

SpringREIT

Spring REIT announces 2023 Annual Results

- **23.3% jump in net property income attributable to the first full-year contribution from Huamao Place in Huizhou, Greater Bay Area**
- **8.3% DPU yield¹ supported by steady operation of the Beijing office portfolio and encouraging performance of Huamao Place**
- **Prudent capital management with 99.5% of loans either hedged or at stable rate**
- **Huamao Place was awarded LEED Gold Certification, the first shopping mall in Huizhou**

(Hong Kong, 21 March 2024) – **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 2023 (the “**Reporting Year**”).

The Board of Directors of the Manager is pleased to declare a final distribution of HK\$9.0 cents per Unit (2H 2022: HK10.0 cents per Unit). Together with the interim distribution already paid, total distribution for the year amounts to a total of HK19.0 cents per Unit (FY2022: HK\$21.2 cents per Unit), representing a decrease of 10.4% year-on-year (“**YoY**”). Based on the closing price of HK\$2.28 per Unit as at 29 December 2023, the Reporting Year DPU represents a distribution yield of 8.3% (FY2022: 8.8%).

During the Reporting Year, Spring REIT’s revenue was RMB732.45 million, 26.8% higher than that in FY2022 (FY2022: RMB577.85 million) due to the full-year contribution of Huamao Place in Huizhou. Net property income amounted to RMB543.26 million (FY2022: RMB440.43 million), representing an increase of 23.3% YoY and a net property income margin of 74.2% (FY2022: 76.2%). Offset by higher cash interest expenses, total distributable income was RMB252.14 million, representing a decrease of 13.8% YoY.

Resilient performance from CCP Property amid soft office market in Beijing

In 2H 2023, the China Central Place Office Tower 1 and 2 and the relevant portion of the car park (the “**CCP Property**”) reported a 0.5% increase in revenue compared to the first half, with rental income generated from the office space increasing by 0.9% half-on-half (“**HoH**”) due to a moderate improvement in occupancy. Considering the 4.9% HoH increase in property operating expenses, mainly due to higher commission expenses, net property income amounted to RMB173.57 million, representing a decrease of 1.0% HoH.

¹Based on the closing price of HK\$2.28 per Unit as at 29 December 2023.

The CCP Property registered an average occupancy of 91% in 2H 2023, and leases were secured (including new lettings and renewals) covering a total area of 30,942 sqm (1H 2023: 10,697 sqm; FY2022: 40,888 sqm). The retention rate² for 2H 2023 stood at 92% (1H 2023: 65%), resulting in a full-year retention rate of 75% (FY2022: 69%). Average passing rent (net of value-added tax) remained at RMB350 per sqm in 2H 2023 (1H 2023: RMB350 per sqm; FY2022: RMB349 per sqm), with a positive rental reversion rate of 0.1% (1H 2023: 1.8%). For FY2023, the CCP Property enjoyed a full year reversion of positive 0.7% (FY2022: negative 0.3%).

Encouraging operational performance of Huamao Place (華貿天地) in Huizhou

Spring REIT's Huamao Place in Huizhou, acquired in September 2022, delivered its first full-year contribution in 2023. This retail shopping mall offers Spring REIT a different asset type, and has diversified its exposure into retail property in the Greater Bay Area in China.

During the Reporting Year, Huamao Place's positioning was further enhanced by introducing a cluster of leading electric vehicles and international cosmetics brands to the 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 mall and solidifying its high-end reputation. Performance of the Huamao Place was encouraging in the year, despite the subdued macroenvironment. With a daily average footfall of over 32,000 shoppers in 2023, the mall's full-year gross merchandise value ("**GMV**") rose to RMB2.1 billion, 38% higher than pre-COVID levels. The share of Huamao Place in the Huizhou shopping industry in GMV amounted to 9.7% as of 31 December 2023, according to research consultancy firm China Insights Consultancy.

Total rental income of Huamao Place in 2H 2023 increased by 1.1% to RMB 107.8 million. Occupancy cost, defined as total rental income as a percentage of total GMV of the shopping mall, stood at 10.4% for the year. In 2H 2023, the average occupancy rate and average monthly rent were 97.4% and RMB170 per sqm respectively, demonstrated a significant improvement compared to the corresponding figures of 92.2% and RMB148 per sqm respectively in 4Q 2022.

