section 6

View from Independent Financial Adviser

View from Independent Financial Adviser

- The Independent Financial Adviser, Altus Capital Limited, is of the view that the issuance of the Subject 2024 Manager Fee Units and the Whitewash Waiver are fair and reasonable and in the interests of the Independent Unitholders, in particular on the following basis (among other principal factors and reasons as disclosed in the IFA letter):
 1. The 2024 Manager Fee Units are being determined in accordance with the 2024 Election, which is in line with industry practice;
 2. The 20% buffer applied in deriving the Maximum Subject 2024 Manager Fee Units that aims to cater for potential changes in the Unit closing price, is within the range of fluctuation of Unit closing price during the Review Period (i.e. one year from 19 July 2023 to 19 July 2024);
 3. The issuance of the Subject 2024 Manager Fee Units and Whitewash Waiver would allow Spring REIT to continue its longstanding practice of receiving a portion of the Manager's Fee in the form of Units ;
 4. Despite that the issuance of the Subject 2024 Manager Fee Units would result in unitholding dilution, the positive impact would be the preservation of cash which enhances cash distribution. On balance, such practice provides higher immediate cash returns to Unitholders when compared with settling the entire Manager's Fees in cash under alternative circumstance; and
 5. The fact that the Manager Concert Group is already Spring REIT's single largest Unitholder group and the issuance of the Subject 2024 Manager Fee Units and Whitewash Waiver will not result in a material change in the unitholding structure (such as the introduction of a new controlling Unitholder) and business operations of Spring REIT.
- Accordingly, IFA advises the Independent Unitholders to vote **in favour** of the EGM Resolutions.

Section 7

Q&A

Section 8

Appendix

Illustrative Unitholding Structure of Spring REIT

Unitholders	(a) As at the Latest Practicable Date		(b) As at 2Q24 Fees Issue Date in Aug 2024		(b) As at 3Q24 Fees Issue Date in Oct 2024		(b) As at 4Q24 Fees Issue Date in Mar 2025	
	Units	%	Units	%	Units	%	Units	%
Manager Concert Group								
The Manager	64,825,150	4.47	70,216,150	4.82	75,607,150	5.18	80,998,150	5.52
RCA Fund	336,720,159	23.22	336,720,159	23.13	336,720,159	23.05	336,720,159	22.96
Artemis	23,538,000	1.63	23,538,000	1.62	23,538,000	1.61	23,538,000	1.61
6 Directors of the Manager	6,613,000	0.45	6,613,000	0.45	6,613,000	0.45	6,613,000	0.45
Subtotal - Manager Concert Group	431,696,309	29.77	437,087,309	30.02	442,478,309	30.29	447,869,309	30.54
Huamao Property	360,188,420	24.84	360,188,420	24.75	360,188,420	24.65	360,188,420	24.57
Subtotal - Manager Presumed Concert Group	791,884,729	54.61	797,275,729	54.77	802,666,729	54.94	808,057,729	55.11
Other Unitholders	658,332,639	45.39	658,332,639	45.23	658,332,639	45.06	658,332,639	44.89
Total	1,450,217,368	100.00	1,455,608,368	100.00	1,460,999,368	100.00	1,466,390,368	100.00

Note:

The above table sets forth the illustrative unitholding structure of Spring REIT: (a) as at the Latest Practicable Date; and (b) as at each Issue Date assuming the Illustrative Tranche Units will be issued and there is no other change in the unitholding structure of Spring REIT between each Issue Date. Based on this illustration, the Subject 2024 Manager Fee Units will be issued on the 2Q24 Fees Issue Date.