THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect in this Circular or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

If you have sold or transferred all of your units in Spring REIT, you should at once hand this Circular, together with the accompanying form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This Circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of Spring REIT.

SpringREIT

Spring Real Estate Investment Trust
春泉產業信託

(A Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

(Stock code: 01426)

Managed by

Spring ASSET MANAGEMENT LIMITED

Spring Asset Management Limited
春泉資產管理有限公司

CIRCULAR TO UNITHOLDERS IN RELATION TO
(1) MAJOR AND CONNECTED TRANSACTIONS: ACQUISITION AND JOINT VENTURE RELATING TO A COMMERCIAL PROPERTY IN HUIZHOU, THE PRC
(2) CONTINUING CONNECTED TRANSACTIONS
AND
(3) EXTRAORDINARY GENERAL MEETING AND CLOSURE OF REGISTER OF UNITHOLDERS

Financial Adviser to the Manager

DBS

Independent Financial Adviser to the Independent Board Committee of the Manager, the Independent Unitholders and the Trustee

ALTUS CAPITAL LIMITED

A letter to the Unitholders is set out on pages 22 to 103 of this Circular.

A notice convening the EGM to be held at Room 2401-2, One Admiralty Centre, 18 Harcourt Road, Hong Kong on 26 May 2022 at 4:15 p.m. is set out on pages N-1 to N-3 of this Circular. Whether or not you are able to attend and vote at the EGM in person, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return it to the unit registrar of Spring REIT, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

Please see pages 3 to 4 of this Circular for measures being taken to try to prevent and control the spread of COVID-19 at the EGM, including:

- compulsory temperature checks and health declaration
- scanning the "Leave Home Safe" venue QR Code and complying with the requirements of the "Vaccine Pass Direction"*
- mandatory wearing of surgical face masks
- limiting attendance at the EGM venue, and admission will not be granted in excess of the capacity of the EGM venue
- appropriate distancing and spacing will be maintained
- no serving of refreshments

* "Vaccine Pass Direction" is defined under the Prevention and Control of Disease (Vaccine Pass) Regulation (Chapter 599L of the Laws of Hong Kong)

The Manager reminds Unitholders that they may appoint the Chairman of the meeting as their proxy to vote on the relevant resolution(s) at the EGM as an alternative to attending the EGM in person.

Subject to the development of the COVID-19 pandemic and the requirements or guidelines of the Hong Kong government and/or regulatory authorities, the Manager may announce further updates on the EGM arrangement on the Stock Exchange's website at http://www.hkexnews.hk and Spring REIT's website at http://www.springreit.com as and when appropriate.

3 May 2022

This overview section is qualified in its entirety by, and should be read in conjunction with, the full text of this Circular. Words and expressions not defined herein shall have the same meaning as in the main body of this Circular unless otherwise stated. Meanings of defined terms may be found in the "Definitions" section of this Circular.

OVERVIEW OF ACQUISITION

- On 29 April 2022, Spring REIT (through its SPVs) agreed to acquire an aggregate 68% interest in a seven-storey shopping mall known as "**Huamao Place**" and 700 underground and 50 above-ground carpark spaces, located at No. 9, First Wenchang Road, Huicheng District, Huizhou, Guangdong Province, the PRC.

- Huamao Place is the **retail component of a larger integrated development known as "Huizhou Central Place" (惠州華貿中心)** which includes, among other things, three Grade-A office buildings, three residential buildings and a serviced apartment building.

- Situated within the **CBD of Huizhou**, Huamao Place's prime location and connectivity to the Greater Bay Area allows it to tap into the strong growth potential of Huizhou and the Greater Bay Area. Huamao Place is a consistent market leader with demonstrated resilience and a high quality and diversified tenant base.

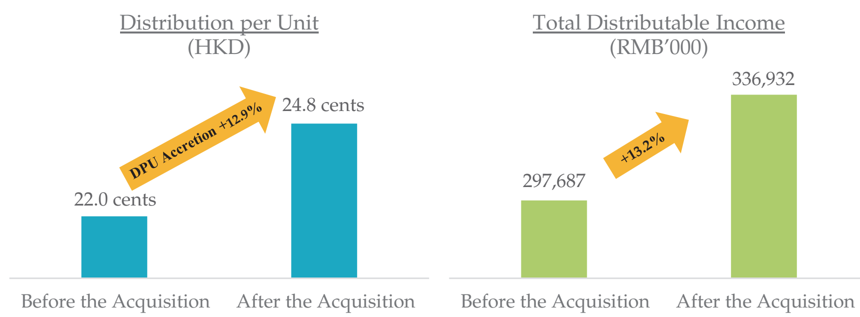
- Spring REIT will form a **joint venture with Huamao Property**. Huamao Property (through the Onshore Seller) will retain the remaining 32% interest in Huamao Place and the existing management team, who has extensive experience with solid track record in the real estate sector in the PRC, will continue to manage the day-to-day operations of Huamao Place.

- The transaction will provide Unitholders a **12.9% accretion of DPU with no ownership dilution**.

BENEFITS OF THE TRANSACTION

1. Yield Accretive Acquisition

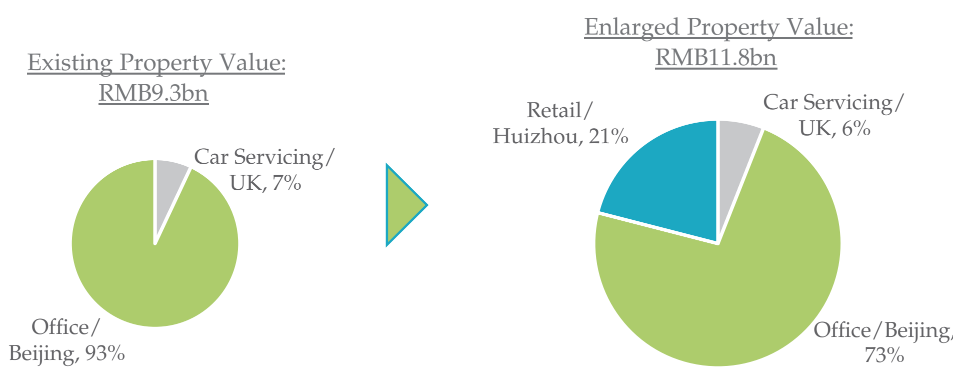
- The Manager believes that a debt-funded structure (together with the assumption of the Novated Payables) will provide yield accretion to Unitholders with no ownership dilution (**12.9% accretion of DPU**).



2. Diversification and Enlargement of Spring REIT's Property Portfolio while Reducing Risk Exposure

- The Acquisition is Spring REIT's first investment in a retail property asset in the PRC and its first investment in the Greater Bay Area.

- This **reduces Spring REIT's exposure to concentration risk**.



3. Alignment of Interest with Existing Owner

- With the Onshore Seller retaining 32% of its interest in Huamao Place, Spring REIT benefits from having its interest aligned with the existing owner of Huamao Place who has the requisite experience, strong track record and local knowledge to manage Huamao Place.

- The joint ownership allows Spring REIT to maintain a reasonable level of financial leverage and mitigate operational risks amidst the uncertainty of the COVID-19 era.

RATIONALE FOR THE ACQUISITION

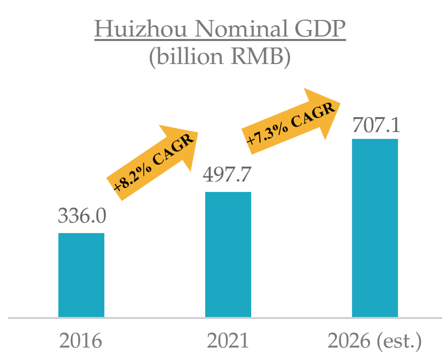
1. Capture of Strong Growth Potential of Huizhou and the Greater Bay Area

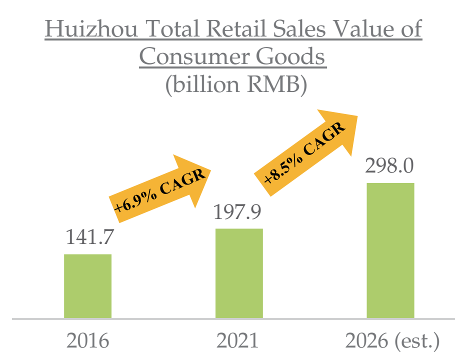
Huizhou

- Huizhou exhibited a **higher growth rate in its residential population compared to the national average level** during the period between 2016 and 2021.

- Huizhou's nominal GDP has enjoyed steady growth with a **CAGR of 8.2%** between 2016 to 2021 and it is projected to reach RMB707.1 billion by 2026, with a projected **CAGR of 7.3%** between 2021 and 2026.

- Huizhou's total retail sales value of consumer goods is expected to demonstrate a projected **CAGR of 8.5%** between 2021 and 2026.





- Huamao Place's high connectivity and proximity to expressways and intercity railway means it is **well set to benefit from the strong growth potential of Huizhou and the Greater Bay Area**.

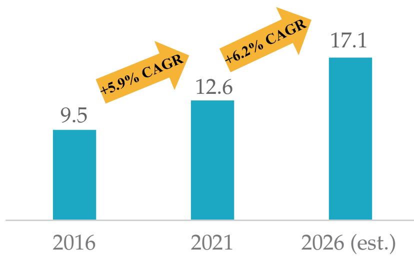
Greater Bay Area

- It is projected that by 2026, the Greater Bay Area's population will top 93.7 million, with a projected **CAGR of 1.6%** between 2021 to 2026, faster than that of Greater China, indicating a consistent net population inflow.

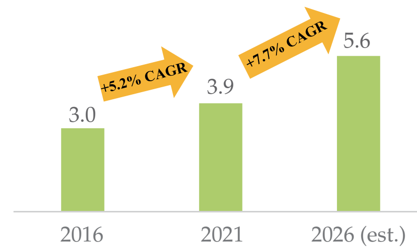
- The Greater Bay Area has also seen strong economic growth, with its nominal GDP increasing from RMB9.5 trillion to RMB12.6 trillion between 2016 and 2021, implying a **CAGR of 5.9%** during this period, and its GDP is expected to grow at a projected **CAGR of 6.2%** from 2021 to 2026.

- Given the continuous net residential population inflow and stable GDP growth, the fundamental prospects of the retail industry in the Greater Bay Area remain strong, with growth outpacing Beijing in the past five years and **projected CAGR of 7.7%** over the next five years.

Greater Bay Area Nominal GDP
(trillion RMB)



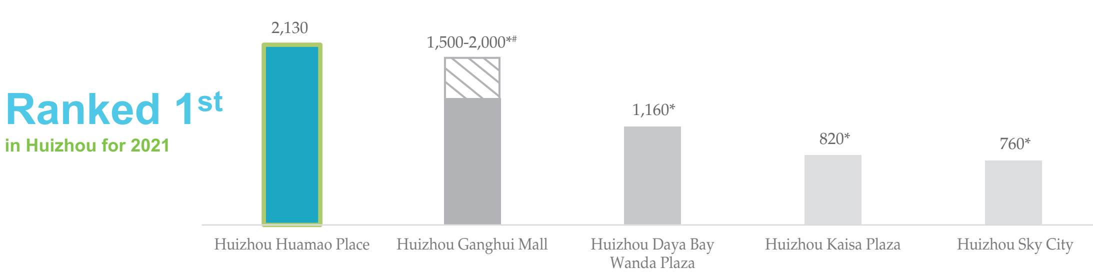
Greater Bay Area Total Retail Sales Value of Consumer Goods
(trillion RMB)



2. **Consistent Market Leader with Demonstrated Resilience in Economic Downturn**

- Huamao Place has been a dominant regional market leader in terms of gross merchandise value. It **ranked 1st in Huizhou** in 2021.

Comparison of top five shopping malls by gross merchandise value (GMV) in Huizhou's shopping mall industry, December 31, 2021/2021 (million RMB)

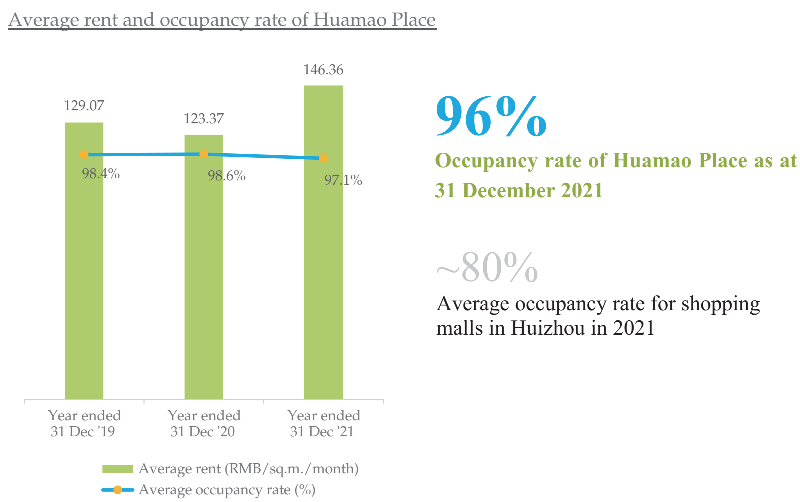


**Approximation*
 # Huizhou Ganghui Mall had a GMV of approximately RMB1,500 million to RMB2,000 million for the period

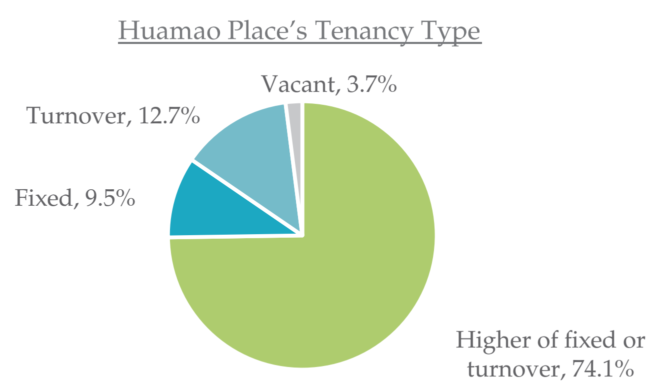
- Since 2018, the rate of growth in Huamao Place's average monthly rent has outpaced that of retail properties in **first-tier cities in the PRC such as Shanghai and Beijing**.

- Huamao Place achieved an average daily footfall of **more than 30,000** on weekdays and **more than 50,000** on weekends in 2021, significantly higher than its nearest comparable shopping mall.

- Despite the escalation of the COVID-19 situation over first half of 2020, only minimal rent concession was granted to the tenants, and the Target Property managed to deliver a stable operating performance in 2020.



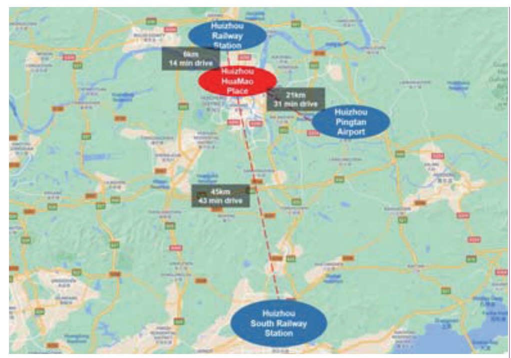
- As at 31 December 2021, approximately **83.6% of the gross lettable area** was leased on a fixed rent or higher of fixed/turnover rent basis, providing a **reasonable revenue cushion** in case of an economic downturn when retail sales might be negatively impacted, as well as **growth potential** by tracking tenants' sales in good years.



3. Prime Location and Proximity to Public Transportation

- Huamao Place is in **Jiangbei, the CBD of Huizhou**. It 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 close proximity to Huizhou Railway Station, Huizhou Pingtan Airport, a national highway entrance and around 20 direct bus lines.



4. High Quality and Diversified Tenant Base

- Huamao Place is well-supported by international and domestic top-tier brand names, famous chain restaurants and offers a diversified tenant mix and brand coverage, with the following breakdown by gross lettable area as at 28 February 2022: apparel (33.2%), food (25.8%), entertainment (7.9%), kid's fashion and lifestyle (5.3%) and other sectors (24.0%).

International and Domestic Top-tier Brands

Estee Lauder	Lancôme	Hugo Boss	BOSE

Famous Chain Restaurant Brands

Pizzahut	Haidilao hot pot

Entertainment Premises

Virtual Reality Theme Park	Cinema	Beauty and Health Clubs

5. 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 is successfully positioned as an iconic landmark in Huizhou **with an exceptional track record over the past 10 years and has consistently delivered strong performance**.

- In terms of both revenue from leasing and revenue from operations, Huamao Place has maintained a high and rapidly-increasing level of performance from 2016 to 2021 with **strong growth momentum**.

- Key management staff of the Property Manager and the Building Manager will be selected from the team that has historically been managing Huamao Place, and will therefore have extensive experience in providing the relevant services.

6. Accurate and Tested Strategies for Optimising Footfall and Tenant Mix

- Management replaces approximately 20% of underperforming tenants upon renewal every year.

- Tenancy periods have generally been kept relatively short to achieve **maximised optimisation flexibility** and support the consistent rental increment upon tenancy renewal.

- This tenancy period optimisation strategy could help to limit the impact brought by actual or potential economic downturns, including COVID-19.

- Due to the excellent operational efficiency of Huamao Place, **an increasing number of international and domestic top-tier brands** are competing to settle in the mall.

FINANCING OF THE TRANSACTION

- The Manager intends to finance the Acquisition using debt facilities (including the Upsized Existing Facility) and the assumption of the Novated Payables.

- Spring REIT **does not need to issue new units** and the Manager believes that a debt-funded structure (together with the assumption of the Novated Payables) will **provide yield accretion to Unitholders with no ownership dilution**.

- The pro forma gearing ratio of Spring REIT is anticipated to increase from 30.0% (as at 31 December 2021) to approximately 36.3% immediately following Completion. Such ratio is below the 50% limit permitted under the REIT Code, and displays effective capital structure management.

PREVIOUS OFFER FOR HUAMAO PROPERTY

- Spring REIT had previously entered into a share purchase deed on 19 September 2018 to acquire the entire interest in Huamao Place. However, the extraordinary general meeting to approve the transaction was postponed and the acquisition did not complete. Since then, the valuation of Huamao Place increased from RMB2,029 million (as at 30 June 2018) to RMB2,691 million (as at 28 February 2022), which can be attributed to:

    - **increase in the overall rental level of Huizhou's retail market**

    - positive effects from the development plan of the Guangdong-Hong Kong-Macau Greater Bay Area and the development of supporting public facilities around Huamao Place

    - an increase of **28% in the actual rent** of Huamao Place for the year ended 31 December 2021 (as compared with the annualised actual rent of the Target Property for the six months ended 30 June 2018)

    - an increase in the gross lettable area of approximately 1,736 sq.m. as at 31 December 2021 (as compared with that as at 30 June 2018)

OUTLOOK & STRATEGIC PRIORITIES

- The Manager is of the view that the Acquisition will complement Spring REIT's presence in Beijing with a new presence in the Greater Bay Area, **capturing the growth potential from the region's economic growth and increasing strategic importance to the PRC**.

- The acquisition of a 68% interest in a yield accretive, quality income-producing property is in line with Spring REIT's investment strategy to invest in income-producing real estate and seek yield accretive investment opportunities.

- Spring REIT's enhanced strategic relationships (such as the one with Huamao Property) will pave the way for potential high quality investment opportunities and the Manager is focused on ensuring any new acquisitions live up to the standards of quality and reliability of existing assets.

- This Acquisition marks a **key step forwards in Spring REIT's growth journey** and represents Spring REIT's firm commitment to act in the best interests of the Unitholders and deliver excellent returns.

RISK FACTORS

An investment in real estate involves risks. Unitholders should consider carefully, together with all other information contained in this Circular, the risk factors described below before deciding how to vote on the Acquisition Ordinary Resolution.

1. Huamao Place is located in Huizhou, Guangdong Province. The Manager does not have prior experience with owning, operating and managing shopping malls in Huizhou, Guangdong Province or at all

2. A downturn in the business of retail tenants of Huamao Place and/or competition from nearby shopping malls or e-commence could reduce its property value and operating income, thereby having a material adverse effect on Spring REIT's operating results, financial condition and future levels of distribution

3. The Project Company may be unable to renew Leases or Joint Operation Agreements, lease vacant space or re-lease space in Huamao Place as these agreements expire

4. The due diligence survey on buildings and equipment may not have identified all material defects, breaches of laws and regulations and other deficiencies

5. Failure by the Sellers to fulfil their respective obligations under the Acquisition Agreements may have a material adverse effect on Spring REIT's operations

6. There are inherent risks in joint venture investments

7. Spring REIT is exposed to the risks of economic, legal system and property market conditions in the PRC

8. Spring REIT may be adversely affected by the illiquidity of property investments

9. Pandemics, geopolitical tensions and other macro factors may negatively affect property investments

10. The Project Company may face difficulties when it seeks to extend the term of land use rights upon expiry of the term of such land use rights

11. Huamao Place may be compulsorily acquired or expropriated by the PRC government

12. RMB is not freely convertible

13. Fluctuations in the value of the RMB could affect the amount of distributions to Unitholders and Unit price

14. Changes in market interest rates may adversely affect the property market and could negatively affect Spring REIT's ability to pay interest on its bank borrowings

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CORPORATE INFORMATION

Spring REIT	Spring Real Estate Investment Trust (春泉產業信託), a collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO subject to applicable conditions from time to time
Manager	**Spring Asset Management Limited** (in its capacity as manager of Spring REIT) Room 2801, 28/F, Man Yee Building 68 Des Voeux Road Central Hong Kong
Directors of the Manager	*Non-executive Directors:* Mr. Toshihiro Toyoshima *(Chairman)* Mr. Hideya Ishino *Executive Directors:* Mr. Leung Kwok Hoe, Kevin *(Chief Executive Officer)* Mr. Chung Wai Fai, Michael *Independent Non-executive Directors:* Mr. Simon Murray Mr. Qiu Liping Mr. Lam Yiu Kin
Trustee	**DB Trustees (Hong Kong) Limited** (in its capacity as trustee of Spring REIT) 60/F, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
Unit Registrar and Transfer Office	**Tricor Investor Services Limited** Level 54, Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong
Legal Advisers to the Manager as to Hong Kong law	**Baker & McKenzie** 14th Floor, One Taikoo Place 979 King's Road Quarry Bay Hong Kong
Legal Advisers to the Manager as to PRC law	**Zhong Lun Law Firm** 22-31/F, South Tower of CP Center 20 Jin He East Avenue Chaoyang District Beijing 100020 People's Republic of China

Legal Advisers to the Trustee as to Hong Kong law	**Mayer Brown** 16th – 19th Floors, Prince's Building 10 Chater Road Central Hong Kong
Reporting Accountants	**PricewaterhouseCoopers** 22/F, Prince's Building Central Hong Kong
Financial Advisers to the Manager	**DBS Bank Ltd.** 18th Floor, The Center, 99 Queen's Road Central, Hong Kong
Independent Financial Adviser to the Independent Board Committee of the Manager, the Independent Unitholders and the Trustee	**Altus Capital Limited** 21 Wing Wo Street Central Hong Kong
Independent Property Valuer	**Knight Frank Petty Limited** 4th Floor, Shui On Centre 6-8 Harbour Road Wanchai Hong Kong
Market Consultant	**China Insights Consultancy** 10/F, Block B, Jing'an International Center 88 Puji Road Jing'an District Shanghai 200070 People's Republic of China
Building Consultant	**Jones Lang LaSalle Corporate Appraisal and Advisory Limited** 7/F, One Taikoo Place 979 King's Road Hong Kong

In view of the ongoing COVID-19 pandemic and recent recommendations for prevention and control of its spread, the Manager will implement the following precautionary measures at the EGM to protect attending Unitholders, staff and other persons from the risk of infection:

(i) Compulsory body temperature checks will be conducted on every Unitholder, proxy and other attendees at the entrance of the EGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the EGM venue or may be required to leave the EGM venue.

(ii) All Unitholders, proxies and other attendees are required to complete and submit at the entrance of the EGM venue a declaration form confirming their names and contact details, and confirming that they have not travelled to, or to their best of knowledge had physical contact with any person who has recently travelled to, any affected countries or areas outside of Hong Kong (as per guidelines issued by the Hong Kong government at www.chp.gov.hk/en/features/102742.html) at any time in the preceding 14 days. Any person who does not comply with this requirement may be denied entry into the EGM venue or may be required to leave the EGM venue.

(iii) Attendees must scan the "Leave Home Safe" venue QR Code and comply with the requirements of the Vaccine Pass Direction (defined under the Prevention and Control of Disease (Vaccine Pass) Regulation (Chapter 599L of the Laws of Hong Kong)) prior to the entry into the EGM venue.

(iv) Attendees will be required to wear surgical face masks before entering the EGM venue and during their attendance of the EGM.

(v) Given the limited capacity of the EGM venue and the prevailing requirements for social distancing, the Manager will limit attendance at the EGM venue, and admission will not be granted in excess of the capacity of the EGM venue.

(vi) Attendees are asked to maintain appropriate social distancing at all times when attending the EGM.

(vii) No refreshments will be served.

To the extent permitted under law, the Manager reserves the right to deny entry into the EGM venue or require any person to leave the EGM venue in order to ensure the safety of the attendees at the EGM.

In the interest of all stakeholders' health and safety and consistent with recent COVID-19 guidelines for prevention and control, the Manager reminds all Unitholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. As an alternative, by using forms of proxy with voting instructions inserted, Unitholders may appoint the Chairman of the EGM as their proxy to vote on the relevant resolution(s) at the EGM instead of attending the EGM in person. Unitholders are in any event asked: (a) to consider carefully the risk of attending the EGM, which will be held in an enclosed environment; (b) to follow any requirements or guidelines of the Hong Kong government relating to COVID-19 in deciding whether or not to attend the EGM; and (c) not to attend the EGM if they have contracted or are suspected to have contracted COVID-19 or have been in close contact with anybody who has contracted or is suspected to have contracted COVID-19.

The form of proxy is attached to this Circular for Unitholders who opt to receive physical circulars. Alternatively, the form of proxy can be downloaded from the Stock Exchange's website at http://www.hkexnews.hk and the "Investor Relations — Announcements" section of Spring REIT's website at http://www.springreit.com. If you are not a registered Unitholder (if your Units are held via banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of a proxy.

Subject to the development of the COVID-19 pandemic and the requirements or guidelines of the Hong Kong government and/or regulatory authorities, the Manager may announce further updates on the EGM arrangement on the Stock Exchange's website at http://www.hkexnews.hk and Spring REIT's website at http://www.springreit.com as and when appropriate.

If Unitholders choosing not to attend the EGM in person have any questions about the relevant resolution(s), or about Spring REIT or any matters for communication with the Board, they are welcome to contact the Manager as follows:

Email: ir@springreit.com
Tel: 852 3100 0300
Fax: 852 3100 0320

In this Circular, the following definitions apply throughout unless otherwise stated. Also, where terms are defined and used in only one section of this document, those defined terms may not be included in the table below:

"2018 Acquisition Circular"	the unitholder circular dated 26 September 2018 regarding the 2018 Transaction
"2018 Transaction"	the proposed acquisition of 100% of the Target Property in 2018
"Accountant's Reports"	the reports dated 3 May 2022 from the Reporting Accountants regarding the Offshore Target Company and the Project Company, respectively, the text of which is set out in Appendices 2A and 2B headed "Accountant's Report of the Offshore Target Company" and "Accountant's Report of the Project Company" respectively in this Circular
"Acquisition"	collectively, the proposed acquisition by the Offshore Purchaser from the Offshore Seller of the Offshore Sale Shares pursuant to the Offshore Share Purchase Deed and the proposed acquisition by the Onshore Purchaser from the Onshore Seller of the Onshore Sale Shares pursuant to the Onshore Share Purchase Agreement
"Acquisition Agreements"	collectively, the Offshore Share Purchase Deed and the Onshore Share Purchase Agreement, both as more particularly described in section 2.5 headed "Acquisition Agreements" in this Circular
"Acquisition Fee"	the acquisition fee to which the Manager is entitled, as more particularly described in section 2.9.2 headed "Acquisition Fee" in this Circular
"Acquisition Ordinary Resolution"	has the same meaning ascribed to it in section 8.2 headed "Resolutions to be Proposed at the EGM" in this Circular
"Agreed Property Value"	RMB2,442.0 million, which represents the entire asset value of the Target Property (and not just the Relevant Proportion acquired by the Purchasers) agreed by the Sellers and the Purchasers

"Ancillary Transactions"	the transactions contemplated under or in connection with the Acquisition Agreements, including without limitation the transactions under the Novated Payables, the Project Company Facility, the Direct Operation Leasing Framework Agreement (including the Existing Direct Operation Leases) and the Building Management Agreement (including the BM Carpark Lease thereunder)
"Annual Caps"	has the same meaning ascribed to it in section 7.2 headed "Annual Caps" in this Circular
"Appraised Value"	the value of the entire Target Property (and not just the Relevant Proportion acquired by the Purchasers) as at the Valuation Date as appraised by the Independent Property Valuer, being RMB2,691 million
"associate"	has the meaning ascribed to this term in the REIT Code
"Audit Committee"	the audit committee of the Board
"Bank Lender"	has the same meaning ascribed to it in section 2.10.5 headed "Upsized Existing Facility" in this Circular
"Beauty Retailers"	has the same meaning ascribed to it in section 5.4.3 headed "Direct Operation Agreements and Direct Operation Leasing Framework Agreement" in this Circular
"Beauty Store"	has the same meaning ascribed to it in section 5.4.3 headed "Direct Operation Agreements and Direct Operation Leasing Framework Agreement" in this Circular
"Beijing Guohua"	Beijing Guohua Real Estate Co., Ltd.* (北京國華置業有限公司), a company incorporated in the PRC and the holding company holding the entire equity interest in the Onshore Seller as at the Latest Practicable Date

"BM Carpark Lease"	has the same meaning ascribed to it in section 5.6.2 headed "Building Management Agreement" in this Circular
"Board"	the board of Directors
"Building Consultant"	Jones Lang LaSalle Corporate Appraisal and Advisory Limited
"Building Management Agreement"	the building management agreement to be entered into between the Project Company and the Building Manager on the Completion Date, as more particularly described in section 5.6.2 headed "Building Management Agreement" in this Circular
"Building Manager"	Beijing Huamao Property Management Co., Ltd. Huizhou Branch* (北京華貿物業管理有限公司惠州分公司), a branch company of Beijing Huamao Property Management Co., Ltd* (北京華貿物業管理有限公司)
"BVI"	the British Virgin Islands
"CAGR"	compounded annual growth rate
"CBD"	central business district
"CCP Property"	the real estate property located at No. 79 and No. 81, Jianguo Road, Chaoyang District, Beijing, the PRC and which comprises all of the office floors of Office Tower 1, China Central Place, Beijing, the PRC (including Levels 4 to 28, and the equipment and emergency shelter floor on Level 16, which contains no lettable space) and Office Tower 2, China Central Place, Beijing, the PRC (including Levels 4 to 32, and the equipment and emergency shelter floor on Level 20, which contains no lettable space) and a total of approximately 600 carpark spaces located in the underground levels of the two office buildings, which is wholly-owned by Spring REIT

"China Indirect Transfer Rules"	the tax notices issued by the State Taxation Administration of the PRC in respect of offshore indirect transfers of property of an "establishment or place" situated in the PRC, real estate situated in the PRC, equity interests in PRC resident enterprises and any other property directly held by a non-resident enterprise and whose transfer results in enterprise income tax liability for the non-resident enterprise in accordance with the provisions of the Enterprise Income Tax Law of the PRC, including without limitation, the notice titled "State Taxation Administration's Bulletin on Several Issues of Enterprise Income Tax on Income Arising from Indirect Transfers of Property by Non-resident Enterprises (國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (State Taxation Administration Bulletin [2015] No. 7 (國家稅務總局公告2015年第7號))", as may be amended, supplemented or otherwise modified from time to time, and including any similar or replacement law and including any applicable laws in the PRC
"China Indirect Transfer Taxes"	has the same meaning ascribed to it in section 2.5.3 headed "Tax Holdback Amount" in this Circular
"Completion"	completion of the Acquisition under both Acquisition Agreements
"Completion Date"	the date on which Completion takes place, as more particularly described in section 2.5.5 headed "Completion" in this Circular
"Completion Statement"	the completion statement to be prepared no later than 20 business days after the Completion Date in accordance with the Acquisition Agreements and based on the financial statements of each member of the Target Group as at the close of business on the Completion Date
"Conditions"	the conditions precedent to Completion, as more particularly described in section 2.5.4 headed "Conditions Precedent" in this Circular
"connected person(s)"	has the meaning ascribed to this term in the REIT Code

"Consideration"	the aggregate consideration payable for the Acquisition, comprising the Offshore Consideration and the Onshore Consideration
"COVID-19"	coronavirus disease 2019
"Deposited Property"	all the assets of Spring REIT, including the Existing Properties currently held in Spring REIT's portfolio and, from and after Completion, Spring REIT's 68% interest in the Target Property
"Direct Operation Agreements"	the direct operation agreements (直營合同) relating to the authorised retail sale of merchandise on premises within the Target Property
"Direct Operation Leasing Framework Agreement"	the agreement to be entered into between the Project Company and the Direct Operation Lessee on the Completion Date setting out the framework terms governing Direct Operation Leasing Transactions
"Direct Operation Leasing Transactions"	the leasing and licensing transactions conducted or to be conducted between the Project Company as lessor or licensor and the Direct Operation Lessee or its designated associate as lessee or licensee in connection with any Direct Operation Agreement, including the Existing Direct Operation Leases
"Direct Operation Lessee"	Huizhou Huamao Operations Management Co., Ltd.* (惠州華貿商業管理有限公司), being an associate of Huamao Property and a connected person of Spring REIT as at the Latest Practicable Date (for details of Huamao Property's interest in the Direct Operation Lessee (which is also the Property Manager), please refer to section 8.1 headed "Connected and Major Transactions" in this Circular)
"Directors"	the directors of the Manager
"DPU"	distribution per Unit
"EGM"	the extraordinary general meeting of Unitholders convened by and referred to in the EGM Notice

"EGM Notice"	the notice included in this Circular in respect of the EGM to consider and, if thought fit, approve the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution
"EGM Record Date"	23 May 2022, being the date by reference to which the eligibility of the Unitholders to participate in the EGM will be determined
"Enlarged Group"	collectively, Spring REIT and the Target Group
"Existing Direct Operation Leases"	has the same meaning ascribed to it in section 5.4.3 headed "Direct Operation Agreements and Direct Operation Leasing Framework Agreement" in this Circular
"Existing Guohua PAB Share Pledge"	the share pledge over all of the equity interest in the Project Company granted by the Onshore Seller in favour of PAB to secure the PAB Facility
"Existing Properties"	the properties currently held by Spring REIT, being: (a) the CCP Property; and (b) 84 commercial properties in the United Kingdom
"GBP"	British Pound Sterling, the lawful currency of the United Kingdom
"GDP"	gross domestic product
"Greater Bay Area"	Guangdong-Hong Kong-Macau Greater Bay Area
"Group"	Spring REIT and its subsidiaries
"Guohua Guarantors"	has the same meaning ascribed to it in section 2.10.2 headed "PAB Facility" in this Circular
"HIBOR"	the rate of interest offered on Hong Kong dollars loans by banks in the Hong Kong interbank market for a specified period ranging from overnight to one year
"HK Intermediary Company"	a company to be incorporated under the laws of Hong Kong which will, upon completion of the Reorganisation, be wholly-owned by the Offshore Target Company and wholly-own the PRC Intermediary Company

"HK$, HKD or Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"holding company"	has the meaning ascribed to this term in the Listing Rules
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Huamao Property"	Huamao Property Holdings Ltd., being a substantial holder and connected person of Spring REIT as at the Latest Practicable Date
"ICBC"	Industrial and Commercial Bank of China Limited, Huizhou Fuli International Centre Branch
"ICBC Facility"	the loan granted to the Project Company pursuant to a facility agreement dated 11 September 2012 (as may be amended or supplemented) between the Project Company (as borrower) and ICBC (as lender), which had been fully repaid by the Project Company as at the Latest Practicable Date
"Illustrative Consideration"	has the same meaning ascribed to it in section 2.5.2 headed "Consideration and Payment Terms for the Acquisition" in this Circular
"Independent Board Committee"	the independent committee established by the Board to advise the Independent Unitholders on the matters to be considered under the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution, comprising Mr. Simon Murray, Mr. Qiu Liping and Mr. Lam Yiu Kin, being all of the INEDs of the Manager
"Independent Financial Adviser"	Altus Capital Limited, a corporation licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee, the Independent Unitholders and the Trustee on the matters to be considered under the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution

"Independent Property Valuer"	Knight Frank Petty Limited, the current principal valuer of Spring REIT
"Independent Property Valuer's Property Valuation Report"	the valuation report dated 3 May 2022 issued by the Independent Property Valuer in respect of the Target Property, the text of which is set out in Appendix 4 headed "Independent Property Valuer's Property Valuation Report" in this Circular
"Independent Unitholders"	Unitholders, other than those who have a material interest in the relevant resolution that is different from the interests of all other Unitholders
"INED(s)"	independent non-executive Director(s)
"Initial Offshore Consideration"	has the same meaning ascribed to it in section 2.5.2 headed "Consideration and Payment Terms for the Acquisition" in this Circular
"Initial Onshore Consideration"	has the same meaning ascribed to it in section 2.5.2 headed "Consideration and Payment Terms for the Acquisition" in this Circular
"Joint Operation Agreements"	the joint operation agreements (聯營合同) entered into between the Project Company and the operators for certain premises within the Target Property
"Joint Venture"	the joint venture between the JV Parties under the Joint Venture Agreement
"Joint Venture Agreement"	the joint venture agreement to be entered into between the JV Parties on the Completion Date to govern their relationship as shareholders of the Project Company, as more particularly described in section 2.6 headed "Joint Venture Agreement" in this Circular
"JV Partner"	the Onshore Seller
"JV Parties"	collectively, the PRC Intermediary Company, the Onshore Purchaser and the JV Partner
"Latest Practicable Date"	26 April 2022, being the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information contained in this Circular

"Leases"	the leases entered into between the Project Company and the lessees of the Target Property
"Listing Rules"	The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (modified as appropriate pursuant to paragraph 2.26 of the REIT Code)
"Long Stop Date"	the 180th day after the date of notice in writing from the Offshore Purchaser to the Offshore Seller of the fulfilment of Condition (1) under the Offshore Share Purchase Deed as set out in Section 2.5.4 headed "Conditions Precedent" in this Circular, or such later date as agreed by the Purchasers and the Sellers in writing
"Macau"	The Macau Special Administrative Region of the PRC
"Manager"	Spring Asset Management Limited (in its capacity as the manager of Spring REIT), a company incorporated under the laws of Hong Kong
"Market Consultant"	China Insights Consultancy
"Market Consultant's Report"	the report dated 3 May 2022 from the Market Consultant, the text of which is set out in Appendix 5 headed "Market Consultant's Report" in this Circular
"Maximum Liability Cap"	has the same meaning ascribed to it in section 2.5.7 headed "Warranties and Indemnities" in this Circular
"NAV"	net asset value
"Novated Payables"	the then prevailing payables owing by the Onshore Seller to the Project Company as at Completion in the amount of RMB890 million which are to be novated to the Onshore Purchaser on Completion as part of the Onshore Consideration
"Offshore Consideration"	the consideration payable for the acquisition of the Offshore Sale Shares
"Offshore Proportion"	the proportion of the Relevant Proportion which will be acquired via the Offshore Transaction, being $\frac{31}{68}$
"Offshore Purchaser"	RHZ01 Limited, a company incorporated in the BVI and a wholly-owned SPV of Spring REIT that wholly-owns the Purchaser HK Intermediary Company

"Offshore Purchaser Guarantor"	DB Trustees (Hong Kong) Limited, in its capacity as trustee of Spring REIT
"Offshore Sale Shares"	all of the issued shares of the Offshore Target Company
"Offshore Seller"	Huamao Focus Limited, being an associate of Huamao Property (which held 87% of the issued shares of the Offshore Seller) and a connected person of Spring REIT as at the Latest Practicable Date
"Offshore Seller Guarantor"	Huamao Property
"Offshore Share Purchase Deed"	the deed for the sale and purchase of the Offshore Sale Shares dated 29 April 2022 entered into between the Offshore Seller, the Offshore Purchaser, the Offshore Purchaser Guarantor and the Offshore Seller Guarantor
"Offshore Target Company"	Huamao Capital Focus 03 Limited, a company incorporated in the BVI which will, upon completion of the Reorganisation, wholly-own the HK Intermediary Company
"Offshore Transaction"	has the same meaning ascribed to it in section 2.1 headed "Overview" in this Circular
"Offshore True-up Payment"	has the same meaning ascribed to it in section 2.5.2 headed "Consideration and Payment Terms for the Acquisition" in this Circular
"Onshore Consideration"	the consideration payable for the acquisition of the Onshore Sale Shares
"Onshore Proportion"	the proportion of the Relevant Proportion which will be acquired via the Onshore Transaction, being $\frac{37}{68}$
"Onshore Purchaser"	RC Enterprise Management (Huizhou) Limited* (瑞中企業管理(惠州)有限公司), a company incorporated in the PRC and a wholly-owned SPV of Spring REIT
"Onshore Sale Shares"	equity interest in the Project Company which will, upon completion of the Reorganisation, represent 37% of the total equity interest in the Project Company

