



Spring REIT to Acquire an Iconic High-end Shopping Mall in Huizhou, Greater Bay Area

- Acquisition of 68% interest in “Huamao Place” (華貿天地), an iconic high-end shopping mall in the central business district (CBD) of Huizhou, for approximately RMB 1,637 million^{Note 1}
- Capture development and growth potential of Greater Bay Area and Huizhou
- Unitholders to enjoy 12.9%^{Note 2} accretion of distribution per unit (“DPU”), with no ownership dilution
- Strategic partnership with Huamao Property, a veteran commercial real estate developer and operator in the PRC

Hong Kong, 29 April 2022 – **Spring Asset Management Limited (“Manager”)**, manager of Spring Real Estate Investment Trust (“**Spring REIT**”, stock code: 1426), today announced that Spring REIT has agreed to acquire a 68% interest in “Huamao Place” (華貿天地) for an illustrative consideration of approximately RMB1,637 million^{Note 1}. The acquisition price is based on the agreed property value of RMB2,442 million, which represents a discount of 9.3% to the appraised property value of RMB2,691 million as at the valuation date.

Mr. Leung Kwok Hoe, Kevin, CEO and an Executive Director of Spring Asset Management Limited said, “The acquisition of Huamao Place is fully in line with Spring REIT’s strategy to invest in yield-accretive and income-producing real estate assets with long-term growth potential. Upon completion of the acquisition, Spring REIT’s pro forma DPU would have improved by 12.9%^{Note 2} for the year ended 31 December 2021. Huamao Place will complement Spring REIT’s existing assets with a new presence in the Greater Bay Area, allowing us to diversify the portfolio and capture the growth potential from the region’s robust economic growth and increasing strategic importance to the PRC. The acquisition marks a key step forward in our growth journey, and represents our firm commitment to managing Spring REIT in the best interests of unitholders and delivering sustainable long-term returns.”

“We are pleased to form a joint venture with Huamao Property who will retain 32% interest in the target company, and to partner with its team of industry veterans who has secured Huamao Place a consistent market leader over the past decade with demonstrated resilience in economic downturn,” **Mr. Leung** continued, “With its prime location and unique market positioning, we are confident that Huamao Place will continue to champion Huizhou’s vibrant retail scene and grow with the wider Greater Bay Area.”

Capture of Strong Growth Potential of Huizhou and the Greater Bay Area

Huizhou is rich in natural, energy and tourism resources, with a total area of 11,347 square kilometres. Thanks to its superior geographical location and rich resources, Huizhou has attracted many high-quality enterprises, and has enjoyed many industrial spill-over transfers from nearby cities of Shenzhen and Dongguan, supporting the economic and population development of the city.

As one of the 9+2 cities in the Greater Bay Area, Huizhou’s transportation positioning is to become a core hub in the Greater Bay Area. In recent years, there has been rapid development of urban light rail, high-speed rail, and urban public transportation systems. Huizhou is the only

city with nine high-speed rail stations in Guangdong Province, connecting Jiangxi-Shenzhen, Guangzhou-Shantou and Xiamen-Shenzhen high-speed rail. The construction of light rail connecting Dongguan and Shenzhen is also quickly progressing. With a strengthening integrated transport network in the Greater Bay Area, Huizhou will play a more important role in the petrochemical and energy industries, along with driving technological innovation in energy and cross-border e-commerce.

According to China Insights Consultancy (“CIC”), Huizhou’s residential population of 6.1 million exhibited a higher growth compared to the national average between 2016 and 2021. With the continuous improvement of transportation connecting surrounding cities, immigrant friendly household registration policies, and the advantageous geographical location, Huizhou is expected to continue attracting population inflow. As Huizhou’s nominal GDP is projected to grow at a compound annual growth rate (CAGR) of 7.3% between 2021 and 2026, the city’s total retail sales value of consumer goods is expected to reach RMB298.0 billion by 2026, representing a projected CAGR of 8.5% between 2021 and 2026.

The Greater Bay Area’s economy and retail industry are expected to experience stable growth in the next five years. The shopping mall industry in the Greater Bay Area as well as in Huizhou City is estimated to increase rapidly, driven by further economic development, ongoing urbanization, continuous consumption upgrades, expanding retail facilities, and continued government supports. Being a leading shopping mall in Huizhou, Huamao Place is anticipated to continue to enjoy a robust operational performance in the market.

Market Leading Shopping Mall with Demonstrated Resilience in Economic Downturn

Huamao Place is a landmark asset in the heart of Huizhou, and ranked 1st in terms of gross merchandise value in Huizhou in 2021, according to CIC. The average monthly rent of Huamao Place grew at a CAGR of 7.8% during the period from 2018 to 2021, outpacing that of retail properties in first-tier cities such as Beijing and Shanghai.

Huamao Place has consistently maintained a high occupancy rate since its opening. As at 31 December 2021, Huamao Place had a high occupancy rate of 96.3%, exceeding the average occupancy rate of approximately 80% in 2021 for shopping malls in Huizhou. In addition, approximately 83.6% of the gross lettable area is on fixed rent or higher of fixed rent or turnover rent terms, providing a reasonable revenue cushion in case of an economic downturn, as well as growth potential by tracking tenants’ sales in good years.

Prime Location and Proximity to Public Transportation

Located in Jiangbei, the CBD of Huizhou, Huamao Place is well positioned to attract potential customer groups including white-collar workers, middle and upper class residents and young students. It has clear transportation advantages, including proximity to Huizhou Railway Station, Huizhou Pingtan Airport, a national highway entrance and around 20 direct bus lines, thus extending its catchment coverage beyond Huizhou into the wider Greater Bay Area.

