

[For immediate release]

# SpringREIT

## Spring REIT announces 2023 Interim Results

- ***Encouraging performance of property portfolio with net property income up 35.2% YoY, thanks to the maiden contribution from newly acquired Huamao Place in Huizhou, Greater Bay Area***
- ***Maintained a steady distribution for unitholders amid challenging macroeconomic environment, with an annualized DPU yield of 9.0%\****
- ***Prudent capital management with 100% of loans either hedged or at stable rate***

(Hong Kong, 22 August 2023) – **Spring Asset Management Limited** (the “**Manager**”), as manager of Spring Real Estate Investment Trust (“**Spring REIT**”, stock code: 1426), is pleased to announce the interim results of Spring REIT for the six months ended 30 June 2023 (“**1H 2023**” or the “**Reporting Period**”).

The Board of Directors of the Manager is pleased to declare an interim distribution of HK\$10.0 cents per Unit, unchanged half-on-half (“**HoH**”) and decreased 10.7% year-on-year (“**YoY**”). Based on the closing price of HK\$2.22 per Unit as at 30 June 2023, the Reporting Period distribution per Unit (“**DPU**”) represents an annualized distribution yield of 9.0%.

During the Reporting Period, Spring REIT’s revenue was RMB363.42 million, representing a 17.0% increase HoH and a 36.0% increase YoY. Net property income increased 15.2% HoH and 35.2% YoY respectively to RMB273.89 million. Total distributable income amounted to RMB131.66 million, representing a decrease of 5.9% HoH and a decrease of 13.8% YoY.

### **Positive rental reversion from CCP Property**

The China Central Place Office Tower 1 and 2 and the relevant portion of the car park (the “**CCP Property**”) showed its resilience in the face of economic headwinds. During the Reporting Period, revenue of the CCP Property was RMB234.48 million, representing a 3.2% decrease HoH. The rental income generated from the office space decreased 1.4% HoH, attributable to a moderate decline in occupancy since 31 December 2022. The 3.1% HoH decrease in property operating expenses was mainly due to lower commission expenses, as renewals dominated leasing activities during the period. After deducting property operating expenses, net property income was RMB175.26 million, representing a decrease of 3.2% HoH and 4.9% YoY.

The CCP Property registered an average occupancy of 90.6% in 1H 2023. Average passing rent (net of Value-Added Tax) increased marginally to RMB350 per sqm in 1H 2023, implying a positive rental reversion rate of 1.8%.

*\*Based on the closing price of HK\$2.22 per Unit as at 30 June 2023.*

## **Encouraging contribution from Huamao Place (華貿天地) in Huizhou**

Spring REIT acquired Huamao Place in Huizhou on 28 September 2022. Since the relaxation of COVID policies towards the end of 2022, the mall has experienced a recovery in consumer confidence and an increase in footfall. During the Reporting Period, the Manager has been further enhancing Huamao Place's positioning by introducing a cluster of international cosmetics brands to the shopping mall. Many of these brands are currently only available at Huamao Place in Huizhou, helping to create a sense of exclusivity and luxury for the shopping mall and solidifying its high-end reputation. As a flagship mall in Huizhou, Huamao Place registered an encouraging operating results with an average occupancy rebounded from 92.2% in 4Q 2022 to 95.9%. Meanwhile, the reletting of some space also raised the mall's average monthly rent from RMB148 per sqm in 4Q 2022 to RMB165 per sqm for the Reporting Period. The contribution of Huizhou Huamao Place in terms of revenue and net property income amounted to RMB110.1 million and RMB80.1 million respectively for the Reporting Period.

The local property management team has also been working tirelessly to optimize the trade mix within the shopping mall and thus enhance customers' shopping experience further. Throughout 1H 2023, Huamao Place was successful in signing leases with 63 new merchants. These enhancements are positioning Huamao Place strongly to capitalize on the anticipated recovery of consumption demand in 2023.

## **Stable contribution from UK Portfolio**

The portfolio of 84 properties occupied by the car servicing company Kwik Fit (GB) Limited (“**UK Portfolio**”) continued to operate steadily throughout the Reporting Period. 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, under which the tenant pays 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.).

## **Prudent capital management with 100% of loans at fixed or stable interest rates**

Throughout the Reporting Period, aggressive interest rate hikes and fluctuations in the RMB exchange rates continued to pose challenges to Spring REIT, especially in maintaining stable distributions to Unitholders. Vigilant capital management strategies have long been a hallmark of Spring REIT's approach, underpinning its ongoing interest rate hedging initiatives over the years.

In July 2023, Spring REIT entered into additional float-to-fixed HKD-RMB cross-currency swap and interest rate swap contracts, thus locking in fixed rates for 100% of its HKD and GBP loan amounts. Meanwhile Spring REIT's RMB loan is based on the PRC Loan Prime Rate which is both stable and on a downward trend. With the above initiatives, 100% of Spring REIT's loans are either covered by the interest rate hedging programme or under a relatively stable PRC Loan Prime Rate, significantly reducing the impact of interest rate volatility on Spring REIT.