"Onshore Seller"	Huizhou Huamao Xingye Real Estate Development Co., Ltd.* (惠州市華貿興業房地產開發有限公司), being an associate of Huamao Property (which held 87% of the equity interest in Beijing Guohua which in turn held the entire equity interest in the Onshore Seller) and a connected person of Spring REIT as at the Latest Practicable Date
"Onshore Share Purchase Agreement"	the agreement for the sale and purchase of the Onshore Sale Shares dated 29 April 2022 entered into between the Onshore Seller and the Onshore Purchaser
"Onshore Transaction"	has the same meaning ascribed to it in section 2.1 headed "Overview" in this Circular
"Onshore True-up Payment"	has the same meaning ascribed to it in section 2.5.2 headed "Consideration and Payment Terms for the Acquisition" in this Circular
"Onshore Undertaker"	has the same meaning ascribed to it in section 2.5.7 headed "Warranties and Indemnities" in this Circular
"operator(s)"	has the same meaning ascribed to it in section 5.4.2 headed "Joint Operation Agreements" in this Circular
"Ordinary Resolution"	a resolution of Unitholders passed by a simple majority of the votes of those attending, and entitled to vote at the EGM, where the votes shall be taken by way of poll, but with a quorum of two or more Unitholders holding at least 10% of the Units in issue
"Other Acquisition Fees and Expenses"	has the same meaning ascribed to it in section 2.9.3 headed "Other Acquisition Fees and Expenses" in this Circular
"Other Group Adjusted NAV"	has the same meaning ascribed to it in section 2.5.2 headed "Consideration and Payment Terms for the Acquisition" in this Circular
"PAB"	Ping An Bank Co., Ltd., Guangzhou Branch
"PAB Facility"	the loan granted to the Project Company pursuant to the PAB Facility Agreement, which had not been drawn down as at the Latest Practicable Date

"PAB Facility Agreement"	the facility agreement dated 22 March 2022 (as may be amended or supplemented) between the Project Company (as borrower) and PAB (as lender)
"PAB Guarantees"	has the same meaning ascribed to it in section 2.10.2 headed "PAB Facility" in this Circular
"PAB Property Mortgage"	the mortgage over the Target Property created by the Project Company in favour of PAB to secure the PAB Facility
"PAB Share Pledges"	has the same meaning ascribed to it in section 2.10.2 headed "PAB Facility" in this Circular
"PBOC"	the People's Bank of China
"PM Office Lease"	has the same meaning ascribed to it in section 5.6.1 headed "Property Management Agreement" in this Circular
"PRC"	The People's Republic of China but excluding, for the purposes of this Circular, Hong Kong, Taiwan and Macau
"PRC Intermediary Company"	a company to be incorporated under the laws of the PRC which will, upon completion of the Reorganisation, be wholly-owned by the HK Intermediary Company and own the Project Company Subscription Shares which will represent 31% of the total equity interest in the Project Company
"Pro Forma Completion Statement"	the pro forma completion statement to be prepared no later than seven business days prior to the Completion Date in accordance with the Acquisition Agreements and based on the pro forma financial statements of each member of the Target Group as at the close of business on the Completion Date
"Project Company"	Huizhou Runxin Shopping Mall Development Co., Ltd.* (惠州市潤鑫商城發展有限公司), a company incorporated in the PRC and the registered legal owner of the Target Property
"Project Company Adjusted NAV"	has the same meaning ascribed to it in section 2.5.2 headed "Consideration and Payment Terms for the Acquisition" in this Circular

"Project Company Facility"	the loan facility of up to approximately RMB 179.7 million to be provided by the Project Company to the Onshore Purchaser for the purpose of on-lending the proceeds of the loans drawn down thereunder to the PRC Intermediary Company to pay the subscription price for the Project Company Subscription Shares
"Project Company Subscription Shares"	equity interest in the Project Company to be subscribed for by and issued to the PRC Intermediary Company as part of the Reorganisation, which upon completion of the Reorganisation will represent 31% of the total equity interest in the Project Company
"Property Management Agreement"	the property management agreement to be entered into between the Project Company and the Property Manager on the Completion Date, as more particularly described in section 5.6.1 headed "Property Management Agreement" in this Circular
"Property Management Ordinary Resolution"	has the same meaning ascribed to it in section 8.2 headed "Resolutions to be Proposed at the EGM" in this Circular
"Property Manager"	Huizhou Huamao Operations Management Co., Ltd.* (惠州華貿商業管理有限公司), being an associate of Huamao Property and a connected person of Spring REIT as at the Latest Practicable Date (for details of Huamao Property's interest in the Property Manager, please refer to section 8.1 headed "Connected and Major Transactions" in this Circular)
"Purchaser Deferred Payment"	has the same meaning ascribed to it in section 2.5.2 headed "Consideration and Payment Terms for the Acquisition" in this Circular
"Purchaser HK Intermediary Company"	RHZ01 (Hong Kong) Limited, a company incorporated in Hong Kong and a wholly-owned SPV of Spring REIT that wholly-owns the Onshore Purchaser
"Purchasers"	collectively, the Offshore Purchaser and the Onshore Purchaser
"REIT"	real estate investment trust

"REIT Code"	the Code on Real Estate Investment Trusts published by the SFC
"Relevant Proportion"	the proportion that corresponds with Spring REIT's indirect interest in the Project Company and the Target Property immediately after Completion, being 68%
"Relevant Proportion Agreed Property Value"	RMB1,660.6 million, being the Agreed Property Value multiplied by the Relevant Proportion
"Reorganisation"	has the same meaning ascribed to it in section 2.3 headed "Reorganisation" in this Circular
"Reporting Accountants"	PricewaterhouseCoopers
"Residual Payables"	the then payables owing by the Project Company to members of the Sellers' group as at Completion in the amount of RMB10.5 million which are expected to be settled by the Project Company in cash after Completion
"RMB"	Renminbi, the official currency of the PRC
"Seller Deferred Payment"	has the same meaning ascribed to it in section 2.5.2 headed "Consideration and Payment Terms for the Acquisition" in this Circular
"Sellers"	collectively, the Offshore Seller and the Onshore Seller
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Spring REIT"	Spring Real Estate Investment Trust (春泉產業信託), a Hong Kong collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO
"SPV(s)"	special purpose vehicle(s), and has the meaning ascribed to this term in the REIT Code
"sq.m."	square metre

"subsidiary"	has the meaning ascribed to this term in the REIT Code
"substantial holder"	has the meaning ascribed to this term in the REIT Code
"Supermarket Lease"	has the same meaning ascribed to it in section 2.8.3 headed "Litigation with Supermarket Lessee" in this Circular
"Supermarket Lessee"	has the same meaning ascribed to it in section 2.8.3 headed "Litigation with Supermarket Lessee" in this Circular
"Target Group"	collectively: (a) the Offshore Target Company; (b) the HK Intermediary Company; (c) the PRC Intermediary Company; and (d) the Project Company
"Target Property"	the property known as Huamao Place (華貿天地) located at No 9, First Wenchang Road, Huicheng District, Huizhou, Guangdong Province, the PRC
"Tax Holdback Amount"	RMB67 million
"tenant"	an occupant under a Lease and/or an operator under a Joint Operation Agreement and/or a Beauty Retailer under a Direct Operating Agreement, as the case may be, and "tenancy" shall mean such corresponding Lease and/or Joint Operation Agreement and/or Direct Operating Agreement
"Total Fees and Charges"	the estimated total fees and charges payable by Spring REIT in relation to the Acquisition as more particularly described in section 2.9 headed "Fees and Charges" in this Circular
"Transaction Documents"	collectively, the Acquisition Agreements and all other agreements that are to be executed or issued pursuant to the Acquisition (including the Joint Venture, the Property Management Agreement, the PM Office Lease and other Ancillary Transactions)
"True-up Payments"	has the same meaning ascribed to it in section 2.5.2 headed "Consideration and Payment Terms for the Acquisition" in this Circular
"Trust Deed"	the deed of trust constituting Spring REIT dated 14 November 2013 and entered into between the Trustee and the Manager, as may be amended, supplemented or otherwise modified from time to time

"Trustee"	DB Trustees (Hong Kong) Limited, in its capacity as trustee of Spring REIT
"Trustee's Additional Fee"	has the same meaning ascribed to it in section 2.9.4 headed "Trustee's Additional Fee" in this Circular
"Unit"	one undivided unit in Spring REIT
"Unit Registrar"	Tricor Investor Services Limited, in its capacity as the Hong Kong unit registrar of Spring REIT
"United Kingdom"	the United Kingdom of Great Britain and Northern Ireland
"Unitholder(s)"	any person registered as holding a Unit on the register of Unitholders of Spring REIT
"Upsized Existing Facility"	has the same meaning ascribed to it in section 2.10.5 headed "Upsized Existing Facility" in this Circular
"US$, USD or US dollars"	United States dollars, the lawful currency of the United States of America
"Valuation Date"	28 February 2022
"%"	per cent or percentage

Words importing the singular shall, where applicable, include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine and neuter genders. References to persons shall include corporations.

Any reference to a time of day in this Circular shall be a reference to Hong Kong time unless otherwise stated.

Any discrepancies in the tables, graphs and charts between the listed amounts and totals thereof are due to rounding.

If there is any inconsistency between the English version of this Circular and its Chinese translation, the English version of this Circular shall prevail.

For the purpose of this Circular, unless otherwise indicated: conversion of RMB into HKD is calculated at the approximate exchange rate of RMB1.00 to HKD1.2266. The exchange rates are for illustrative purposes only and do not constitute representation that any amounts have been, could have been, or may be exchanged at the rates or any other rate at all.

* *For identification purposes only.*

Event	Date & Time
Latest date and time for lodging transfers of Units to participate and vote in the EGM	20 May 2022 at 4:30 p.m.
Book closure period (both days inclusive) to determine the eligibility of Unitholders to participate and vote in the EGM	23 May 2022 to 26 May 2022
Latest date and time for lodging proxy forms for the EGM	24 May 2022 at 4:15 p.m.
EGM Record Date	Close of business on 23 May 2022
Date and time of the EGM	26 May 2022 at 4:15 p.m.
Completion of the Acquisition (if the relevant approvals sought at the EGM are obtained)	The 10th business day after the satisfaction (or, where permitted, waiver) of all the Conditions, which in turn shall be satisfied or waived before the Long Stop Date

Further announcement(s) will be made by the Manager in relation to those events which are scheduled to take place after the EGM, including the poll results of the EGM and Completion of the Acquisition, as and when appropriate in accordance with applicable regulatory requirements.

Completion of the Acquisition is subject to and conditional upon satisfaction of the Conditions (as set out in section 2.5.4 of the Letter to the Unitholders headed "Conditions Precedent" in this Circular), which includes Independent Unitholders' approval being obtained for the Acquisition, and accordingly, may or may not complete. Unitholders, as well as any prospective investors of Spring REIT, are advised to exercise caution when dealing in the Units.

Spring Real Estate Investment Trust
春泉產業信託

(A Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

(Stock code: 01426)

Managed by

Spring Asset Management Limited

Directors of the Manager:

Non-executive Directors:
Mr. Toshihiro Toyoshima *(Chairman)*
Mr. Hideya Ishino

Executive Directors:
Mr. Leung Kwok Hoe, Kevin
(Chief Executive Officer)
Mr. Chung Wai Fai, Michael

Independent Non-executive Directors:
Mr. Simon Murray
Mr. Qiu Liping
Mr. Lam Yiu Kin

Registered Office of the Manager:

Room 2801, 28/F, Man Yee Building
68 Des Voeux Road Central
Hong Kong

3 May 2022

To: Unitholders of Spring REIT

Dear Sir/Madam,

(1) MAJOR AND CONNECTED TRANSACTIONS: ACQUISITION AND JOINT VENTURE RELATING TO A COMMERCIAL PROPERTY IN HUIZHOU, THE PRC (2) CONTINUING CONNECTED TRANSACTIONS AND (3) EXTRAORDINARY GENERAL MEETING AND CLOSURE OF REGISTER OF UNITHOLDERS

1. INTRODUCTION

The purposes of this Circular are to, among other things: (a) provide you with further information on the matters to be considered under the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution; (b) set out the opinions and recommendations of the Independent Board Committee and the Independent Financial Adviser regarding the matters to be considered under the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution; and (c) serve the EGM Notice.

2. THE ACQUISITION AND THE JOINT VENTURE

2.1 Overview

On 29 April 2022: (a) Spring REIT (through the Offshore Purchaser), the Offshore Seller, the Trustee (being the Offshore Purchaser Guarantor) and Huamao Property (being the Offshore Seller Guarantor) entered into the Offshore Share Purchase Deed, pursuant to which the Offshore Purchaser agreed to acquire, and the Offshore Seller agreed to transfer, the Offshore Sale Shares representing all of the issued shares of the Offshore Target Company, which in turn will immediately after the Reorganisation become the indirect owner of 31% of the equity interest in the Project Company (the "**Offshore Transaction**"); and, simultaneously, (b) Spring REIT (through the Onshore Purchaser) and the Onshore Seller entered into the Onshore Share Purchase Agreement, pursuant to which the Onshore Purchaser agreed to acquire, and the Onshore Seller agreed to transfer, the Onshore Sale Shares which will immediately after the Reorganisation represent 37% of the equity interest in the Project Company (the "**Onshore Transaction**").

The Project Company is the registered legal owner of the land use rights and current ownership rights underlying the Target Property, being a shopping mall known as "Huamao Place" (華貿天地) located in Huizhou, Guangdong Province, the PRC. Upon Completion, Spring REIT (through its SPVs) will own 68% (being the Relevant Proportion) of the equity interest in the Project Company and a corresponding interest in the Target Property, and the JV Partner (being also the Onshore Seller) will retain the remaining 32% of the equity interest in the Project Company and a corresponding interest in the Target Property.

The Target Property comprises: (a) the entire seven-storey shopping mall (including two basement floors) known as "Huamao Place" (華貿天地); and (b) 700 underground and 50 above-ground carpark spaces located at No. 9, First Wenchang Road, Huicheng District, Huizhou, Guangdong Province, the PRC. The Target Property is the retail component of a larger integrated development known as "Huizhou Central Place" (惠州華貿中心) and includes, among other things, three Grade-A office buildings, three residential buildings and a serviced apartment building.

The Agreed Property Value of RMB2,442.0 million, being the entire asset value of the Target Property agreed by the parties and the basis for determining the Consideration, has been arrived at on a willing buyer/seller and arm's length transaction basis after taking into account the quality and historic performance of the Target Property. The Agreed Property Value represents an approximate 9.3% discount to the Appraised Value of RMB2,691 million as at the Valuation Date. Based on the Agreed Property Value, the gross property yield and net property yield are 8.9% and 6.9% respectively[1].

1 Based on revenue and net property income for the year ended 31 December 2021.

The Consideration shall be equal to the aggregate amount of the Offshore Consideration and the Onshore Consideration, i.e.:

Offshore Consideration	=	(31% x A) – (31% x B) ± (31% x C) ± D
Onshore Consideration	=	(37% x A) – (37% x B) ± (37% x C)
Total Consideration	=	(68% x A) – (68% x B) ± (68% x C) ± D

where:

"A" = Agreed Property Value of RMB2,442.0 million;

"B" = Amounts outstanding under the PAB Facility as at Completion;

"C" = Project Company Adjusted NAV (i.e. all assets of the Project Company [(1)] minus all liabilities of the Project Company [(2)]) as at Completion; and

"D" = Other Group Adjusted NAV (i.e. all assets of the Target Group [(3)] minus all liabilities of the Target Group [(4)]) as at Completion,

in each case, as set out in the Completion Statement.

Notes:

(1) Excluding the Target Property.

(2) Excluding deferred tax liabilities and amounts outstanding under the PAB Facility.

(3) Excluding assets held through the Project Company and the nominal value of the share capital investment in the HK Intermediary Company, the PRC Intermediary Company and the Project Company.

(4) Excluding liabilities held through the Project Company.

The Illustrative Consideration would be RMB1,637 million. For further details regarding the Illustrative Consideration, please refer to section 2.5.2 headed "Consideration and Payment Terms for the Acquisition" in this Circular.

The Consideration shall be paid for in cash and the assumption by Spring REIT (through the Onshore Purchaser) of the Novated Payables in the amount of RMB890 million. Based on the Illustrative Consideration of RMB1,637 million, the Consideration paid for in cash would be RMB747 million. For further details regarding the Consideration paid for in cash, please refer to section 6.1 headed "Pro Forma Financial Effects of the Acquisition" in this Circular. The Manager considers that the assumption of the Novated Payables, instead of settling such amount in cash, will enable Spring REIT to acquire as much equity interest in the Project Company as possible, having regard to the proposed financing structure below.

The Manager intends to finance the Consideration and the Total Fees and Charges using debt facilities (including the Upsized Existing Facility) and the assumption of the Novated Payables. Since Spring REIT will not be acquiring the entire interest in the Target Property, and expects to have sufficient resources and debt facilities to pay for the Acquisition in cash, Spring REIT does not need to raise financing for the Acquisition through an equity issue. The Manager believes that a debt-funded structure (together with the assumption of the Novated Payables) will provide yield accretion to Unitholders without ownership dilution.

On Completion, the JV Parties will enter into the Joint Venture Agreement to govern their relationship as shareholders of the Project Company.

As at the Latest Practicable Date, Huamao Property was: (a) a substantial holder, holding approximately 12.55% of the Units then in issue, and a connected person of Spring REIT pursuant to paragraph 8.1(d) of the REIT Code; and (b) the holding company of the Offshore Seller and the Onshore Seller (which will also become the JV Partner) holding, respectively, 87% of the issued shares of the Offshore Seller and 87% of the equity interest in Beijing Guohua which in turn held the entire equity interest in the Onshore Seller. Therefore, as at the Latest Practicable Date, each of the Offshore Seller and the Onshore Seller was an associate of Huamao Property and a connected person of Spring REIT pursuant to paragraph 8.1(f) of the REIT Code. Accordingly, the transactions under the Acquisition Agreements and the Joint Venture Agreement constitute connected party transactions of Spring REIT and, since the highest applicable percentage ratio exceeds 5%, such transactions are subject to the announcement, circular, reporting and Unitholders' approval requirements under the REIT Code and the Listing Rules.

Furthermore, as the highest applicable percentage ratio exceeds 25% but is less than 100%, the Acquisition and the Joint Venture, and the transactions contemplated thereby, constitute a major transaction of Spring REIT and are subject to the notification, announcement, circular, reporting and Unitholders' approval requirements under the REIT Code and the Listing Rules.

Therefore, the Acquisition and the Joint Venture will be conditional upon the passing of the Acquisition Ordinary Resolution.

On Completion, the Project Company will enter into: (a) the Property Management Agreement and the PM Office Lease with the Property Manager, as further discussed in section 5.6 headed "Management of the Target Property" below; and (b) the Building Management Agreement (including the BM Carpark Lease thereunder) with the Building Manager, as further discussed in section 5.6 headed "Management of the Target Property" below. The Project Company will also enter into the Direct Operation Leasing Framework Agreement with the Direct Operation Lessee (which is also the Property Manager), as further discussed in section 5.4.3 headed "Direct Operation Agreements and Direct Operation Leasing Framework Agreement" below, but for the avoidance of doubt, the Property Management Agreement and the PM Office Lease on the one hand and the Direct Operation Leasing Framework Agreement on the other hand are not inter-conditional upon each other.

As at the Latest Practicable Date, the Property Manager was an associate of Huamao Property (for details of Huamao Property's interest in the Property Manager, please refer to section 8.1 headed "Connected and Major Transactions" in this Circular) and a connected person of Spring REIT pursuant to paragraph 8.1(f) of the REIT Code. Accordingly, the transactions under the Property Management Agreement and the PM Office Lease, as well as the Direct Operation Leasing Framework Agreement, will on Completion constitute continuing connected party transactions of Spring REIT, as the Project Company will on Completion become a subsidiary of Spring REIT and a member of the Group.

Since the highest applicable percentage ratio in respect of the transactions under the Property Management Agreement and the PM Office Lease exceeds 5%, such transactions are subject to the announcement, circular, reporting, annual review and Unitholders' approval requirements under the REIT Code and the Listing Rules. Therefore, the transactions under the Property Management Agreement and the PM Office Lease will be conditional upon the passing of the Property Management Ordinary Resolution.

Since the highest applicable percentage ratio in respect of the transactions under the Direct Operation Leasing Framework Agreement exceeds 0.1% but is less than 5%, such transactions are subject to the announcement, reporting and annual review requirements, but exempted from the circular and Unitholders' approval requirement, under the REIT Code and the Listing Rules.

As at the Latest Practicable Date and to the best of the knowledge, information and belief of the Manager after having made all reasonable enquiries, although certain indirect shareholders of Huamao Property were also amongst the indirect shareholders of the Building Manager, their minority shareholding interest (less than 6% in the aggregate) in the Building Manager was not sufficient to cause the Building Manager to be regarded as an associate of Huamao Property or otherwise a connected person of Spring REIT through Huamao Property, and the transactions under the Building Management Agreement (including the BM Carpark Lease thereunder) will therefore not constitute connected party transactions of Spring REIT on Completion.

2.2 Manager's Rationale to Re-evaluate the Opportunity at Present Time

The Manager first proposed to acquire the Target Property (through a share transaction) from Huamao Focus Limited (being the Offshore Seller in the Acquisition) back in 2018, on the basis that adding this high-quality asset to Spring REIT's portfolio would provide diversification benefits while resulting in DPU accretion of 6.7%[2] and enabling Spring REIT to tap into the strong growth potential of Huizhou and the Greater Bay Area. Spring REIT previously entered into a share purchase deed on 19 September 2018 to acquire the entire interest in the Target Property through the acquisition of its holding companies, and gave notice to convene an extraordinary general meeting on 29 October 2018 to seek the necessary

2 Based on unaudited pro forma figures for the six months ended 30 June 2018. For details, please refer to the 2018 Acquisition Circular.

unitholders' approvals upon which the acquisition was conditional. The extraordinary general meeting was postponed pending the publication of a supplemental circular, but could not be held prior to the long stop date for satisfying the unitholders' approval condition under the share purchase deed. Accordingly, the Manager did not proceed with the extraordinary general meeting, and the acquisition did not complete. For details of the 2018 Transaction, please refer to the 2018 Acquisition Circular and Spring REIT's announcements from 26 September 2018 to 31 December 2018.

Since then, the Manager continued to look for new investment opportunities pursuant to its investment policy for Spring REIT, none of which materialised.

During last year, as part of its investment process to identify potential acquisition targets, the Manager reassessed the Target Property and observed that the operating performance of the Target Property had continued to improve, showing resilience even at difficult times during the COVID-19 outbreak. Although the 2018 Transaction did not complete, having assessed the investment potential of the Target Property on an independent and standalone basis, the Manager considers the Acquisition to be both strategically attractive and financially beneficial to Spring REIT and its Unitholders. In particular, the Manager would like to highlight the following merits of the proposed Acquisition:

Attractively priced compared with appraised valuation

Since the 2018 Transaction, the Target Property's operating performance continued to improve, while showing resilience even during the COVID-19 pandemic. The valuation of the Target Property increased from RMB2,029 million as at 30 June 2018[3] to RMB2,691 million as at the Valuation Date[4]. Based on the analysis conducted by the Independent Property Valuer, such difference is attributable to the following factors: (a) an increase of 10% to 15% in the overall rental level of Huizhou's retail market from 2018 to 2021; (b) positive effects from development plan of the Guangdong-Hong Kong-Macau Greater Bay Area and the development of supporting public facilities around the Target Property (including road traffic, rail transit and urban infrastructure); (c) an increase of 28% in the actual rent of the Target Property for the year ended 31 December 2021 (as compared with the annualised actual rent of the Target Property for the six months ended 30 June 2018[5] disclosed in the 2018 Acquisition Circular), due to operational improvement of the Target Property; (d) the gross lettable area of the Target Property as at 31 December 2021 being approximately 1,736 sq.m. more than that as at 30 June 2018 as a result of changing the use of public space; and (e) a more prudent adoption of base rent having considered the COVID-19 pandemic and the current passing rent of the Target Property reflective of existing market conditions.

3 Based on the valuation by the then principal valuer of Spring REIT, as disclosed in the 2018 Acquisition Circular.

4 Based on the valuation by the Independent Property Valuer.

5 Since the valuation of the Target Property as at 30 June 2018 was based on the passing rent of the Target Property as at 30 June 2018, for the purpose of analysing the difference in the valuations, the annualised actual rent of the Target Property for the six months ended 30 June 2018, rather than the actual rent of the Target Property for the 12 months ended 31 December 2018, is adopted.

The Agreed Property Value of the Target Property was determined after arm's length negotiation. The Agreed Property Value of the Target Property represents a discount of approximately 9.3% to the Appraised Value of RMB2,691 million as at the Valuation Date. Based on the Agreed Property Value, the gross property yield and net property yield are 8.9% and 6.9% respectively[5]. The Manager is of the view that the Acquisition represents a strategic opportunity to acquire a high quality asset at an attractive valuation that will enable Spring REIT to further enhance its property portfolio.

Highly yield accretive with optimal use of Spring REIT's financial resources

The Acquisition is part of the Manager's consistent effort to execute its strategy to achieve the objective of Spring REIT to invest in income-producing real estate and seek yield-accretive investment opportunities. Based on the Unaudited Pro Forma Financial Information of the Enlarged Group, the Acquisition would have improved DPU by 12.9% from 22.0 HK cents to 24.8 HK cents for the year ended 31 December 2021, and the NAV attributable to Unitholders per Unit would have remained unchanged at HKD5.54 as of 31 December 2021. Please refer to section 6.3 headed "Pro Forma NAV Attributable to Unitholders per Unit" in this Circular for further details.

For the 2018 Transaction, it was optimal to issue new Units in order to acquire 100% of the Target Property. For the current transaction, the proposed acquisition of a 68% interest in the Target Property will be fully funded by debt facilities (including the Upsized Existing Facility) and the assumption of the Novated Payables, without the need for issuing new units. Considering the current and expected gearing ratio, debt financing capacity and yield accretion potential, the Manager believes such structure is a balanced approach to achieve attractive yield accretion while maintaining a reasonable level of financial leverage.

The Target Property is well-managed and crisis-tested

Since the 2018 Transaction was proposed, the management of the Target Property has been implementing its tenant optimisation strategy of attracting renowned brands to position the Target Property as a premium retail destination. In the past three years, 50% of the tenants have been replaced with new tenants who are more compatible with the upscale image of the Target Property, including international and domestic top-tier brand names like Estee Lauder, Lancôme, Hugo Boss and BOSE, that are rarely seen in shopping malls in Huizhou City. Such tenant optimisation efforts have led to a meaningful increase of 13.4% in the average monthly rent (in terms of gross lettable area) of the Target Property since 31 December 2019. Despite a 4.4% drop in the average monthly rent from RMB129.07 for the year ended 31 December 2019 to RMB123.37 for the year ended 31 December 2020 due to the COVID-19 outbreak in the PRC, the average monthly rent exhibited a strong 18.6% rebound to RMB146.36 for the year ended 31 December 2021.

5 Based on revenue and net property income for the year ended 31 December 2021.

The Manager maintains its positive view on the operation and management of the Target Property, especially after the first wave of the COVID-19 outbreak, during which the Target Property delivered resilient performance with minimal rental concession. In addition, the fundamental prospects of the retail industry in the Greater Bay Area remain strong, with growth outpacing Beijing in the past five years and projected CAGR of 7.7% over the next five years[6]. The Manager believes the crisis-tested management team, and the uniqueness of the Target Property, in terms of market domination, location, and its readiness to leverage on the economic development in the Greater Bay Area, will contribute to the Target Property's ability to generate stable and growing income.

Joint ownership arrangement enables a balanced approach to managing business risks

As the PRC economy emerges from the COVID-19 pandemic, the Manager is of the view that acquiring a 68% (instead of 100%) interest in the Target Property allows Spring REIT to mitigate operational risks amidst the uncertainty of the COVID-19 era, and limits Spring REIT's obligations and liabilities pertaining to the Target Property to its proportionate interest in the Project Company.

Further, since the Manager does not have prior experience operating shopping malls in Huizhou, the Manager also considers it necessary to retain the management to ensure continuity, particularly in the event of any resurgence of a COVID-19 outbreak. By virtue of the Onshore Seller retaining 32% of its interest in the Target Property post-Completion, Spring REIT benefits from having its interest aligned with the existing owner of the Target Property, who has proven experience in managing the Target Property in times of crisis. Although the management will be retained, Spring REIT will have majority control of the Target Property commensurate with its majority ownership, with the JV Partner having only limited veto rights as set out in the Joint Venture Agreement, details of which are set out in section 2.6 headed "Joint Venture Agreement" in this Circular.

Given that the transaction structures are different for strategic reasons and market conditions have changed since the 2018 Acquisition, the terms of the present Acquisition are necessarily different to the 2018 Acquisition.

Having taken into account the above, as well as the other reasons for and benefits of the Acquisition and Joint Venture as set out in section 3 headed "Reasons for and benefits of the Acquisition and the Joint Venture" below, the Manager considers the acquisition of the Target Property, and the joint ownership arrangement under the Joint Venture, to be in the best interests of the Unitholders. For further details on the views of the Board, the Independent Financial Adviser, the Independent Board Committee and the Trustee, please refer to section 9 headed "Opinions and Recommendations" below.

6 For details, please refer to the Market Consultant's Report.

2.3 Reorganisation

The proportion of the 31% and 37% interest in the Project Company (and corresponding interest in the Target Property) to be acquired between the Offshore Transaction and the Onshore Transaction respectively was determined based on arm's length negotiation with the Sellers, and takes into account the commercial objectives of both sides. The Manager is satisfied, based on competent legal and other professional advice it has received, that the proposed transaction structure in itself would not result in any material difference in Spring REIT's economic position and risk exposure compared with a wholly-offshore transaction structure.

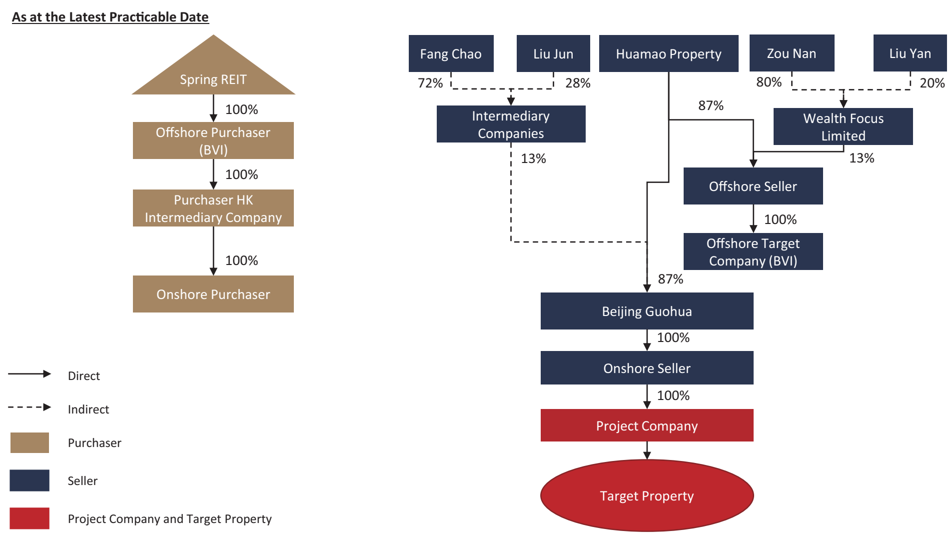
Accordingly, prior to Completion and as a condition precedent under the Offshore Share Purchase Deed, the Offshore Seller will reorganise the holding structure of the Project Company (the "**Reorganisation**"), by: (a) incorporating the HK Intermediary Company and the PRC Intermediary Company; and (b) procuring the Project Company to: (i) increase its registered capital from RMB400 million to approximately RMB579.7 million; and (ii) issue equity interest, representing 31% of the total equity interest in the Project Company, to the PRC Intermediary Company.

Reorganisation by way of capital injection by the PRC Intermediary Company allows the Offshore Target Company to indirectly own 31% of the Project Company upon completion of the Reorganisation without having to mobilise a substantial amount of capital from offshore to onshore, thus minimising the time and logistics required for the Reorganisation and reducing the complexity of the Reorganisation to facilitate the Offshore Transaction.

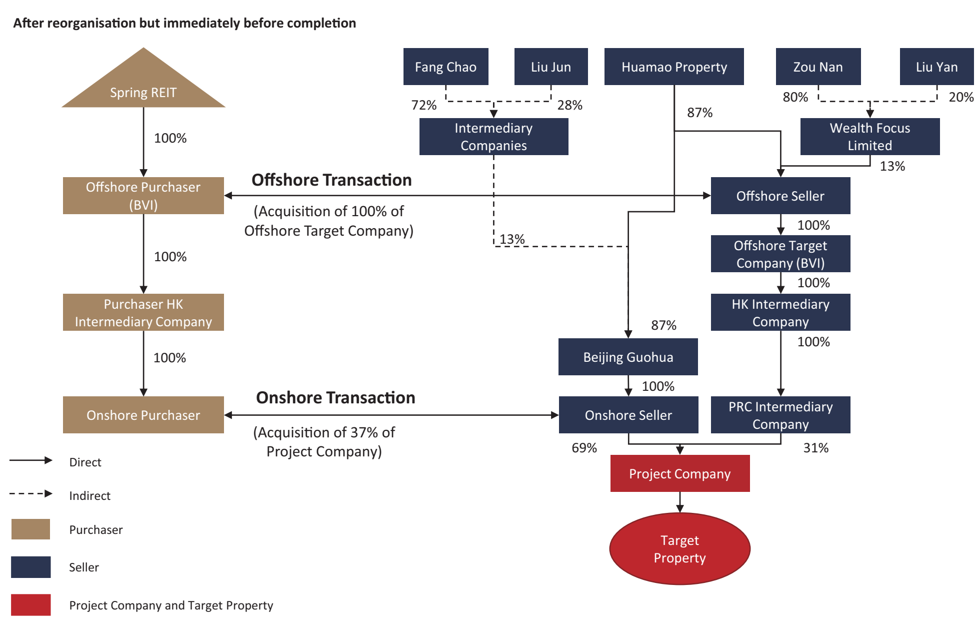
The subscription price of RMB179.7 million for the Project Company Subscription Shares (representing 31% of the total equity interest in the Project Company post-Reorganisation) was determined based on the RMB400 million registered capital attributable to the subsisting total equity interest in the Project Company before the Reorganisation (representing 69% of the total equity interest in the Project Company post-Reorganisation). The subscription price payable by the PRC Intermediary Company for the Project Company Subscription Shares will be paid from time to time using the proceeds of the loans to be drawn down under the Project Company Facility, as further discussed in section 2.10.4 headed "Project Company Facility" below. Such settlement arrangement ensures that on Completion, the Project Company will not be holding excess cash balance, which would have the effect of increasing the Project Company Adjusted NAV and thereby inflating the amount of the Consideration.

The Manager has been advised by its PRC legal adviser that, under PRC law, the timeframe for settling any unpaid registered capital of a PRC company is governed by its articles of association. The articles of association of the Project Company will be amended and restated prior to Completion, and will provide that the subscription price for the Project Company Subscription Shares shall be settled within 30 years after the Completion Date. The Manager has obtained a legal opinion from competent PRC legal adviser confirming that: (a) subject to the agreement effecting the capital increase and subscription being duly executed by the parties thereto, such agreement is legally valid and enforceable under PRC law; and (b) subject to the agreement for the Project Company Facility being duly executed by the parties thereto, such agreement and the creation and provision of the Project Company Facility to the Onshore Purchaser thereunder is legally valid and enforceable under PRC law.

Set out below is a simplified chart showing the holding structure of the Target Property as at the Latest Practicable Date:

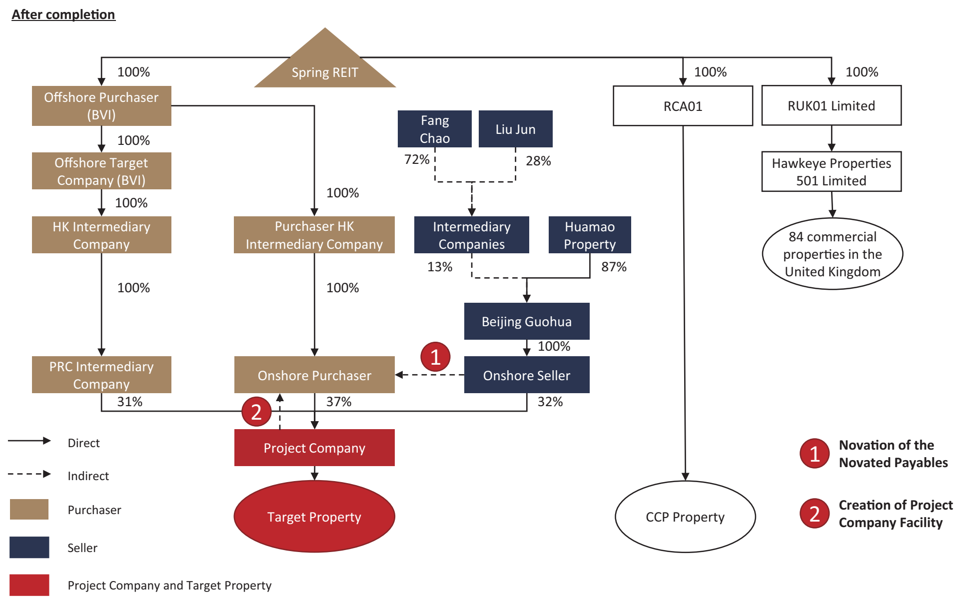


Set out below is a simplified chart showing the expected holding structure of the Target Property after the Reorganisation but immediately before Completion:



2.4 Expected Holding Structure of the Target Property after Completion

Set out below is a simplified chart of the expected holding structure of the Target Property immediately after Completion:



2.5 Acquisition Agreements

2.5.1 General

On 29 April 2022, Spring REIT (through the Purchasers) entered into the Acquisition Agreements, pursuant to which it would acquire an aggregate 68% interest in the Target Property from Huamao Property, as further discussed in section 2.1 headed "Overview" above.

2.5.2 Consideration and Payment Terms for the Acquisition

The Consideration shall be equal to the aggregate amount of the Offshore Consideration and the Onshore Consideration.

The Offshore Consideration shall be equal to 31% of the Agreed Property Value minus 31% of the amounts outstanding under the PAB Facility as at Completion, and adjusting such net amount to:

(a) either:

(i) add 31% of the Project Company Adjusted NAV as at Completion (if it is a positive amount); or

(ii) subtract 31% of the absolute value of the amount of the Project Company Adjusted NAV as at Completion (if it is a negative amount), in each case as set out in the Completion Statement; and

(b) either:

(i) add the amount of the Other Group Adjusted NAV as at Completion (if it is a positive amount); or

(ii) subtract the absolute value of the amount of the Other Group Adjusted NAV as at Completion (if it is a negative amount), in each case as set out in the Completion Statement.

The Onshore Consideration shall be equal to 37% of the Agreed Property Value minus 37% of the amounts outstanding under the PAB Facility as at Completion, and adjusting such net amount to either:

(a) add 37% of the Project Company Adjusted NAV as at Completion (if it is a positive amount); or

(b) subtract 37% of the absolute value of the amount of the Project Company Adjusted NAV as at Completion (if it is a negative amount), in each case as set out in the Completion Statement.

The "**Project Company Adjusted NAV**" shall be equal to: (a) all assets of the Project Company (other than the Target Property); minus (b) all liabilities of the Project Company (other than deferred tax liabilities and the aggregate outstanding amounts owed by the Project Company under the PAB Facility), in each case as at Completion as shown in the Completion Statement which shall be prepared and agreed or determined in accordance with the Acquisition Agreements. Based on the Accountant's Reports, the Manager understands that the deferred tax liabilities arise mainly from revaluation gains and depreciation in respect of the Target Property which in its view are unlikely to crystalise in the future as Spring REIT intends to hold its investment in the Target Property as a long term investment.