High Quality and Diversified Tenant Base

Huamao Place houses a selection of international and domestic top-tier brand names such as Estee Lauder, Lancôme, Hugo Boss, and BOSE, which are rarely seen in shopping malls in Huizhou. The shopping mall has also introduced chain restaurant brands (for example, Pizzahut and Haidilao hot pot) as well as leisure and entertainment facilities (such as virtual reality theme park, cinema, beauty and health clubs, etc.), which enhance shopping experiences that are difficult to be replaced by online retail channels.

Experienced Management Team with Solid Track Record

Historically managed by staff of Huamao Group who have extensive experience in the commercial and retail real estate sector in the PRC, Huamao Place has been successfully positioned as an iconic landmark in Huizhou with an exceptional track record over the past decade. Following the acquisition, key management staff of the property manager and building manager will be selected from the same team to ensure continuity and effective management of day-to-day operations of Huamao Place.

Accurate and Tested Strategies for Optimising Footfall and Tenant Mix

Huamao Place's management team has adopted tried-and-tested strategies to achieve consistent growth in revenue. Assessments on tenancy profile are conducted in a timely manner in view of latest market situation, and approximately 20% of underperforming tenants are replaced upon renewal every year. Tenancy periods have generally been kept relatively short to allow optimisation flexibility and support the consistent rental increment upon tenancy renewal. The management team also maintains high occupancy rate by initiating negotiation with existing tenants six months in advance of tenancy expiry and aiming to complete negotiation no later than two months before the tenancy expiry to ensure sufficient buffer time for seamless replacements of tenants.

Yield Accretive Acquisition

The illustrative consideration of the acquisition is RMB1,637 million^{Note 1}. The Manager intends to satisfy the consideration in the following manner: (a) RMB747 million shall be paid in cash; and (b) the assumption by Spring REIT (through the onshore purchaser) of the novated payables in the amount of RMB890 million. Spring REIT does not need to raise new equity financing for the acquisition, and hence there will be no ownership dilution.

With this debt-funded structure, upon completion of the acquisition, Spring REIT's pro forma DPU would have improved by 12.9%^{Note 2} from 22.0 HK cents to 24.8 HK cents for the year ended 31 December 2021, providing yield accretion to unitholders with no ownership dilution. Net property income yield of Spring REIT would have also increased from 4.3% to 4.7% for the year ended 31 December 2021. The pro forma gearing ratio (as at 31 December 2021) of Spring REIT is anticipated to increase from 30.0% to approximately 36.3% immediately following the completion of the acquisition, representing a reasonable level of financial leverage and remaining well below the 50% limit permitted under the REIT Code.

Diversification and Enlargement of Portfolio while Reducing Risk Exposure

The acquisition will enlarge the value of Spring REIT's portfolio by approximately 27% on a consolidated basis^{Note 3}, and marks Spring REIT's first investment in a retail property asset in the PRC and its first investment in the Greater Bay Area. As a result, the composition and locations of Spring REIT's portfolio assets will be diversified. This also reduces Spring REIT's exposure to concentration risk and other risks associated with its reliance on the income generated from its existing assets.

Regulatory implications

The acquisition is subject to approval by independent unitholders at the extraordinary general meeting (EGM). In view of the ongoing COVID-19 pandemic and recent recommendations for prevention and control of its spread, the Manager will implement certain precautionary measures at the EGM. Unitholders are reminded to refer to section headed "Precautionary Measures For the Extraordinary General Meeting" in the circular of Spring REIT dated 3 May 2022 for details.

Notes

1. The illustrative consideration for the acquisition is approximately RMB1,637 million. For further details, please refer to section headed “Consideration and Payment Terms for the Acquisition” in Spring REIT’s circular to Unitholders dated 3 May 2022.
2. Upon completion of the acquisition, based on consolidated statement of distribution of Spring REIT for the year ended 31 December 2021, the pro forma DPU for the year ended 31 December 2021 would have improved by 12.9% from HK22.0 cents to HK24.8 cents as if the Acquisition was completed on 1 January 2021 and Spring REIT had held and operated 68% of the Target Property through to 31 December 2021.
3. On a non-consolidated basis, Spring REIT’s 68% interest in the Target Property will bring a corresponding increase to the value of Spring REIT’s property portfolio by approximately 18%.

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For more details about the transaction, please refer to the circular via the below link:

<http://www.springreit.com/en-us/announcements/index>

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 Unitholders stable distributions and the potential for sustainable long-term growth through investing in a diversified portfolio of income-producing real estate.

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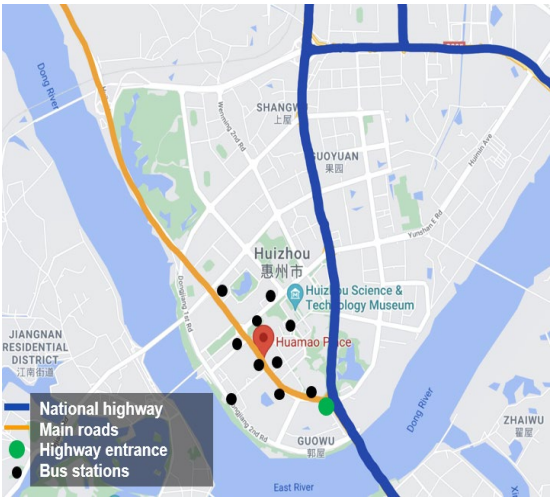
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Huamao Place



Interior of Huamao Place



Location and Transportation Map of Huamao Place