

[For immediate release]



Spring REIT announces 2020 Annual Results

Performance remained resilient amid challenging business environment

(Hong Kong, 23 March 2021) – **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 2020 (the “**Reporting Year**”).

The Board of Directors of the Manager is pleased to declare a final distribution of HK10.5 cents per Unit. Before any such adjustment and together with the interim distribution of HK9.5 cents per Unit, total distribution for the year amounts to a total of HK20.0 cents per Unit (FY2019: HK18.9 cents per Unit), registering a 5.8% year-on-year growth. Based on the closing price of HK\$2.70 per Unit as at 31 December 2020, the Reporting Year DPU represents a distribution yield of 7.4%.

During the Reporting Year, Spring REIT’s revenue was RMB533.17 million, 2.5% lower than that in FY2019. After taking into account property operating expenses, net property income amounted to RMB397.48 million, representing a 2.3% decrease year-on-year (“**YoY**”) and a property income margin of 74.6% (FY2019: 74.4%). Spring REIT’s total distributable income was RMB268.72 million, representing an increase of 15.7% YoY. The net asset value per Unit as at 31 December 2020 was HK\$5.23 (30 June 2020: HK\$4.94; 31 December 2019: HK\$5.61).

Resilient performance from CCP Property amid challenging environment

Although the China Central Place Tower 1 and 2 and the relevant portion of the car park (the “**CCP Property**”) did not exhibit growth in the challenging environment, it nonetheless remained resilient in a rather lacklustre market. Revenue of the CCP Property reported a 2.4% decrease YoY, while property operating expenses also decreased by 2.9% YoY. Net property income fell by 2.2% which was roughly in line with the decrease in revenue.

The CCP Property registered an average occupancy of 89.5% in 2H 2020, and a total area of 27,360 sqm was leased out and renewed during the Reporting Year. Average passing rent (net of Value-Added Tax (“**VAT**”)) stood at RMB360 per sqm for 2H 2020. Average rental reversion was 2.1% in the first half and 0.1% in the second half of 2020, resulting in a full year reversion of 0.7% (FY2019: 2.1%).

Stable contribution from UK Portfolio

The operation of our portfolio of 84 properties all occupied by the vehicle servicing company Kwik Fit (“**UK Portfolio**”), continued to operate steadily throughout the year. Kwik Fit’s operations were designated by the UK Government as one of the essential services allowed to continue operating throughout the COVID-19 lockdowns in the country. 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.).

Strategic initiatives for future growth

Throughout the second half of 2020, Spring REIT continued to enjoy the fruits of the highly efficient capital structure put in place during the 2019 refinancing exercise and the subsequent bond conversion in February 2020. Interest rates on Spring REIT’s loans have been kept well under control, with overall debt levels being lowered further as a result of the bond conversion. During the year, the Manager took advantage of low interest rates to fix the interest cost of 74.4% of all Spring REIT’s US\$ interest exposure by entering into several interest rate swaps, helping ensure good financial stability. Its gearing ratio percentage stood in the low 30s, at a very manageable level.

Since the AGM held in May 2020, Spring REIT has consistently buying back units in a move that will bring longer-term benefits to existing unitholders. Following the outbreak of COVID-19 and a general decline in the stock market in early 2020, Spring REIT’s unit price has recovered strongly.

Staying vigilant in 2021

Although 2020 brought considerable pressure to bear on the Beijing property market, the local government’s handling of the pandemic there has meant that by year end, there is a sense that the worst is over and there is light at the end of the tunnel. The flood of new office supply in Beijing CBD that has appeared on the market in recent years is now almost over, with limited new supply projected as land available for future development dries up. Further, statistics show that the Chinese economy is currently on a fast-track to recovery by comparison with the rest of the world, especially within the technology sector, which is likely to lead to rising office demand. The trend is for domestic rather than international growth, but Spring REIT is confident that the strong domestic information technology and financial sectors have the ability to take up much of the previous foreign demand. For Spring REIT, most of the major leases due to expire in the first half of 2021 have been secured for renewal. It will take time for the Beijing market to absorb the new office supply, which in the near term is expected to weigh on the rental levels and occupancy rates across the market. The Manager will remain vigilant over Spring REIT’s leasing operation for the upcoming year.

Mr. Toshihiro TOYOSHIMA, Chairman of Spring Asset Management Limited, said “As we emerge from a difficult year and look ahead to 2021, a number of positive signs suggest that Spring REIT’s core CCP Property in Beijing is in a strong position to be at the forefront of recovery. We expect it to deliver acceptable returns throughout the year, with additional steady returns being provided by the UK Portfolio. Our enhanced strategic relationship with Sino Ocean Group is paving the way for potential high-quality investment opportunities arising in the year ahead, and Spring REIT will be focused on ensuring any new acquisitions live up to the standards of quality and reliability of its existing assets.”

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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, a company incorporated in Hong Kong. As at 31 December 2020, the Manager is 80.4% 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	2020	2019	Change
Revenue	533.17	546.59	(2.5%)
Property operating expenses	(135.69)	(139.77)	(2.9%)
Net property income	397.48	406.82	(2.3%)
Net property income margin	74.6%	74.4%	+0.2 ppt
G&A expenses	(72.07)	(67.35)	7.0%
Cash interest expenses	(95.78)	(151.93)	(37.0%)
Profit after taxation	(189.92)	223.06	(185.1%)
Total distributable income	268.72	232.29	15.7%
Units Information	2020	2019	Change
DPU (HK cents)	20.0	18.9	5.8%
Payout ratio	95%	100%	-5.0 ppts
Net asset value per Unit (HK\$)	5.23	5.61	(6.8%)
Number of Units outstanding	1,460,872,865	1,285,813,315	13.6%
As at 31 December	2020	2019	Change
Property valuation	9,202.90	9,873.27	(6.8%)
Total assets	9,712.87	10,429.37	(6.9%)
Total borrowings	3,024.23	3,704.84	(18.4%)
Net asset value	6,432.90	6,447.78	(0.2%)
Gearing ratio	31.1%	35.5%	-4.4 ppts