The "**Other Group Adjusted NAV**" shall be equal to: (a) all assets of the Target Group (other than the assets held through the Project Company and the nominal value of the share capital investment in the HK Intermediary Company, the PRC Intermediary Company and the Project Company); minus (b) all liabilities of the Target Group (other than liabilities held through the Project Company), in each case as at Completion as shown in the Completion Statement which shall be prepared and agreed or determined in accordance with the Offshore Share Purchase Deed.

Based on the Accountant's Report, and information provided by the Sellers, for illustrative purposes: (a) the outstanding amount under the PAB Facility is expected to be RMB800.0 million as at Completion; (b) the Project Company Adjusted NAV was approximately RMB206.2 million as at 31 December 2021; (c) the Other Group Adjusted NAV was nil as at 31 December 2021; (d) the requisite adjustments as prescribed by the Acquisition Agreements are expected to lead to (i) an increase in the Project Company Adjusted NAV by RMB823.8 million, which mainly entails recognition of called-up capital receivable, cash replenishment to fulfill the minimum cash balance at Completion and changes in intercompany balances; and (ii) a decrease in the Other Group Adjusted NAV by RMB179.7 million which mainly entails recognition of called-up capital payable by the PRC Intermediary Company.

Based on Relevant Proportion Agreed Property Value, Relevant Proportion of (a), (b) and (d-i), and (c) and (d-ii), and for illustrative purpose only, the illustrative consideration would be RMB1,637.2 million (the "**Illustrative Consideration**"). The Illustrative Consideration comprises an illustrative Offshore Consideration of RMB648.6 million and an illustrative Onshore Consideration of RMB988.6 million.

The Agreed Property Value of RMB2,442 million, being the entire asset value of the Target Property agreed by the parties and the basis for determining the Consideration, has been arrived at on a willing buyer/seller and arm's length transaction basis after taking into account the quality and historic performance of the Target Property. The Agreed Property Value represents an approximate 9.3% discount to the Appraised Value of RMB2,691 million as at the Valuation Date.

Pursuant to the Acquisition Agreements, the Consideration shall be paid or procured to be paid by the Purchasers in the following manner:

(a) on the Completion Date, the following amounts shall be paid in the following manner:

  (i) the "**Initial Offshore Consideration**" (being an amount equal to 31% of the Agreed Property Value minus 31% of the amount outstanding under the PAB Facility as at Completion as set out in the Pro Forma Completion Statement, and adjusting such net amount to: (A) either: (1) add 31% of the Project Company Adjusted NAV as at Completion as set out in the Pro Forma Completion Statement (if it is a positive amount); or (2) subtract 31% of the absolute value of the amount of the Project Company Adjusted NAV as at Completion as set out in the Pro Forma Completion Statement (if it is a negative amount); and (B) either: (1) add the Other Group Adjusted NAV as at Completion as set out in the Pro Forma Completion Statement (if it is a positive amount); or (2) subtract the absolute value of the amount of the Other Group Adjusted NAV as at Completion as set out in the Pro Forma Completion Statement (if it is a negative amount)) less the Tax Holdback Amount shall be paid or procured to be paid in cash;

(ii) the "**Initial Onshore Consideration**" (being an amount equal to 37% of the Agreed Property Value minus 37% of the amount outstanding under the PAB Facility as at Completion as set out in the Pro Forma Completion Statement, and adjusting such net amount to either: (A) add 37% of the Project Company Adjusted NAV as at Completion as set out in the Pro Forma Completion Statement (if it is a positive amount); or (B) subtract 37% of the absolute value of the amount of the Project Company Adjusted NAV as at Completion as set out in the Pro Forma Completion Statement (if it is a negative amount)) shall be paid or procured to be paid by the novation of the Onshore Seller's obligations and liabilities under the Novated Payables in the amount of RMB890 million to the Onshore Purchaser on a dollar-for-dollar basis, and payment of the balance (the "**Purchaser Deferred Payment**") shall be deferred and will be made without any interest when the Onshore True-up Payment becomes due and payable, provided that if the amount of the Initial Onshore Consideration is less than RMB890 million, payment of the balance (the "**Seller Deferred Payment**") shall be deferred and will be made without any interest when the Onshore True-up Payment becomes due and payable;

(b) the Tax Holdback Amount of RMB67 million shall be paid in the manner described in section 2.5.3 headed "Tax Holdback Amount" below;

(c) within five business days after the agreement or determination of the Completion Statement (which shall be prepared by the Sellers), if the sum of:

(i) 31% of the Project Company Adjusted NAV as set out in the Completion Statement minus 31% of the Project Company Adjusted NAV as set out in the Pro Forma Completion Statement; plus

(ii) the Other Group Adjusted NAV as set out in the Completion Statement minus the Other Group Adjusted NAV as set out in the Pro Forma Completion Statement; plus

(iii) 31% of the aggregate outstanding amounts owed under the PAB Facility as set out in the Pro Forma Completion Statement minus 31% of the aggregate outstanding amount owed under the PAB Facility as set out in the Completion Statement, is:

(A) a positive amount, the Offshore Purchaser shall pay such amount to the Offshore Seller in cash; or

(B) a negative amount, the Offshore Seller shall pay such amount to the Offshore Purchaser in cash,

(d) within 30 business days (or such other longer period as agreed by the Onshore Seller and Onshore Purchaser in writing) after determination of the Completion Statement (which shall be prepared by the Sellers), if the sum of:

(i) 37% of the Project Company Adjusted NAV as set out in the Completion Statement minus 37% of the Project Company Adjusted NAV as set out in the Pro Forma Completion Statement; plus

(ii) 37% of the aggregate outstanding amounts owed under the PAB Facility as set out in the Pro Forma Completion Statement minus 37% of the aggregate outstanding amount owed under the PAB Facility as set out in the Completion Statement,

is:

(C) a positive amount, and in the case of the Purchaser Deferred Payment being payable, the Onshore Purchaser shall pay such amount together with the Purchaser Deferred Payment to the Onshore Seller in cash; or

(D) a negative amount, and in the case of the Purchaser Deferred Payment being payable and the absolute value of such amount being lower than the amount of the Purchaser Deferred Payment, the Onshore Purchaser shall pay the difference to the Onshore Seller in cash; or

(E) a negative amount, and in the case of the Purchaser Deferred Payment being payable and the absolute value of such amount being higher than the amount of the Purchaser Deferred Payment, the Onshore Seller shall pay the difference to the Onshore Purchaser in cash; or

(F) a negative amount, and in the case of the Seller Deferred Payment being payable, the Onshore Seller shall pay the absolute value of such amount together with the Seller Deferred Payment to the Onshore Purchaser in cash; or

(G) a positive amount, and in the case of the Seller Deferred Payment being payable and the amount of the Seller Deferred Payment being lower than such amount, the Onshore Purchaser shall pay the difference to the Onshore Seller in cash; or

(H) a positive amount, and in the case of the Seller Deferred Payment being payable and the amount of the Seller Deferred Payment being higher than such amount, the Onshore Seller shall pay the difference to the Onshore Purchaser in cash,

and such amounts in (c) and (d) shall be referred to as the "**Offshore True-up Payment**" and the "**Onshore True-up Payment**" respectively and the "**True-up Payments**" collectively.

The Sellers shall procure the Pro Forma Completion Statement to be prepared in accordance with the Acquisition Agreements and delivered to the Purchasers as soon as reasonably practicable but in any event no later than seven business days prior to the Completion Date, for review by and consultation with the Purchasers, the Manager and/or the Manager's accountants. The Sellers and the Purchasers shall use their respective commercially reasonable endeavours to agree on the Pro Forma Completion Statement at least two business days prior to (but excluding) the Completion Date.

The Sellers shall procure a draft of the Completion Statement to be prepared in accordance with the Acquisition Agreements and delivered to the Purchasers as soon as reasonably practicable but in any event no later than 20 business days after the Completion Date. Upon such delivery, the parties shall submit the draft Completion Statement to the agreed upon auditor who shall, as soon as possible and in any event within 20 business days after receipt of the same or as otherwise agreed by the Sellers and the Purchasers, complete the review of the draft Completion Statement and deliver the audited financial statements of each member of the Target Group as at the close of business on the Completion Date and the factual finding letter on the agreed upon procedures performed for the draft Completion Statement, to the Sellers, the Purchasers and the Manager. The Completion Statement reviewed by the agreed upon auditor shall be final and binding on the parties, in the absence of fraud or manifest error.

All amounts payable under the Offshore Share Purchase Deed shall be paid in USD and all amounts payable under the Onshore Share Purchase Agreement shall be paid in RMB. The Manager expects that the Offshore Consideration will be settled using the proceeds drawn down under the Upsized Existing Facility and the Onshore Consideration will be mostly settled by the assumption by Spring REIT (through the Onshore Purchaser) of the Novated Payables in the amount of RMB890 million and the balance using the proceeds drawn down under the Upsized Existing Facility.

The Manager shall publish further announcement(s) regarding the Initial Offshore Consideration, the Initial Onshore Consideration and True-up Payments as soon as practicable after such amounts have been determined.

2.5.3 Tax Holdback Amount

As advised by the Manager's tax adviser, the Offshore Purchaser should hold back at least 10% (being the withholding income tax rate) of the Offshore Consideration to fulfil its withholding obligation under the China Indirect Transfer Rules (which, based on the above-mentioned illustrative Offshore Consideration, would be RMB64.9 million). To allow some buffer, payment of the Tax Holdback Amount of RMB67 million shall be deferred until within five business days after the Offshore Seller has proved that it has complied with certain obligations under the China Indirect Transfer Rules and paid the corresponding tax payable under the China Indirect Transfer Rules in connection with the Offshore Seller's sale of the Offshore Sale Shares (the "**China Indirect Transfer Taxes**"). The Tax Holdback Amount shall be paid in cash.

2.5.4 Conditions Precedent

Completion under the Offshore Share Purchase Deed is subject to and conditional upon satisfaction of the following Conditions:

(1) the resolution approving the Acquisition and the Joint Venture having been passed by the Independent Unitholders at the EGM;

(2) the Reorganisation having been completed by the Offshore Seller in accordance with applicable laws and regulations, and the Offshore Seller having provided reasonable documentary proof of the same to the Offshore Purchaser;

(3) there being no statute, regulation or court decision in the PRC which would prohibit or invalidate the Acquisition and the transactions contemplated under the Transaction Documents at Completion;

(4) the conditions precedent under the Onshore Share Purchase Agreement having been satisfied (or waived, where such conditions precedent are capable of being waived);

(5) there having been no material adverse change which, individually or in aggregate, has resulted or is reasonably expected to result in the Target Group or the Target Property suffering or sustaining an aggregate loss equal to 10% or more of the Agreed Property Value;

(6) there being no material breach of any warranties of the Sellers under the Acquisition Agreements on Completion that has resulted or is reasonably expected to result in the Purchasers, the Target Group or the Target Property suffering or sustaining an aggregate loss equal to 10% or more of the Agreed Property Value;

(7) there being no material breach of any warranties of the Purchasers under the Acquisition Agreements on Completion that has resulted or is reasonably expected to result in the Sellers suffering or sustaining an aggregate loss equal to 10% or more of the Agreed Property Value;

(8) the consent of PAB in respect of the Acquisition and all other related transactions contemplated under the Transaction Documents not having been revoked; and

(9) the Project Company having drawn down the amount of RMB800 million under the PAB Facility Agreement and applied such proceeds of the PAB Facility towards the purposes permitted under the PAB Facility Agreement (being the refinancing of bank and intercompany loans and the payment of property renovation fees and property operating expenses).

Completion under the Onshore Share Purchase Agreement is subject to and conditional upon satisfaction of the following Conditions:

(10) save for the Residual Payables, the intercompany balances owing by and to the Project Company on the one hand and to and by members of the Sellers' group on the other hand having been restructured and consolidated into the Novated Payables, and the Project Company having entered into the relevant agreement relating to the Novated Payables with the Onshore Seller;

(11) the transfer of the Onshore Sale Shares from the Onshore Seller to the Onshore Purchaser having been registered with the local authorities;

(12) the release registration of the Existing Guohua PAB Share Pledge with the competent local authorities in the PRC having been completed, and the Onshore Sale Shares being free from encumbrances; and

(13) the conditions precedent under the Offshore Share Purchase Deed having been satisfied (or waived, where such conditions precedent are capable of being waived).

The Offshore Purchaser may waive Conditions (5), (6) and (8) by notice in writing to the Offshore Seller. The Offshore Seller may waive Condition (7) by notice in writing to the Offshore Purchaser. Conditions (1) to (4) and (9) to (13) cannot be waived. The Offshore Purchaser's ability to waive Conditions under the Offshore Share Purchase Deed shall always be subject to compliance with the REIT Code, the Listing Rules and other applicable laws, rules and regulations.

Given the Acquisition is dependent on the satisfaction of the Conditions, for the avoidance of doubt, Unitholders should note that the Manager has the discretion to not proceed with the Acquisition if any of the Conditions which are required to be satisfied by the Sellers shall not have been satisfied or waived prior to the Long Stop Date.

2.5.5 Completion

Completion under the Offshore Share Purchase Deed and the Onshore Share Purchase Agreement shall take place simultaneously on the 10th business day after the satisfaction or waiver of all the Conditions, or such other date as may be agreed by the Purchasers and the Sellers in writing. Subject to the Conditions being satisfied (or waived, as the case may be), the Manager expects Completion to take place on or before the Long Stop Date. As soon as practicable following Completion, the Manager will issue an announcement to inform Unitholders that Completion has occurred.

2.5.6 Termination

In the event that: (a) the Offshore Purchaser has not notified the Offshore Seller by 30 June 2022 that Condition (1) has been fulfilled; (b) the Offshore Purchaser has notified the Offshore Seller in writing, prior to Conditions (1) and (10) being fulfilled, to terminate the Offshore Share Purchase Deed as a result of Condition (5) not being fulfilled; or (c) any of the Conditions has not been fulfilled or waived prior to the Long Stop Date, then unless the Purchasers and the Sellers have otherwise agreed in writing, the parties shall not be bound to proceed with the Acquisition and the Acquisition Agreements shall terminate concurrently.

If all Conditions have been fulfilled or waived before the Long Stop Date, but Completion has not taken place due to either Offshore Purchaser or either Offshore Seller failing to comply with its completion obligations, then the party which has not failed to comply with its completion obligations may by written notice elect to: (a) defer Completion by a period of not more than 28 days to such date as it may specify in the notice; (b) waive any of the other party's completion obligations at its discretion and proceed to Completion; or (c) terminate the Offshore Share Purchase Deed without liability on its part. If one Acquisition Agreement is terminated, the other Acquisition Agreement shall terminate concurrently.

2.5.7 Warranties and Indemnities

Each Acquisition Agreement contains customary warranties made by the relevant Seller in respect of, among others, the Project Company and the Target Property (and, in the case of the Offshore Share Purchase Deed, the Target Group).

The maximum aggregate liability of the Offshore Seller and the Onshore Seller respectively shall not exceed 100% of the Offshore Consideration and 100% of the Onshore Consideration respectively in respect of claims for any breaches of fundamental warranties and 20% of the Offshore Consideration and 20% of the Onshore Consideration respectively in respect of claims for breaches of all other warranties. The liability of the Offshore Seller and the Onshore Seller is also subject to a minimum per claim threshold of, respectively, the Offshore Proportion of the amount of RMB1 million and the Onshore Proportion of the amount of RMB1 million. Amounts shall only be recoverable from the Offshore Seller if the aggregate amount recoverable in respect of all claims against the Offshore Seller exceeds the Offshore Proportion of the amount of RMB10 million (in which case the Offshore Seller will be liable for the entire amount), and amounts shall only be recoverable from the Onshore Seller if the aggregate amount recoverable in respect of all claims against the Onshore Seller exceeds the Onshore Proportion of the amount of RMB10 million (in which case the Onshore Seller will be liable for the entire amount). Each Acquisition Agreement also provides for a limitation period of two years after the Completion Date for all claims made thereunder (other than those claims relating to fundamental warranties or tax warranties, in which case the limitation period is, respectively, five years and seven years after the Completion Date).

Each Acquisition Agreement also contains several indemnities from the relevant Seller, including but not limited to indemnities relating to: (a) (in the case of the Offshore Share Purchase Deed only) any delay or failure to pay the China Indirect Transfer Taxes; (b) (in the case of the Offshore Share Purchase Deed only) the Reorganisation; and (c) the Joint Operation Agreements. The relevant Seller's liabilities under these indemnities shall not be subject to the abovementioned limitations which are only applicable to warranties, save that the aggregate of all of the Offshore Seller's liabilities under the Offshore Share Purchase Deed shall not exceed 100% of the Offshore Consideration and the aggregate of all of the Onshore Seller's liabilities under the Onshore Share Purchase Agreement shall not exceed 100% of the Onshore Consideration (in each case, the "**Maximum Liability Cap**").

The Offshore Seller Guarantor has unconditionally and irrevocably guaranteed to the Offshore Purchaser the due and punctual payment of all amounts payable by the Offshore Seller under the Offshore Share Purchase Deed and due and punctual performance and observance by the Offshore Seller of all its obligations, commitments, undertakings, warranties and indemnities under or pursuant to the Offshore Share Purchase Deed.

On Completion, the Onshore Seller shall deliver to the Onshore Purchaser an undertaking to be provided by an entity acceptable to the Onshore Purchaser (the "**Onshore Undertaker**"), under which the Onshore Undertaker shall procure that the Onshore Seller and its wholly-owned subsidiaries shall maintain aggregate net assets in excess of the amount of: (a) the Onshore Consideration at all times until the end of the period of two years from the Completion Date; and, thereafter, (b) 20% of the Onshore Consideration at all times for so long as the Onshore Seller's obligations under or pursuant to the Onshore Share Purchase Agreement remain in force.

Taking into consideration: (a) the abovementioned warranty and indemnity coverage from the Sellers (including the Sellers' limitation cap, thresholds and period with respect to claims) which the Manager considers to be fair and reasonable, on normal commercial terms after arm's length negotiations and the best terms available to the Purchasers in the circumstances, and are in the interests of Spring REIT and the Unitholders as a whole; (b) the abovementioned guarantee provided by the Offshore Seller Guarantor and the balance sheet position, economic and financial standing and creditworthiness of the Onshore Seller and its wholly-owned subsidiaries for the time being and the abovementioned undertaking to be provided by the Onshore Undertaker; (c) the satisfactory results of the Manager's due diligence review in respect of the Offshore Target Company, the Project Company and the Target Property; and (d) the Manager's PRC legal adviser's opinion set out in sections 2.8, 5.3, 5.4.2 and 5.4.3 below, the Manager is satisfied that the interests of Spring REIT and the Unitholders as a whole in respect of potential claims are adequately and sufficiently protected.

2.5.8 Sellers' Tax Obligations

Offshore Share Purchase Deed

As advised by the Manager's tax adviser, the obligation to pay PRC Enterprise Income Tax under the China Indirect Transfer Rules for the Offshore Seller's sale of the Offshore Sale Shares should be borne by the Offshore Seller with the Offshore Purchaser only having a withholding and remitting obligation.

Pursuant to the Offshore Share Purchase Deed, the Offshore Seller shall at its own expense report or cause to be truly, accurately and completely reported all relevant information on the sale of the Offshore Sale Shares to the relevant PRC tax authority in accordance with the China Indirect Transfer Rules. The Offshore Seller shall: (a) provide the Offshore Purchaser, as soon as reasonably practicable, with evidence that the reporting has been made to the relevant PRC tax authority; (b) promptly follow-up with and submit all further documents that may be requested by the relevant PRC tax authority in respect of such report; and (c) promptly keep the Offshore Purchaser informed of the foregoing.

To the extent that the Offshore Seller is determined by the relevant PRC tax authority to be required by the China Indirect Transfer Rules to pay taxes in connection with its sale of the Offshore Sale Shares, the Offshore Seller shall: (a) within such period of time as required by the relevant PRC tax authority, cause such taxes to be paid; and (b) provide the Offshore Purchaser, as soon as reasonably practicable, with evidence that such taxes have been paid in the form of tax payment certificate(s) issued by the relevant PRC tax authority. The payment of the Tax Holdback Amount shall be made in the manner described in section 2.5.3 headed "Tax Holdback Amount" in this Circular.

The Offshore Seller has provided an indemnity for any delay or failure to report and pay China Indirect Transfer Taxes or comply with other obligations under the China Indirect Transfer Rules stated in the Offshore Share Purchase Deed. Such indemnity will not be subject to the monetary and time limitations of liability applicable to warranties, as set out in section 2.5.7 headed "Warranties and Indemnities" in this Circular, but will be subject to the Maximum Liability Cap under the Offshore Share Purchase Deed.

The Manager's tax adviser has provided advice to the Manager in respect of the estimated amount of indirect enterprise income tax payable under the PRC Enterprise Income Tax Law and the China Indirect Transfer Rules in respect of the Offshore Seller's sale of the Offshore Sale Shares. In view of the above and the advice from its tax adviser, the Manager is of the view that the protection provided by the Offshore Seller in respect of enterprise income tax obligations under the PRC Enterprise Income Tax Law and the China Indirect Transfer Rules, including the Tax Holdback Amount and the abovementioned indemnity, is sufficient and that the interests of the Unitholders are adequately protected.

Onshore Share Purchase Agreement

As advised by the Manager's tax adviser, on the basis that the Onshore Seller under the Onshore Share Purchase Agreement is a PRC tax resident enterprise, any gain arising from the Onshore Seller's sale of the Onshore Sale Shares would be subject to PRC Enterprise Income Tax, which should be payable by the Onshore Seller, while the Onshore Purchaser should not be obligated to withhold the tax payable.

2.6 Joint Venture Agreement

On Completion, the JV Parties will enter into the Joint Venture Agreement to govern their relationship as shareholders of the Project Company. The Manager has obtained a legal opinion from competent PRC legal adviser confirming that, subject to the Joint Venture Agreement being duly executed by the parties thereto, the Joint Venture Agreement and the joint venture arrangements thereunder are legal, valid, binding and enforceable under PRC law.

The key terms of the Joint Venture Agreement are as follows:

2.6.1 Capital commitment

The aggregate capital commitment of Spring REIT (through the PRC Intermediary Company and the Onshore Purchaser) shall be approximately RMB394.2 million, representing 68% (being the Relevant Proportion) of the post-Reorganisation registered capital in the Project Company. The capital commitment of the JV Partner shall be approximately RMB185.5 million, representing 32% of the post-Reorganisation registered capital of the Project Company. Such capital commitments under the Joint Venture Agreement will, at the time of entry into the Joint Venture Agreement, have already been fully committed by each party and no further capital commitments will be required from each of them under the Joint Venture Agreement (although, following Completion and separate to the Joint Venture Agreement, the PRC Intermediary Company will settle the unpaid subscription price for the Project Company Subscription Shares from time to time as described in section 2.3 headed "Reorganisation").

2.6.2 Profit sharing

Any distribution by the Project Company shall be determined by the board of directors of the Project Company from time to time and shall be made to the JV Parties pro rata to their respective equity interest in the Project Company.

2.6.3 Board Composition

The board of directors of the Project Company shall comprise three directors, one of whom may be nominated by the JV Partner and the remaining two of whom may be nominated by the Trustee (through the PRC Intermediary Company and the Onshore Purchaser). Spring REIT (through the PRC Intermediary Company and the Onshore Purchaser) shall be entitled to select which of the Trustee's nominees shall be the chairman of the Project Company board. The quorum for board meetings of the Project Company shall be any two directors.

2.6.4 Matters Requiring Unanimous Approval

Board resolutions shall be approved by at least two directors, save that the following matters shall require the unanimous approval of all three directors: (a) amendments to the Project Company's articles of association; (b) distributions by the Project Company to its shareholders on a non-pro rata basis; (c) liquidation, dissolution and winding-up of the Project Company; (d) increase or reduction of the registered capital of the Project Company; (e) merger or demerger of the Project Company; (f) transactions between the Project Company and the JV Parties or their affiliates outside the ordinary course of business (excluding the Project Company Facility and other transactions contemplated by or in connection with the Onshore Share Purchase Agreement); and (g) financing, provision of loans and security, assumption of debts by the Project Company outside the ordinary course of business (excluding the Project Company Facility and other transactions contemplated by or in connection with the Onshore Share Purchase Agreement).

2.6.5 Transfer of Shares

No JV Party shall have the right to dispose of any part of its equity interest in the Project Company to a third party transferee who is not its affiliate, unless it has first offered its entire equity interest in the Project Company to the other JV Parties who have declined or are deemed to have declined to accept such offer. Any transfer must be in respect of the transferor's entire equity interest in the Project Company and not merely a part of such equity interest. Any proposed transfer by the JV Partner of its equity interest in the Project Company to actual or potential connected persons which requires Spring REIT to obtain any approval under the REIT Code and/or the Listing Rules shall be subject to Spring REIT obtaining such approval. The transferee of any permitted transfer of equity interest in the Project Company shall enter into a deed of adherence to become bound by the Joint Venture Agreement.

2.6.6 Events of Default

An event of default occurs when: (a) a JV Party breaches any provisions under the Joint Venture Agreement relating to restrictions on the transfer of equity interest in the Project Company; (b) a JV Party becomes insolvent; (c) a change of control occurs in respect of a JV Party; or (d) a JV Party and/or its affiliates has materially or continuously breached any provisions under the Joint Venture Agreement which has resulted in another JV Party suffering a material loss and fails to cure such breach in a timely manner.

The remedies of a non-breaching JV Party against a breaching JV Party for an event of default include: (a) compensation by the breaching JV Party for all losses suffered by the non-breaching JV Party(ies); (b) suspension of board representation and other management rights of the breaching JV Party in respect of the Project Company; and (c) the right of the non-breaching JV Party(ies) to require the breaching JV Party to sell its entire equity interest in the Project Company to them at a discount of 10% to fair market value.

2.6.7 Termination

There is no fixed term in respect of the Joint Venture Agreement. The Joint Venture Agreement shall terminate: (a) upon the JV Parties' mutual agreement in writing; or (b) when all of the equity interest in the Project Company are being owned and held by one shareholder or all the JV Parties cease to be the shareholders of the Project Company.

2.6.8 REIT Code

The duties, obligations and liabilities of the PRC Intermediary Company and the Onshore Purchaser under the Joint Venture Agreement shall be subject always to the requirements under the REIT Code, the Listing Rules and all other laws and regulations applicable to Spring REIT, including the requirement that their aggregate obligations and liabilities to the Project Company are proportionate to their aggregate equity interest in the Project Company.

2.7 Arm's Length Terms

The Transaction Documents and the indebtedness and facilities to be assumed and taken out by Spring REIT as described in section 2.10 headed "Indebtedness and Facilities to be Assumed and Taken Out by Spring REIT" below have been entered into, or shall be entered into, by the parties thereto on normal commercial terms (including in respect of those terms relating to limitation of liability) following arm's length negotiations.

2.8 Due Diligence Review

The Manager has conducted, and is satisfied with the results of, due diligence in respect of the Offshore Target Company, the Project Company and the Target Property, and no material irregularities or material non-compliance issues have been noted. Such due diligence has been carried out in accordance with the relevant provisions of the REIT Code (including the Practice Note on Overseas Investments by SFC-authorised REITs) and the Manager's compliance manual.

The Manager's PRC legal adviser has advised the Manager that: (a) it is of the view that the Project Company can legally and beneficially own, use, occupy, transfer and lease out the Target Property in accordance with the relevant PRC laws free from encumbrances, subject to the conditions of the PAB Facility, Leases, Joint Operation Agreements and Direct Operation Agreements, and that the Reorganisation will not affect the foregoing; and (b) all necessary licences and consents required in the PRC have been obtained by the Project Company. For details of the advice of the Manager's PRC legal advisers, please refer to section 5.3 headed "Ownership" in this Circular. After the Reorganisation, the Manager's legal advisers will conduct bring-down legal due diligence to confirm that each of the HK Intermediary Company and the PRC Intermediary Company has been duly incorporated and the Reorganisation has been carried out and completed in accordance with PRC laws and regulations (to the extent they are applicable), before proceeding to Completion. In view of the foregoing, and having regard to the advice of its PRC legal adviser, the Manager is of the view that Spring REIT will immediately upon Completion hold (through the Purchasers and the Target Group) good, marketable, legal and beneficial title in the Relevant Proportion of the Target Property.

The Building Consultant has also carried out an inspection and a survey of the Target Property. Such inspection revealed that both the building and structural fabrics, and the building services installations of the Target Property were maintained in good condition with only minor rectification works required to be carried out.

2.8.1 Non-registration of Leases

Based on information provided by the Sellers, as at 28 February 2022, there were 394 Leases at the Target Property, two of which had not been registered as at the Latest Practicable Date. As the cooperation of the relevant lessees and authorities is required to complete and perfect such registration, it is possible that, for reasons outside the Project Company's control, not all currently unregistered Leases will be registered before Completion. Following Completion, the Manager will work with the JV Partner and endeavour to register such Leases as soon as practicable. The Manager expects that the currently unregistered Leases will be registered shortly after Completion.

As advised by the Manager's PRC legal adviser, although it is a term in a few of the Leases that the Project Company shall at its own cost register the relevant Lease within 30 days of the date of such Lease, no lessees have enforced or indicated that they would enforce such right to withhold payment of rent, property management charges or other fees under the Leases as at the Latest Practicable Date. Further, according to the Administrative Measures for Leasing of Commodity Housing (商品房屋租賃管理辦法) promulgated by the Ministry of Housing and Urban-Rural Development of the PRC on 1 December 2010, a fine of RMB1,000 to RMB10,000 shall be imposed on the Project Company if the Project Company fails to rectify the situation within a prescribed time limit upon notification by the authority, although it is presently unclear whether such fine applies to each unregistered Lease on a per-lease basis. Assuming a separate fine applies to each unregistered Lease, the maximum aggregate amount of penalty payable by the Project Company in respect of such unregistered Leases if the Project Company fails to rectify the situation within the prescribed time limit is approximately RMB20,000.

As advised by the Manager's PRC legal adviser, the non-registration of the Leases would not affect the enforceability or legality of such Leases, nor adversely affect the Project Company's legal title to the Target Property, and the Project Company has not been required to rectify or pay penalties in respect of unregistered Leases as at the Latest Practicable Date. Any loss or liability arising out of or in connection with the Project Company's failure to register the Leases would be covered under the indemnity provided by the Sellers under the Acquisition Agreements, and the Manager does not consider this issue to pose a material risk. The Manager considers such protection to be sufficient and that the interests of the Unitholders are adequately protected.

2.8.2 Civil Defence Shelter

The Manager's PRC legal adviser has advised that ownership to certain underground premises with a gross floor area of approximately 10,876.22 sq.m. (an area equal to approximately 6.98% of the gross floor area of the Target Property) belongs to the state and not to the Project Company, and such premises must in times of war be used as a civil defence shelter and cannot be sold or otherwise transferred by the Project Company. However, during all other times, the underground premises are allowed under PRC law to be used as carparks, and the Manager has been advised by its PRC legal adviser that, based on information provided by the Sellers, 263 underground carparks fall within such premises and that the Project Company may lease or grant a licence to use such premises as carparks and collect rent or licence fees in respect of the same and grant operational rights to third parties in respect of such premises.

2.8.3 Litigation with Supermarket Lessee

Pursuant to a Lease dated 18 April 2016 entered into between the Project Company and an independent third party lessee (the "**Supermarket Lessee**"), the Project Company (as lessor) and the Supermarket Lessee (as lessee) agreed to lease certain premises at the first underground floor within the Target Property with a gross floor area of approximately 7,659 sq.m. for a term of 15 years commencing from 1 May 2016 (the "**Supermarket Lease**").

Based on information provided by the Sellers, on 23 August 2021, the Project Company issued a termination notice to the Supermarket Lessee for alleged breach of the Supermarket Lease's sublease provisions. On 22 December 2021, the Project Company received a notice of claim filed by the Supermarket Lessee against the Project Company, disputing the grounds for the termination of the Supermarket Lease and seeking: (a) a declaration that such termination was ineffective; and (b) indemnity for its legal costs of RMB100. According to the first instance judgment issued by Huicheng District People's Court of Huizhou City (惠州市惠城區人民法院) dated 30 March 2022, the termination notice issued by the Project Company to the Supermarket Lessee was held ineffective and the Project Company was ordered to pay the legal costs of RMB130. As at the Latest Practicable Date, the Project Company had filed an appeal to the Huizhou Municipal Intermediate People's Court of Guangdong Province (廣東省惠州市中級人民法院).

The Sellers have provided an indemnity under the Acquisition Agreements for any liabilities or claims relating to the Supermarket Lease, including any claims for losses of whatsoever nature relating to or arising from the early termination (or attempted early termination) of such lease. Such indemnity will not be subject to the monetary and time limitations of liability applicable to warranties, as set out in section 2.5.7 headed "Warranties and Indemnities" in this Circular, but will be subject to the Maximum Liability Cap.

Based on further information provided by the Sellers, the Supermarket Lease relates to approximately 7.2% of the gross lettable area of the Target Property as at 28 February 2022, and such lease contributed approximately 1.2% of the Project Company's monthly gross rental income in February 2022. The Sellers have advised that the Supermarket Lessee has continued to pay rent pending final resolution of the above-mentioned dispute.

In the event the Project Company is successful in its appeal and is able to terminate the Supermarket Lease, the Manager understands from the Sellers that the resulting operational impact is expected to be insignificant for the following reasons: (a) the Supermarket Lease contributed only a small proportion of the Project Company's rental income (approximately 1.2% of monthly gross rental income in February 2022); and (b) notwithstanding the potential loss of the Supermarket Lessee, the shopping mall is mature with a diverse collection of high-quality shops, bringing in ample daily footfall of more than 30,000 on weekdays and more than 50,000 on weekends. The Project Company has formulated a contingent leasing strategy to proactively identify and engage with potential new lessees as a replacement for the Supermarket Lessee, on the criteria that the service and product offering of the new lessees could fit the high-end market positioning of the shopping mall with rich footfall attraction potential that could provide resilience against rising e-commerce competition.

Having regard to: (a) (where the Project Company is unsuccessful in its appeal) the indemnity provided by the Sellers under the Acquisition Agreements; and (b) (where the Project Company is successful in its appeal) the expected insignificant operational impact and the contingent leasing strategy to identify replacement lessees for the Supermarket Lessee, the Manager considers that the above-mentioned dispute will not pose a material risk to Spring REIT and the interests of the Unitholders are adequately protected.

2.9 Fees and Charges

2.9.1 General

The estimated Total Fees and Charges payable by Spring REIT in relation to the Acquisition is approximately RMB47.7 million and consists of the Acquisition Fee, the Other Acquisition Fees and Expenses and the Trustee's Additional Fee. Details of these fees and their amounts are set out in sections 2.9.2 to 2.9.4 below.

2.9.2 Acquisition Fee

On Completion, the Manager will be entitled under the Trust Deed to receive an acquisition fee not exceeding 1.0% of the acquisition price of any real estate in the form of land acquired directly or indirectly by Spring REIT (pro-rated if applicable to the proportion of the interest in the real estate acquired) (i.e. the total consideration actually paid by Spring REIT for the acquisition of the relevant real estate) (the "**Acquisition Fee**"). Since Spring REIT's acquisition of the Relevant Proportion of the Target Property is structured as a share transaction rather than an asset transaction, using the Agreed Property Value which reflects the mutually agreed price for the Target Property and eliminates the impact of NAV adjustments, the Acquisition Fee as determined pursuant to the Trust Deed will be RMB16.6 million, which is equal to 1.0% of the Relevant Proportion Agreed Property Value. The Acquisition Fee shall be paid to the Manager in the form of cash in HKD.

2.9.3 Other Acquisition Fees and Expenses

Spring REIT incurred or is expected to incur other estimated fees and expenses in connection with the Acquisition (including advisory fees, professional fees and stamp duty), which are anticipated to be approximately RMB31.0 million in aggregate (the "**Other Acquisition Fees and Expenses**"). The Other Acquisition Fees and Expenses are one-off transaction expenses of a non-recurring nature in connection with the Acquisition.

2.9.4 Trustee's Additional Fee

Pursuant to the Trust Deed, the Trustee is entitled to charge additional fees for duties undertaken by the Trustee which are of an exceptional nature or otherwise outside the scope of the Trustee's normal duties in the ordinary course of normal day-to-day business operations of Spring REIT. The Trustee has agreed with the Manager that it will charge Spring REIT a one-time additional fee based on the time and costs incurred by it for duties undertaken by the Trustee in connection with the Acquisition, with such additional fee expected to be HKD100,000 (the "**Trustee's Additional Fee**").

2.9.5 Ongoing Fees

After Completion, pursuant to the Trust Deed and in addition to the fees payable to the Manager and Trustee in respect of the Existing Properties:

(a) the Manager will be entitled under the Trust Deed to receive management fees attributable to the Target Group comprising: (i) a base fee of 0.4% per annum of the value of the Deposited Property attributable to Spring REIT's interest in the Target Group; and (ii) a variable fee of 3% per annum of the Net Property Income (as defined in the Trust Deed) (before reduction therefrom of the base fee and the variable fee) attributable to Spring REIT's interest in the Target Group; and

(b) the Trustee will be entitled under the Trust Deed to receive fees not exceeding 0.0175% per annum of the value of the Deposited Property attributable to Spring REIT's interest in the Target Group, which may be increased from time to time to a maximum cap of 0.06% per annum of the value of the Deposited Property attributable to Spring REIT's interest in the Target Group. The total fees payable to the Trustee in respect of the Deposited Property is subject to a minimum amount of RMB56,000 per month.

2.10 Indebtedness and Facilities to be Assumed and Taken Out by Spring REIT

2.10.1 General

At Completion, the PAB Facility entered into by the Project Company will still be subsisting, and the Relevant Proportion of the amounts outstanding under such facility as at Completion will be deducted from the Relevant Proportion Agreed Property Value when determining the Consideration. A part of the Consideration will also be satisfied by Spring REIT assuming the Onshore Seller's obligations and liabilities under the Novated Payables. The Project Company Facility will also be in place at Completion.

In addition, the Manager intends to draw down on the Upsized Existing Facility, at Completion to, among other things, finance the cash portion of the Consideration and the Total Fees and Charges.

2.10.2 PAB Facility

Pursuant to the PAB Facility Agreement, PAB agreed to provide the Project Company with a 10-year loan facility of RMB900 million maturing in 2032. Under the terms of the PAB Facility, the loan shall bear interest at a rate of 60 basis points above the loan prime rate for more than five years as announced by the National Interbank Funding Center on the business day immediately preceding the drawdown date and updated monthly.

As at the Latest Practicable Date the PAB Facility had not been drawn down by the Project Company but, as a condition of Completion, the Project Company will draw down the amount of RMB800 million under the PAB Facility (for details, please refer to section 2.5.4 headed "Conditions Precedent" in this Circular). At Completion, the amount of outstanding principal under the PAB Facility is expected to be RMB800 million (with the Relevant Proportion being RMB544 million).

For illustrative purpose only, based on the total assets of the Project Company as of 31 December 2021, the subsequent settlement of the ICBC Facility and the above-mentioned expected drawdown of the PAB Facility are expected to increase the gearing ratio of the Project Company from 6.6% (as at 31 December 2021) to 18.3%. As shown in the unaudited pro forma consolidated income statement of the Enlarged Group for the year ended 31 December 2021 in Appendix 3, the settlement of the ICBC Facility and the draw down of the PAB Facility would have led to an increase in finance costs for the year ended 31 December 2021 by RMB18.9 million (after income tax).

Repayment of the principal under the PAB Facility shall be made by semi-annual instalments. If any principal or interest is due and payable but remains outstanding, the Project Company shall not make any form of distribution or dividend payment.

As at the Latest Practicable Date, the indebtedness under the PAB Facility was secured by: (a) the PAB Property Mortgage; (b) a pledge over accounts receivable of the Project Company in relation to the Target Property; and (c) guarantees given by the Onshore Seller and its associates (the "**Guohua Guarantors**") on a joint and several basis; and (d) the Existing Guohua PAB Share Pledge. The existing guarantees given by the Guohua Guarantors and the Existing Guohua PAB Share Pledge shall be replaced by the PAB Guarantees and the PAB Share Pledges upon Completion. In addition, following Completion and during the term of the PAB Facility, the Project Company shall maintain a minimum reserve of RMB40 million in, and make a monthly deposit of RMB7 million into, the supervised account maintained with PAB, which can be used for debt service.