## Staying cautiously optimistic in 2H 2023

The mood in early 2023 was upbeat following the reopening of China's economy after several years of strict "zero-COVID" measures. However, the economy has since struggled to maintain its growth trajectory, and economic growth proved underwhelming during the Reporting Period. The performance of the commercial property market in Beijing reflected the sentiment of caution in the broader market. As tenants have returned to their offices and have no longer needed to work from home, demand for Grade A offices has stabilized and the Manager has noted a marked improvement in rental arrears and missed rental payments. However, rents have remained soft with few new office tenants entering the market. At the same time, many existing tenants have delayed decisions to relocate or expand in the face of the uncertain economic outlook. This has resulted in intense competition among landlords to retain existing tenants or attract new ones. In the longer term, however, the Manager remains cautiously optimistic about prospects for the Beijing office market.

The Beijing office market is closely linked to the state of both the global and the Chinese economy. By contrast, the new acquisition, Huamao Place in Huizhou, more closely reflects domestic consumption in the Greater Bay Area. The GBA has been designated an area of strategic importance for the nation's future development, and its population, including that of Huizhou City, is expected to become more affluent in the years ahead due to economic growth, ongoing urbanisation, consumption upgrades, and continued government support. As Huizhou's premier shopping mall, Huamao Place is well placed to benefit from its defensive quality in the second half of 2023 and to profit from the long-term success of this unique region.

**Mr. Toshihiro TOYOSHIMA, Chairman of Spring Asset Management Limited**, said "The performance of our property portfolio has been encouraging amid an uncertain business environment. Going forward, we remain firmly committed to steering Spring REIT safely through the challenging macroeconomic environment. Unitholders can be assured of our unwavering determination to deliver long term and sustainable growth in distributions."

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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's property portfolio comprises (i) two Premium Grade office buildings strategically located in the Central Business District of Beijing, (ii) a landmark shopping mall Huamao Place in Huizhou, Greater Bay Area, and (iii) a long-income portfolio of 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.

Spring REIT is managed by Spring Asset Management Limited, a company incorporated in Hong Kong. As at 30 June 2023, the Manager is 80.4 % owned by Mercuria Holdings Co., Ltd. ("Mercuria Holdings"), which is an investment holding company listed on the Tokyo Stock Exchange (Stock Code: 7347) with notable shareholders such as Development Bank of Japan, Itochu Corporation and Sumitomo Mitsui Trust Bank, Limited.

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**RESULTS HIGHLIGHT**

(in RMB million unless otherwise specified)					
For the Six Months Ended	30-Jun-2023	HoH Change	31-Dec-2022	HoH Change	30-Jun-2022
Revenue	<b>363.42</b>	17.0%	310.54	16.2%	267.31
Property operating expenses	<b>(89.52)</b>	23.2%	(72.69)	12.3%	(64.73)
Net property income	<b>273.89</b>	15.2%	237.85	17.4%	202.58
Net property income margin	<b>75.4%</b>	-1.2 pts	76.6%	+0.8 pts	75.8%
G&A expenses	<b>(40.61)</b>	(2.7%)	(41.74)	26.8%	(32.91)
Cash interest expense	<b>(92.38)</b>	18.7%	(77.84)	140.7%	(32.34)
(Loss)/profit after taxation attributable to Unitholders	<b>(92.92)</b>	42.0%	(65.42)	N/A	93.77
Total distributable income	<b>131.66</b>	(5.9%)	139.96	(8.3%)	152.65
Unit information	1H 2023	HoH Change	2H 2022	HoH Change	1H 2022
DPU (HK cents)	<b>10.0</b>	-	10.0	(10.7%)	11.2
DPU (RMB cents equivalent)	<b>8.9</b>	(1.1%)	9.0	(3.2%)	9.3
Payout ratio	<b>97%</b>	+4.5 pts	92.5%*	+2.5 pts	90%
Net asset value per Unit (HK\$)	<b>4.63</b>	(6.5%)	4.95	6.4%	5.29
Number of Units outstanding	<b>1,493,567,431</b>	0.6%	1,484,931,187	0.4%	1,479,302,559
As at	30-Jun-2023	HoH Change	31-Dec-2022	HoH Change	30-Jun-2022
Portfolio valuation	<b>12,066.23</b>	(0.1%)	12,082.95	29.5%	9,331.82
Total assets	<b>13,009.14</b>	0.6%	12,930.99	28.9%	10,033.78
Total borrowings	<b>5,131.00</b>	5.6%	4,857.35	57.2%	3,089.40
Net asset value	<b>6,370.88</b>	(2.9%)	6,558.84	(1.9%)	6,685.28
Gearing ratio	<b>39.4%</b>	+1.8 pts	37.6%	+6.8 pts	30.8%

\* Represents the full year payout ratio of 92.5%.