Stable contribution and rent increase from UK Portfolio

The portfolio of 84 properties occupied by the vehicle servicing company Kwik Fit (GB) Limited ("**UK Portfolio**") continued to operate steadily throughout the year. Currently, the UK Portfolio has an occupancy rate of 100%, with an annual contract rental income of approximately GBP4.76 million after a five-yearly rent review at a negotiated rent increase of 4.6%. 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.

Prudent capital management to mitigate rising interest rate

The past risk management initiatives have continued to guide Spring REIT through the considerable challenges in 2023, characterised by further rises in interest rates and currency volatility. During the year,

²Retention rate represents the proportion of the total area under all the expired leases taken up by the same tenants entering into new leases during the relevant period.

Spring REIT extended its hedging arrangements so that by year-end, 99.5% of its debt were either covered by the interest rate hedging programme or under a relatively stable PRC Loan Prime Rate regime, minimising the impact of rising rates. At the same time, it took advantage of declining RMB borrowing costs by converting 45% of its HKD loan to RMB by cross-currency swaps, bringing the split between HKD and RMB denominated loan exposure to 46% and 54% respectively. The move has better aligned the loan currency with the location of the asset covered by the loan. At the end of 2023, the average cash interest rate for all the loans held by Spring REIT was 3.6%, representing a rise of 50 basis points YoY. This is moderate when compared with rises in market interest rates. Spring REIT's capital management measures have been very effective in shielding it from excessive rate rises.

Staying cautiously optimistic in 2024

As improvement in business activities is going to take time, a subdued sentiment in the wider Beijing office market among landlords and tenants is expected to persist in the near term. This will result in limited new lettings and a continued focus on concessions and rent reductions in renewal negotiations. In response to the uncertain economic landscape, many cost-conscious tenants in the central business district ("CBD") are opting to relocate or downsize, leading to more competition for a smaller pool of quality tenants in these premium core areas. The Manager remains cautious about the prospects for the Beijing office market, expecting continued pressure on both rent and occupancy, despite no new office supply is expected to be introduced in the CBD area in the coming year.

While the Beijing office market is closely linked to the state of both the global and the Chinese economy, the performance of Huamao Place in Huizhou correlates with domestic consumption trends in the Greater Bay Area (GBA). The GBA has been designated an area of strategic importance for China's future development, and its population, including that of Huizhou City, is expected to become more affluent in the years ahead thanks to economic growth, ongoing urbanisation, consumption upgrades, and continued government support. As Huizhou's premier shopping mall, Huamao Place is well-placed 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 backed by the maiden full-year contribution from Huamao Place. We further strengthened our capital management structure and demonstrated our environmental commitment by attaining the LEED Gold Certification for Huamao place. In 2024, we remain firmly committed to steering Spring REIT safely through the volatile macroeconomic environment. Unitholders can be assured of our unwavering determination to deliver stable distributions and the potential for sustainable long-term growth of Spring REIT."

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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 31 December 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 millions unless otherwise specified)			
For the Year Ended 31 December	2023	2022	Change
Revenue	732.45	577.85	26.8%
Property operating expenses	(189.19)	(137.42)	37.7%
Net property income	543.26	440.43	23.3%
Net property income margin	74.2%	76.2%	-2.0 ppts
G&A expenses	(89.01)	(74.65)	19.2%
Cash interest expenses	(181.19)	(110.18)	64.4%
Current income tax	(32.16)	(8.87)	262.6%
(Loss) / profit after taxation attributable to Unitholders	(77.54)	28.35	n.a.
Profit after taxation attributable to non-controlling interests	23.99	90.08	(73.4%)
Total distributable income	252.14	292.61	(13.8%)
Units Information	2023	2022	Change
DPU (HK cents)	19.0	21.2	(10.4%)
DPU (RMB cents equivalent)	17.1	18.3	(6.6%)
Payout ratio	97.5%	92.5%	+5.0 ppts
Net asset value per Unit (HK\$)	4.70	4.95	(5.1%)
Number of Units outstanding	1,440,497,110	1,484,931,187	(3.0%)
As at 31 December	2023	2022	Change
Property valuation	12,039.34	12,082.95	(0.4%)
Total assets	12,785.53	12,930.99	(1.1%)
Total borrowings	5,054.49	4,857.35	4.1%
Net asset value attributable to Unitholders	6,130.66	6,558.84	(6.5%)
Gearing ratio	39.5%	37.6%	+1.9 ppts