Upon Completion, Spring REIT (through the Onshore Purchaser) will also guarantee such indebtedness on a several and proportionate basis with the Guohua Guarantors, with reference to the respective equity interest held by Spring REIT (through its SPVs) on the one hand and the JV Partner on the other hand in the Project Company (the "**PAB Guarantees**"). In addition, to the extent required by PAB, each of the shareholders of the Project Company following Completion (i.e. the PRC Intermediary Company, the Onshore Purchaser and the JV Partner) shall pledge all of their equity interest in the Project Company in favour of PAB to secure the indebtedness under the PAB Facility, provided that the aggregate liability secured by the share pledges to be provided by Spring REIT's SPVs shall be on a several and proportionate basis (i.e. shall not exceed its pro rata portion, based on the respective equity interest held by Spring REIT (through its SPVs) on the one hand and the JV Partner on the other hand in the Project Company) (the "**PAB Share Pledges**").

Subject to rule 14A.89 of the Listing Rules, each of the PAB Guarantees and the PAB Share Pledges will constitute an exempted connected party transaction of Spring REIT upon Completion. Please refer to section 8.1 headed "Connected and Major Transactions" in this Circular for further details.

2.10.3 Novated Payables

As at the Latest Practicable Date, there are certain intercompany balances owing by and to the Project Company. Pursuant to the Acquisition Agreements, the Sellers shall procure that prior to and as a condition of Completion, such intercompany balances (save for the Residual Payables) are consolidated into a net payables of RMB890 million owing by the Onshore Seller to the Project Company (with any remaining balance in excess of RMB890 million (save for the Residual Payables) to be discharged prior to Completion), which shall be unsecured and interest-free, and such payables shall be novated to the Onshore Purchaser on Completion as part settlement of the Onshore Consideration. The Project Company is expected to settle the Residual Payables of RMB10.5 million, which shall be interest-free, using its own cash after Completion.

Following the novation, the Onshore Purchaser will assume the Onshore Seller's obligations and liabilities under the Novated Payables at Completion, such that the Novated Payables will become an indebtedness owing by the Onshore Purchaser to the Project Company. The Novated Payables will not have a maturity date nor will the agreement for the Novated Payables provide that they are repayable on demand (although the Manager's PRC legal adviser has advised that under such circumstances, the creditor can request the debtor to repay the debt at any time, but should give the debtor a reasonable time period to arrange for repayment), and will continue to remain unsecured and interest-free.

Upon Completion, Spring REIT (through its SPVs) will own and control 68% of the equity interest in the Project Company. As majority owner, Spring REIT should be able to make key operational decisions of the Project Company (including the request for repayment of the Novated Payables), save for limited board reserved matters as described in section 2.6.4 headed "Matters Requiring Unanimous Approval" in this Circular (which do not include matters relating to the Novated Payables). As at the Latest Practicable Date, the Manager had no definitive timetable for the Project Company to request repayment by the Onshore Purchaser of the Novated Payables.

Subject to rule 14A.90 of the Listing Rules, the Novated Payables will constitute an exempted connected party transaction of Spring REIT upon Completion. Please refer to section 8.1 headed "Connected and Major Transactions" in this Circular for further details.

The Manager has been advised by its PRC legal adviser that the assumption of the Novated Payables complies with the applicable PRC laws and regulations. The Manager considers that the assumption of the Novated Payables, as opposed to paying the equivalent amount in cash, will enable Spring REIT to acquire as much equity interest in the Project Company as possible, without having to issue new Units, so as to enhance yield for Unitholders with no ownership dilution.

2.10.4 Project Company Facility

As at the Latest Practicable Date and immediately prior to the Reorganisation, the Onshore Seller held and is expected to hold the entire equity interest in the Project Company representing a fully paid-up registered capital of RMB400 million. As a result of the Reorganisation to enable the Offshore Transaction, the Project Company will issue the Project Company Subscription Shares to the PRC Intermediary Company such that immediately after such issue, the Onshore Seller and the PRC Intermediary Company will hold 69% and 31% respectively of the equity interest in the Project Company. The subscription price of approximately RMB179.7 million for the Project Company Subscription Shares will be paid from time to time by drawing down the Project Company Facility of up to approximately RMB179.7 million, which will be unsecured and interest-free. The Project Company Facility may be drawn down for an initial period of three years and may be renewed under the same terms thereafter by mutual agreement. If the term is not renewed, all outstanding amounts under the Project Company Facility shall become due and payable at the end of the term. Save for the foregoing, the Project Company shall not be entitled to demand repayment.

As at the Latest Practicable Date, the Manager had no definitive timetable to draw down the Project Company Facility. The Manager will take into account Spring REIT's ability to service its debts as and when they fall due, when deciding whether and when to draw down the Project Company Facility.

Subject of rule 14A.90 of the Listing Rules, the transactions under the Project Company Facility will constitute exempted connected party transactions of Spring REIT upon Completion. Please refer to section 8.1 headed "Connected and Major Transactions" in this Circular for further details.

2.10.5 Upsized Existing Facility

The Manager has entered into a facility letter with a lending bank (the "**Bank Lender**") as arranger for the provision of a HKD denominated loan facility for an available amount of HKD1,731.6 million (the "**Upsized Existing Facility**"), by upsizing the existing loan facilities of Spring REIT. The Manager intends to finance RMB794.9 million of the cash Consideration and the Total Fees and Charges by drawing down on the Upsized Existing Facility.

The Upsized Existing Facility will bear interest at a margin of 1.55% per annum over HIBOR, and will mature and become repayable 3 years from the effective date of the Upsized Existing Facility. The Trustee will provide an unconditional and irrevocable guarantee in favour of the lenders in respect of the Upsized Existing Facility.

The terms and conditions of the Upsized Existing Facility described in this Circular are indicative only and subject to change depending on the market conditions at the time the Upsized Existing Facility is finalised and the relevant loan agreement(s) are signed, and do not represent the complete set of the actual terms and conditions. The actual terms and conditions of the Upsized Existing Facility may differ from, or may comprise additional or fewer terms and conditions as compared with, the indicative terms and conditions described in this Circular. To the extent that there are any material changes to the indicative terms and conditions described in this Circular, the Manager will issue an announcement to provide details of such changes.

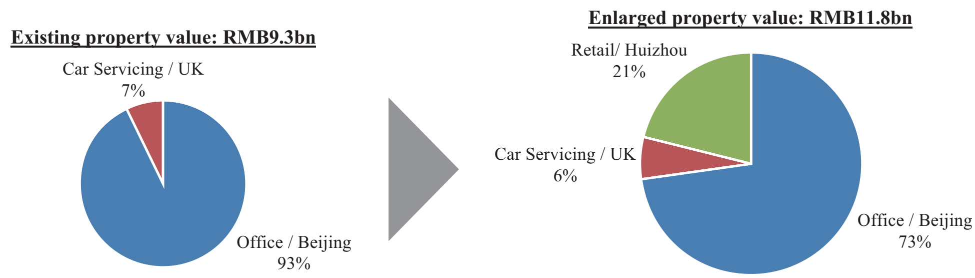
3. REASONS FOR AND BENEFITS OF THE ACQUISITION AND THE JOINT VENTURE

3.1 Yield Accretive Acquisition and Alignment of Interest

The Manager intends to finance the Consideration and the Total Fees and Charges using debt facilities (including the Upsized Existing Facility) and the assumption of the Novated Payables. Since Spring REIT will not be acquiring the entire interest in the Target Property, and expects to have sufficient resources and debt facilities to pay for the Acquisition in cash, Spring REIT does not need to raise financing for the Acquisition through an equity issue. The Manager believes that a debt-funded structure (together with the assumption of the Novated Payables) will provide yield accretion to Unitholders with no ownership dilution. In addition, by virtue of the Onshore Seller retaining 32% of its interest in the Target Property post-Completion, Spring REIT benefits from having its interest aligned with the existing owner of the Target Property who has the requisite experience and local knowledge to manage the Target Property.

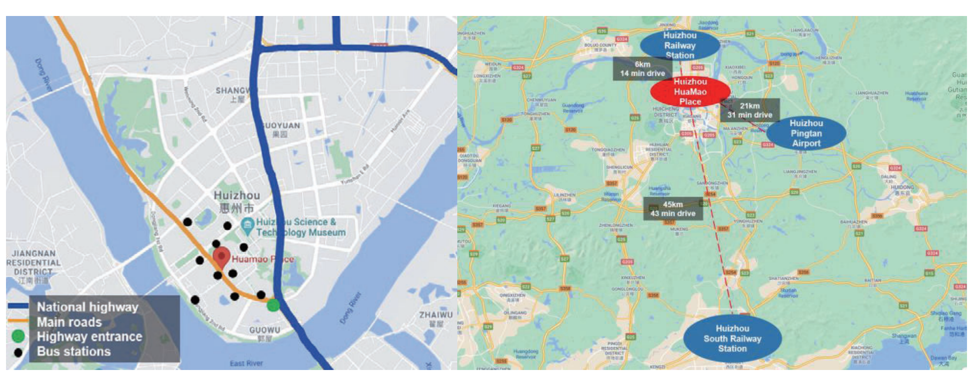
Based on the Unaudited Pro Forma Financial Information of the Enlarged Group as set out Appendix 3, it is expected that, on a pro forma basis assuming the Relevant Proportion of the Target Property had been held and operated by Spring REIT for the year ended 31 December 2021, the Acquisition would have been yield accretive and would have improved the earnings of Spring REIT and DPU to Unitholders. As shown in the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group for the year ended 31 December 2021 in Appendix 3, the DPU of Spring REIT would have increased by 12.9% from 22.0 HK cents to 24.8 HK cents, whilst the total distributable income of Spring REIT would have increased by 13.2% from RMB297.7 million to RMB336.9 million for the year ended 31 December 2021. Net property income yield, being the net property income as a percentage of the value of investment properties, of the Enlarged Group would have also increased from 4.3% to 4.7% for the year ended 31 December 2021. The acquisition of 68% interest in a yield accretive, quality income-producing property is in line with Spring REIT's investment strategy to invest in income-producing real estate and seek yield accretive investment opportunities.

3.2 Diversification and Enlargement of Spring REIT's Property Portfolio while Reducing Risk Exposure



Spring REIT's Existing Properties comprise the CCP Property and 84 commercial properties in the United Kingdom which are currently operating as car servicing centres. As at 31 December 2021, office property comprised approximately 93% of Spring REIT's existing portfolio by value. The Acquisition, which will enlarge the value of Spring REIT's property portfolio by approximately 27% on a consolidated basis, will be Spring REIT's first investment in a retail property asset in the PRC and its first investment in the Greater Bay Area. 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%. As a result of the Acquisition, the composition and locations of Spring REIT's portfolio assets will be diversified to shopping mall and the Greater Bay Area. This also reduces Spring REIT's exposure to concentration risk and other risks associated with its reliance on the income generated by the CCP Property or the performance of the Beijing office market.

3.3 Prime Location and Proximity to Public Transportation



The Target Property is located in Jiangbei, the CBD of Huizhou, and is well positioned to attract potential customer groups including white-collar workers, middle and upper class residents and young students. According to the Market Consultant's Report, the Target Property has clear transportation advantages, including close 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.

3.4 Consistent Market Leader with Demonstrated Resilience in Economic Downturn

The Target Property has been a dominant regional market leader in terms of gross merchandise value as well as high-end market positioning. According to the Market Consultant's Report, in 2021, the Target Property ranked first in terms of gross merchandise value (with a gross merchandise value of approximately RMB2,130 million, based on information provided by the Sellers), and ahead of the second-place (namely Huizhou Ganghui Mall, which had a gross merchandise value of approximately RMB1,500 million to RMB2,000 million for the same period). With a gross floor area of 144,925.07 sq.m., as at 31 December 2021, the Target Property was the fourth largest shopping mall in Huizhou in terms of retail gross floor area and well-supported by international and domestic top-tier brand names like Estee Lauder, Lancôme, Hugo Boss and BOSE, which are rarely seen in shopping malls in Huizhou city.

	Year ended 31 December		
	2019	**2020**	**2021**
Average rent (RMB/sq.m./month)	129.07	123.37	146.36
Average occupancy rate (%) [(1)]	98.4%	98.6%	97.1%

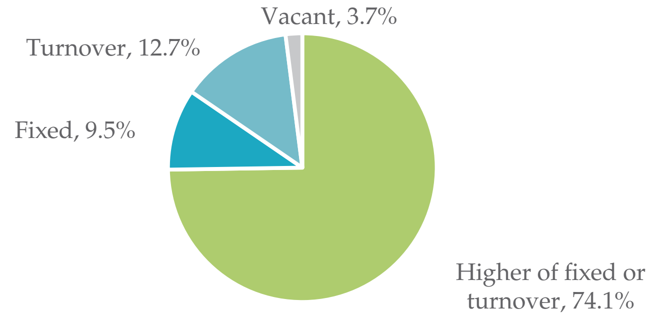
Notes:

(1) Average occupancy rate for the relevant period.

Based on information contained in the Market Consultant's Report, since 2018, the rate of growth in the Target Property's average monthly rent has outpaced that of retail properties in first-tier cities in the PRC. The average monthly rent of the Target Property grew at a CAGR of approximately 7.8% during the period from 2018 to 2021, as compared to the CAGR between 2018 and 2021 of -1.0%, -2.5%, 6.3%, -5.0% and 0.0% achieved by retail properties in Beijing, Shanghai, Guangzhou, Shenzhen and Huizhou, respectively. Despite the first wave of COVID-19 in first half of 2020 which led to substantial economic downturn, only minimal rent concession was granted to the tenants by the Project Company which was discontinued immediately thereafter, and the Target Property managed to deliver a stable operating performance in 2020. The Target Property has consistently maintained a high occupancy rate every year since its opening. As at 31 December 2021, the Target Property enjoyed a high occupancy rate of 96.3%, exceeding the average occupancy rate of approximately 80% in 2021 for shopping malls in Huizhou.

As at 31 December 2021, approximately 83.6% of the gross lettable area was leased on a fixed rent or higher of fixed/turnover rent basis. The Manager is of the view that such lease structure composition provides a reasonable revenue cushion in case of an economic downturn when retail sales might be negatively impacted, as well as growth potential by tracking tenants' sales in good years.

Huamao Place's Tenancy Type



3.5 Experienced Management Team with Solid Track Record

Historically managed by staff of Huamao Group (華貿集團) who have extensive experience in the commercial and retail real estate sector in the PRC, the Target Property is successfully positioned as an iconic landmark in Huizhou with exceptional track record over the past 10 years. The management team has leveraged on its well-established reputation and connections to secure exclusive agreements from international and domestic top-tier fashion brand names to set up their sole or flagship store in the Huizhou region in the Target Property. Beijing Guohua is the developer of China Central Place, a prime mixed-use development complex in the CBD of Beijing comprising office, hotel, retail and residential components. Huamao Group manages certain retail portions of the China Central Place complex and is a joint owner of the SKP Beijing property, one of the largest department stores by sales in the PRC which is also located within the China Central Place complex. The Manager understands that key management staff of the Property Manager and the Building Manager will be selected from the team that has historically been managing the Target Property, and will therefore have extensive experience in providing the relevant services in respect of the Target Property. This will ensure continuity of management services after Completion.

For the purpose of attracting consumer spending and footfall, the Target Property has introduced famous chain restaurant brands, for example, Pizzahut and Haidilao hot pot, and other entertainment (for example, virtual reality theme park, cinema and beauty and health clubs), that are difficult to replace by rising e-commerce competitors. The Target Property offers a diversified tenant mix and brand coverage, with the following breakdown by gross lettable area as at 28 February 2022: apparel (33.2%), food (25.8%), entertainment (7.9%), kid's fashion and lifestyle (5.3%) and other sectors (24.0%). As compared to its nearest comparable shopping mall (namely, Huizhou Kaisa Plaza) which had an average daily footfall of nearly 18,000 in 2021, the Target Property achieved an average daily footfall of more than 30,000 on weekdays and more than 50,000 on weekends (based on information provided by the Sellers) which demonstrated the Target Property's strong advantage in attracting consumers.

3.6 Accurate and Tested Strategies for Optimising Footfall and Tenant Mix

According to the Market Consultant's Report, since its opening in April 2011, the Target Property has consistently delivered strong performance and is now well positioned to select and retain the best brands on its premises. Based on information provided by the Sellers, the management team conducts assessments on tenancy profile in a timely manner in view of latest market situation and replaces approximately 20% of underperforming tenants upon renewal every year. Tenancy periods have generally been kept relatively short in order to achieve maximised optimisation flexibility and support the consistent rental increment upon tenancy renewal. As at 31 December 2021, the weighted average lease expiry, being the weighted average of existing tenant remaining tenancy on the tenant's leased gross lettable area, was 29.0 months (excluding the Supermarket Lease which was in the process of being terminated as at the Latest Practicable Date). For new tenants that the management team plans to onboard, the tenancy period will be kept at similar level as that of the existing tenants. This tenancy period optimisation strategy could also contribute to limit the impact brought by actual or potential economic downturns, including COVID-19.

The management team also maintains a high occupancy rate by initiating negotiation with existing tenants six months in advance of tenancy expiry and aiming to complete negotiations no later than two months before the tenancy expiry to ensure sufficient buffer time for the seamless replacement of new tenants.

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

According to the Market Consultant's Report, Huizhou exhibited a higher growth rate in its residential population compared to the national average level during the period between 2016 and 2021. During the period from 2016 to 2021, Huizhou's total residential population grew from 5.6 million to 6.1 million, representing a CAGR of 1.5%. With the continuous improvement of transportation connecting surrounding cities, Huizhou's Household Registration Policy, and the advantageous geographical location, Huizhou is expected to continue attracting population inflow.

Huizhou has enjoyed steady economic growth over the past five years as well. Huizhou's nominal GDP increased from RMB336.0 billion to RMB497.7 billion between 2016 and 2021, representing a CAGR of 8.2% during this period, and is projected to reach RMB707.1 billion by 2026, with a projected CAGR of 7.3% between 2021 and 2026. According to the Market Consultant's Report, from 2016 to 2021, Huizhou's total retail sales value of consumer goods grew in line with its growing GDP and income levels, outpacing that of Guangzhou, and is expected to reach RMB298.0 billion by 2026, representing a projected CAGR of 8.5% between 2021 and 2026.

The Greater Bay Area has also seen strong economic growth, with its nominal GDP increasing from RMB9.5 trillion to RMB12.6 trillion between 2016 and 2021, implying a CAGR of 5.9% during this period, and its GDP is expected to grow at a projected CAGR of 6.2% from 2021 to 2026. In 2021, the Greater Bay Area accounted for 10.8% of the total GDP of mainland China, Hong Kong and Macau. Given the continuous net residential population inflow and stable GDP growth, the retail industry of the Greater Bay Area is expected to maintain a projected CAGR of 7.7% in terms of total retail sales value of consumer goods over the next five years.

Based on the above, the Manager is of the view that the Acquisition will complement Spring REIT's presence in Beijing (and to a lesser extent, the United Kingdom) with a new presence in the Greater Bay Area, capturing the growth potential from the region's economic growth and increasing strategic importance to the PRC.

4. FINANCING OF THE ACQUISITION

The Manager intends to finance the Consideration and the Total Fees and Charges using debt facilities (including the Upsized Existing Facility) and the assumption of the Novated Payables, details of which are set out in section 2.10.5 headed "Upsized Existing Facility" in this Circular.

Based on the Unaudited Pro Forma Financial Information of the Enlarged Group set out in Appendix 3 to this Circular, the pro forma gearing ratio of Spring REIT is anticipated to increase from 30.0% (as at 31 December 2021) to approximately 36.3% immediately following Completion, assuming: (a) completion of the Acquisition; (b) HKD975.0 million (equivalent to approximately RMB794.9 million) drawn down under the Upsized Existing Facility to finance the cash Consideration and the Total Fees and Charges; and (c) the settlement of the ICBC Facility and drawdown of the PAB Facility by the Project Company. Such ratio is below the 50% limit permitted under the REIT Code.

5. INFORMATION ON THE TARGET PROPERTY

5.1 The Target Property

5.1.1 Description

The Target Property comprises: (a) the entire seven-storey shopping mall (including two basement floors) known as "Huamao Place" (華貿天地); and (b) 700 underground and 50 above-ground carpark spaces located at No. 9, First Wenchang Road, Huicheng District, Huizhou, Guangdong Province, the PRC. The Target Property is the retail component of a larger integrated development known as "Huizhou Central Place" (惠州華貿中心) and includes, among other things, three Grade-A office buildings, three residential buildings and a serviced apartment building.

Situated within the CBD of Huizhou, the Target Property is surrounded by major roads and other public facilities and attractions, such as Huizhou West Lake, Huizhou Museum, Huizhou Science & Technology Museum and Dayun Temple. It is accessible by expressways and intercity railway to the rest of the Greater Bay Area.

Simplified charts showing the expected holding structure of the Target Property immediately before and after Completion are contained in sections 2.3 and 2.4 headed "Reorganisation" and "Expected Holding Structure of the Target Property after Completion" in this Circular.

5.1.2 Key Information

The table below sets out certain key information on the Target Property as at 28 February 2022, unless otherwise indicated.

Address	Huamao Place, No. 9 First Wenchang Road, Huicheng District, Huizhou, Guangdong Province, the PRC
Month and year of completion	March 2011
Term of land use rights (1)	The period commencing on 1 February 2008 and ending on 1 February 2048
Operating term of Project Company	Long term (2)
Building ownership certificate	Registered on 29 August 2012

Gross floor area	144,925.07 sq.m.
Gross lettable area	107,088.82 sq.m.
Number of carpark spaces	700 underground and 50 above-ground carpark spaces
Number of tenancies	403
Average rent (RMB/sq.m./month) for February 2022 [(3)]	RMB143.54 (based on gross lettable area)
Percentage of gross lettable area of top 10 tenants [(4)]	29.3%
Percentage of gross rental income from top 10 tenants for February 2022 [(4)]	10.3%
Occupancy rate [(5)]	96.2%
Net property income for the year ended 31 December 2021 [(6)]	RMB169.1 million
Appraised Value as at the Valuation Date	RMB2,691 million
Cost of the Target Property (being the original land acquisition cost and construction cost attributable to the development of the Target Property) as at 31 December 2021	RMB680.8 million

Notes:

(1) As advised by the Manager's PRC legal adviser, according to the Law of the People's Republic of China on Administration of Urban Real Estate, if the land user intends to continue to use the land upon expiry of the use term, such user shall file an application for extension at least one year prior to expiry of the use term, the approval shall be granted except that the land needs to be expropriated for social public interest. Upon approval on extension, a new land use right grant contract shall be signed and the land premium shall be paid according to the relevant regulations. Further, there is no expiry date regarding the building ownership right. As such, as advised by the Manager's PRC legal adviser, unless the government plans to expropriate the land due to public interest, there will not be any material legal impediment for extension of the land use right.

(2) As advised by the Manager's PRC legal adviser, the Project Company's business licence (營業執照) states that its operating term is for long term and does not specify the expiry date of such term. Except in certain events such as where its business licence is revoked or cancelled due to certain breaches of laws and regulations or where its legal status is extinguished under circumstances permitted by laws and regulations, the Project Company may continue to exist and operate validly.

(3) Average rent (based on gross lettable area) is based on actual rent, which is comprised of fixed rent, variable rent, operation and management fee, commission income collected from tenants, and price difference retained in the Project Company from the operation of Beauty Stores.

(4) Top 10 tenants by gross lettable area. This includes the Supermarket Lessee occupying approximately 7.2% of the gross lettable area of the Target Property and contributing approximately 1.2% of the Property Company's monthly gross rental income in February 2022. As at the Latest Practicable Date, the Supermarket Lease was in the process of being terminated (please refer to section 2.8.3 headed "Litigation with Supermarket Lessee" in this Circular for details), and the Manager understands from the Sellers that the Project Company was proactively identifying and engaging with potential new tenants to replace the Supermarket Lessee. Excluding the Supermarket Lessee, the percentage of gross lettable area of and gross rental income from the next top 10 tenants for the month of February 2022 would be 23.1% and 9.5% respectively.

(5) Occupancy rate calculated based on total leased area over gross lettable area, which excludes the carpark spaces of the Target Property. The occupancy rate of 96.2% as at 28 February 2022 includes area attributable to the Supermarket Lease, representing approximately 7.2% of the gross lettable area of the Target Property and contributing approximately 1.2% of the Project Company's monthly gross rental income in February 2022. As at the Latest Practicable Date, the Supermarket Lease was in the process of being terminated (please refer to section 2.8.3 headed "Litigation with Supermarket Lessee" in this Circular for details), and the Manager understands from the Sellers that the Project Company was proactively identifying and engaging with potential new tenants to replace the Supermarket Lessee. Excluding the Supermarket Lessee, the occupancy rate would be 89.1%.

(6) Calculated by deducting direct operating expenses from total revenue. Total revenue consists of rental income and all income accruing or resulting from the operation of the Target Property. Direct operating expenses include property taxes, other taxes, electricity and water, subcontracting property management fee and cost of sales.

5.1.3 Key Financial Information

Based on the Accountant's Report of the Project Company, the following table contains certain financial information of the Project Company for the three years ended 31 December 2019, 31 December 2020 and 31 December 2021 in accordance with International Financial Reporting Standards:

	For the year ended 31 December 2019 *(RMB'000)*	**For the year ended 31 December 2020** *(RMB'000)*	**For the year ended 31 December 2021** *(RMB'000)*
Revenue	185,909	185,751	217,911
Fair value gain/(loss) of investment property	125,000	(161,000)	349,315
Profit/(loss) before income tax	244,477	(34,069)	495,956
Profit/(loss) and total comprehensive income/(loss) for the year	180,315	(28,563)	364,119

Based on the Accountant's Report of the Offshore Target Company, the following table contains certain financial information of the Offshore Target Company for the three years ended 31 December 2019, 31 December 2020 and 31 December 2021 in accordance with International Financial Reporting Standards:

	For the year ended 31 December 2019 *(RMB'000)*	**For the year ended 31 December 2020** *(RMB'000)*	**For the year ended 31 December 2021** *(RMB'000)*
Revenue	–	–	–
Net profits before income tax	–	–	–
Net profits after income tax	–	–	–

There has been no change in the shareholding of the Offshore Target Company since the date of incorporation and, based on the Accountant's Report and the information provided by the Sellers, the Offshore Target Company has been dormant since its incorporation. No profit or loss is attributable to the HK Intermediary Company or the PRC Intermediary Company as they will only be incorporated prior to Completion pursuant to the Reorganisation.

5.1.4 Tenant Profile and Details of Occupancy Mix

The table below sets out details of the overall tenant diversification of the Target Property, in terms of trade sub-sector by reference to gross lettable area as at 28 February 2022 and gross rental income for February 2022, based on information provided by the Sellers:

Trade sector	Percentage by gross lettable area	Percentage by gross rental income
Apparel	33.2%	32.7%
Food	25.8%	23.2%
Entertainment	7.9%	3.8%
Kid's Fashion and Lifestyle	5.3%	5.5%
Others (including supermarket)	24.0%	34.8%
Total	**96.2%**	**100.0%**

5.1.5 Schedule of Occupancy Expirations

The table below sets forth details of the percentage of expiries in respect of the Target Property's occupancy under the Leases, Joint Operation Agreements and Direct Operation Agreements as at 28 February 2022, which are scheduled to take place during the periods indicated below, by reference to the gross lettable area as at 28 February 2022 and the gross rental income for February 2022, and assuming the Leases, Joint Operation Agreements and Direct Operation Agreements will not be renewed, based on information provided by the Sellers:

Period	Percentage by gross lettable area	Percentage by gross rental income
Year ending 31 December 2022	29.3%	45.3%
Year ending 31 December 2023	17.6%	24.1%
Year ending 31 December 2024	8.4%	9.5%
Year ending 31 December 2025	6.2%	7.0%
Year ending 31 December 2026 and beyond	34.7%	14.1%
Total	**96.2%**	**100.0%**

5.1.6 Top 10 Tenants (by leased area)

The table below sets out the proportion of gross lettable area as at 28 February 2022 and total gross rental income for February 2022 for the top 10 tenants (by leased area), based on information provided by the Sellers:

No.	Trade sector of top 10 tenants	Occupancy expiry	Percentage by gross lettable area	Percentage by gross rental income for February 2022
1	Supermarket [(1)]	30 April 2031	7.2%	1.2%
2	Entertainment	12 June 2026	6.8%	2.7%
3	Food	18 April 2026	4.0%	0.8%
4	Apparel	30 June 2026	3.2%	0.4%
5	Others	31 March 2026	1.7%	2.1%
6	Apparel	30 June 2028	1.4%	0.3%
7	Apparel	24 June 2031	1.4%	0.5%
8	Food	24 September 2026	1.4%	0.9%
9	Food	30 June 2029	1.1%	0.4%
10	Entertainment	30 April 2025	1.1%	1.0%
Total			**29.3%**	**10.3%**

Notes:

(1) As at the Latest Practicable Date, the Supermarket Lease was in the process of being terminated (please refer to section 2.8.3 headed "Litigation with Supermarket Lessee" in this Circular for details), and the Manager understands from the Sellers that the Project Company was proactively identifying and engaging with potential new tenants to replace the Supermarket Lessee.

5.1.7 Top 10 tenants (by gross rental income)

The table below sets out the proportion of gross lettable area as at 28 February 2022 and total gross rental income for February 2022 for the top 10 tenants (by gross rental income), based on information provided by the Sellers:

No.	**Trade sector of top 10 tenants**	**Occupancy expiry**	**Percentage by gross lettable area**	**Percentage by gross rental income for February 2022**
1	Others	31 August 2022	0.2%	3.7%
2	Entertainment	12 June 2026	6.8%	2.7%
3	Others	31 March 2026	1.7%	2.1%
4	Others	31 March 2023	0.2%	2.0%
5	Supermarket (1)	30 April 2031	7.2%	1.2%
6	Entertainment	30 April 2025	1.1%	1.0%
7	Food	24 September 2026	1.4%	0.9%
8	Others	31 March 2023	0.7%	0.9%
9	Apparel	23 December 2024	0.6%	0.9%
10	Food	18 April 2026	4.0%	0.8%
Total			**23.9%**	**16.2%**

Notes:

(1) As at the Latest Practicable Date, the Supermarket Lease was in the process of being terminated (please refer to section 2.8.3 headed "Litigation with Supermarket Lessee" in this Circular for details), and the Manager understands from the Sellers that the Project Company was proactively identifying and engaging with potential new tenants to replace the Supermarket Lessee.

5.1.8 Delinquency Rates

No provision was made for unpaid rents for each of the three years ended 31 December 2019, 31 December 2020 and 31 December 2021 in respect of the Target Property.

5.2 Property Valuation

Knight Frank Petty Limited, the current principal valuer of Spring REIT, has been appointed as the Independent Property Valuer to appraise the value of the Target Property for the purpose of the Acquisition. The Appraised Value of the Target Property (as assessed by the Independent Property Valuer as at the Valuation Date) was RMB2,691 million. The Agreed Property Value represents an approximate 9.3% discount to the Appraised Value.

In arriving at the Appraised Value, the Independent Property Valuer has made use of the income capitalisation method, which is appropriate for valuation of properties with stable and uniform lease terms, and cross-checked with reference to the market approach. The income capitalisation method takes into account the rental income of the Target Property derived from existing Leases, Joint Operation Agreements and Direct Operation Agreements and the rental income which is achievable in the existing market, with due allowance for reversionary income potential, which were then capitalised to determine the market value at an appropriate capitalisation rate. The market approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

As the Appraised Value only relates to the valuation of the Target Property, it does not take into account the financing and shareholding structure of the Target Property and is not equivalent to the value of the Target Group. Accordingly, the parties have agreed to adjust the Relevant Proportion Agreed Property Value in the manner described in section 2.5.2 headed "Consideration and Payment Terms for the Acquisition" in this Circular.

5.3 Ownership

Spring REIT will not directly hold its interest in the Target Property. Instead, such interest in the Target Property will be held on trust for Spring REIT by the Trustee in accordance with the provisions of the Trust Deed. More specifically, the Trustee will, through the SPVs of Spring REIT, hold Spring REIT's 68% interest in the Project Company, which is the registered legal owner of the land use rights and current ownership rights underlying the Target Property.

The Manager's PRC legal adviser has advised that the Project Company has legally obtained the state-owned land use rights in respect of the Target Property and that it is the registered legal user of the land use rights and the registered legal owner of the building ownership rights underlying the Target Property. The Project Company has legal ownership of the Target Property and can legally and beneficially own, use occupy, transfer and lease out the Target Property in accordance with the relevant PRC laws. The Manager's PRC legal adviser has also advised that the Project Company is the sole user of the land use rights and the sole owner of the building ownership rights underlying the Target Property and that such rights are free from encumbrances, subject to the conditions of the PAB Facility, Leases, Joint Operation Agreements and Direct Operation Agreements.

Based on the above, the Manager's PRC legal adviser is of the view that the Project Company can legally and beneficially own, use, occupy, transfer and lease out the Target Property in accordance with the relevant PRC laws free from encumbrances, subject to the conditions of the PAB Facility, Leases, Joint Operation Agreements and Direct Operation Agreements. Based on the above advice of its PRC legal adviser, the Manager is of the view that the Project Company has good, marketable, legal and beneficial title to the Target Property.

According to the *Law of the People's Republic of China on Administration of Urban Real Estate* (中華人民共和國城市房地產管理法), if the land user intends to continue to use the land upon expiry of the use term (being 1 February 2048 in respect of the Target Property), such user shall file an application for a land use right extension at least one year prior to expiry of the use term. The approval shall ordinarily be granted except when the land needs to be expropriated for social public interest. If the land use right extension is approved, a new land use right grant contract shall be signed and the land premium shall be paid according to the relevant regulations. For the reasons above, the Manager's PRC legal adviser has advised that a land user may extend the land use right in accordance with PRC laws and administrative regulations, unless the PRC government plans to expropriate the land due to public interest, and there will not be any material legal impediment for extension of the land use right.

The Manager's PRC legal adviser has advised that there is no material legal impediment on the remittance of dividends on retained earnings of the Project Company out of the PRC to the respective holding companies of the Onshore Purchaser and the PRC Intermediary Company, provided that such remittance is made and tax-levied in accordance with the procedures set out under the relevant PRC laws and regulations, including but not limited to those on foreign investment, tax, foreign exchange and business registration, and that such remittance is not made in breach of the terms relating to the PAB Facility (including the PAB Property Mortgage).

5.4 Tenancies

The terms of the Leases, the Joint Operation Agreements and Direct Operation Agreements which were subsisting as at 28 February 2022 have been reviewed by the Manager's PRC legal advisers as part of legal due diligence.

5.4.1 Leases

The major Leases entered into for the Target Property are generally for terms ranging from one to five years, while the proportion of lessees with a lease term of more than 5 years is approximately 5.6%. Most Leases have fixed terms, but in some leases the lessees and the Project Company (as lessor) have agreed on an optional term for renewal apart from the fixed term, in which case, the rental increase shall be re-determined through negotiation between both parties in accordance with the market conditions for commercial retail premises.

At the time of entering into a Lease, the lessees are required to provide a non-interest bearing security deposit, which is generally an amount equivalent to three months' rent. Most of the lessees are required to pay their rent on or before the 25th day of each month. Consistent with market practice, fitting-out periods during which no rent is payable, which vary depending on market conditions at the time of negotiation, lease terms and lease areas, are commonly granted to the lessees.

Under the Leases, the lessees are responsible for payment of building and operations management fees, utilities and other outgoings. The lessees are also responsible for repair costs and all other expenses relating to the interior of the premises, while the Project Company (as lessor) is responsible for repair costs relating to the main building structure. In the event that the premises or any part of it is rendered unfit for use by fire, typhoon or other force majeure events other than as a result of the negligence or fault of the lessees, according to most of the Leases, the Project Company (as lessor) or the lessees shall be entitled to terminate the relevant Leases upon serving prior written notice to the other party if the situation has not been rectified for more than six months. The lessees are not permitted to assign or sublet the premises under the Leases.

The majority of the Leases do not enable the lessees to terminate their Leases ahead of the scheduled expiration dates, unless the Project Company (as lessor) delays in delivery of the premises or the premises have defects which render the premises unusable and the circumstances are serious. If a lessee unilaterally terminates the Lease for reasons other than the ones mentioned above without the Project Company's consent, such lessee shall pay to the Project Company an amount equivalent to the sum of all rent for the rest of the lease period and forfeit the security deposit as liquidated damages. The Project Company is entitled to forfeit all the security deposit paid and all the rent prepaid by such lessee to offset the liquidated damages and losses. In addition, the Project Company has the right to terminate a Lease upon the occurrence of certain events, such as delay in rental payment over a specified period or breach of covenants by the lessee.

5.4.2 Joint Operation Agreements

General

Historically, certain parties (the "**operators**") that do not have a local legal entity to enter into leases at the Target Property have instead entered into Joint Operation Agreements with the Project Company. All such operators are internationally or regionally recognised fashion retailers, except for one which is an internationally recognised jewellery chain.

The economic features of Joint Operation Agreements are akin to Leases in that: (a) the Project Company receives a monthly rent-equivalent under the Joint Operation Agreements expressed as a percentage of the premises' gross income (similar to monthly turnover rent under a lease) and, in approximately half of the cases, subject to a minimum amount (similar to monthly base rent under a lease); (b) the operator enjoys the profit (or bears the loss) from its operation of the premises after payment of its monthly rent-equivalent to the Project Company; and (c) other common lease terms (such as those relating to term, security deposit, maintenance) are documented in the Joint Operation Agreements as further described below.

Joint Operation Agreements are less common than Leases at the Target Property. As at 31 December 2019, 2020 and 2021, the area of the premises at the Target Property subject to Joint Operation Agreements represented approximately 6%, 5% and 4% of the total leased area of the Target Property respectively and, based on information provided by the Sellers, the actual rent derived from the Joint Operation Agreements accounted for approximately 11.6%, 8.5% and 8.0% of the actual rent of the Target Property for the years ended 31 December 2019, 2020 and 2021 respectively.

The Manager's PRC legal adviser has advised that the Joint Operation Agreements are legal and enforceable under PRC laws and regulations. The Manager's PRC legal adviser also advised that under the PRC law, the liabilities of a limited company, being a legal entity separate from its shareholder(s), are limited to the assets of that company, and accordingly, any liability in connection with product liability or quality control claims and administrative penalties will be limited to the extent of the Project Company's assets. In addition, under the Joint Operation Agreements, the operators are required to resolve and settle any product liability or quality control claims or administrative penalties arising from the operator's delay in resolving or settling such claims or penalties, the operators shall also indemnify the Project Company for such loss or the Project Company may claim against the operators for such loss. In the event that an operator fails to indemnify the Project Company within seven days upon receiving the Project Company's notices or such other period as agreed under the Joint Operation Agreements, the Project Company will be entitled to forfeit the security deposit paid by that operator and terminate the Joint Operation Agreement. Furthermore, under the relevant Acquisition Agreement, the Offshore Seller and the Onshore Seller have agreed to indemnify the Offshore Purchaser and the Onshore Purchaser respectively in respect of the aforementioned liabilities arising prior to Completion, subject to the Maximum Cap Liability.

Having regard to the economic benefits and below-mentioned terms and limitations on and safeguards against potential liabilities of the Joint Operation Agreements, the Manager considers that the Joint Operation Agreements are consistent with the Manager's investment strategy, comply with the Trust Deed and the REIT Code and are in the best interests of the Unitholders.

Allocation of key responsibilities and potential liabilities

Each Joint Operation Agreement does not involve the formation of a joint venture between the Project Company and the operator, but rather, it is an agreement under which the parties agree to certain roles and responsibilities (to be discharged in their independent personal capacities) in respect of the relevant premises. Generally:

(a) the Project Company's key responsibilities include: (i) delivering the premises to the operators; (ii) arranging events in the Target Property's common areas; (iii) collecting the gross income from the premises and paying part of the same (as specified in the Joint Operation Agreements) to the operators; and (iv) issuing tax invoices in its own name to end customers; and

(b) the operator's key responsibilities include: (i) using the premises as agreed and starting the business after the Project Company's requirements have been satisfied (including but not limited to the operator obtaining proper permits/licenses, staff, goods, facilities and cashier); (ii) deciding the prices for goods, returning or changing the goods, keeping inventory; (iii) maintaining cleanliness and ensuring property and personal safety on the premise; (iv) purchasing erection all risk insurance and public liability insurance for the premises; and (v) reporting income to the Project Company.

As the Joint Operation Agreements can legally be construed as an agreement setting out the rights and obligations of the parties in respect of the relevant premises, the Project Company can technically be construed as being responsible for the operations of the retail business at the premises through its abovementioned limited responsibilities under the Joint Operation Agreements. As the Project Company is a property holding special purpose vehicle with no employees, such responsibilities shall be discharged by the Property Manager in accordance with its duties and obligations under the Property Management Agreement.

Based on advice from the Manager's PRC legal adviser, according to *Article 509 of the PRC Civil Code*, each party shall perform and bear civil liability for their respective duties and obligations in accordance with the joint operation agreement. As the Project Company is not a party to the contracts entered into in respect of the operation of the premises (e.g. employment contracts, supply contracts) as these are entered into between the operator (in its own name) and third parties, the Project Company shall not be liable for the responsibilities of the operator thereunder, even where the operator seeks to avoid liability (e.g. salary, costs of goods) with such third parties, although it may be liable for how the operator operates the premises in the limited circumstance described below.

One difference between the Joint Operation Agreements and Leases is that under the former, the Project Company is responsible for issuing tax invoices in its own name to end customers, which may potentially cause the Project Company to be responsible for mainly product liability and/or quality control claims, customer disputes and/or administrative penalties arising from the operators' operation of the relevant premises. The Manager's PRC legal adviser has advised that under PRC law, the liabilities of a limited company, being a legal entity separate from its shareholder(s), are limited to the assets of that company, and accordingly, any liability in connection with product liability or quality control claims and administrative penalties will be limited to the extent of the Project Company's assets. Under the Joint Operation Agreements, the operators are required to resolve and settle any product liability or quality control claims or administrative penalties arising from the operators' operation of the relevant premises. If the Project Company suffers a loss as a result of the operators' delay in resolving or settling such claims or penalties, the operators shall also indemnify the Project Company for any such loss or the Project Company may claim against the operators for any such loss. In the event that an operator fails to indemnify the Project Company within seven days upon receiving the Project Company's notices or such other period as agreed under the Joint Operation Agreements, the Project Company will be entitled to forfeit the security deposit paid by that operator, and terminate the Joint Operation Agreement. In addition, the Project Company may bring a claim against such operator before the PRC courts. Furthermore, under the relevant Acquisition Agreement, the Offshore Seller and the Onshore Seller have agreed to indemnify the Offshore Purchaser and the Onshore Purchaser respectively in respect of the aforementioned liabilities arising prior to Completion, subject to the Maximum Cap Liability.

Given the brand reputation of the operators and the nature of their businesses, the Manager considers the risk of product liability or quality control claims or administrative penalties, as well as the risk of the operators not being able to indemnify the Project Company, to be low. Having regard to: (a) the income historically derived from the Joint Operation Agreements as a percentage of the Project Company's total revenue; (b) the area of the premises subject to the Joint Operation Agreements as compared to the total leased area of the Target Property; (c) the nature of the business conducted by majority of the operators; (d) the abovementioned indemnities from the operators and other recourse available to the Project Company; and (e) the abovementioned indemnity from the Sellers, the Manager does not consider the Joint Operation Agreements to pose a material risk to Spring REIT and is of the view that the interests of Unitholders are adequately protected against the abovementioned potential liabilities.

Notwithstanding the above, the Manager will work with the JV Partner and use best endeavours to change the Joint Operation Agreements to leases at the end of their term and limit the number of Joint Operation Agreements to exceptional situations where it is impracticable to enter into leases with key reputable operators. No Joint Operation Agreement shall be entered into unless: (a) the operator is a reputable operator; (b) satisfactory indemnities (including security deposit) are provided; and (c) the entering into of the Joint Operation Agreement is in the best interest of the Project Company. Further, the Manager will work with the JV Partner to ensure that the area of the premises at the Target Property subject to Joint Operation Agreements represents less than 10% of the total leased area of the Target Property. Although it is not open to the Project Company to unilaterally terminate the subsisting Joint Operation Agreements without risking a breach of contract, except in certain limited circumstances described below, the Manager will work with the JV Partner and use best endeavours to reduce the number of Joint Operation Agreements over time.

Other terms of the Joint Operation Agreements

The Joint Operation Agreements are generally for terms ranging from seven months to 71 months. At the time of entering into a Joint Operation Agreement, most of the operators are required to pay a non-interest bearing security deposit ranging in various amounts (with the maximum up to approximately RMB300,000).

Under the Joint Operation Agreements, the operators are responsible for all costs in relation to operating the relevant premises, including the building management fees, utilities and other outgoings, repair costs and all other expenses relating to the interior of the premises. The Project Company is only responsible for costs that are typically borne by property owners, such as repair costs relating to the main building structure.

In the event that the premises or any part of it is rendered unfit for use by fire, typhoon or other force majeure events other than as a result of the negligence or fault of the operators, according to most of the Joint Operation Agreements, the Project Company or the operators shall be entitled to terminate the relevant Joint Operation Agreements upon serving prior written notice to the other party if the situation has not been rectified for more than six months. The operators are not permitted to assign the premises under the Joint Operation Agreements.

The Joint Operation Agreements do not enable the operators to terminate their Joint Operation Agreements ahead of the scheduled expiration dates, except in serious circumstances such as where the Project Company delays in delivery of the premises or the premises have defects which render the premises unfit for use. If an operator unilaterally terminates the Joint Operation Agreement for reasons other than the ones mentioned above without the Project Company's consent, such operator shall pay to the Project Company an amount equivalent to the sum of certain percent of income for the rest of the Joint Operation Agreement period, which shall be calculated based on the income of the month when the Joint Operation Agreement is terminated, and forfeit the security deposit as liquidated damages. The Project Company is entitled to forfeit all the security deposit paid and all the rent prepaid by such operator to offset the liquidated damages and losses. In addition, the Project Company has the right to terminate a Joint Operation Agreement upon the occurrence of certain events, such as repeated delays in providing sales reports despite notice and false reporting on sales performance.

5.4.3 *Direct Operation Agreements and Direct Operation Leasing Framework Agreement*

Based on information provided by the Sellers, as at the Latest Practicable Date, there were six designated units (each, a "**Beauty Store**") under Direct Operation Agreements entered into in respect of five internationally recognised beauty products brands (the "**Beauty Retailers**"), of which one had been entered into between the Project Company and the Beauty Retailer with the remaining being entered into between the Direct Operation Lessee and the Beauty Retailer. Under each Direct Operation Agreement, the Project Company or the Direct Operation Lessee (as the case may be) is appointed as an authorised retailer of the relevant Beauty Retailer's merchandise and agrees to acquire merchandise from the relevant Beauty Retailer at a discount to the retail price and offer such merchandise for sale at the retail price at the relevant Beauty Store within the Target Property, and the price difference will be retained by the Project Company or the Direct Operation Lessee (as the case may be) as profit from the operation of the relevant Beauty Store. The employees of the relevant Beauty Retailer or its agent will be responsible for product sales and marketing activities at the relevant Beauty Store, and the Project Company or the Direct Operation Lessee (as the case may be) will be responsible for issuing tax invoices in its own name to end customers.

Based on advice from the Manager's PRC legal adviser, in respect of the Direct Operation Agreement to which the Project Company is a party, since the Project Company is responsible for issuing tax invoices in its own name to end customers, this may potentially cause the Project Company to be responsible for mainly product liability and/or quality control claims, customer disputes and/or administrative penalties arising from the operation of the relevant Beauty Store.

The Manager understands from the Sellers, and has confirmed with the Market Consultant, that Direct Operation Agreements are a normal operating model in the PRC for introducing international beauty brands to the local retail market. To accommodate such arrangement without the Project Company assuming the risk of the retail operations, the Direct Operation Lessee or its designated associate will assume the Project Company's rights, obligations and liabilities under the existing Direct Operation Agreement to which the Project Company is a party, as well as any other Direct Operation Agreements which may be entered into by the Project Company prior to Completion, and the Project Company will in turn lease the relevant premises to which each such Direct Operation Agreement relates to the Direct Operation Lessee or its designated associate (the Leases entered or to be entered into with the Direct Operation Lessee in relation to any existing Direct Operation Agreement shall be referred to as the "**Existing Direct Operation Leases**"). Such arrangement would effectively transfer the risk of the relevant retail operations to the Direct Operation Lessee on Completion, which the Manager believes would minimise Spring REIT's direct risk exposure to the relevant retail operations and sufficiently protect and safeguard the interests of the Unitholders. To ensure that the transition is done on or prior to Completion, the Sellers are obliged under the Acquisition Agreements to deliver the relevant novation agreements for the applicable existing Direct Operation Agreements and the corresponding Existing Direct Operation Leases to the Purchasers. As similar arrangements may be made for future prospective retailers who may prefer the operating model under Direct Operation Agreements and in cases where such operating model is the industry norm, the Manager expects that the Project Company will from time to time lease part of the Target Property to the Direct Operation Lessee or its designated associate, which will in turn enter into the Direct Operation Agreement with the relevant retailer. Therefore, upon Completion, the Project Company will enter into the Direct Operation Leasing Framework Agreement with the Direct Operation Lessee, which will set out the framework terms governing such Direct Operation Leasing Transactions.

The Direct Operation Leasing Framework Agreement, which will be entered into by the Project Company and the Direct Operation Lessee on the Completion Date, will be for a term commencing on the Completion Date and expiring on 31 December 2024. Thereafter, prior to the expiration of the term, the parties may mutually agree in writing to renew the agreement. Any renewal shall be subject to compliance with the relevant requirements of the REIT Code and the Listing Rules.

Under the Direct Operation Leasing Framework Agreement, the Project Company and the Direct Operation Lessee agree that each Direct Operation Leasing Transaction shall be entered into or otherwise conducted upon negotiation on a case-by-case basis: (a) in writing; (b) on an arm's length basis; (c) on normal commercial terms that are fair and reasonable; (d) at a rent and/or licence fee (as the case may be) that is determined by reference to the then prevailing market rate for the Target Property (which shall be based on the then prevailing market rate for properties in the vicinity of similar location and for similar purposes), with the basis of any management or service fee chargeable in connection with such tenancies or licences being the same as that of such fees chargeable to other independent third party tenants or licensees of the Target Property; and (e) in compliance with the terms of the Direct Operation Leasing Framework Agreement and all applicable provisions of the REIT Code, the Listing Rules and the Trust Deed.

In assessing whether each Direct Operation Leasing Transaction is entered into based on the then prevailing market rate for the Target Property and on normal commercial terms, the Manager shall arrange for an independent valuation to be conducted for each such transaction before the transaction is first entered into.

5.5 Management Strategy

5.5.1 Overall Strategy

Should the Acquisition be completed, the Manager intends to continue with the same key objectives and principal investment strategies for Spring REIT. Certain aspects of these strategies are described below.

5.5.2 Optimise Tenant Mix

The Manager will continue to actively manage lease expirations to identify opportunities to maintain an optimal mix. The Manager intends to continue to verify the backgrounds of new tenants before entering into leases, including the nature of their business and their customers, and focus on maintaining a high quality tenant base to promote the prestigious status of the Target Property and the Existing Properties, to facilitate the stability of rental income.

5.5.3 Control Property Expenses

The Manager will continue to work closely with the property managers of Spring REIT's properties to control property expenses without compromising the quality of services to tenants. The Manager will continue to monitor expenses closely against the annual maintenance and renovation plan.

5.5.4 Increasing Returns through Asset Enhancement

The Manager will continue to explore scope for improvements that will create additional value for the properties of Spring REIT and thus the value of Spring REIT. Advice from professional consultants and advisers will be sought for any possible asset enhancement plan as and when appropriate. Possible enhancement measures include modifications of the lettable space, change or addition of use and increasing the connectivity and accessibility of the properties of Spring REIT, subject to compliance with all the relevant laws and regulations.

As at the Latest Practicable Date, there were no specific plans for renovation or improvement of the Target Property, other than to continue ongoing renovation works in the ordinary course of business. Such activities may or may not be carried out, depending on the needs of the Target Property as the Manager and the JV Partner consider appropriate.

5.5.5 Maximising Occupancy Rate and Long-term Value of the Properties of Spring REIT

The Manager will seek to maximise the occupancy rate of the properties of Spring REIT by, among other things: (a) increasing retention rates of high quality tenants; (b) working with the property managers and/or building managers of such properties to provide world-class professional services to meet the tenants' ongoing needs; (c) proactively managing tenancy renewals to minimise downtime arising from tenancy expirations or early termination; and (d) actively conducting marketing through property agents and advertising about such properties through the media to further increase the awareness of the properties of Spring REIT to attract new tenants.

5.6 Management of the Target Property

Following Completion, the JV Parties will enter into the Joint Venture Agreement under which the JV Partner's veto rights as shareholder of the Project Company will be limited to those set out in section 2.6.4 headed "Matters Requiring Unanimous Approval" in this Circular. Therefore, having regard as well to its 68% interest in the Project Company and majority of its Board seats, Spring REIT will have majority ownership and control over the Target Property.

The Manager will work with the JV Partner and supervise the Property Manager and the Building Manager in respect of the day-to-day management of the Target Property. On Completion, the Project Company will enter into the Property Management Agreement with Huizhou Huamao Operations Management Co., Ltd.* (惠州華貿商業管理有限公司) as Property Manager and the Building Management Agreement with Beijing Huamao Property Management Co., Ltd. Huizhou Branch* (北京華貿物業管理有限公司惠州分公司) as Building Manager for provision of management services in respect of the Target Property.

The Target Property has historically been managed by staff of Huamao Group. Beijing Guohua has extensive experience in the commercial and retail real estate sector in the PRC. It is the developer of China Central Place, a prime mixed-use development complex in the CBD of Beijing comprising office, hotel, retail and residential components. Huamao Group manages certain retail portions of the China Central Place complex and is a joint owner of the SKP Beijing property, one of the largest department stores by sales in the PRC which is also located within the China Central Place complex. The Manager understands that key management staff of the Property Manager and the Building Manager will be selected from the team that has historically been managing the Target Property, and will therefore have extensive experience in providing the relevant services in respect of the Target Property. This will ensure continuity of management services after Completion.

The Manager has reviewed and conducted appropriate due diligence on the Property Manager and the Building Manager in order to be satisfied that each of them has the necessary skills, resources, competencies and capabilities to fulfil its role with respect to the Target Property. Having regard to the above and how the Target Property has been managed to date, the Manager is confident that the Target Property will continue to be managed by staff with the requisite competence, experience and expertise for managing the Target Property and is satisfied with the Property Manager and the Building Manager being appointed to continue to manage the Target Property after Completion.

5.6.1 Property Management Agreement

Under the Property Management Agreement, which will be entered into by the Project Company and the Property Manager on the Completion Date, the Property Manager agrees to provide property management services in respect of the Target Property for a term commencing from the Completion Date and expiring on 31 December 2024. Subject to the parties' agreement, the term of the Property Management Agreement can be extended for an additional three years.

To facilitate the management of the Target Property, the Project Company will also lease part of the Target Property (the area of which is equal to approximately 0.4% of the gross floor area of the Target Property) to the Property Manager for the same period as office space from which the Property Manager will carry out its property management activities (the "**PM Office Lease**"). Under the PM Office Lease, which will be entered into by the Project Company and the Property Manager on the Completion Date, the annual rent under such lease will be RMB114,300 (including value-added tax) and will be payable annually in advance. The Manager has also obtained an opinion from the Independent Property Valuer that the rent payable under the PM Office Lease is fair and reasonable and in line with the prevailing market rates in similar location and usage in the PRC, and the PM Office Lease is on normal commercial terms. The Property Manager (as lessee) has an option to renew the lease by serving three months' prior written notice, in which case the parties must enter into a renewal lease prior to the original lease's expiry, with the key terms thereof, such as lease term and rent, agreed and determined by reference to the then prevailing market levels.

Under the Property Management Agreement, the Property Manager will be entitled to receive from the Project Company: (a) a fee equivalent to 3% of the annual revenue of the Project Company (which refers to the revenue generated by the Target Property but excludes, among other things, the revenue generated by the carpark spaces, which shall be settled on a monthly basis and subject to an annual adjustment based on the annual audit of the Project Company), and the corresponding value-added tax; and (b) a fee equivalent to the Property Manager's human resource costs (which includes salaries, bonuses, benefits and social insurance premiums, the budget of which shall be approved by the Project Company in advance and settled in advance on a monthly basis and subject to an annual adjustment based on the annual audit of the Project Company), and the corresponding value-added tax.

Under the Property Management Agreement, the Property Manager is required to bear all expenses it incurs for carrying out the services and performing its obligations under the Property Management Agreement or for its operation, save and except for the following expenses and costs, which shall be borne by the Project Company:

(a) operation and management expenses in relation to the Target Property, including taxes in connection with the revenues from the Target Property, utilities of unoccupied parts of the Target Property, insurance premiums, promotion and advertising expenses and fees and administrative costs in connection with third party advisers for the Target Property; and

(b) all other costs in relation to the Target Property (including expenses of third party advisers required for the operation of the Project Company and administrative expenses of the Project Company) to the extent approved in writing by the Project Company in advance. For the avoidance of doubt, all such other costs not approved in writing by the Project Company in advance shall be borne by the Property Manager pursuant to the Property Management Agreement.

The services to be provided by the Property Manager under the Property Management Agreement will include, among other things, leasing/joint operation management services, property management advisory services, marketing advisory services, financial management services and operational management services.

Pursuant to the Property Management Agreement, the Property Manager will be subject to ongoing supervision by the Project Company. The Property Manager will be required to provide (a) an operation management budget which shall contain, among other things, pricing strategies; and (b) a cost and expense management budget which shall contain, among other things, the revenue based management fee and the Property Manager's human resource costs, in each case on an annual basis within the required time for approval by the Project Company. Further, the Property Manager will be required to provide the Project Company with monthly, bi-annual and annual management reports, which should contain, among other things, a summary of the Leases and the Joint Operation Agreements, usage of the budget for the Project Manager's human resource costs, operating and management conditions of the Target Property, analysis on important market information, and other information as required by the Project Company. On an ad-hoc basis, the Property Manager will be obliged to provide updates on the management of the Target Property as and when requested by the Project Company. The Property Manager may not enter into leases and service agreements without first seeking the approval of the Project Company.

The Manager is of the view that the transactions under the Property Management Agreement and the PM Office Lease are: (a) consistent with Spring REIT's investment policy and in compliance with the REIT Code and the Trust Deed; (b) on terms which are fair and reasonable; (c) on normal commercial terms and in the ordinary and usual course of business of Spring REIT; and (d) in the interests of Spring REIT and the Unitholders as a whole.

Spring REIT shall re-comply with all applicable requirements under the REIT Code and the Listing Rules when it proposes to renew the Property Management Agreement, or to effect a material change to its terms, or when the annual cap is exceeded.

5.6.2 Building Management Agreement

Under the Building Management Agreement, which will be entered into by the Project Company and the Building Manager on the Completion Date, the Building Manager agrees to provide building management services in respect of the Target Property (including the carpark spaces) for a term commencing on the Completion Date and expiring on 31 December 2024, which is renewable by the parties' agreement.

To facilitate the management of the carpark spaces of the Target Property, all carpark spaces of the Target Property, comprising 700 underground and 50 above-ground carpark spaces which have not been generating any profits for the Project Company in the past few years, will also be master-leased to the Building Manager for the same period at an annual rent of RMB10,000 (the "**BM Carpark Lease**"), and the Building Manager will be entitled to the revenue derived from the operation of those carpark spaces but will also bear the expenses related to the same.

Under the Building Management Agreement, the Building Manager shall collect building management fees and other fees from the tenants and deposit such fees into an account jointly maintained by the Project Company and the Building Manager. The building management fees will be borne and paid entirely by the tenants. The Building Manager will be entitled to be paid from such account a commission of RMB2 per sq.m. per month (subject to increase if the building management fees increase during the term of the Building Management Agreement) with reference to the gross floor area of the Target Property. Utility charges of the Target Property (including the carpark spaces) will be borne by the Project Company. The Building Manager will specify the charges and the account of the Project Company to which such charges shall be paid to in the invoices issued to the tenants.

The services to be provided by the Building Manager under the Building Management Agreement will include, among other things, upkeep, repair and maintenance of the common areas and facilities of the Target Property, monitoring and security services, management and leasing services in respect of the carpark spaces, fire safety services, producing annual property management plans for the Project Company's review and approval as well as preparing user manuals and fitting-out manuals for the Target Property.

Pursuant to the Building Management Agreement, the Building Manager will be subject to ongoing supervision by the Project Company and the Property Manager. The Building Manager will be required to provide a building management budget report on an annual basis within the required time for approval by the Project Company. The building management budget report should include, among others, building management proposals and related costs. The Building Manager will also be required to provide the Project Company a monthly management report and a financial budget and implementation report.

5.7 Competition

According to the Market Consultant's Report, as at 31 December 2021, there were six shopping malls (including the Target Property) in Jiangbei. Among them, only the Target Property and Huizhou Kaisa Plaza (惠州佳兆業廣場) are positioned as mid to high-end shopping malls. In addition, as at 31 December 2021, there were five middle to high-end shopping malls in Huizhou, most of which are within 10 kilometres of the Target Property.

According to the Market Consultant's Report, out of the existing mid to high-end shopping malls in Huizhou, Huizhou Kaisa Plaza (惠州佳兆業廣場), Huizhou Ganghui Mall (惠州港惠購物中心) and Huizhou Longshan Jinshan Lake Center (惠州隆生金山湖中心) are identified as comparable properties with the Target Property due to their scale and reputation as shopping destinations in Huizhou.

According to the Market Consultant's Report, looking at Huizhou as a whole, it is expected that at least 11 shopping malls will open in the next five years, including four large shopping malls with retail gross floor area exceeding 100,000 sq.m.. Shopping malls would need to defend their position by developing their unique competitiveness in terms of tenant and footfall acquisition that are not typically possessed by other competitors. Shopping malls will also face increasing competition from e-commerce and will need to actively seek diversified businesses such as entertainment, lifestyle and family activities to provide consumers with one-stop shopping experiences which are irreplaceable by online retail channels.

6. FINANCIAL EFFECTS OF THE ACQUISITION

6.1 Pro Forma Financial Effects of the Acquisition

The pro forma financial effects of the Acquisition on total distributable income and NAV below are strictly for illustrative purposes and were prepared based on:

(a) the audited annual financial information of Spring REIT for the year ended 31 December 2021; and

(b) the audited financial information of the Offshore Target Company and the Project Company, respectively, for the year ended 31 December 2021 as set out in Appendices 2A and 2B headed "Accountant's Report of the Offshore Target Company" and "Accountant's Report of the Project Company" respectively to this Circular,

and assuming:

(i) the Consideration is an amount equal to:

(68% x A) – (68% x B) ± (68% x C) ± D

where:

"A" = Agreed Property Value of RMB2,442.0 million;

"B" = Amounts outstanding under the PAB Facility as at Completion;

"C" = Project Company Adjusted NAV (i.e. all assets of the Project Company(1) minus all liabilities of the Project Company(2)) as at Completion; and

"D" = Other Group Adjusted NAV (i.e. all assets of the Target Group(3) minus all liabilities of the Target Group(4)) as at Completion,

in each case, as set out in the Completion Statement.

Notes:

(1) Excluding the Target Property.

(2) Excluding deferred tax liabilities and amounts outstanding under the PAB Facility.

(3) Excluding assets held through the Project Company and the nominal value of the share capital investment in the HK Intermediary Company, the PRC Intermediary Company and the Project Company.

(4) Excluding liabilities held through the Project Company.

For illustrative purpose, as if the Acquisition was completed on 31 Demember 2021, the total amounts attributed to 68% of the PAB Facility, 68% of the Project Company Adjusted NAV and the Other Group Adjusted NAV amount to RMB544.0 million, RMB700.4 million and negative RMB179.7 million respectively.

The Consideration will be satisfied in the following manner: (a) RMB747.2 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 RMB890.0 million.

(ii) the Acquisition is considered as an asset acquisition under IFRS 3 "Business Combination" issued by the International Accounting Standards Board; and

(iii) other matters stated in sections 6.2 to 6.4 in this Circular.

The Manager considers the above assumptions to be appropriate and reasonable as at the Latest Practicable Date. However, Unitholders should consider the information outlined below in light of such assumptions and make their own assessment of the future performance of Spring REIT.

Based on the pro forma financial effects of the Acquisition as stated in this section as well as Appendix 3 headed "Unaudited Pro Forma Financial Information of the Enlarged Group" which provides a more detailed illustration of the financial effects of the Acquisition, the Manager does not foresee any material adverse impact on the financial position of Spring REIT as a result of the Acquisition.

Unitholders should note that the financial effects of the Acquisition are on a pro forma basis and subject to the assumptions set out in Appendix 3 headed "Unaudited Pro Forma Financial Information of the Enlarged Group" to the Circular. Accordingly, they do not constitute a profit forecast or represent the actual financial position of Spring REIT as a result of the Acquisition in the future.

6.2 Pro Forma DPU

The pro forma financial effects of the Acquisition on the DPU for the year ended 31 December 2021, as if the Acquisition was completed on 1 January 2021 and Spring REIT had held and operated the Relevant Proportion of the Target Property through to 31 December 2021, are as follows:

	Before the Acquisition	After the Acquisition
Net property income *(RMB'000)*	396,373	557,812
Total Distributable Income *(RMB'000)*	297,687[(1)]	336,932[(2)]
Issued Units *('000)*	1,476,003[(3)]	1,478,515[(4)]
DPU *(HK cents)*	22.0[(5)]	24.8[(6)]

Notes:

(1) Based on the audited consolidated statement of distribution of Spring REIT for the year ended 31 December 2021.

(2) The financial performance of the Enlarged Group is based on: (a) the audited consolidated financial information of Spring REIT for the year ended 31 December 2021 and the audited financial information of the Offshore Target Company and the Project Company for the year ended 31 December 2021; and (b) assuming the Acquisition was completed on 1 January 2021.

Total distributable income in respect of the Enlarged Group is determined in accordance with the Trust Deed and the annual report of the Group for the year ended 31 December 2021, that is, the consolidated profit before transactions with unitholders attributable to unitholders for the year ended 31 December 2021, after adjusting fair value gain on investment properties and right-of-use assets, deferred taxation in respect of fair value gain on investment properties and other tax deductions claimed, unrealised foreign exchange gain, manager's fee expense in units in lieu of cash, fair value gain on derivative financial instruments, amortisation of transaction cost for bank borrowings, gain on disposal of investment properties and depreciation attributable to Unitholders.

(3) Represents the aggregate of (a) 1,472,384,000 Units, being the number of issued Units as at 31 December 2021; and (b) 3,619,000 new Units issued to the Manager on 25 March 2022 in respect of the Manager's fee for the period from 1 October 2021 to 31 December 2021.

(4) Represents the aggregate of (a) 1,472,384,000 Units, being the number of issued Units as at 31 December 2021; (b) 3,619,000 new Units issued to the Manager on 25 March 2022 in respect of the Manager's fee for the period from 1 October 2021 to 31 December 2021; and (c) 2,512,000 new Units issued for payment of the Manager's fee for the Enlarged Group assuming the Acquisition had been completed on 1 January 2021.

(5) DPU before the Acquisition is calculated based on 90% of the total distributable income (note 1) and the number of issued Units (note 3). The exchange rate adopted for the DPU is HK$1=RMB0.8254.

(6) DPU after the Acquisition is calculated based on 90% of the total distributable income (note 2) and the number of issued Units (note 4). The exchange rate adopted for the DPU is HK$1=RMB0.8254.

6.3 Pro Forma NAV Attributable to Unitholders per Unit

The Acquisition is considered as an asset acquisition under IFRS 3 "Business Combination" issued by the International Accounting Standards Board, as substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset. As a result, the difference between the consideration paid and the fair value of the identifiable net assets acquired was recognised as a fair value adjustment to the carrying amount of the investment property. Also, no additional Units will be issued as settlement of the Consideration.

The pro forma financial effects of the Acquisition on the NAV attributable to Unitholders per Unit as at 31 December 2021, as if the Acquisition was completed on 31 December 2021, are as follows:

	Before the Acquisition	**After the Acquisition**
NAV attributable to Unitholders *(RMB'000)*	6,671,653(1)	6,671,653(2)
Issued Units *('000)*	1,476,003(3)	1,476,003(3)
NAV attributable to Unitholders per Unit *(HKD)*	5.54(4)	5.54(5)

Notes:

(1) Based on the audited consolidated statement of financial position of Spring REIT as at 31 December 2021.

(2) The financial position of the Enlarged Group is based on: (a) the audited consolidated financial statements of Spring REIT as at 31 December 2021 and the audited financial information of the Offshore Target Company and the Project Company as at 31 December 2021; and (b) assuming the Acquisition had been completed on 31 December 2021.

(3) Number of issued Units as at 31 December 2021, plus 3,619,000 new Units issued to the Manager on 25 March 2022 in respect of the Manager's fee for the period from 1 October 2021 to 31 December 2021.

(4) NAV attributable to Unitholders per Unit before the Acquisition is calculated based on NAV attributable to Unitholders (note 1) and the number of Issued Units (note 3). The exchange rate adopted for the NAV attributable to Unitholders per Unit is HK$1=RMB0.8152.

(5) NAV attributable to Unitholders per Unit after the Acquisition is calculated based on NAV attributable to Unitholders (note 2) and the number of Issued Units (note 3). The exchange rate adopted for the NAV attributable to Unitholders per Unit is HK$1=RMB0.8152.

6.4 Pro Forma Capitalisation

The following table sets forth the capitalisation of Spring REIT as at 31 December 2021 based on the Unaudited Pro Forma Financial Information of the Enlarged Group set out in Appendix 3 to this Circular, as if Spring REIT had completed the Acquisition on 31 December 2021.

	Actual *(RMB'000)*	**After the Acquisition** *(RMB'000)*
Total borrowings	2,960,830	4,555,729
Net assets attributable to Unitholders	6,671,653	6,671,653
Total capitalisation (1)	9,632,483	11,227,382

Notes:

(1) Total capitalisation equals to total borrowings plus net assets attributable to Unitholders.

7. CONTINUING CONNECTED TRANSACTIONS

7.1 Continuing Connected Transactions with the Property Manager

On Completion, the Project Company and the Property Manager will enter into the Property Management Agreement (and, in connection therewith, the PM Office Lease) pursuant to which the Property Manager agrees to provide property management services in respect of the Target Property. The Project Company and the Direct Operation Lessee (which is also the Property Manager) will also enter into the Direct Operation Leasing Framework Agreement. Please refer to sections 5.6.1 headed "Property Management Agreement" and 5.4.3 headed "Direct Operation Agreements and Direct Operation Leasing Framework Agreement" in this Circular for further details. For the avoidance of doubt, the Property Management Agreement and the PM Office Lease on the one hand and the Direct Operation Leasing Framework Agreement on the other hand are not inter-conditional upon each other.

7.2 Annual Caps

The respective annual caps (the "**Annual Caps**") applicable to the transactions under the Property Management Agreement, the PM Office Lease and the Direct Operation Leasing Framework Agreement for each of the following periods are set out in the following table:

	For the seven months ending 31 December 2022[1] *(RMB)*	For the year ending 31 December 2023 *(RMB)*	For the year ending 31 December 2024 *(RMB)*
Property Management Agreement	18,283,246	33,975,230	36,777,075
PM Office Lease	66,675	114,300	114,300
Direct Operation Leasing Framework Agreement	2,790,327	5,118,257	5,476,535

Notes:

(1) The annual cap for the seven months ending 31 December 2022 is calculated on a pro-rata basis which assumes Completion to take place immediately after the EGM in May 2022.

The Annual Caps set out in the table above should not be taken as the anticipated growth projections or indicators of the future performance of Spring REIT.

With respect to the Annual Caps applicable to the transactions under the Property Management Agreement, the Manager has considered that historically the Target Property was managed under an internal arrangement within the Sellers' group as opposed to by an external property manager. As such, the historical property management fees incurred by the Project Company (which amounted to RMB13.9 million, RMB13.9 million and RMB14.0 million for the years ended 31 December 2019, 2020 and 2021 respectively) are based on terms and fee structure determined by the Sellers' group internally. Such legacy arrangements should be distinguished from the commercial terms under the Property Management Agreement which are agreed after arm's length negotiations between external third parties (being the Manager and the Property Manager) by reference to the prevailing market rates for similar services provided by professional property management service providers for similar properties. Therefore, the Manager considers that the historical property management fees incurred by the Project Company do not provide a relevant basis for determining the Annual Caps applicable to the transactions under the Property Management Agreement.

The Annual Caps applicable to the transactions under the Property Management Agreement are determined based on the principal terms of the Property Management Agreement (details of which are set out in section 5.6.1 headed "Property Management Agreement" in this Circular), supported by the independent opinion from the Independent Property Valuer on property management fee standards based on market comparable cases, as well as (a) to (c) below:

(a) the Manager's expectation of the Target Property's revenue and the Property Manager's human resource costs, which was determined by taking into account, among other things, the historical amount of the Target Property's revenue of approximately RMB217.9 million in 2021 and the present amount of the Property Manager's human resources costs, the historical CAGR of 9.2% for the average annual salary for employees in Huizhou's wholesale and retail industry from 2016 to 2020, the annual rental growth rate forecast of 7.0% to 10.0% for Huicheng District between 2021 and 2024, annual GDP growth rate forecast of 7.3% for Huizhou between 2021 and 2026 as estimated by the Market Consultant, an expected rental growth rate of 7.0% upon renewal of the prevailing leases, the prevailing leases to be continued with similar terms (including a customary rent-free fitting-out period at each renewal);

(b) applying the Manager's expectations as mentioned in paragraph (a) above to the agreed terms of the Property Management Agreement, to determine the value of the property management transactions thereunder; and

(c) apply a buffer of 15% to the total amount calculated in paragraph (b) above for each of the financial years from 2022 to 2024. Such buffer is intended for contingencies such as changes in rent, potential inflation and possible increase in human resources and other costs and/or other market conditions in Huizhou and the PRC.

The Annual Caps applicable to the transactions under the PM Office Lease have been determined in good faith by the Manager taking into account the agreed rent under the PM Office Lease, on the assumption that: (a) the Acquisition will be completed on 31 May 2022, hence the lease will commence on 1 June 2022; and (b) there will be no early termination and the lease will therefore expire on 31 December 2024.

The Annual Caps applicable to the transactions under the Direct Operation Leasing Framework Agreement have been determined in good faith by the Manager taking into account the following factors and assumptions:

(a) the Manager's expectation, after taking into account the tenant optimisation strategy for the Target Property and availability of suitable premises, that there might be 20 Beauty Stores under new Direct Operation Agreements (including the six Beauty Stores under Existing Direct Operating Leases) and corresponding leases with the Property Manager and/or its designated associate during the term of the Direct Operation Leasing Framework Agreement and that the relevant premises will have similar attributes as the existing Beauty Stores;

(b) based on the number of expected Beauty Stores in paragraph (a) above, calculating the aggregate rent, fees and payments (including operation and management expenses, promotion fees, building management fees, etc.) to be charged by the Target Company under such Leases, which shall be determined based on the prevailing market rates for similar locations and for similar purposes, and applying an annual rental growth rate of 7.0% after considering the annual growth rate forecast of 7.0% to 10.0% for Huicheng District between 2021 and 2024 as estimated by the Market Consultant; and

(c) apply a buffer of 20% for the total amount calculated in paragraph (b) above for each of the financial years from 2022 to 2024. Such buffer is intended for contingencies such as changes in rent, unforeseen increase in the number of Beauty Stores under Direct Operation Agreements in addition to those expected by the Manager in (a) and/or area leased and/or other market conditions in Huizhou and the PRC.

7.3 Review and Reporting

In compliance with paragraph 8.7A of the REIT Code and the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code, the transactions under the Property Management Agreement, the PM Office Lease and the Direct Operation Leasing Framework Agreement will be subject to the following review and reporting processes:

7.3.1 Annual Review by the Audit Committee and the INEDs

The Audit Committee and the INEDs shall review the relevant transactions annually and confirm in Spring REIT's annual report for the relevant financial period that such transactions have been entered into:

(a) in the ordinary and usual course of business of Spring REIT;

(b) on normal commercial terms; and

(c) in accordance with the relevant agreement on terms that are fair and reasonable and in the interests of Spring REIT and the Unitholders as a whole.

7.3.2 Annual Review by the Auditors

In respect of each relevant financial period, the Manager shall engage the auditors of Spring REIT to report on the relevant transactions annually. The Manager will allow, and will ensure that the counterparties to the relevant transactions allow, the auditors of Spring REIT sufficient access to its records for the purpose of reporting on the relevant transactions. The auditors of Spring REIT must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that any such transaction:

(a) has not been approved by the Board;

(b) was not, in all material respects, in accordance with the pricing policies of Spring REIT;

(c) was not entered into, in all material respects, in accordance with the terms of the relevant agreements; and

(d) has exceeded its Annual Cap.

A copy of the abovementioned letter will be provided to the SFC at least 10 business days before bulk printing of the annual reports of Spring REIT.

7.3.3 Notification to the SFC

The Manager shall promptly notify the SFC and publish an announcement if the Audit Committee and/or the INEDs and/or the auditors of Spring REIT will not be able to confirm the matters set out in sections 7.3.1 and 7.3.2 headed "Annual Review by the Audit Committee and the INEDs" and "Annual review by the Auditors", respectively.

7.3.4 Semi-annual and Annual Reports

A brief summary of the transactions containing the information specified in rules 14A.71 and 14A.72 of the Listing Rules (modified as appropriate pursuant to paragraph 2.26 of the REIT Code) shall be included in Spring REIT's next published semi-annual and annual reports.

8. REGULATORY IMPLICATIONS

8.1 Connected and Major Transactions

As at the Latest Practicable Date, Huamao Property was:

(a) a substantial holder, holding approximately 12.55% of the Units then in issue, and a connected person of Spring REIT pursuant to paragraph 8.1(d) of the REIT Code;

(b) the holding company holding 87% of the issued shares of the Offshore Seller (with the remaining 13% issued shares being ultimately owned as to 80% by Ms. Zou Nan and as to 20% by Ms. Liu Yan); and

(c) the holding company holding 87% of the equity interest in Beijing Guohua (with the remaining 13% equity interest being ultimately owned as to 72% by Mr. Fang Chao and as to 28% by Mr. Liu Jun), which in turn held the entire equity interest in the Onshore Seller (which will also become the JV Partner).

As at the Latest Practicable Date, Huamao Property was: (a) owned as to 40.48% by Siberite Limited, a company ultimately owned as to 50% by Ms. Chia Seok Eng and 50% by Mr. Lin Minghan; (b) owned as to 41.84% by RCA02, which is 100% controlled by Diligent Glory Investments Limited, a company ultimately owned as to 80% by Mr. Fang Chao and 20% by Mr. Liu Jun; and (c) owned as to 17.68% by Risun Holdings Limited, a company owned as to 80% by Mr. Fang Chao and 20% by Mr. Liu Jun.

As at the Latest Practicable Date, each of the Offshore Seller and the Onshore Seller was an associate of Huamao Property, and consequently, also a connected person of Spring REIT pursuant to paragraph 8.1(f) of the REIT Code. The transactions under the Acquisition Agreements and the Joint Venture Agreement therefore constitute connected party transactions of Spring REIT and, since the highest applicable percentage ratio exceeds 5%, such transactions are subject to the announcement, circular, reporting and Unitholders' approval requirements under the REIT Code and the Listing Rules.

As their highest applicable percentage ratio exceeds 25% but is less than 100%, the Acquisition and the Joint Venture, and the transactions contemplated thereby, also constitute a major transaction of Spring REIT and are subject to the notification, announcement, circular, accountant's report and Unitholders' approval requirements under the REIT Code and the Listing Rules.

The transactions under the PAB Guarantees, the PAB Share Pledges, the Novated Payables and the Project Company Facility will also constitute connected party transactions of Spring REIT following Completion by virtue of the Project Company remaining an associate of Huamao Property and also becoming a connected subsidiary of Spring REIT, and thereby a connected person of Spring REIT pursuant to paragraphs 8.1(f) and 8.1(g) of the REIT Code respectively. Such transactions are fully exempted from the announcement, circular, reporting, annual review and Unitholders' approval requirements under rules 14A.89 (in respect of the transactions under the PAB Guarantees and the PAB Share Pledges) and 14A.90 (in respect of the transactions under the Novated Payables and the Project Company Facility) of the Listing Rules subject to the conditions thereunder, which require the transactions to be conducted on normal commercial terms or better and: (a) in the case of the transactions under the PAB Guarantees and the PAB Share Pledges, on a several (and not a joint and several) and proportionate basis with the Guohua Guarantors, with reference to the respective equity interest held by Spring REIT (through its SPVs) on the one hand and the JV Partner on the other hand in the Project Company; and (b) in the case of transactions under the Novated Payables and the Project Company Facility, on an unsecured basis.

As at the Latest Practicable Date, the Property Manager was an associate of Huamao Property and a connected person of Spring REIT pursuant to paragraph 8.1(f) of the REIT Code. Specifically, as at the Latest Practicable Date, Huamao Property indirectly held: (a) a 69.6% equity interest in the Property Manager; and (b) an 87% equity interest in a company that indirectly held a 20% equity interest in the Property Manager (with the remaining 10.4% equity interest in the Property Manager being ultimately owned as to 72% by Mr. Fang Chao and as to 28% by Mr. Liu Jun). Accordingly, the transactions under the Property Management Agreement, the PM Office Lease and the Direct Operation Leasing Framework Agreement will on Completion constitute continuing connected party transactions of Spring REIT.

Since the highest applicable percentage ratio in respect of the transactions with the Property Manager under the Property Management Agreement and the PM Office Lease exceeds 5%, such transactions are subject to the announcement, circular, reporting, annual review and circular and Unitholders' approval requirements under the REIT Code and the Listing Rules.

Since the highest applicable percentage ratio in respect of the transactions with the Direct Operation Lessee (which is also the Property Manager) under the Direct Operation Leasing Framework Agreement exceeds 0.1% but is less than 5%, such transactions are subject to the announcement, reporting and annual review requirements, but exempted from the circular and Unitholders' approval requirement, under the REIT Code and the Listing Rules.

8.2 Resolutions to be Proposed at the EGM

The Manager takes the view that the Acquisition (including the entry into of the Acquisition Agreements and the transactions under or in connection with the Acquisition Agreements (being the Ancillary Transactions)) on the one hand, as well as the Joint Venture (including the entry into of the Joint Venture Agreement and the transactions contemplated thereunder) on the other hand, are linked to each other and part and parcel of the same proposal, as the Joint Venture would not arise but for the Acquisition. Accordingly, the Acquisition (including the entry into of the Acquisition Agreements and the transactions under or in connection with the Acquisition Agreements (being the Ancillary Transactions)), as well as and the Joint Venture (including the entry into of the Joint Venture Agreement and the transactions contemplated thereunder), will be proposed under the same Ordinary Resolution, being the "Acquisition Ordinary Resolution".

Since the PM Office Lease will be entered into in connection with the Property Management Agreement, the transactions under the Property Management Agreement and the PM Office Lease and the Annual Caps applicable thereto will be proposed under the same Ordinary Resolution, being the "Property Management Ordinary Resolution". As such transactions are subject to Completion taking place, the Property Management Ordinary Resolution will be conditional upon the Acquisition Ordinary Resolution being passed by the Independent Unitholders at the EGM.

Please refer to the EGM Notice for the proposed Acquisition Ordinary Resolution and Property Management Ordinary Resolution. As soon as practicable after the EGM, the Manager will issue an announcement setting out the results of the EGM, including whether the resolutions have been passed.

8.3 Restrictions on Voting

Paragraphs 8.7F and 9.9(f) of the REIT Code provides that Unitholders shall abstain and be prohibited from voting their Units at, or be counted in the quorum for, a meeting at which they have a material interest in the business to be contracted and that interest is different from the interests of all other Unitholders.

Rules 2.15, 14A.03 and 14A.36 of the Listing Rules provide that where a transaction is subject to Unitholders' approval under the Listing Rules, any Unitholder who has a material interest in the transaction shall abstain from voting on the resolution(s) approving the transaction at a general meeting. Note 2 to rule 14.33 of the Listing Rules provides that any Unitholder and its close associate must abstain from voting if such Unitholder has a material interest in the transaction.

Paragraph 3.2 of Schedule 1 to the Trust Deed provides that where a Unitholder has a material interest in the transaction tabled for approval at a general meeting of Spring REIT, and that interest is different from the interests of other Unitholders as determined by: (a) the Manager (where the Unitholder(s) concerned is (are) not connected persons related to the Manager); or (b) the Trustee (where the Unitholder(s) concerned is (are) connected persons related to the Manager), such Unitholder shall be prohibited from voting its Units at, or being counted in the quorum for, the general meeting.

Rule 2.16 of the Listing Rules provides that, for the purpose of determining whether a Unitholder has a material interest, relevant factors include: (a) whether the Unitholder is a party to the transaction or a close associate of such a party; and (b) whether the transaction confers upon the Unitholder or its close associate a benefit (whether economic or otherwise) not available to the other Unitholders.

Each of the counterparties to the Acquisition Agreements and other Transaction Documents has a material interest or deemed material interest in the Acquisition Ordinary Resolution. The Property Manager, being the counterparty to the Property Management Agreement and the PM Office Lease, has a material interest or deemed material interest in the Property Management Ordinary Resolution. So far as the Manager is aware, as at the Latest Practicable Date, none of such counterparties was a Unitholder. However, since Huamao Property was a Unitholder and also an associate of some of the counterparties as described in section 8.1 headed "Connected and Major Transactions" in this Circular as at the Latest Practicable Date, Huamao Property has agreed to abstain, and procure that each of its associates who is a Unitholder who is prohibited from voting on the Acquisition Ordinary Resolution and/or the Property Management Ordinary Resolution abstain, from voting on such resolutions. So far as the Manager is aware, as at the Latest Practicable Date: (a) Huamao Property held 56,500,742 Units and its wholly-owned subsidiary, China Orient Stable Value Fund Limited, held 128,749,000 Units and the aggregate of such Units represented approximately 12.55% of the Units then in issue; (b) each of Huamao Property and China Orient Stable Value Fund Limited controlled or was entitled to exercise control over the voting right in respect of the Units held by it; (c) there were no voting trusts or other agreements or arrangements or understanding (other than an outright sale) entered into by or binding upon Huamao Property or China Orient Stable Value Fund Limited, nor any obligations or entitlements of Huamao Property or China Orient Stable Value Fund Limited, whereby it had or may have had temporarily or permanently passed control over the exercise of the voting rights in respect of the Units held by it to a third party, either generally or on a case-by-case basis; and (d) there was no discrepancy between the beneficial interest of each of Huamao Property and China Orient Stable Value Fund Limited in the Units as disclosed in (a) and the number of Units in respect of which Huamao Property and/or China Orient Stable Value Fund Limited will control or will be entitled to exercise control over the voting rights at the EGM.

Notwithstanding that the Manager is owned as to 9.8% by Huamao Property, Huamao Property is a minority shareholder which does not have any representation in the Board and cannot influence any voting decision of the Manager. Having regard to the Manager's duty under the REIT Code to adhere to and uphold good corporate governance principles and best industry practices, the Manager does not consider the interests of its minority shareholder to cause the Manager to have a material interest in the Acquisition Ordinary Resolution and/or the Property Management Ordinary Resolution that is different from the interests of all other Unitholders which would require it or its associates who is a Unitholder to abstain from voting at the EGM in respect of the Acquisition Ordinary Resolution and/or the Property Management Ordinary Resolution.

Based solely on the information disclosed to it by the Manager and the Manager's confirmation that: (a) Huamao Property is a minority shareholder (less than 10%) of the Manager, does not have any representation in the Board and cannot influence any voting decision of the Manager; and (b) the Manager is not an associate of Huamao Property or counterparties to the Acquisition Agreements and other Transaction Documents as well as the Property Management Agreement and the PM Office Lease under rule 14A.13 of the Listing Rules, the Trustee has no disagreement with the Manager's view that the Manager does not have a material interest in the Acquisition Ordinary Resolution and/or the Property Management Ordinary Resolution, that is different from the interests of all other Unitholders solely by virtue of Huamao Property's holding in the Manager, which would require the Manager or its associates who is a Unitholder to abstain from voting at the EGM in respect of such resolutions.

As at the Latest Practicable Date and to the best of the knowledge, information and belief of the Manager after having made all reasonable enquiries, the Manager was of the view that no Unitholder other than Huamao Property and China Orient Stable Value Fund Limited is required to abstain from voting at the EGM in respect of the Acquisition Ordinary Resolution and/or the Property Management Ordinary Resolution. In arriving at its view, the Manager has considered the applicable rules under the REIT Code, the Listing Rules and the Trust Deed as set out above, as well as information provided by the Sellers to the Manager in respect of the relationships between Huamao Property and its associates and their ultimate beneficial owners on the one hand, and Spring REIT and its connected persons who are Unitholders on the other hand.

Based and in sole reliance on the information and assurances provided by the Manager, the Trustee, having taken into account its duties set out in the Trust Deed and the REIT Code, does not disagree with the Manager's view that no Unitholder other than Huamao Property and China Orient Stable Value Fund Limited are required to abstain from voting at the EGM in respect of the Acquisition Ordinary Resolution and/or the Property Management Ordinary Resolution.

8.4 Preparation of Accountant's Reports

Paragraph 7.6(a) of the REIT Code provides that if a REIT acquires real estate through the acquisition of an SPV, a report made by the accountants shall be prepared on: (a) the profit and loss of the SPV in respect of each of the three financial years (or such other shorter period as appropriate) immediately preceding the transaction; and (b) the assets and liabilities of the SPV as at the last date (which cannot be more than six months old from the date of the report) to which the accounts of the SPV were made up. Paragraph 7.6(b) of the REIT Code provides that such report shall: (a) indicate how the profits and losses of the SPV would, in respect of the shares to be acquired, have concerned the REIT, if the REIT had at all material times held the shares to be acquired; and (b) where the SPV has subsidiaries, deal with the profits or losses and the assets and liabilities of the SPV and its subsidiaries, either as a whole or separately.

Based on competent advice received by the Manager, the Manager considers that the presentation of the Accountant's Reports of the Offshore Target Company and the Project Company, on a separate basis, complies with paragraph 7.6 of the REIT Code as, given the Offshore Target Company and the Project Company were not under common control on or before the date of reporting, the Accountant's Reports cannot be presented on a combined basis.

8.5 Independence of Other Counterparties

To the best of the knowledge, information and belief of the Manager after having made all reasonable enquiries, as at the Latest Practicable Date, the Building Manager was not an associate of Huamao Property, and was not otherwise a connected person of Spring REIT through Huamao Property. Although, as at the Latest Practicable Date, certain indirect shareholders of Huamao Property were also amongst the indirect shareholders of the Building Manager, their minority shareholding interest (less than 6% in aggregate) in the Building Manager was not sufficient to cause the Building Manager to be regarded as an associate of Huamao Property or otherwise a connected person of Spring REIT through Huamao Property.

Save as set out above, to the best of the knowledge, information and belief of the Manager after having made all reasonable enquiries, the Building Manager, the Bank Lender and their ultimate beneficial owners, as well as PAB and the tenants (other than the Property Manager) were, as at the Latest Practicable Date, third parties independent of Spring REIT and its connected persons.

9. OPINIONS AND RECOMMENDATIONS

9.1 Directors

Having regard to the reasons for, terms of, and factors and other information taken into consideration in relation to the matters to be considered under the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution, the Board (including the INEDs), having taken into account the Manager's duties set out in the Trust Deed and the REIT Code, is of the view that: (a) the terms of each transaction are fair and reasonable; (b) each transaction is at arm's length and on normal commercial terms and in the ordinary and usual course of business of Spring REIT; and (c) each transaction is consistent with the investment objectives and strategy of Spring REIT and in the interests of Spring REIT and the Unitholders as a whole.

Accordingly, the Board recommends that the Independent Unitholders vote at the EGM in favour of the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution.

None of the Directors has a material interest in any of the transactions that would require him to abstain from voting on the relevant board resolution.

9.2 Independent Financial Adviser

The Independent Financial Adviser, Altus Capital Limited, has been appointed by the Manager to provide its opinion on the matters to be considered under the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution to the Independent Board Committee (as well as the Independent Unitholders and the Trustee).

The Independent Financial Adviser has confirmed that it is of the view that:

(a) the Acquisition (including the entry into of the Acquisition Agreements and the transactions under or in connection with the Acquisition Agreements (being the Ancillary Transactions)), the Joint Venture (including the entry into the Joint Venture Agreement and the transactions contemplated thereunder), and the transactions under the Property Management Agreement and the PM Office Lease:

   (i) on terms which are fair and reasonable;

   (ii) on normal commercial terms and in the ordinary and usual course of business of Spring REIT; and

   (iii) consistent with the investment objectives and strategy of Spring REIT and in the interests of Spring REIT and the Unitholders as a whole; and

(b) the Annual Caps are fair and reasonable and in the interest of Spring REIT and the Unitholders as a whole.

Details of the Independent Financial Adviser's opinion, together with the principal factors taken into consideration, and assumptions and qualifications in arriving at such opinion, are set out in the "Letter from the Independent Financial Adviser" to this Circular.

Accordingly, the Independent Financial Adviser recommends the Independent Board Committee to advise, and themselves recommend, the Independent Unitholders to vote in favour of the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution.

9.3 Independent Board Committee

The Independent Board Committee has been established by the Board to advise the Independent Unitholders on the matters to be considered under the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution.

Having regard to the reasons for, terms of, and factors and other information taken into consideration in relation to, the matters to be considered under the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution and having taken into account the opinion of and the principal factors and reasons considered by the Independent Financial Adviser, the Independent Board Committee considers that:

(a) the Acquisition (including the entry into of the Acquisition Agreements and the transactions under or in connection with the Acquisition Agreements (being the Ancillary Transactions)), the Joint Venture (including the entry into the Joint Venture Agreement and the transactions contemplated thereunder), and the transactions under the Property Management Agreement and the PM Office Lease, are

(i) on terms which are fair and reasonable;

(ii) on normal commercial terms and in the ordinary and usual course of business of Spring REIT;

(iii) in the interests of Spring REIT and the Unitholders as a whole; and

(iv) consistent with the investment objectives and strategy of Spring REIT; and

(b) the Annual Caps are fair and reasonable and in the interest of Spring REIT and the Unitholders as a whole.

Accordingly, the Independent Board Committee recommends the Independent Unitholders to vote in favour of the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution.

9.4 Trustee

Based and in sole reliance on: (1) the opinion of the Board in this letter and the information and assurances provided by the Manager; (2) the Letter from the Independent Financial Adviser; (3) the Letter from the Independent Board Committee; (4) the Independent Property Valuer's Property Valuation Report; and (5) the Market Consultant's Report, in each case, as set out in this Circular, the Trustee, having taken into account its duties set out in the Trust Deed and the REIT Code:

(a) has no objection to the Manager proceeding with the transactions under the Acquisition Agreements, the Joint Venture Agreement, the PAB Guarantees, the PAB Share Pledges, the Novated Payables, the Project Company Facility, the Direct Operation Leasing Framework Agreement (including the Existing Direct Operation Leases), the Property Management Agreement and the PM Office Lease, subject to the approval of the Independent Unitholders;

(b) is of the view that the transactions under the Acquisition Agreements, the Joint Venture Agreement, the PAB Guarantees, the PAB Share Pledges, the Novated Payables, the Project Company Facility, the Direct Operation Leasing Framework Agreement (including the Existing Direct Operation Leases), the Property Management Agreement and the PM Office Lease are consistent with Spring REIT's investment policy and in compliance with the REIT Code and the Trust Deed; and

(c) is of the view that the transactions under the Acquisition Agreements, the Joint Venture Agreement, the PAB Guarantees, the PAB Share Pledges, the Novated Payables, the Project Company Facility, the Direct Operation Leasing Framework Agreement (including the Existing Direct Operation Leases), the Property Management Agreement and the PM Office Lease are:

    (i) on terms which are fair and reasonable;

    (ii) on normal commercial terms and in the ordinary and usual course of business of Spring REIT; and

    (iii) in the interests of Spring REIT and the Unitholders as a whole.

The Trustee has not made any assessment of the merits or impact of the transactions under the Acquisition Agreements, the Joint Venture Agreement, the PAB Guarantees, the PAB Share Pledges, the Novated Payables, the Project Company Facility, the Direct Operation Leasing Framework Agreement (including the Existing Direct Operation Leases), the Property Management Agreement and the PM Office Lease, other than for the purposes of fulfilling its fiduciary duties set out in the Trust Deed and the REIT Code. Accordingly, the Trustee urges all Unitholders, including those who are in any doubt as to the merits or impact of such transactions, to seek their own financial or other professional advice.

9.5 Independent Property Valuer

Knight Frank Petty Limited, the current principal valuer of Spring REIT, has confirmed that the fee payable under the Property Management Agreement and the rent payable under the PM Office Lease are fair and reasonable and in line with the prevailing market rates, and are on normal commercial terms.

Upon renewal of the Property Management Agreement and the PM Office Lease, the Manager will obtain an opinion from the then principal valuer of Spring REIT to confirm whether the fee and rent payable thereunder are fair and reasonable and in line with the prevailing market rates and are on normal commercial terms.

10. EXTRAORDINARY GENERAL MEETING AND CLOSURE OF REGISTER OF UNITHOLDERS

The EGM will be held at Room 2401-2, One Admiralty Centre, 18 Harcourt Road, Hong Kong on 26 May 2022 at 4:15 p.m., for the purpose of considering and, if thought fit, passing with or without amendments, the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution set out in the EGM Notice, which is set out on pages N-1 to N-3 of this Circular.

In order to determine which Unitholders will qualify to participate in and vote at the EGM, the Register of Unitholders will be closed from 23 May 2022 to 26 May 2022 (both days inclusive) during which period no transfers of Units will be effected. For those Unitholders who are not already on the Register of Unitholders, in order to qualify to participate in and vote at the EGM, all Unit certificates accompanied by the duly completed transfer forms must be lodged with the Unit Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 20 May 2022.

You can vote at the EGM if you are a Unitholder on 23 May 2022 which is referred to in this Circular as the EGM Record Date. You will find enclosed with this Circular the EGM Notice (see pages N-1 to N-3 of this Circular) and a form of proxy for use for the EGM.

Your vote is very important. Accordingly, please complete, sign and date the accompanying proxy form in accordance with the instructions printed thereon and return it to the Unit Registrar, Tricor Investor Services Limited, as soon as possible and in any event not less than 48 hours before the time fixed for holding the EGM or any adjournment thereof. Completion and return of proxy form will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

11. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to this Circular.

Yours faithfully,
By order of the board of Directors of
Spring Asset Management Limited
(as manager of Spring Real Estate Investment Trust)
Mr. Toshihiro Toyoshima
Chairman of the Manager

SpringREIT

Spring Real Estate Investment Trust
春泉產業信託

(A Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

(Stock code: 01426)

Managed by

Spring Asset Management Limited

3 May 2022

To: The Independent Unitholders

Dear Sir/Madam,

(1) MAJOR AND CONNECTED TRANSACTIONS: ACQUISITION AND JOINT VENTURE RELATING TO A COMMERCIAL PROPERTY IN HUIZHOU, THE PRC AND (2) CONTINUING CONNECTED TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise you in connection with the matters to be considered under the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution, details of which are set out in the "Letter from the Board" in the circular dated 3 May 2022 (the "**Circular**") from the Manager to the Unitholders, of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context otherwise requires.

Altus Capital Limited has been appointed by the Manager to advise us, the Independent Unitholders and the Trustee in connection with the matters to be considered under the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution. Details of their opinion and recommendation, together with the principal factors taken into consideration, and assumptions and qualifications in arriving at such opinion and recommendation, are set out in the "Letter from the Independent Financial Adviser", the text of which is contained in this Circular.

Having regard to the reasons for, terms of, and factors and other information taken into consideration in relation to, the matters to be considered under the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution and having taken into account the opinion of and the principal factors and reasons considered by the Independent Financial Adviser, we, the Independent Board Committee, consider that:

(a) the Acquisition (including the entry into of the Acquisition Agreements and the transactions under or in connection with the Acquisition Agreements (being the Ancillary Transactions)), the Joint Venture (including the entry into the Joint Venture Agreement and the transactions contemplated thereunder), and the transactions under the Property Management Agreement and the PM Office Lease, are

  (i) on terms which are fair and reasonable;

  (ii) on normal commercial terms and in the ordinary and usual course of business of Spring REIT;

  (iii) in the interests of Spring REIT and the Unitholders as a whole; and

  (iv) consistent with the investment objectives and strategy of Spring REIT; and

(b) the Annual Caps are fair and reasonable and in the interest of Spring REIT and the Unitholders as a whole.

Accordingly, we recommend the Independent Unitholders vote in favour of the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution.

Yours faithfully,
for and on behalf of
the Independent Board Committee of
Spring Asset Management Limited
(as manager of Spring Real Estate Investment Trust)

Simon Murray
Independent Non-executive Director

Qiu Liping
Independent Non-executive Director

Lam Yiu Kin
Independent Non-executive Director

The following is the text of a letter of advice from the Independent Financial Adviser to the Independent Board Committee, the Trustee and the Independent Unitholders in respect of the matters to be considered under the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution, which has been prepared for the purpose of incorporation in the Circular.

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Altus Capital Limited
21 Wing Wo Street
Central, Hong Kong

3 May 2022

To: the Independent Board Committee, the Trustee and the Independent Unitholders

Spring Real Estate Investment Trust
c/o Board of Directors of Spring Asset Management Limited (in its capacity as manager of Spring Real Estate Investment Trust)

Room 2801, 28/F Man Yee Building
68 Des Voeux Road Central
Hong Kong

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTIONS: ACQUISITION AND JOINT VENTURE RELATING TO A COMMERCIAL PROPERTY IN HUIZHOU, THE PRC AND (2) CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee, the Trustee and the Independent Unitholders on the matters to be considered under the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution. Details of the matters to be considered under the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution are set out in the "Letter to the Unitholders" contained in the circular of Spring REIT dated 3 May 2022 (the "**Circular**") of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 29 April 2022: (a) Spring REIT (through the Offshore Purchaser), the Offshore Seller, the Trustee (being the Offshore Purchaser Guarantor) and Huamao Property (being the Offshore Seller Guarantor) entered into the Offshore Share Purchase Deed, pursuant to which the Offshore Purchaser agreed to acquire, and the Offshore Seller agreed to transfer, the Offshore Sale Shares representing all of the issued shares of the Offshore Target Company, which in turn will immediately after the Reorganisation become the indirect owner of 31% of the equity interest in the Project Company; and, simultaneously, (b) Spring REIT (through the Onshore Purchaser) and the Onshore Seller entered into the Onshore Share Purchase Agreement, pursuant to which the Onshore Purchaser agreed to acquire, and the Onshore Seller agreed to transfer, the Onshore Sale Shares which will immediately after the Reorganisation represent 37% of the equity interest in the Project Company.

The Project Company is the registered legal owner of the land use rights and current ownership rights underlying the Target Property, being a shopping mall known as "Huamao Place" (華貿天地) located in Huizhou, Guangdong Province, the PRC. Upon Completion, Spring REIT (through its SPVs) will own 68% (being the Relevant Proportion) of the equity interest in the Project Company and a corresponding interest in the Target Property, and the JV Partner (being also the Onshore Seller) will retain the remaining 32% of the equity interest in the Project Company and a corresponding interest in the Target Property.

On Completion, the JV Parties will enter into the Joint Venture Agreement to govern their relationship as shareholders of the Project Company. In addition, the Project Company will also enter into (i) the Property Management Agreement and the PM Office Lease with the Property Manager; (ii) the Direct Operation Leasing Framework Agreement (including the Existing Direct Operation Leases) with the Direct Operation Lessee (which is also the Property Manager); and (iii) the Building Management Agreement (including the BM Carpark Lease thereunder) with the Building Manager, on Completion.

REGULATORY IMPLICATIONS

As at the Latest Practicable Date, Huamao Property was (a) a substantial holder, holding approximately 12.55% of the Units then in issue, and a connected person of Spring REIT pursuant to paragraph 8.1(d) of the REIT Code; and (b) the holding company of the Offshore Seller and the Onshore Seller (which will also become the JV Partner) holding, respectively, 87% of the issued shares of the Offshore Seller and 87% of the equity interest in Beijing Guohua which in turn held the entire equity interest in the Onshore Seller. Therefore, as at the Latest Practicable Date, each of the Offshore Seller and the Onshore Seller was an associate of Huamao Property and a connected person of Spring REIT pursuant to paragraph 8.1(f) of the REIT Code. Accordingly, the transactions under the Acquisition Agreements and the Joint Venture Agreement constitute connected party transactions of Spring REIT and, since the highest applicable percentage ratio exceeds 5%, such transactions are subject to the announcement, circular, reporting and Unitholders' approval requirements under the REIT Code and the Listing Rules. Furthermore, as the highest applicable percentage ratio exceeds 25% but is less than 100%, the Acquisition and the Joint Venture, and the transactions contemplated thereby, constitute a major transaction of Spring REIT and are subject to the notification, announcement, circular, accountant's report and Unitholders' approval requirements under the REIT Code and the Listing Rules.

The transactions under the PAB Guarantees, the PAB Share Pledges, the Novated Payables and the Project Company Facility (for details, please refer to the "Letter to the Unitholders" in the Circular and the paragraphs headed "3.2 Payment terms for the Acquisition", "3.6 PAB Guarantees and PAB Share Pledges" and "3.7 Project Company Facility" below) will also constitute connected party transactions of Spring REIT following Completion by virtue of the Project Company remaining an associate of Huamao Property and also becoming a connected subsidiary of Spring REIT, and thereby a connected person of Spring REIT pursuant to paragraphs 8.1(f) and 8.1(g) of the REIT Code respectively. Such transactions are fully exempted from the announcement, circular, reporting, annual review and Unitholders' approval requirements under rules 14A.89 (in respect of the transactions under the PAB Guarantees and the PAB Share Pledges) and 14A.90 (in respect of the transactions under the Novated Payables and the Project Company Facility) of the Listing Rules subject to the conditions thereunder, which require the transactions to be conducted on normal commercial terms or better and: (a) in the case of the transactions under the PAB Guarantees and the PAB Share Pledges, on a several (and not a joint and several) and proportionate basis with the Guohua Guarantors, with reference to the respective equity interest held by Spring REIT (through its SPVs) on the one hand and the JV Partner on the other hand in the Project Company; and (b) in the case of transactions under the Novated Payables and the Project Company Facility, on an unsecured basis.

As aforementioned, on Completion, the Project Company will enter into (i) the Property Management Agreement and the PM Office Lease with the Property Manager; (ii) the Direct Operation Leasing Framework Agreement (including the Existing Direct Operation Leases) with the Direct Operation Lessee (which is also the Property Manager); and (iii) the Building Management Agreement (including the BM Carpark Lease thereunder) with the Building Manager.

As at the Latest Practicable Date, the Property Manager was an associate of Huamao Property and a connected person of Spring REIT pursuant to paragraph 8.1(f) of the REIT Code. Specifically, as at the Latest Practicable Date, Huamao Property indirectly held: (a) a 69.6% equity interest in the Property Manager; and (b) an 87% equity interest in a company that indirectly held a 20% equity interest in the Property Manager (with the remaining 10.4% equity interest in the Property Manager being ultimately owned as to 72% by Mr. Fang Chao and as to 28% by Mr. Liu Jun). Accordingly, the transactions under the Property Management Agreement, the PM Office Lease and the Direct Operation Leasing Framework Agreement will on Completion constitute continuing connected party transactions of Spring REIT.

Since the highest applicable percentage ratio in respect of the transactions with the Property Manager under the Property Management Agreement and the PM Office Lease exceeds 5%, such transactions are subject to the announcement, circular, reporting, annual review and Unitholders' approval requirements under the REIT Code and the Listing Rules.

Since the highest applicable percentage ratio in respect of the transactions with the Direct Operation Lessee (which is also the Property Manager) under the Direct Operation Leasing Framework Agreement exceeds 0.1% but is less than 5%, such transactions are subject to the announcement, reporting and annual review requirements, but exempted from the circular and Unitholders' approval requirement, under the REIT Code and the Listing Rules.

As at the Latest Practicable Date and to the best of the knowledge, information and belief of the Manager after having made all reasonable enquiries, although certain indirect shareholders of Huamao Property were also amongst the indirect shareholders of the Building Manager, their minority shareholding interest (less than 6% in the aggregate) in the Building Manager was not sufficient to cause the Building Manager to be regarded as an associate of Huamao Property or otherwise a connected person of Spring REIT through Huamao Property, and the transactions under the Building Management Agreement (including the BM Carpark Lease thereunder) will therefore not constitute connected party transactions of Spring REIT on Completion.

RESOLUTIONS TO BE PROPOSED AT THE EGM

The Manager takes the view that the Acquisition (including the entry into of the Acquisition Agreements and the transactions under or in connection with the Acquisition Agreements (being the Ancillary Transactions)) on the one hand, as well as the Joint Venture (including the entry into of the Joint Venture Agreement and the transactions contemplated thereunder) on the other hand, are linked to each other and part and parcel of the same proposal, as the Joint Venture would not arise but for the Acquisition. Accordingly, the Acquisition (including the entry into of the Acquisition Agreements and the transactions under or in connection with the Acquisition Agreements (being the Ancillary Transactions)), as well as the Joint Venture (including the entry into of the Joint Venture Agreement and the transactions contemplated thereunder), will be proposed under the same Ordinary Resolution, being the "Acquisition Ordinary Resolution".

Since the PM Office Lease will be entered into in connection with the Property Management Agreement, the transactions under the Property Management Agreement and the PM Office Lease and the Annual Caps applicable thereto will be proposed under the same Ordinary Resolution, being the "Property Management Ordinary Resolution". As such transactions are subject to Completion taking place, the Property Management Ordinary Resolution will be conditional upon the Acquisition Ordinary Resolution being passed by the Independent Unitholders at the EGM.

Paragraphs 8.7F and 9.9(f) of the REIT Code provides that Unitholders shall abstain and be prohibited from voting their Units at, or be counted in the quorum for, a meeting at which they have a material interest in the business to be contracted and that interest is different from the interests of all other Unitholders.

Rules 2.15, 14A.03 and 14A.36 of the Listing Rules provide that where a transaction is subject to Unitholders' approval under the Listing Rules, any Unitholder who has a material interest in the transaction shall abstain from voting on the resolution(s) approving the transaction at a general meeting. Note 2 to rule 14.33 of the Listing Rules provides that any Unitholder and its close associate must abstain from voting if such Unitholder has a material interest in the transaction.

Paragraph 3.2 of Schedule 1 to the Trust Deed provides that where a Unitholder has a material interest in the transaction tabled for approval at a general meeting of Spring REIT, and that interest is different from the interests of other Unitholders as determined by: (a) the Manager (where the Unitholder(s) concerned is (are) not connected persons related to the Manager); or (b) the Trustee (where the Unitholder(s) concerned is (are) connected persons related to the Manager), such Unitholder shall be prohibited from voting its Units at, or being counted in the quorum for, the general meeting.

Rule 2.16 of the Listing Rules provides that, for the purpose of determining whether a Unitholder has a material interest, relevant factors include: (a) whether the Unitholder is a party to the transaction or a close associate of such a party; and (b) whether the transaction confers upon the Unitholder or its close associate a benefit (whether economic or otherwise) not available to the other Unitholders.

Each of the counterparties to the Acquisition Agreements and other Transaction Documents has a material interest or deemed material interest in the Acquisition Ordinary Resolution. The Property Manager, being the counterparty to the Property Management Agreement and the PM Office Lease, has a material interest or deemed material interest in the Property Management Ordinary Resolution. So far as the Manager is aware, as at the Latest Practicable Date, none of such counterparties was a Unitholder. However, since Huamao Property was a Unitholder and also an associate of some of the counterparties as described in the section headed "Regulatory implications" above as at the Latest Practicable Date, Huamao Property has agreed to abstain, and procure that each of its associates who is a Unitholder who is prohibited from voting on the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution abstain, from voting on such resolutions. So far as the Manager is aware, as at the Latest Practicable Date: (a) Huamao Property held 56,500,742 Units and its wholly-owned subsidiary, China Orient Stable Value Fund Limited, held 128,749,000 Units and the aggregate of such Units represented approximately 12.55% of the Units then in issue; (b) each of Huamao Property and China Orient Stable Value Fund Limited controlled or was entitled to exercise control over the voting right in respect of the Units held by it; (c) there were no voting trusts or other agreements or arrangements or understanding (other than an outright sale) entered into by or binding upon Huamao Property or China Orient Stable Value Fund Limited, nor any obligations or entitlements of Huamao Property or China Orient Stable Value Fund Limited, whereby it had or may have had temporarily or permanently passed control over the exercise of the voting rights in respect of the Units held by it to a third party, either generally or on a case-by-case basis; and (d) there was no discrepancy between the beneficial interest of each of Huamao Property and China Orient Stable Value Fund Limited in the Units as disclosed in (a) and the number of Units in respect of which Huamao Property and/or China Orient Stable Value Fund Limited will control or will be entitled to exercise control over the voting rights at the EGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all of the INEDs, namely Mr. Simon Murray, Mr. Qiu Liping and Mr. Lam Yiu Kin, has been established to advise the Independent Unitholders on the matters to be considered under the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution, in particular, whether (i) the Acquisition (including the entry into of the Acquisition Agreements and the transactions under or in connection with the Acquisition Agreements (being the Ancillary Transactions)), the Joint Venture (including the entry into of the Joint Venture Agreement and the transactions contemplated thereunder), and the transactions under the Property Management Agreement and the PM Office Lease are (a) on terms which are fair and reasonable; (b) on normal commercial terms and in the ordinary and usual course of business of Spring REIT; and (c) consistent with the investment objectives and strategy of Spring REIT and in the interests of Spring REIT and the Unitholders as a whole; and (ii) the Annual Caps are fair and reasonable and in the interests of Spring REIT and the Unitholders as a whole.

INDEPENDENT FINANCIAL ADVISER

Altus Capital Limited has been appointed to advise the Independent Board Committee, the Trustee and the Independent Unitholders in respect of the matters to be considered under the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution. We are independent of Spring REIT, the Trustee, the Manager, each of the substantial holders of Spring REIT, each of the relevant parties with respect to the Acquisition (including the Ancillary Transactions), the Joint Venture, transactions under the Property Management Agreement and PM Office Lease, and their respective associates and connected persons of any of them. Apart from normal professional fees payable to us in connection with this appointment and other similar engagements, no arrangements exist whereby we will receive any fees or benefits from the abovementioned parties.

We have not acted as an independent financial adviser or financial adviser for other transactions of Spring REIT or any of the Unitholders for the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the matters to be considered under the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution is at market level and not conditional upon successful passing of the Acquisition Ordinary Resolution and/or the Property Management Ordinary Resolution, and that our engagement is on normal commercial terms, we are independent of Spring REIT.

As the Independent Financial Adviser to the Independent Board Committee, the Trustee and the Independent Unitholders, our role is to give an independent opinion to the Independent Board Committee, the Trustee and the Independent Unitholders on the matters to be considered under the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution, in particular, whether (i) the Acquisition (including the entry into of the Acquisition Agreements and the transactions under or in connection with the Acquisition Agreements (being the Ancillary Transactions)), the Joint Venture (including the entry into of the Joint Venture Agreement and the transactions contemplated thereunder), and the transactions under the Property Management Agreement and the PM Office Lease are (a) on terms which are fair and reasonable; (b) on normal commercial terms and in the ordinary and usual course of business of Spring REIT; and (c) consistent with the investment objectives and strategy of Spring REIT and in the interests of Spring REIT and the Unitholders as a whole; and (ii) the Annual Caps are fair and reasonable and in the interests of Spring REIT and the Unitholders as a whole.

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, among others, (i) the Acquisition Agreements; (ii) the Joint Venture Agreement; (iii) the Property Management Agreement; (iv) PM Office Lease; (v) Market Consultant's Report; (vi) Independent Property Valuer's Property Valuation Report; (vii) the annual report of Spring REIT for the year ended 31 December 2021 (the "**2021 Annual Report**"); (viii) the annual report of Spring REIT for the year ended 31 December 2020 (the "**2020 Annual Report**"); (ix) the accountant's report of the Project Company for the years ended 31 December 2019, 2020 and 2021; and (x) other information as set out in the Circular.

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Directors and management of the Manager. We have assumed that all the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and will continue to be so up to the date of the EGM. The Directors and management of the Manager collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules and the REIT Code for the purpose of giving information with regards to Spring REIT. The Directors and management of the Manager, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading. We consider that we have been provided with, and have reviewed, sufficient information to reach an informed view and provide a reasonable basis for our opinion. We have not, however, conducted an independent investigation into the business, financial conditions and affairs or future prospects of Spring REIT.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation, we have taken into consideration the principal factors and reasons set out below:

1. Background information of Spring REIT

1.1 Principal business activities

Spring REIT was listed on the Hong Kong Stock Exchange in 2013 and is a real estate investment trust which owns and invests in income-producing real estate primarily in mainland China, while seeking yield-accretive investment opportunities globally. The key objectives of the Manager for Spring REIT are to provide Unitholders with stable distributions and the potential for sustainable long-term growth. Spring REIT's current portfolio comprises (i) all office floors of Office Tower 1 and Office Tower 2 of China Central Place (which are located in Beijing, the PRC); and (ii) a portfolio of 84 commercial properties in the United Kingdom (the "**UK Portfolio**"), which is leased to Kwik-Fit (GB) Limited, a leading car servicing provider in the United Kingdom with over 600 centres nationwide.

Set out below is a summary of the portfolio of Spring REIT.

	CCP Property	**UK Portfolio**
Premises	Two premium grade office buildings located in the CBD of Beijing, namely Office Tower 1 and Office Tower 2 of China Central Place and approximately 600 car parking lots located in the underground of the two office buildings	84 separate commercial properties located across the United Kingdom
Gross floor area	Office space: 120,245 sq.m. Car park space: 25,127 sq.m.	Gross internal area of approximately 505,381 square feet (approximately 46,951 sq.m.) in total
Occupancy rate	98.0%*	100.0% (leased to a single tenant
Revenue for the year ended 31 December 2021	Approximately RMB489.0 million	Annual contract rental income of approximately GBP4.55 million
Revenue for the year ended 31 December 2020	Approximately RMB493.6 million	Annual contract rental income of approximately GBP4.55 million

* *Occupancy rate as at 31 December 2021.*

For further details of the portfolio of Spring REIT, please refer to the 2020 Annual Report and the 2021 Annual Report.

1.2 Financial information

Set out below is a table summarising certain financial information of Spring REIT extracted from the 2020 Annual Report and the 2021 Annual Report.

	For the year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)
Revenue	546,592	533,171	528,446
Net property income	406,820	397,480	396,373
Fair value gain/(loss) of investment properties	70,767	(672,678)	128,015
Finance (costs)/income on interest-bearing borrowings	(192,417)	66,774	(17,926)
Profit/(loss) for the year	223,062	(189,924)	509,950

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)
Total assets	10,429,369	9,712,865	9,884,003
– Investment properties	*9,873,265*	*9,202,902*	*9,307,096*
Total liabilities	3,981,594	3,279,968	3,212,350
– Interest-bearing borrowings	*3,199,602*	*3,024,232*	*2,960,830*
– Convertible bonds	*505,239*	–	–
Net assets attributable to Unitholders	6,447,775	6,432,897	6,671,653

Business and financial results

As aforementioned, Sprint REIT's portfolio comprises CCP Property and the UK Portfolio.

Revenue

Spring REIT recorded revenue of approximately RMB533.2 million in 2020, which is approximately 2.5% lower than that in 2019. Revenue of approximately RMB493.6 million or approximately 92.6% of the total revenue in 2020 was attributable to the CCP Property with the remaining revenue from the UK Portfolio. Total rental income constituted over 97% of revenue with the remaining from car park income and others such as compensation from tenants for early lease termination. The lower revenue in 2020 was due mainly to lower rental income from the CCP Property as occupancy rate had declined over the period from approximately 95.1% as at 31 December 2019 to approximately 90.2% as at 31 December 2020. The passing rent of the CCP Property remained stable at RMB360/sq.m. as at 31 December 2020 compared with RMB362/sq.m. as at 31 December 2019.

In 2021, Spring REIT recorded revenue of approximately RMB528.4 million, representing a slight decrease of approximately 0.9% as compared to that recorded in 2020. This was due mainly to the combined effects of (i) the decrease in passing rent of the CCP Property to approximately RMB350/sq.m. as at 31 December 2021; and (ii) the improvement in the occupancy rate of the CCP Property to approximately 98.0% as at 31 December 2021.

Net property income

Net property income of Spring REIT decreased by slightly lesser extent of approximately 2.3% from approximately RMB406.8 million in 2019 to approximately RMB397.5 million in 2020 as property operating expenses were lower, in particular for leasing commission paid and reinstatement costs, which was in line with the subdued leasing environment during 2020. In 2021, Spring REIT's net property income decreased marginally by approximately 0.3% to approximately RMB396.4 million.

Finance (costs)/income on interest-bearing borrowings

Spring REIT recorded finance income of approximately RMB66.8 million in 2020 due mainly to non-cash foreign exchange gain. In terms of cash interest expenses, they amounted to approximately RMB95.8 million in 2020 which represented an approximately 37.0% decrease as compared with approximately RMB151.9 million in 2019. The decrease was a result of lower US$ and GBP LIBOR rates, which were further amplified by an appreciation of RMB during 2020.

In 2021, Spring REIT recorded finance costs of approximately RMB17.9 million as compared with finance income of approximately RMB66.8 million in 2020. Such change was due partly to the decrease in non-cash foreign exchange gain recognised in 2021. In terms of cash interest expenses, they amounted to approximately RMB62.2 million in 2021 which represented an approximately 35.1% decrease as compared with approximately RMB95.8 million in 2020. The decrease was due to lower US$ and GBP LIBOR rates and appreciation of RMB during 2021.

Profit/(loss) for the year

Spring REIT recorded a loss after tax of approximately RMB189.9 million in 2020. This was principally due to the decrease in fair value of the CCP Property and the UK Portfolio of approximately RMB672.7 million recognised in 2020.

Despite the decrease in fair value which is non-cash, rental operations of Spring REIT remained profitable and cash flow remained stable enabling Spring REIT to continue with stable distribution to Unitholders. Such distribution of HK$0.20 per Unit in 2020 had in fact increased compared with HK$0.189 per Unit in 2019.

In 2021, Spring REIT recorded a profit of approximately RMB510.0 million as compared with a loss of approximately RMB189.9 million in 2020. This was principally due to the increase in fair value of the CCP Property and the UK Portfolio of approximately RMB128.0 million recognised in 2021 as compared with the decrease in fair value of approximately RMB672.7 million recognised in 2020. Spring REIT made a distribution to Unitholders of HK$0.22 per Unit in 2021, which represented an increase compared with HK$0.20 per Unit in 2020.

Total assets

Spring REIT's total assets declined by approximately 6.9% from approximately RMB10.4 billion as at 31 December 2019 to approximately RMB9.7 billion as at 31 December 2020, mainly due to the decrease in fair value of the CCP Property and the UK Portfolio from approximately RMB9.9 billion as at 31 December 2019 to approximately RMB9.2 billion as at 31 December 2020. The total assets then slightly increased to approximately RMB9.9 billion as at 31 December 2021 primarily due to an increase in fair value of the CCP Property and the UK Portfolio to approximately RMB9.3 billion.

Total liabilities

Spring REIT's liabilities, which primarily consisted of debt facilities and convertible bonds previously, decreased from approximately RMB4.0 billion as at 31 December 2019 to approximately RMB3.3 billion and RMB3.2 billion as at 31 December 2020 and 2021 respectively following the conversion of the HK$585.0 million convertible bonds by their holders in February 2020.

As at 31 December 2021, the debt facilities of Spring REIT comprised (i) a secured term loan facility of US$403.0 million and an uncommitted undrawn term loan facility of US$80.0 million, which will expire in December 2024 (the "**CCP Facilities**"); and (ii) a facility of GBP49.88 million, which will expire in January 2022 (the "**UK Facility**"). In January 2022, the Manager refinanced the UK Facility by a GBP50.5 million facility, which will expire in January 2025 (the "**New UK Facility**").

With reduced borrowings and a stronger RMB against USD and GBP, Spring REIT's gearing ratio (being total borrowings to gross asset value) decreased to approximately 30.8% and 31.1% as at 31 December 2021 and 2020 respectively, compared to approximately 35.5% as at 31 December 2019.

Net assets attributable to Unitholders

With the combined effects of the above events, the net assets attributable to Unitholders of Spring REIT remained stable at approximately RMB6.4 billion as at both 31 December 2019 and 2020 respectively, and slightly increased to approximately RMB6.7 billion as at 31 December 2021.

1.3 Prospects of Spring REIT

As noted in the 2021 Annual Report, while the macro environment has posed difficulties for Spring REIT to deliver expansion in the past year, the Manager is committed to deliver sustainable long term growth in distributions. In particular, Spring REIT's enhanced relationships with Sino Ocean Group and Huamao Property remain crucial for it in identifying high quality investment opportunities that live up to the standards of quality and reliability of its existing assets.

Despite the 2020 financial results of Spring REIT having been adversely affected by the fair value loss of the CCP Property and UK Portfolio and the decrease in rental income from the CCP Property, we noted Spring REIT's financial position had remained stable as at 31 December 2020 compared with that as at 31 December 2019, and has in fact improved in terms of gearing ratio with an enhanced equity base following conversion of the convertible bonds. Such improved financial position continued in 2021 and has provided Spring REIT with flexibility to conduct acquisitions, including a larger gearing headroom to finance any such acquisitions with borrowings and debt.

2. Background information of the Project Company and Target Property

2.1 Information of the Project Company

The Project Company is a company incorporated in the PRC, being the registered legal owner of the land use rights and current ownership rights underlying the Target Property, being a shopping mall known as "Huamao Place" (華貿天地) located in Huizhou, Guangdong Province, the PRC. The Project Company derived revenue from the operations of the Target Property. Besides the aforementioned, the Project Company does not hold any other investment properties or operate any other businesses, nor have any employees.

2.2 Information of the Target Property

The Target Property comprises: (a) the seven-storey shopping mall (including two basement floors) known as "Huamao Place" (華貿天地); and (b) 700 underground and 50 above-ground carpark spaces located in Huizhou, Guangdong Province, the PRC. The Target Property is the retail component of a larger integrated development known as "Huizhou Central Place" (惠州華貿中心) and includes, among other things, three Grade-A office buildings, three residential buildings and a serviced apartment building.

Set out below are certain key information of the Target Property as at 28 February 2022, unless otherwise indicated.

Address	Huamao Place, No. 9 First Wenchang Road, Huicheng District, Huizhou, Guangdong Province, the PRC
Month and year of completion	March 2011
Gross floor area	144,925.07 sq.m.
Gross lettable area	107,088.82 sq.m.
Number of carpark spaces	700 underground and 50 above-ground carpark spaces
Number of tenancies	403
Average rent (RMB/sq.m./month) for February 2022	RMB143.54 (based on gross lettable area)

Percentage of gross lettable area of top 10 tenants	29.3%
Percentage of gross rental income from top 10 tenants for February 2022	10.3%
Occupancy rate	96.2%
Net property income for the year ended 31 December 2021	RMB169.1 million
Appraised Value as at the Valuation Date	RMB2,691 million

The Target Property is situated at the CBD of Huizhou and surrounded by major roads and other public facilities and attractions, such as Huizhou West Lake, Huizhou Museum, Huizhou Science & Technology Museum and Dayun Temple. It is accessible by expressways and intercity railway to the rest of the Greater Bay Area.

Set out below is a summary of overall tenant diversification of the Target Property, in terms of trade sub-sector by reference to gross lettable area as at 28 February 2022 and gross rental income for February 2022, based on information provided by the Sellers.

Trade sector	**Percentage by gross lettable area**	**Percentage by gross rental income**
Apparel	33.2%	32.7%
Food	25.8%	23.2%
Entertainment	7.9%	3.8%
Kid's Fashion and Lifestyle	5.3%	5.5%
Others (including supermarket)	24.0%	34.8%
Total	96.2%	100.0%

For further information of the Target Property, please refer to the paragraph headed "5. Information on the Target Property" in the "Letter to the Unitholders" of the Circular.

2.3 Financial information of the Project Company

Set out below is a table summarising certain financial information of the Project Company for the years ended 31 December 2019, 2020 and 2021 extracted from the Accountant's Report of the Project Company.

	For the year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)
Revenue	185,909	185,751	217,911
Fair value gain/(loss) of investment property	125,000	(161,000)	349,315
Profit/(loss) before tax	244,477	(34,069)	495,956
Profit/(loss) and total comprehensive income/(loss) for the year	180,315	(28,563)	364,119

The Project Company's revenue is solely derived from the operations of the Target Property, which comprises (i) rental income, being a major component and constituted over 60% of the total revenue; (ii) service fee income in relation to property and facilities management service; (iii) advertising; (iv) commission income from concessionaire sales; (v) sales of goods; and (vi) others, mainly being compensation paid by tenants for early termination of leases and miscellaneous income charged to tenants.

The revenue derived from commission income from concessionaire sales is resulted from the Joint Operation Agreements. We understand from the Manager that the economic benefits of Joint Operation Agreements are akin to leases as elaborated in the paragraph headed "5.4.2 Joint Operation Agreements" in the "Letter to the Unitholders" of the Circular and the paragraph headed "9. Joint Operation Agreements" below. Based on the above, the Manager is of the view, and we concur that, the aforesaid commission income from concessionaire sales is akin to turnover rental revenue from leases which nature is common for REITs that own shopping malls and, upon Completion, Spring REIT will not be regarded as operating a business because of arrangements under the Joint Operation Agreements.

The revenue derived from sales of goods is resulted from the Direct Operation Agreements. We understand that the Manager, who has confirmed with the Market Consultant, considers that the Direct Operation Agreements are a normal operating model in the PRC for introducing international beauty brands to the local retail market. As further elaborated in the paragraph headed "5.4.3 Direct Operation Agreements and Direct Operation Leasing Framework Agreement" in the "Letter to the Unitholders" of the Circular and the paragraph headed "10.2 Direct Operation Leasing Framework Agreement (including the Existing Direct Operation Leases)" below, to accommodate such arrangement without having to assume the risk of the retail operations, upon Completion, the Direct Operation Lessee or its designated associate will assume the Project Company's rights, obligations and liabilities under the existing Direct Operation Agreements, as well as any other Direct Operation Agreements which may be entered into by the Project Company prior to Completion, and the Project Company will in turn lease the relevant premises to which each such Direct Operation Agreement relates to the Direct Operation Lessee or its designated associate. To ensure that the transition is done on or prior to Completion, the Sellers are obliged under the Acquisition Agreements to deliver the relevant novation agreements for the applicable existing Direct Operation Agreements and the corresponding Existing Direct Operation Leases to the Purchaser. For future prospective retailers who may prefer the operating model under Direct Operation Agreements, the Manager expects that the Project Company will from time to time lease part of the Target Property to the Direct Operation Lessee or its designated associate, which will in turn enter into the Direct Operation Agreement with the relevant retailer. Based on the above, the Manager is of the view, and we concur that, the historical revenue from the sales of goods will not continue to be earned by the Project Company after Completion, and upon Completion, Spring REIT will not be regarded as operating a business because of the arrangements under the Direct Operation Agreements. Further, we are of the view that the entering into of the Direct Operation Leasing Framework Agreement upon Completion as abovementioned provides sufficient protection and safeguards to minimise Spring REIT's potential risk exposure arising from the operating model under the Direct Operation Agreement after Completion and the interests of the Unitholders are adequately protected.

The Project Company's revenue remained stable at approximately RMB185.9 million and RMB185.8 million in 2019 and 2020 respectively. In 2021, the Project Company's revenue increased by approximately 17.3% to approximately RMB217.9 million, achieving a CAGR of approximately 8.3% from 2019 to 2021. Such increase was primarily due to (i) the increase in rental income derived from the Target Property as a result of an increase in average rent; and (ii) the increase in revenue derived from sales of goods as a result of the entering into of the Direct Operation Agreements in 2021.

The profit/loss of the Project Company has been significantly influenced by the fair value change of the Target Property, which is a non-cash item. In 2020, as a result of the decrease in fair value of the Target Property of approximately RMB161.0 million, the Project Company recorded a loss for the year as compared with profit for the year in 2019 and 2021.

For detailed analysis of the financial performance of the Project Company for the years ended 31 December 2019, 2020 and 2021, please refer to the Management Discussion and Analysis of the Project Company as set out in Appendix 7 to the Circular.

3. Principal terms of the Acquisition Agreements

On 29 April 2022: (a) Spring REIT (through the Offshore Purchaser), the Offshore Seller, the Trustee (being the Offshore Purchaser Guarantor) and Huamao Property (being the Offshore Seller Guarantor) entered into the Offshore Share Purchase Deed, pursuant to which the Offshore Purchaser agreed to acquire, and the Offshore Seller agreed to transfer, the Offshore Sale Shares representing all of the issued shares of the Offshore Target Company, which in turn will immediately after the Reorganisation become the indirect owner of 31% of the equity interest in the Project Company; and, simultaneously, (b) Spring REIT (through the Onshore Purchaser) and the Onshore Seller entered into the Onshore Share Purchase Agreement, pursuant to which the Onshore Purchaser agreed to acquire, and the Onshore Seller agreed to transfer, the Onshore Sale Shares which will immediately after the Reorganisation represent 37% of the equity interest in the Project Company.

Upon Completion, Spring REIT (through its SPVs) will own 68% of the equity interest in the Project Company and a corresponding interest in the Target Property, and the JV Partner (being also the Onshore Seller) will retain the remaining 32% of the equity interest in the Project Company and a corresponding interest in the Target Property. Based on the above structure, the Project Company will become a non-wholly owned subsidiary of Spring REIT and its financial statements will be consolidated into that of Spring REIT.

We summarise below the principal terms of the Acquisition Agreements (collectively, the Offshore Share Purchase Deed and the Onshore Share Purchase Agreement). For details of the Acquisition Agreements, please refer to the paragraph headed "2.5 Acquisition Agreements" in the "Letter to the Unitholders" of the Circular.

Date of Acquisition Agreements:	29 April 2022
Consideration:	The aggregate of (i) Offshore Consideration; and (ii) Onshore Consideration. For details, please refer to the paragraph headed "3.1 Consideration of the Acquisition" below.
Conditions precedent:	Completion under the Offshore Share Purchase Deed is subject to and conditional upon satisfaction of the following Conditions:
	(1) the resolution approving the Acquisition and the Joint Venture having been passed by the Independent Unitholders at the EGM;

(2) the Reorganisation having been completed by the Offshore Seller in accordance with applicable laws and regulations, and the Offshore Seller having provided reasonable documentary proof of the same to the Offshore Purchaser;

(3) there being no statute, regulation or court decision in the PRC which would prohibit or invalidate the Acquisition and the transactions contemplated under the Transaction Documents at Completion;

(4) the conditions precedent under the Onshore Share Purchase Agreement having been satisfied (or waived, where such conditions precedent are capable of being waived);

(5) there having been no material adverse change which, individually or in aggregate, has resulted or is reasonably expected to result in the Target Group or the Target Property suffering or sustaining an aggregate loss equal to 10% or more of the Agreed Property Value;

(6) there being no material breach of any warranties of the Sellers under the Acquisition Agreements on Completion that has resulted or is reasonably expected to result in the Purchasers, the Target Group or the Target Property suffering or sustaining an aggregate loss equal to 10% or more of the Agreed Property Value;

(7) there being no material breach of any warranties of the Purchasers under the Acquisition Agreements on Completion that has resulted or is reasonably expected to result in the Sellers suffering or sustaining an aggregate loss equal to 10% or more of the Agreed Property Value;

(8) the consent of PAB Huizhou Branch in respect of the Acquisition and all other related transactions contemplated under the Transaction Documents not having been revoked; and

(9) the Project Company having drawn down the amount of RMB800 million under the PAB Facility Agreement and applied such proceeds of the PAB Facility towards the purposes permitted under the PAB Facility Agreement (being the refinancing of bank and intercompany loans and the payment of property renovation fees and property operating expenses).

Completion under the Onshore Share Purchase Agreement is subject to and conditional upon satisfaction of the following Conditions:

(10) save for the Residual Payables, the intercompany balances owing by and to the Project Company on the one hand and to and by members of the Sellers' group on the other hand having been restructured and consolidated into the Novated Payables, and the Project Company having entered into the relevant agreement relating to the Novated Payables with the Onshore Seller;

(11) the transfer of the Onshore Sale Shares from the Onshore Seller to the Onshore Purchaser having been registered with the local authorities;

(12) the release registration of the Existing Guohua PAB Share Pledge with the competent local authorities in the PRC having been completed, and the Onshore Sale Shares being free from encumbrances; and

(13) the conditions precedent under the Offshore Share Purchase Deed having been satisfied (or waived, where such conditions precedent are capable of being waived).

Warranties and indemnities: Each of the Acquisition Agreements contains customary warranties made by the relevant Seller in respect of, among others, the Project Company and the Target Property (and, in the case of the Offshore Share Purchase Deed, the Target Group).

In this respect, we noted that the Maximum Liability Cap adequately covers up to 100% of the Offshore Consideration and the Onshore Consideration respectively. The minimum per claim threshold of the Offshore Proportion of RMB1 million and the Onshore Proportion of RMB1 million represents relatively small percentage of the Offshore Consideration and the Onshore Consideration respectively and we are of the view that it is expedient that small amount of claims be excluded.

Each of the Acquisition Agreements provides for a limitation period of two years after the Completion Date for all claims made thereunder (save for those relating to fundamental warranties or tax warranties, in which case the limitation period is, respectively, five years and seven years after the Completion Date). We are of the view that such two-year period reasonably covers the time period where any breach may manifest given the nature of the transactions thereunder.

Based on the foregoing, we are of the view that the Maximum Liability Cap, the relevant minimum per claim threshold and the aforesaid limitation period are fair and reasonable and on normal commercial terms, and they allow for adequate protection to the interests of the Unitholders.

When considering the fairness and reasonableness of the terms of the Acquisition Agreements, we have taken into account the following factors.

3.1 Consideration of the Acquisition

Pursuant to the Acquisition Agreements, the Consideration shall be equal to the aggregate of the Offshore Consideration and the Onshore Consideration.

The Offshore Consideration shall be equal to 31% of the Agreed Property Value minus 31% of the amounts outstanding under the PAB Facility as at Completion, and adjusting such net amount to: (a) either: (i) add 31% of the Project Company Adjusted NAV as at Completion (if it is a positive amount); or (ii) subtract 31% of the absolute value of the amount of the Project Company Adjusted NAV as at Completion (if it is a negative amount), in each case as set out in the Completion Statement; and (b) either: (i) add the amount of the Other Group Adjusted NAV as at Completion (if it is a positive amount); or (ii) subtract the absolute value of the amount of the Other Group Adjusted NAV as at Completion (if it is a negative amount), in each case as set out in the Completion Statement.

The Onshore Consideration shall be equal to 37% of the Agreed Property Value minus 37% of the amounts outstanding under the PAB Facility as at Completion, and adjusting such net amount to either: (a) add 37% of the Project Company Adjusted NAV as at Completion (if it is a positive amount); or (b) subtract 37% of the absolute value of the amount of the Project Company Adjusted NAV as at Completion (if it is a negative amount), in each case as set out in the Completion Statement.

The **Agreed Property Value** of RMB2,442.0 million, being the entire asset value of the Target Property agreed by the Sellers and the Purchasers and the basis for determining the Consideration as discussed above, represents an approximate 9.3% discount to the Appraised Value of RMB2,691 million as at the Valuation Date. In this regard, we have performed independent research on recent property acquisition and disposal transactions involving commercial properties in the PRC and Hong Kong that have been conducted by REITs and companies listed on the Hong Kong Stock Exchange (the "**Comparable Transactions**") and noted the 9.3% discount level is within the range of premium/discount of, and is comparable to, the Comparable Transactions. While the subject properties of the Comparable Transactions may not be of identical asset class, location, size and ranking as those of the Target Property, we consider the Comparable Transactions provide reasonable references to the aforesaid discount level.

The Consideration shall be paid for in cash and the assumption by Spring REIT (through the Onshore Purchaser) of the Novated Payables.

Based on the Accountant's Report, and information provided by the Seller, for illustrative purposes: (a) the outstanding amount under the PAB Facility is expected to be RMB800.0 million as at Completion; (b) the Project Company Adjusted NAV was approximately RMB206.2 million as at 31 December 2021; (c) the Other Group Adjusted NAV was nil as at 31 December 2021; (d) the requisite adjustments as prescribed by the Acquisition Agreements are expected to lead to (i) an increase in the Project Company Adjusted NAV by RMB823.8 million, which mainly entails recognition of called-up capital receivable, cash replenishment to fulfill the minimum cash balance at Completion and changes in intercompany balances; and (ii) a decrease in the Other Group Adjusted NAV by RMB179.7 million which mainly entails recognition of called-up capital payable by the PRC Intermediary Company.

Based on Relevant Proportion Agreed Property Value, Relevant Proportion of (a), (b) and (d-i), and (c) and (d-ii), and for illustrative purpose only, the Illustrative Consideration would be RMB1,637.2 million.

We are of the view that the method of arriving at the Consideration, which shall take into account the amount of net asset value of the Target Group as at Completion, is fair and reasonable and in the interests of Spring REIT and the Unitholders. Further, considering the Agreed Property Value, being the basis for determining the Consideration, is at a discount to the Appraised Value of the Target Property as assessed by the Independent Property Valuer, we are of the view that the Consideration is fair and reasonable and is in the interests of Spring REIT and the Unitholders as a whole. For discussions of the Appraised Value of the Target Property, please refer to the paragraph headed "3.3 Valuation of the Target Property" below.

3.2 Payment terms for the Acquisition

Pursuant to the Acquisition Agreements, the Consideration shall be paid or procured to be paid by the Purchasers in the following manner:

(a) on the Completion Date, the following amounts shall be paid in the following manner:

(i) the "**Initial Offshore Consideration**" (being the amount of Offshore Consideration calculated based on figures set out in the Pro Forma Completion Statement, less the Tax Holdback Amount, and shall be paid or procured to be paid in cash); and

(ii) the "**Initial Onshore Consideration**" (being the amount of Onshore Consideration calculated based on figures set out in the Pro Forma Completion Statement, and shall be paid or procured to be paid by the novation of the Onshore Seller's obligations and liabilities under the Novated Payables in the amount of RMB890 million to the Onshore Purchaser on a dollar-for-dollar basis, and payment of the balance (the "**Purchaser Deferred Payment**") shall be deferred and will be made without any interest when the Onshore True-up Payment becomes due and payable, provided that if the amount of the Initial Onshore Consideration is less than RMB890 million, payment of the balance (the "**Seller Deferred Payment**") shall be deferred and will be made without any interest when the Onshore True-up Payment becomes due and payable,

in this regard, we noted that the Novated Payables represent an unsecured and interest-free payables of RMB890 million (to be consolidated from certain intercompany balances owing by and to the Project Company, save for the Residual Payables) owing by the Onshore Seller to the Project Company, while following the novation, the Novated Payables will become an indebtedness owing by Spring REIT (through the Onshore Purchaser) to the Project Company and continue to remain unsecured and interest-free with no maturity date. The Project Company is expected to settle the Residual Payables of RMB10.5 million, which shall be interest-free, using its own cash after Completion. As advised by the Manager's PRC legal adviser, the assumption of Novated Payables complies with the applicable PRC laws and regulations. For further details of the Novated Payables, please refer to the paragraph headed "2.10.3 Novated Payables" in the "Letter to the Unitholders" of the Circular. Considering the above and that it enables Spring REIT to acquire as much equity interest in the Project Company as possible with lessened cash burden, we are of the view that the assumption of Novated Payables is conducted on normal commercial terms or better (i.e. being an interest-free indebtedness) from the perspective of Spring REIT and is fair and reasonable.

Upon Completion, Spring REIT (through its SPVs) will own and control 68% of the equity interest in the Project Company. As majority owner, Spring REIT should be able to make key operational decisions of the Project Company (including the request for repayment of the Novated Payables), save for limited board reserved matters as described in the paragraph headed "2.6.4 Matters Requiring Unanimous Approval" in the "Letter to the Unitholders" of the Circular (which do not include matters relating to the Novated Payables). As at the Latest Practicable Date, the Manager advised that there was no definitive timetable for the Project Company to request repayment by the Onshore Purchaser of the Novated Payables.

(b) the Tax Holdback Amount of RMB67 million shall be paid within five business days after the Offshore Seller has proved that it has complied with certain obligations under the China Indirect Transfer Rules as detailed in the paragraph headed "2.5.3 Tax Holdback Amount" in the "Letter to the Unitholders" of the Circular;

(c) within five business days after the agreement or determination of the Completion Statement, if the Offshore Consideration calculated based on figures set out in the Completion Statement minus the Initial Offshore Consideration is (i) a positive amount, the Offshore Purchaser shall pay such amount to the Offshore Seller in cash; or (ii) a negative amount, the Offshore Seller shall pay such amount to the Offshore Purchaser in cash; and

(d) within 30 business days (or such other longer period as agreed by the Onshore Seller and Onshore Purchaser in writing) after determination of the Completion Statement, if the Onshore Consideration calculated based on figures set out in the Completion Statement minus the Initial Onshore Consideration is (i) a positive amount, and in the case of the Purchaser Deferred Payment being payable, the Onshore Purchaser shall pay such amount together with the Purchaser Deferred Payment to the Onshore Seller in cash; or (ii) a negative amount, and in the case of the Purchaser Deferred Payment being payable and the absolute value of such amount is lower than the amount of the Purchaser Deferred Payment, the Onshore Purchase shall pay the difference to the Onshore Seller in cash; or (iii) a negative amount, and in the case of the Purchaser Deferred Payment being payable and the absolute value of such amount being higher than the amount of the Purchaser Deferred Payment, the Onshore Seller shall pay the difference to the Onshore Purchaser in cash; or (iv) a negative amount, and in the case of the Seller Deferred Payment being payable, the Onshore Seller shall pay the absolute value of such amount together with the Seller Deferred Payment to the Onshore Purchaser in cash; or (v) a positive amount, and in the case of the Seller Deferred Payment being payable and the amount of the Seller Deferred Payment being lower than such amount, the Onshore Purchaser shall pay the difference to the Onshore Seller in cash; or (vi) a positive amount, and in the case of the Seller Deferred Payment being payable and the amount of the Seller Deferred Payment being higher than such amount, the Onshore Seller shall pay the difference to the Onshore Purchaser in cash.

For details of the payment terms, please refer to the paragraph headed "2.5.2 Consideration and Payment Terms for the Acquisition" in the "Letter to the Unitholders" of the Circular.

Overall, the terms and methods of payment of the Consideration which include the assumption of Novated Payables arrangement, payment in cash and payment being upon Completion etc., are in general comparable to the Comparable Transactions and in line with the market practice. Considering the payment of Consideration will only happen upon the Completion, while the novation of the Novated Payables is on a dollar-for-dollar basis and interest-free in nature, we are of the view that the payment terms for the Consideration are on normal commercial terms and are fair and reasonable.

As the assumption of Novated Payables is (i) conducted on normal commercial terms or better (i.e. being an interest-free indebtedness) from the perspective of Spring REIT; and (ii) not secured by the assets of Spring REIT, the conditions under rule 14A.90 of the Listing Rules are met for the Novated Payables to be fully exempted from the announcement, circular, reporting, annual review and Unitholders' approval requirements.

3.3 Valuation of the Target Property

When assessing the fairness and reasonableness of the valuation for the Target Property, we have in particular considered the Independent Property Valuer's Property Valuation Report. In this respect, we noted that Knight Frank Petty Limited, the current principal valuer of Spring REIT, has been appointed as the Independent Property Valuer to conduct a valuation on the Target Property for the purpose of the Acquisition. According to the Independent Property Valuer's Property Valuation Report, the details of which are set out in Appendix 4 to the Circular, the Appraised Value of the Target Property amounted to RMB2,691 million as at the Valuation Date. The Agreed Property Value represents an approximate 9.3% discount to the Appraised Value.

To assess the fairness and reasonableness of the valuation, we have reviewed the Independent Property Valuer's Property Valuation Report and discussed with the Independent Property Valuer in relation to (i) the methodology and assumptions used in performing the valuation on the Target Property as well as whether such methodology and assumptions are appropriate and acceptable; (ii) their scope of work for conducting the valuation on the Target Property; and (iii) their relevant professional qualifications as a property valuer.

3.3.1 Valuation methodology

In arriving at the Appraised Value, we noted that the Independent Property Valuer has valued the Target Property, which is intended to be held for investment by Spring REIT, using the income capitalisation method (the "**Income Approach**"). Having discussed with the Independent Property Valuer (i) the rationale for adopting the Income Approach as the valuation methodology for the Target Property; and (ii) the basis and assumptions adopted in arriving at the Appraised Value using the Income Approach, we understand and concur with the Independent Property Valuer that this method is appropriate for valuation of the Target Property which has stable and uniform tenancy terms, and has taken into account the rental income of the Target Property derived from existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases. Such income is then capitalised to determine the market value of the Target Property at an appropriate capitalisation rate. Further, we understand the Independent Property Valuer has also cross-checked the Appraised Value with reference to the market approach. Such valuation methodologies adopted by the Independent Property Valuer are the same as those currently adopted for the valuation of properties of Spring REIT. Based on our independent research on property transactions of other REITs and companies listed on the Hong Kong Stock Exchange, the use of Income Approach and cross-checked with market approach is in line with the market practice of similar types of properties and under similar circumstances.

3.3.2 Valuation basis and assumptions

The Independent Property Valuer's valuation is carried out on a market value basis, which is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion" in accordance with the HKIS Valuation Standards. We noted that in the case of the Acquisition, the Acquisition Agreements and the transactions contemplated thereunder have been entered into, or shall be entered into, by the parties thereto on normal commercial terms following arm's length negotiations; and we are not aware of any unique circumstance relating to the Acquisition such as distressed or compulsory sale. We are therefore of the view that the basis adopted by the Independent Property Valuer is fair and reasonable.

We also noted that the Independent Property Valuer relied on the information provided by the Manager and the Project Company, and the legal opinion issued by the Manager's PRC legal adviser. Further, the valuation has been made on the assumptions that (i) the market value basis specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale; (ii) no allowance has been made in for any charges, mortgages or amounts owing on any property nor for any expense or taxation which may be incurred in affecting a sale, or any element of value available only to a specific owner or purchaser; and (iii) the Target Property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its values.

For the Income Approach, the Independent Property Valuer takes into account the rental income of the Target Property derived from the existing leases and/or achievable in the existing market with due allowance for the revisionary income potential of the leases, which has been then capitalised to determine the market value of the Target Property at an appropriate capitalisation rate. As to the rental income, we noted that the Independent Property Valuer uses a set of assumptions (e.g. gross lettable area, occupancy rates and market rent) based on the (i) existing Leases and Joint Operation Agreements; and (ii) market rental of shopping malls in the proximity of the Target Property with similar characteristics (the "**Comparable Premises**"). In this regard, we noted that the Independent Property Valuer has identified and analysed the lease information of three Comparable Premises, subject to appropriate adjustments including but not limited to location, operating scale and tenant bases.

As to the capitalisation rate, the Independent Property Valuer has adopted a term yield of 5.5% (for existing rental income) and a reversionary yield of 6.0% (for reversionary rental income) respectively. We understand from the Independent Property Valuer that such gross yields have taken into account (i) its research and analysis of the shopping mall market in Huizhou and areas in the proximity of Huizhou, where the stabilised market gross yields range from 5.5% to 6.5%; and (ii) the location and characteristics of the Target Property.

We have reviewed and discussed with the Independent Property Valuer the aforesaid basis and assumptions adopted in the Income Approach together with the list of Comparable Premises referred to when making the relevant assumptions. In addition, we have also examined the historical performance of the Target Property, such as occupancy rates and average rent. We noted that the assumptions made in the Income Approach, in particular the occupancy rates and the average rent, have reflected the historical revenue generating ability of the Target Property and are reasonable as compared to the Comparable Premises, taking into account the characteristics of the Target Property including location, operating scale and tenant bases. Based on the above, we are of the view that the basis and assumptions made in the Income Approach by the Independent Property Valuer are fair and reasonable.

For the market approach which are being used by the Independent Property Valuer to cross-check the Appraised Value, it rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties. In this regard, we have discussed with the Independent Property Valuer and understand that as there has been no recent market transaction of shopping mall in Huizhou, the Independent Property Valuer has identified and analysed the asking price and relevant information of four prevailing market sales of commercial units which are in proximity of the Target Property. We have obtained the aforementioned sales information and conducted research to independently verify this information. Based on the above, we are of the view that using the above references in the absence of direct comparable transactions for the market approach are fair and reasonable.

3.3.3 Independent Property Valuer's competence and scope of work

We have conducted an independent interview with the Independent Property Valuer. We have enquired and the Independent Property Valuer has confirmed its independence from Spring REIT, the REIT Manager, the Trustee, the Target Company, each of the substantial Unitholders as well as other parties to the Acquisition (including the Ancillary Transactions), the Joint Venture, transactions under the Property Management Agreement and PM Office Lease. In addition to our discussion with the Independent Property Valuer on its firm's experience and expertise, we have obtained relevant qualifications and credentials of the team members involved in this valuation of the Target Property.

We noted that the Independent Property Valuer is a global real estate services firm specialising in property and investment management, and provides integrated service where all aspects of a property valuation assignment can be carried out in-house. According to the Independent Property Valuer, it has been appointed as valuer by over 200 Hong Kong listed companies in the past. The person who is responsible for signing off the Independent Property Valuer's Property Valuation Report, Mr. Clement Leung, is a qualified valuer who has 29 years of experiences in property valuation and consultancy services in Hong Kong, the PRC and in the Asia Pacific region. Inspection of the Target Property for preparation of the Independent Property Valuer's Property Valuation Report was conducted by employees of the Independent Property Valuer who have the necessary qualification and experience.

We have also obtained and reviewed the Independent Property Valuer's terms of engagement and discussed with the Independent Property Valuer its work performed in connection with this valuation. We are satisfied that the Independent Property Valuer is qualified to give the opinion as set out in the Independent Property Valuer's Property Valuation Report having taken into account its relevant experience and expertise, its independence, and its scope of work. We noted a section headed "Material Valuation Uncertainty" in the Independent Property Valuer's Property Valuation Report illustrating that the valuation is reported as being subject to "material valuation uncertainty" mainly due to an unprecedented set of circumstances caused by COVID-19 pandemic. In this regard, we noted that (i) there was similar disclosure in the property valuation report in a circular published by another REIT listed on the Hong Kong Stock Exchange in relation to an acquisition of property in the PRC by the end of 2021; (ii) such disclosures could be found in a number of circulars published by other companies listed on the Hong Kong Stock Exchange in relation to acquisition of properties since the outbreak of COVID-19 pandemic; (iii) such disclosure is made in accordance to VPS 3 and VPGA 10 of the RICS Valuation – Global Standards; and (iv) as advised by the Independent Property Valuer, it is a common market practice to include such disclosure in a property valuation report since the outbreak of COVID-19 pandemic. Based on the above, we are of the view that the inclusion of the section headed "Material Valuation Uncertainty" in the Independent Property Valuer's Property Valuation Report is in line with the applicable standards and market practice.

3.3.4 Section summary

Having considered that (i) the Independent Property Valuer has the relevant qualification, competence and experience to prepare the Independent Property Valuer's Property Valuation Report; (ii) the Independent Property Valuer's scope of work is appropriate for performing the valuation on the Target Property; (iii) based on our independent research on property transactions of REITs and companies listed on the Hong Kong Stock Exchange, the valuation approaches in determining the value of the Target Property are approaches commonly adopted when determining the market value of similar types of properties and under similar circumstances; and (iv) the valuation assumptions and underlying basis for valuing the Target Property are fair and reasonable, we are of the view that the Agreed Property Value, which is at an approximate 9.3% discount to the Appraised Value, is fair and reasonable and is in the interests of Spring REIT and the Unitholders as a whole.

For clarity, we noted that the Appraised Value only relates to the valuation of the Target Property and it does not take into account the financing and shareholding structure of the Target Property and is not equivalent to the value of the Target Group. Therefore, we are of the view that it is fair and reasonable for the parties to adjust the Relevant Proportion of Agreed Property Value in the manner described in paragraph headed "2.5.2 Consideration and Payment Terms for the Acquisition" in the "Letter to the Unitholders" of the Circular.

3.4 Financing plan for the Acquisition

The Manager intends to finance the part of the Consideration which is payable in cash, as well as the Total Fees and Charges, using the Upsized Existing Facility.

Upsized Existing Facility

The Upsized Existing Facility is denominated in HKD for an available amount of HKD1,731.6 million, by upsizing the existing loan facilities of Spring REIT. The Manager intends to finance RMB794.9 million of the cash Consideration and the Total Fees and Charges by drawing down on the Upsized Existing Facility. It will bear interest at a margin of 1.55% per annum over HIBOR, and will mature and become repayable 3 years from the effective date of the Upsized Existing Facility. Such interest rate of the Upsized Existing Facility is comparable to the interest rates of Spring REIT's existing borrowings, where (i) the CCP Facilities bear an interest rate of 3-month USD LIBOR plus 1.55% per annum; and (ii) the New UK Facility bears an interest rate of 2.20% margin plus SONIA (Sterling Overnight Interbank Average) plus CAS (Credit Adjustment Spread)), according to the 2021 Annual Report. We also noticed that the interest rate of the Upsized Existing Facility is at a similar level to those of other REITs listed on the Hong Kong Stock Exchange.

In this regard, we have also considered the information of property acquisition transactions entered into by other REITs listed on the Hong Kong Stock Exchange and noted that acquisition financing is a common feature. In particular, relative to the size of the Acquisition, the amount, duration and interest rate of the Upsized Existing Facility is similar to market practice and is fair and reasonable and on normal commercial terms.

Based on the Unaudited Pro Forma Financial Information of the Enlarged Group set out in Appendix 3 to the Circular, the pro forma gearing ratio of Spring REIT is anticipated to increase from 30.0% (as at 31 December 2021) to approximately 36.3% immediately following Completion. Such ratio is below the 50.0% limit permitted under the REIT Code. Based on the above, we are of the view that Spring REIT has sufficient resources to conduct the Acquisition.

Alternative sources of financing

We have also considered alternative sources which may be available to Spring REIT to finance the Acquisition, such as by the issuance of new Units to the Sellers or conducting equity fund raising including placing or rights issue (the "**Alternative Sources**"). We understand that the Manager has taken a balanced approach when determining the use of debt to finance the Acquisition, as opposed to the use of equity.

By nature, the cost of equity is generally higher than the cost of debt (where available). In the case of Spring REIT, the cost of equity may be roughly proxied by its distribution yield, which was 8.5% as disclosed in the 2021 Annual Report. The interest cost of the Upsized Existing Facility which bears interest at a margin of 1.55% per annum over HIBOR is considerably lower than the aforesaid distribution yield. As such, if debt financing is readily available and backed by relatively strong financial positions, it may be more beneficial from an economic point of view to use debt as the source of funding. Another consideration is that, as with other REITs listed on the Hong Kong Stock Exchange, the price of Unit is currently trading at below the net asset value per Unit. As at the Latest Practicable Date, such discount of Spring REIT was approximately 51.4%, as compared to the average discount of approximately 46.4% and the range of discount of between approximately 12.1% and 79.2% of other REITs listed on the Hong Kong Stock Exchange. In a hypothetical scenario for Spring REIT to finance the Acquisition fully or partly by issuance of new Units at prevailing market price, it may result in a dilution in net asset value per Unit which needs to be sufficiently justified for Unitholders' consideration. Similarly, a placing may result in substantial unitholding dilution to Unitholders and a rights issue may cause dilution to Unitholders who are unable to take up their rights.

Considering the current and expected gearing ratio and debt financing capacity, the Manager is of the view, and we concur, that funding the Acquisition fully by debt financing is a balanced and more appropriate approach to achieve attractive yield accretion while maintaining a reasonable level of financial leverage. This structure would also be beneficial to Unitholders as compared to the Alternative Sources. This is illustrated by the improvement in pro forma DPU in Appendix 3 to the Circular and as elaborated below.

Having considered (i) the current gearing headroom and the terms of the Upsized Existing Facility, in particular, the financing costs which are substantially lower than the net property yields of the Target Property; and (ii) the terms of the Upsized Existing Facility, we are of the view that the use of Spring REIT's debt financing for the Acquisition is fair and reasonable, on normal commercial terms, and in the interests of Spring REIT and the Unitholders as a whole.

3.5 Total Fees and Charges

The estimated Total Fees and Charges payable by Spring REIT in relation to the Acquisition is approximately RMB47.7 million and consists of the Acquisition Fee, the Other Acquisition Fees and Expenses and the Trustee's Additional Fee. For further details, please refer to the paragraph headed "2.9 Fees and Charges" in the "Letter to the Unitholders" of the Circular.

We noted that the Acquisition Fee and the Trustee's Additional Fee are expected to be incurred in accordance to the Trust Deed. For the Other Acquisition Fees and Expenses, we have obtained and reviewed the breakdown and noted that those include expenses such as advisory fees, legal fees and professional fees, which are expenses customarily incurred for transactions such as the Acquisition.

3.6 PAB Guarantees and PAB Share Pledges

Pursuant to the PAB Facility Agreement, PAB agreed to provide the Project Company with a 10-year loan facility of RMB900 million maturing in 2032. For further details, please refer to the paragraph headed "2.10.2 PAB Facility" in the "Letter to the Unitholders" of the Circular.

As at the Latest Practicable Date, the PAB Facility had not been drawn down by the Project Company but, as a condition of Completion, the Project Company will draw down the amount of RMB800 million under the PAB Facility. For further details, please refer to the paragraph headed "2.5.4 Conditions Precedent" of the Circular and the paragraph headed "3. Principal terms of the Acquisition Agreements" above.

As at the Latest Practicable Date, the indebtedness under the PAB Facility was secured by (a) the PAB Property Mortgage; (b) a pledge over accounts receivable of the Project Company in relation to the Target Property; and (c) guarantees given by the Onshore Seller and its associates (the "**Guohua Guarantors**") on a joint and several basis; and (d) the Existing Guohua PAB Share Pledge. The existing guarantees given by the Guohua Guarantors and the Existing Guohua PAB Share Pledge shall be replaced by the PAB Guarantees and the PAB Share Pledges upon Completion. In addition, following Completion and during the term of the PAB Facility, the Project Company shall maintain a minimum reserve of RMB40 million in, and make a monthly deposit of RMB7 million into, the supervised account maintained with PAB, which can be used for debt service.

Upon Completion, Spring REIT (through the Onshore Purchaser), will also guarantee such indebtedness on a several and proportionate basis with the Guohua Guarantors, with reference to the respective equity interest held by Spring REIT (through its SPVs) on the one hand and the JV Partner on the other hand in the Project Company (the "**PAB Guarantees**"). In addition, to the extent required by PAB, each of the shareholders of the Project Company following Completion (i.e. the PRC Intermediary Company, the Onshore Purchaser and the JV Partner) shall pledge all of their equity interest in the Project Company in favour of PAB to secure the indebtedness under the PAB Facility, provided that the aggregate liability secured by the share pledges to be provided by Spring REIT's SPVs shall be on a several and proportionate basis (i.e. shall not exceed its pro rata portion, based on the respective equity interest held by Spring REIT (through its SPVs) on the one hand and the JV Partner on the other hand in the Project Company) (the "**PAB Share Pledges**").

As advised by the Manager's PRC legal adviser, the provision of PAB Guarantees complies with the applicable PRC laws and regulations. Further, if the guarantee is provided by an offshore entity (the "**Overseas Guarantee**"), the domestic financial institution that releases the loan or provides credit quotas shall centrally submit the relevant information of the domestic loans under the Overseas Guarantee to the Foreign Exchange Authorities.

Considering such guarantees and share pledges will be conducted on a several and proportionate basis according to the respective shareholding of Spring REIT and Onshore Seller in the Project Company after Completion, we are of the view that the PAB Guarantees and PAB Share Pledges are on normal commercial terms and are fair and reasonable. As the PAB Guarantees and PAB Share Pledges are conducted (i) on normal commercial terms; and (ii) in proportion to the equity interest held by Spring REIT (through Offshore Purchaser and Onshore Purchaser) and the JV Partner (being also the Onshore Seller) in the Project Company on a several basis, the conditions under rule 14A.89 of the Listing Rules are met for the PAB Guarantees and PAB Share Pledges to be fully exempted from the announcement, circular, reporting, annual review and Unitholders' approval requirements.

3.7 Project Company Facility

As a result of the Reorganisation to enable the Offshore Transaction, the Project Company will issue the Project Company Subscription Shares to the PRC Intermediary Company. The subscription price of approximately RMB179.7 million for the Project Company Subscription Shares will be paid from time to time using the proceeds of the loans to be drawn down under the Project Company Facility, being a loan facility of up to approximately RMB179.7 million to be provided by the Project Company to the Onshore Purchaser for the purpose of on-lending to the PRC Intermediary Company, which will be unsecured and interest-free. The Project Company Facility may be drawn down for an initial period of three years and may be renewed under the same terms thereafter by mutual agreement. If the term is not renewed, all outstanding amounts under the Project Company Facility shall become due and payable at the end of the term. The Manager has obtained a legal opinion from competent PRC legal adviser confirming that subject to the agreement for the Project Company Facility being duly executed by parties thereto, such agreement and the creation and provision of the Project Company Facility to the Onshore Purchaser thereunder is legally valid and enforceable under PRC law. For further details, please refer to the paragraph headed "2.10.4 Project Company Facility" in the "Letter to the Unitholders" of the Circular.

Considering the Project Company Facility is unsecured and interest-free, which is resulted from the Reorganisation (being a condition precedent under the Offshore Share Purchase Deed), we are of the view that the creation and provision of Project Company Facility to the Onshore Purchaser is fair and reasonable and on normal commercial terms or better (i.e. being an interest-free indebtedness) from the perspective of Spring REIT). As the Project Company Facility is (i) conducted on normal commercial terms or better as aforementioned; and (ii) not secured by the assets of Spring REIT, the conditions under rule 14A.90 of the Listing Rules are met for the Project Company Facility to be fully exempted from the announcement, circular, reporting, annual review and Unitholders' approval requirements.

As at the Latest Practicable Date, the Manager advised that there was no definitive timetable to draw down the Project Company Facility and the Manager will take into account Spring REIT's ability to service its debts as and when they fall due, when deciding whether and when to draw down the Project Company Facility.

3.8 Section summary

Taking into account all the factors and analysis above, we are of the view that the terms and conditions of the Acquisition Agreements are on normal commercial terms and are fair and reasonable.

4. Principal terms of the Joint Venture Agreement

On Completion, the JV Parties, being the PRC Intermediary Company, the Onshore Purchaser and the Onshore Seller, will enter into the Joint Venture Agreement to govern their relationship as shareholders of the Project Company. The Joint Venture Agreement has no fixed term and shall terminate either (i) upon the JV Parties' mutual agreement in writing; or (ii) when all of the equity interest in the Project Company are being owned and held by one shareholder or all the JV Parties cease to be the shareholders of the Project Company.

In assessing the fairness and reasonableness of the Joint Venture Agreement, we have considered the below key terms.

4.1 Capital commitment

The aggregate capital commitment of Spring REIT (through the PRC Intermediary Company and the Onshore Purchaser) shall be approximately RMB394.2 million, representing 68% (being the Relevant Proportion) of the post-Reorganisation registered capital in the Project Company. The capital commitment of the JV Partner shall be approximately RMB185.5 million, representing 32% of the post-Reorganisation registered capital of the Project Company. Such capital commitments under the Joint Venture Agreement will, at the time of entry into the Joint Venture Agreement, have already been fully committed by each party and no further capital commitments will be required from each of them under the Joint Venture Agreement (although, following Completion and separate to the Joint Venture Agreement, the PRC Intermediary Company will settle the unpaid subscription price for the Project Company Subscription Shares from time to time as described in the paragraph headed "2.3 Reorganisation" in the "Letter to the Unitholders" of the Circular).

4.2 Profit sharing

Any distribution by the Project Company shall be determined by the board of directors of the Project Company from time to time and shall be made to the JV Parties pro rata to their respective equity interest in the Project Company.

4.3 Board composition

The board of directors of the Project Company shall comprise three directors, one of whom may be nominated by the JV Partner and the remaining two of whom may be nominated by the Trustee (through the PRC Intermediary Company and the Onshore Purchaser). Spring REIT (through the PRC Intermediary Company and the Onshore Purchaser) shall be entitled to select which of the Trustee's nominees shall be the chairman of the Project Company board. The quorum for board meetings of the Project Company shall be any two directors.

4.4 Matters requiring unanimous approval

Board resolutions shall be approved by at least two directors, save that the following matters shall require the unanimous approval of all three directors: (a) amendments to the Project Company's articles of association; (b) distributions by the Project Company to its shareholders on a non-pro rata basis; (c) liquidation, dissolution and winding-up of the Project Company; (d) increase or decrease of the registered capital of the Project Company; (e) merger or demerger of the Project Company; (f) transactions between the Project Company and the JV Parties or their affiliates outside the ordinary course of business (excluding the Project Company Facility and other transactions contemplated by or in connection with the Onshore Share Purchase Agreement); and (g) financing, provision of loans and security, assumption of debts by the Project Company outside the ordinary course of business (excluding the Project Company Facility and other transactions contemplated by or in connection with the Onshore Share Purchase Agreement).

4.5 Transfer of shares

No JV Party shall have the right to dispose of any part of its interest in the Project Company to a third party transferee who is not its affiliate, unless it has first offered its entire equity interest in the Project Company to the other JV Parties who have declined or are deemed to have declined to accept such offer. Any transfer must be in respect of the transferor's entire equity interest in the Project Company and not merely a part of such equity interest. Any proposed transfer by the JV Partner of its equity interest in the Project Company to actual or potential connected persons which requires Spring REIT to obtain any approval under the REIT Code and/or the Listing Rules shall be subject to Spring REIT obtaining such approval. The transferee of any permitted transfer of equity interest in the Project Company shall enter into a deed of adherence to become bound by the Joint Venture Agreement.

For further details of the Joint Venture Agreement, please refer to the paragraph headed "2.6 Joint Venture Agreement" in the "Letter to the Unitholders" of the Circular.

Having considered that (i) Spring REIT shall control the board of the Project Company in approximate proportion to its shareholding; (ii) key operational decisions of the Project Company can be made by Spring REIT (with the JV Partner having limited veto rights); (iii) Spring REIT has the right of first refusal to acquire the remaining stake in the Project Company; and (iv) Spring REIT's commitment and liability under the Joint Venture Agreement are proportionate to its equity interests in the Project Company, we are of the opinion that the principal terms of the Joint Venture Agreement are on normal commercial terms, and are fair and reasonable.

5. Manager's rationale for the Acquisition and the Joint Venture

Our analysis on the Manager's rationale for conducting the Acquisition and the Joint Venture, which it believes is beneficial to Spring REIT, is as follows.

5.1 Yield accretive acquisition and alignment of interest

Based on calculations as elaborated in the "Letter to the Unitholders" of the Circular, the annualised net property income yield of the Target Property based on the Agreed Property Value is higher than that of Spring REIT's existing portfolio. For illustration, based on the Unaudited Pro Forma Financial Information of the Enlarged Group as set out Appendix 3 to the Circular, it is expected that, on a pro forma basis assuming the Relevant Proportion of the Target Property had been held and operated by Spring REIT for the year ended 31 December 2021, the Acquisition would have been yield accretive and would have improved the earnings of Spring REIT and DPU to Unitholders.

The Acquisition is in line with Spring REIT's investment strategy to invest in income-producing real estate, and from the perspective of yield accretion and distribution to Unitholders, the Acquisition is beneficial to Unitholders. This is illustrated by the improvement in pro forma DPU from HK22.0 cents to HK24.8 cents in Appendix 3 to the Circular and as elaborated below.

In addition, by virtue of the Onshore Seller retaining 32% of its interest in the Target Property after Completion, Spring REIT benefits from having its interest aligned with the existing owner of the Target Property who has the requisite experience and local knowledge to manage the Target Property.

5.2 Diversification and enlargement of Spring REIT's property portfolio while reducing risk exposure

Spring REIT's Existing Properties comprise two office buildings in the CBD of Beijing and 84 commercial properties in the United Kingdom which are currently operating as car servicing centres. The Acquisition will be Spring REIT's first investment in a retail property asset in the PRC and its first investment in the Greater Bay Area.

We observed that, taking into account its Existing Properties, the Acquisition is consistent with Spring REIT's stated investment objectives and approach in terms of geographical and asset composition diversification.

5.3 Prime location and proximity to public transportation

The Target Property is located in Jiangbei, the CBD of Huizhou, and is well positioned to attract potential customer groups including white-collar workers, middle and upper class residents and young students. According to the Market Consultant's Report, the Target Property has clear transportation advantages, including close 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.

We noted that the above narrative in relation to the Target Property is consistent with the findings in the Market Consultant's Report as set out in Appendix 5 to the Circular.

5.4 Consistent market leader with demonstrated resilience in economic downturn

The Target Property has been a dominant regional market leader in terms of gross merchandise value as well as high-end market positioning. According to the Market Consultant's Report, the Target Property ranked first in terms of gross merchandise value in 2021.

Further, based on the Market Consultant's Report, since 2018, the rate of growth in the Target Property's average monthly rent has outpaced that of retail properties in first-tier cities in the PRC. The average monthly rent of the Target Property grew at a CAGR of about 7.8% during the period from 2018 to 2021, as compared to the CAGR of approximately -1.0%, -2.5%, 6.3%, -5.0% and 0.0% between 2018 and 2021 achieved by retail properties in Beijing, Shanghai, Guangzhou, Shenzhen and Huizhou respectively. Despite the COVID-19 situation in the first half of 2020 which led to substantial economic downturn, only minimal rent concession was granted to the tenants by the Project Company which was discontinued immediately thereafter, and the Target Property managed to deliver a stable operating performance over the period.

In this regard, we noted that the revenue of the Project Company was improving over the past few years as discussed in the paragraph headed "2.3 Financial information of the Project Company" above.

5.5 Experienced management team with solid track record

With the in-depth industry knowledge and market understanding brought by the existing management team, the Target Property is successfully positioned as an iconic landmark in Huizhou with exceptional track record over the past 10 years. The management team has introduced famous chain restaurant brands, for example, Pizzahut and Haidilao hot pot, and other entertainments (for example, virtual reality theme park, cinema and beauty and health clubs), that are difficult to replace by rising e-commerce competitors. With a diversified tenant mix and brand coverage, the Target Property achieved an average daily footfall of more than 30,000 on weekdays and more than 50,000 on weekends (based on the information provided by the Sellers) in 2021, which is significantly higher than its nearest comparable shopping mall (namely, Huizhou Kaisa Plaza) of approximately 18,000 during the same period.

We noted that the above narrative in relation to the Target Property is consistent with the findings in the Market Consultant's Report as set out in Appendix 5 to the Circular.

5.6 Accurate and tested strategies for optimising footfall and tenant mix

According to the Market Consultant's Report, since its opening in April 2011, the Target Property has consistently delivered strong performance and is now well positioned to select and retain the best brands on its premises. Based on the information provided by the Sellers, the management team conducts assessments on tenancy profile in a timely manner in view of latest market situation and replaces approximately 20% of underperforming tenants upon renewal each year.

5.7 Capture of strong growth potential of the Greater Bay Area and Huizhou

According to the Market Consultant's Report, the Greater Bay Area has seen strong economic growth, with its nominal GDP increasing from RMB9.5 trillion to RMB12.6 trillion between 2016 and 2021, implying a CAGR of 5.9% during this period, and its GDP is expected to grow at a projected CAGR of 6.2% from 2021 to 2026. Huizhou has also enjoyed steady economic growth over the past five years. Huizhou's nominal GDP increased from RMB336.0 billion to RMB497.7 billion between 2016 and 2021, representing a CAGR of 8.2% during this period, and is projected to reach RMB707.1 billion by 2026, with a projected CAGR of 7.3% between 2021 and 2026. According to the Market Consultant's Report, from 2016 to 2021, Huizhou's total retail sales value of consumer goods grew in line with its growing GDP and income levels, outpacing that of Guangzhou.

The Acquisition therefore complements Spring REIT's current portfolio presence in Beijing, offering a more diverse geographical and asset composition growth potential in the PRC.

Overall, we concur with the Manager's rationale for conducting the Acquisition.

6. Market conditions

In assessing the reasons for and benefits of the Acquisition, we have also made reference to the Market Consultant's Report, where the Market Consultant has conducted market research on the Target Property and the details of which are set out in Appendix 5 to the Circular. We set out below a summary of the aforementioned market research analysis.

6.1 Overview of Huizhou

Huizhou is one of the main cities in the Greater Bay Area, and is rich in natural, energy and tourism resources. Huizhou is strategically positioned as the "national cross-border e-commerce comprehensive pilot zone city, world-class energy technology innovation centre and modern city" in the Greater Bay Area. Huizhou's transportation is also positioning itself to become a core hub in the Greater Bay Area, in particular, 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 per capita disposable income of urban households in Huizhou has grown at a CAGR of approximately 8.2% from approximately RMB33.2 thousand in 2016 to approximately RMB49.3 thousand in 2021. The Market Consultant expected Huizhou's per capita disposable income of urban households will continue to increase at a CAGR of approximately 7.3% and reach approximately RMB70.0 thousand by 2026. As such, the consumption power of Huizhou's residential population is expected to continue to increase in the next five years.

6.2 Overview of Huizhou shopping mall industry

The shopping mall industry in Huizhou has experienced continued expansion in the past five years in terms of both number and gross floor area. From 2016 to 2021, the number and gross floor area of shopping malls in Huizhou increased significantly at CAGRs of approximately 13.8% and 14.6% respectively. The gross merchandise value ("**GMV**") of shopping malls in Huizhou has also increased at a robust CAGR of approximately 14.7% over the past five years. The Market Consultant expected the role of shopping malls will become increasingly important in the future as an offline retail channel due to consumers' demand for high-quality products and a one-stop shopping experience.

Huizhou's shopping mall industry had 42 shopping malls in operation as at 31 December 2021. The Target Property ranked the first and fourth among all shopping malls in Huizhou in terms of GMV for the year ended 31 December 2021 and gross floor area as at 31 December 2021 respectively.

6.3 Target Property analysis

The Target Property is located in the Jiangbei commercial area, which is one of the three core commercial areas in Huizhou and has developed at a relatively high pace compared to other mature commercial areas. With a gross floor area of approximately 145 thousand sq.m., the Target Property is the largest shopping mall in Jiangbei commercial area as at 31 December 2021. The Target Property is accessible by nearly 20 direct bus lines in Huizhou, and is within one kilometre from a national highway entrance and 21 kilometres away from Huizhou Pingtan Airport.

In terms of brand coverage, the Target Property is a top player in Huizhou's shopping mall industry and has attracted first tier international brands such as Lancôme, Estee Lauder, Hugo Boss and BOSE, which are rarely seen in shopping malls in Huizhou. The Target Property maintained a relatively high occupancy rate of 96.3% as at 31 December 2021, well exceeding the 80% average occupancy rate of the overall Huizhou shopping mall industry during the same period, while it is slightly lower than that of the nearest comparable shopping mall, Huizhou Kaisa Plaza, whose occupancy rate was 98% as at 31 December 2021.

Overall, taking into account factors illustrated above and as further elaborated in the Market Consultant's Report set out in Appendix 5 to the Circular, we concur with the Manager that the Target Property is a high quality asset which may enable Spring REIT to capture the strong growth potential in the Greater Bay Area and Huizhou.

7. Financial effects of the Acquisition on Spring REIT

Upon completion of the Acquisition, the Project Company will become a non-wholly owned subsidiary of Spring REIT and it will be consolidated into the financial statements of Spring REIT.

Independent Unitholders should note that the following discussion of the financial effects of the Acquisition is based on the illustrative scenario provided in respect of the pro forma financial information of the Enlarged Group as set out in Appendix 3 to the Circular, which is mainly based on the following assumptions:

(1) the Consideration is an amount equal to:

(68% x A) – (68% x B) ± (68% x C) ± D

where:

"A" = Agreed Property Value of RMB2,442.0 million;

"B" = Amounts outstanding under the PAB Facility as at Completion;

"C" = Project Company Adjusted NAV (i.e. all assets of the Project Company(1) minus all liabilities of the Project Company(2)) as at Completion; and

"D" = Other Group Adjusted NAV (i.e. all assets of the Target Group(3) minus all liabilities of the Target Group(4)) as at Completion,

in each case, as set out in the Completion Statement.

Notes:

(1) Excluding the Target Property.

(2) Excluding deferred tax liabilities and amounts outstanding under the PAB Facility.

(3) Excluding assets held through the Project Company and the nominal value of the share capital investment in the HK Intermediary Company, the PRC Intermediary Company and the Project Company.

(4) Excluding liabilities held through the Project Company.

For illustrative purpose, as if the Acquisition was completed on 31 December 2021, the total amounts attributed to 68% of the PAB Facility, 68% of the Project Company Adjusted NAV and the Other Group Adjusted NAV amount to RMB544.0 million, RMB700.4 million and negative RMB179.7 million respectively.

The Consideration will be satisfied in the following manner: (i) RMB747.2 million shall be paid in cash; and (ii) the assumption by Spring REIT (through the Onshore Purchaser) of the Novated Payables in the amount of RMB890.0 million.

(2) the Acquisition is considered as an asset acquisition under IFRS 3 "Business Combination" issued by the International Accounting Standards Board; and

(3) other matters stated in sections 6.2 to 6.4 in the "Letter to the Unitholders" of the Circular.

7.1 Pro forma DPU

In terms of pro forma DPU for the year ended 31 December 2021, it will improve from HK22.0 cents to HK24.8 cents if the Acquisition was assumed to have been completed on 1 January 2021 and Spring REIT had held and operated 68% of the Target Property through to 31 December 2021.

7.2 Pro forma NAV attributable to Unitholders per Unit

Using the value as at 31 December 2021 for illustration, NAV attributable to Unitholders per Unit would remain stable at HK$5.54 before and after the Acquisition, as if the Acquisition was completed on 31 December 2021.

7.3 Pro forma capitalisation

The capitalisation of Spring REIT (being interest-bearing borrowings plus net assets attributable to Unitholders) as at 31 December 2021 based on the Unaudited Pro Forma Financial Information of the Enlarged Group set out in Appendix 3, as if Spring REIT had completed the Acquisition on 31 December 2021, would have increased from approximately RMB9.6 billion to approximately RMB11.2 billion.

7.4 Expected gearing ratio

Taking into account the estimated Total Fees and Charges, the pro forma gearing ratio of Spring REIT is anticipated to increase from 30.0% (as at 31 December 2021) to approximately 36.3% immediately following Completion, assuming: (a) completion of the Acquisition; (b) HKD975.0 million (equivalent to approximately RMB794.9 million) drawn down under the Upsized Existing Facility to finance the cash Consideration and the Total Fees and Charges; and (c) the settlement of the ICBC Facility and drawdown of the PAB Facility by the Project Company.

Overall, we are of the view that the Acquisition generally has positive effects on the financial performance of Spring REIT, and its financial position can generally be maintained. While the gearing ratio is expected to increase along with the Acquisition which will be funded with debt facilities; we noted that such ratio remains well below the 50% limit permitted under the REIT Code, and such level of gearing is within Spring REIT's historical ranges and the Manager considers the financial position of Spring REIT remains healthy.

Section conclusion

Having considered the above reasons and factors, we are of the view that transactions under the Acquisition Agreements and the Joint Venture Agreement are (i) on terms which are fair and reasonable; (ii) on normal commercial terms and in the ordinary and usual course of business of Spring REIT; and (iii) consistent with the investment objectives and strategy of Spring REIT and in the interests of Spring REIT and the Unitholders as a whole. We are also of the view that the transactions under the Acquisition Agreements and the Joint Venture Agreement satisfy paragraph 8.7 of the REIT Code.

8. Property Management Agreement

As set out in the paragraph headed "5.6 Management of the Target Property" in the "Letter to the Unitholders" of the Circular, the Target Property has historically been managed by staff of Huamao Group. Beijing Guohua has extensive experience in the commercial and retail real estate sector in the PRC.

To enable a smooth transition and continuity of management services of the Target Property, on the Completion Date, the Project Company will enter into the Property Management Agreement with Huizhou Huamao Operations Management Co., Ltd.* as the Property Manager for provision of property management services in respect of the Target Property. The Manager understands that key management staff of the Property Manager will be selected from the team that has historically been managing the Target Property and hence, will have extensive experience in providing the relevant services in respect of the Target Property. The Manager will work with the JV Partner and supervise the Property Manager in respect of the day-to-day management of the Target Property.

In assessing the fairness and reasonableness of the Property Management Agreement, we have considered the followings.

8.1 Principal terms of the Property Management Agreement

8.1.1 Scope of work and tenure

Pursuant to the Property Management Agreement, the Property Manager shall provide property management services in respect of the Target Property including, among other things, leasing management services, property management advisory services, marketing advisory services, financial management services and operational management services. Such arrangement shall be for a term commencing from the Completion Date and expiring on 31 December 2024. Subject to the parties' agreement, the term of the Property Management Agreement can be extended for an additional three years.

The initial term of approximately three years of the Property Management Agreement is in line with the tenure requirements of continuing connected transactions under the Listing Rules as well as those under the Comparable Arrangements (as defined below).

Pursuant to the Property Management Agreement, the Property Manager will be subject to ongoing supervision by the Project Company. The Property Manager will be required to provide (i) an operation management budget which shall contain, among other things, pricing strategies; and (ii) a cost and expense management budget which shall contain, among other things, revenue based management fee and the Property Manager's human resource costs, in each case on an annual basis within the required time for approval by the Project Company. Further, the Property Manager will be required to provide the Project Company with monthly, bi-annual and annual management reports, which should contain, among other things, a summary of the Leases and the Joint Operation Agreements, budget variance of the Property Manager's human resource costs, operating and management conditions of the Target Property, analysis on important market information, and other information as required by the Project Company. On an ad-hoc basis, the Property Manager will be obliged to provide updates on the management of the Target Property as and when requested by the Project Company. The Property Manager may not enter into leases and service agreements without first seeking the approval of the Project Company.

We are of the view that the aforesaid processes allow the Project Company to regularly monitor and review the performance of the Property Manager so as to ensure the effectiveness and efficiency of the services rendered.

8.1.2 Service fee and reimbursable expenses during the tenure

Under the Property Management Agreement, the Property Manager will be entitled to receive from the Project Company (i) a fee equivalent to 3.0% of the annual revenue of the Project Company (which refers to the revenue generated by the Target Property but excludes, among other things, the revenue generated by the carpark spaces, which shall be settled on a monthly basis and subject to an annual adjustment based on the annual audit of the Project Company), and the corresponding value-added tax; and (ii) a fee equivalent to the Property Manager's human resource costs (which includes salaries, bonuses, benefits and social insurance premiums, the budget of which shall be approved by the Project Company in advance and settled in advance on a monthly basis and subject to an annual adjustment based on the annual audit of the Project Company), and the corresponding value-added tax (the "**Reimbursable Expenses**").

Under the Property Management Agreement, the Property Manager is required to bear all expenses it incurs for carrying out the services and performing its obligations under the Property Management Agreement or for its operation, save and except for the following expenses and costs, which shall be borne by the Project Company:

(a) operation and management expenses in relation to the Target Property, including taxes in connection with the revenues from the Target Property, utilities of unoccupied parts of the Target Property, insurance premiums, promotion and advertising expenses and fees and administrative costs in connection with third party advisers for the Target Property; and

(b) all other costs in relation to the Target Property (including expenses of third party advisers required for the operation of the Project Company and administrative expenses of the Project Company) to the extent approved in writing by the Project Company in advance. For the avoidance of doubt, all such other costs not approved in writing by the Project Company in advance shall be borne by the Property Manager pursuant to the Property Management Agreement.

In assessing the fairness and reasonableness of the principal terms of the Property Management Agreement, we noted that the Independent Property Valuer has issued an independent opinion in this regard. We have reviewed the independent opinion and discussed with the Independent Property Valuer the terms of the Property Management Agreement. According to the Independent Property Valuer, while it could not identify property management agreements with exactly the same terms in the market, it noted that other REITs listed on the Hong Kong Stock Exchange charged fees equivalent to approximately 2.0% to 4.0% of the gross revenue of the subject properties in respect of services that are comparable to those offered pursuant to the Property Management Agreement. This is generally in line with our independent research conducted in relation to similar arrangements entered into by REITs and companies listed on the Hong Kong Stock Exchange (the "**Comparable Arrangements**"). While the subject properties of the Comparable Arrangements may not be of identical asset class, location, size and ranking as those of the Target Property, we are of the view that the Comparable Arrangements provide reasonable references as to the general range of service fee levels of the property management industry. The aforesaid 3.0% fee of the annual revenue of the Project Company is therefore in line with the findings of the Independent Property Valuer and the Comparable Arrangements and is similar to those charged by independent third parties. Further, we noted that the arrangement in respect of the Reimbursable Expenses (i.e. the arrangement on bearing the Property Manager's human resource costs) is not an uncommon feature in the market based on our independent research conducted on the Comparable Arrangements as well as the findings of the Independent Property Valuer.

Based on the analysis performed, the Independent Property Valuer is of the view that the proposed human resource costs of the Property Manager and the relevant terms as stipulated in the Property Management Agreement are fair and reasonable, conducted on normal commercial terms at arm's length, and consistent with normal business practice for contracts of similar type. Based on the above analysis, together with the opinion of the Independent Property Valuer, we concur with the Independent Property Valuer and are of the view that the basis of determination of the fees to be charged by the Property Manager are fair and reasonable and are on normal commercial terms.

The Manager has confirmed that upon any renewal of the Property Management Agreement, which shall be subject to compliance with the relevant requirements of the REIT Code and the Listing Rules, an independent property valuer of Spring REIT will issue an opinion on the terms and conditions of such renewed property management agreement.

8.2 Rationale for entering into the Property Management Agreement

As aforementioned, the Target Property has historically been managed by staff of Huamao Group. Beijing Guohua, which has extensive experience in the commercial and retail real estate sector in the PRC.

We understand from the Manager that it has reviewed and conducted appropriate due diligence on the Property Manager with regard to its necessary skills, resources, competencies and capabilities of managing the Target Property. The Manager has also considered the current state of the Target Property and the performance of the Property Manager to date, which the Manager is satisfied. As stipulated under the Property Management Agreement, the Property Manager is required to act with due care and to the best interest of the Project Company after Completion.

We noted the above assessment conducted and the commitment provided by the Property Manager, and have considered the fact that the Target Property has been, and will continue to be managed by the same key team of property management staff of the Property Manager, providing the comfort of continuity in management services. We also noted Huamao Group's experience in the commercial and retail real estate sector in the PRC, including being a significant owner of the mixed-use development China Central Place in which Spring REIT's CCP Property is situated.

Based on the above, we are of the view that Huizhou Huamao Operations Management Co., Ltd* has demonstrated competency in acting as the Property Manager of the Target Property and it is reasonable that the Project Company continues to engage the Property Manager after the Completion.

8.3 Annual Caps

The Annual Caps applicable to the transactions under the Property Management Agreement for each of the following periods are set out in the following table:

	For the seven months ending 31 December 2022 *(RMB)*	**For the year ending 31 December 2023** *(RMB)*	**For the year ending 31 December 2024** *(RMB)*
Property Management Agreement	18,283,246	33,975,230	36,777,075

Based on our discussion with the Manager, it has determined the Annual Caps taking into account the following factors and assumptions:

(a) the Manager's expectation of the Target Property's revenue and the Property Manager's human resource costs, which was determined by taking into account, among other things, the historical amount of the Target Property's revenue of approximately RMB217.9 million in 2021 and the present amount of the Property Manager's human resources costs, the historical CAGR of 9.2% for the average annual salary for employees in Huizhou's wholesale and retail industry from 2016 to 2020, the annual rental growth rate forecast of 7.0% to 10.0% for Huicheng District between 2021 and 2024, annual GDP growth rate forecast of 7.3% for Huizhou between 2021 and 2026 as estimated by the Market Consultant, an expected rental growth rate of 7.0% upon renewal of the prevailing leases, the prevailing leases to be continued with similar terms (including a customary rent-free fitting-out period at each renewal);

(b) applying the Manager's expectations as mentioned in paragraph (a) above to the agreed terms of the Property Management Agreement, to determine the value of the property management transactions thereunder; and

(c) apply a buffer of 15% to the total amount calculated in paragraph (b) above for each of the financial years from 2022 to 2024. Such buffer is intended for contingencies such as changes in rent, potential inflation and possible increase in human resources and other costs and/or other market conditions in Huizhou and the PRC.

We have obtained and reviewed the calculation workings of the Manager for the Annual Caps. In respect of service fee which will be payable to the Property Manager, we noted that it is calculated based on 3.0% of the estimated annual revenue of the Project Company from 2022 to 2024. We understand the Manager has estimated such revenue based on the prevailing leases, in particular, the revenue generated in 2021 from prevailing leases of the Target Property, and input from the Market Consultant. We have reviewed the Accountant's Report of the Project Company as set out in Appendix 2B to the Circular to ascertain the revenue of the prevailing leases. We have also reviewed the Manager's estimated revenue for the Target Property and noted the Manager has assumed (i) an expected rental growth rate of 7.0% upon renewal of the prevailing leases, after taking into consideration the annual rental growth rate forecast of 7.0% to 10.0% for Huicheng District between 2021 and 2024 according to the Market Consultant's Report as abovementioned; and (ii) the prevailing leases will be continued with similar terms, including a customary rent-free fitting-out period at each renewal. As a result of the above assumptions, we noted that the expected increase in annual revenue from 2022 to 2024 is in line with the increasing trend of historical revenue of the Project Company, which grew at a CAGR of approximately 8.3% from 2019 to 2021 as illustrated in the paragraph headed "2.3 Financial information of the Project Company" above. We also noted from the Market Consultant's Report as set out in Appendix 5 to the Circular that it is expected the shopping mall industry in the Greater Bay Area and Huizhou will increase rapidly, and the Target Property is anticipated to continue enjoying a robust operational performance as the leading shopping mall in Huizhou.

In respect of the Property Manager's human resource costs which will be reimbursable to the Property Manager subject to Project Company's prior budget approval pursuant to the Property Management Agreement, we noted that it is calculated based on the existing level incurred by the Property Manager, which was being reimbursed by the Project Company to the Property Manager, and has taken into account reasonable level of labour cost growth, being the historical CAGR of 9.2% for the average annual salary for employees in Huizhou's wholesale and retail industry from 2016 to 2020 according to the Market Consultant's Report as abovementioned.

We are of the view that the above estimation and calculation basis of the Manager is fair and reasonable. We are also of the view that it is reasonable for the Manager to build in a buffer of 15% to cater to unforeseeable events such as exceptional rental rate growth if retail market rebounds beyond expectation, high salary inflation in case of, for example, a tight labour market; or the need of additional marketing and advertising expenses in case of, for example, a weak retail market affected by economic slowdown or continuing COVID-19 pandemic. Based on our independent research, such buffer of 15% is within the range of buffers of between nil and 25% adopted by other REITs listed on the Hong Kong Stock Exchange for comparable annual caps calculations.

We noted that the historical property management fees incurred by the Project Company amounted to approximately RMB13.9 million, RMB13.9 million and RMB14.0 million in 2019, 2020 and 2021 respectively. We also noted the Manager's view in respect of the differences between the Annual Caps applicable to the transactions under the Property Management Agreement and the historical property management fees as elaborated in the paragraph headed "7.2 Annual Caps" in the "Letter to the Unitholders" of the Circular. We concur with the Manager that the existing property management arrangement is an internal arrangement within the Seller's group companies, which cannot be compared with the Property Management Agreement. As such, the historical property management fees incurred by the Project Company (which are based on terms and fee structure determined by the Seller's group internally) do not provide relevant basis for determining the Annual Caps applicable to the transactions under the Property Management Agreement.

8.4 Section summary

Having considered the above reasons and factors, we are of the view that the Property Management Agreement is (i) on terms which are fair and reasonable; (ii) on normal commercial terms and in the ordinary and usual course of business of Spring REIT; and (iii) consistent with the investment objectives and strategy of Spring REIT and in the interests of Spring REIT and the Unitholders as a whole. Further, we are of the view that the Annual Caps have been fairly and reasonably arrived at and are in the interests of Spring REIT and the Unitholders as a whole.

9. Joint Operation Agreements

In relation to Joint Operation Agreements, we noted that it is typically entered into by the Project Company with certain parties (the "**operators**") that do not have a local legal entity to enter into leases at the Target Property, where all such operators are internationally or regionally recognised fashion retailers, except for one which is an internationally recognised jewellery chain. For further details of the Joint Operation Agreements, please refer to the paragraph headed "5.4.2 Joint Operation Agreements" in the "Letter to the Unitholders" of the Circular.

The Manager's PRC legal adviser has advised that the Joint Operation Agreements are legal and enforceable under PRC laws and regulations. We have obtained and reviewed the Joint Operation Agreement and noted that the economic features of Joint Operation Agreement are similar to a Lease, with a major difference being under the former, the Project Company is responsible for issuing tax invoices in its own name to end customers, which may potentially cause the Project Company to be responsible for product liability and/or quality control claims, customer disputes and/or administrative penalties arising from the operators' operation of the relevant premises.

We noted the Manager's view as set out in the paragraph headed "5.4.2 Joint Operation Agreements" in the "Letter to the Unitholders" of the Circular, and have considered, amongst others, (i) the actual rent derived from and the area of the premises subject to the Joint Operation Agreements only accounted for approximately 8.0% and 4.0% of the actual rent of the Target Property for the year ended 31 December 2021 and the total leased area of the Target Property as at 31 December 2021 respectively; (ii) there exist indemnities from the operators, Offshore Seller and Onshore Seller to the Project Company in respect of the aforementioned liabilities, in particular, as detailed in the paragraph headed "5.4.2 Joint Operation Agreements" in the "Letter to the Unitholders" of the Circular, if the Project Company suffers a loss as a result of the operators' delay in resolving or settling such claims or penalties arising from product liability or quality control, the operators shall indemnify the Project Company for any such loss. Further, under the relevant Acquisition Agreement, the Offshore Seller and Onshore Seller have agreed to indemnify the Offshore Purchaser and the Onshore Purchaser respectively in respect of the aforementioned liabilities arising prior to Completion, subject to the Maximum Cap Liability. In this respect, the Manager considers, given the brand reputation of the operators and the nature of their businesses, the risk of product liability or quality control claims or administrative penalties, as well as the risk of the operators not being able to indemnify the Project Company, to be low; (iii) the continuation of Joint Operation Agreements would allow the Project Company to retain such internationally or regionally recognised brand names; (iv) mechanisms are in place to ensure Joint Operation Agreements will only be entered into if it is in the best interest of the Project Company going forward; and (v) the Manager's PRC legal adviser has advised that the Joint Operation Agreements are legal and enforceable under PRC laws and regulations. Based on the above, we are of the view that the benefits outweigh the risks of assumption of responsibilities and potential liabilities, and the Joint Operation Agreements are fair and reasonable and are in the interest of Spring REIT and the Unitholders as a whole.

10. Ancillary Transactions and PM Office Lease

As set out in the "Letter to the Unitholders" of the Circular, on Completion, the Project Company will enter into (i) the Property Management Agreement and the PM Office Lease with the Property Manager; (ii) the Direct Operation Leasing Framework Agreement (including the Existing Direct Operation Leases) with the Direct Operation Lessee (which is also the Property Manager); and (iii) the Building Management Agreement (including the BM Carpark Lease thereunder) with the Building Manager. The transactions under the aforesaid agreements (except the Property Management Agreement and the PM Office Lease), together with the transactions including the Project Company Facility and the Novated Payables, form part of the Ancillary Transactions.

The regulatory implications of the Ancillary Transactions and transactions under the PM Office Lease are set out in the section headed "Regulatory implications" above and in the paragraph headed "8.1 Connected and major transactions" in the "Letter to the Unitholders" of the Circular.

For the transactions under the Novated Payables and the Project Company Facility, as further elaborated in the paragraphs headed "3.2 Payment terms for the Acquisition" and "3.7 Project Company Facility" above, and in the paragraphs headed "2.10.3 Novated Payables" and "2.10.4 Project Company Facility" in the "Letter to the Unitholders" of the Circular, we noted that both the Novated Payables and Project Company Facility are interest-free indebtedness owing by Spring REIT (through the Onshore Purchaser) to the Project Company and are not secured by the assets of Spring REIT. We therefore are of the view that they are conducted on normal commercial terms or better (i.e. being an interest-free indebtedness) from the perspective of Spring REIT, and are fair and reasonable.

We set out below the background and summary of the PM Office Lease, the Direct Operation Leasing Framework Agreement (including the Existing Direct Operation Leases) and the Building Management Agreement (including the BM Carpark Lease thereunder).

10.1 PM Office Lease

To facilitate the management of the Property, the Project Company will lease part of the Target Property (the area of which is equal to approximately 0.4% of the gross floor area of the Target Property) to the Property Manager for the same period as the Property Management Agreement as office space from which the Property Manager will carry out its property management activities (the "**PM Office Lease**"). The annual rent under the PM Office Lease, which will be entered into by the Project Company and the Property Manager on the Completion Date, will be RMB114,300 (including value-added tax) and will be payable annually in advance.

In relation to the aforementioned annual rent under the PM Office Lease, we have obtained and reviewed the PM Office Lease agreement (including the terms contemplated therein) and the independent opinion letter issued by the Independent Property Valuer. The Independent Property Valuer advised that they have identified certain leases of comparable properties in the vicinity of the Target Property (the "**Comparable Leases**"), and have taken into account factors such as asking price, quality, facilities, grading and size of Target Property and comparable properties to reflect differences between the PM Office Lease and Comparable Leases. The rent payable by the Property Manager under the PM Office Lease is comparable to the market rental rates of the Comparable Leases as adjusted by the Independent Property Valuer. In this regard, we have reviewed the Independent Property Valuer's scope of selection for the Comparable Leases and the adjustments made based on the aforementioned factors (such as quality, grading) to the Comparable Leases to reflect differences between the PM Office Lease and Comparable Leases, and we are of the view that the methodology adopted is fair and reasonable. Further, we are of the view that the tenure of PM Office Lease, being the same period as the Property Management Agreement, to be fair and reasonable given it is for the purpose of facilitating the Property Manager to fulfil its responsibilities under the Property Management Agreement. The Independent Property Valuer is of the opinion, and we concur that, the PM Office Lease (including the rental level, tenure and other terms contemplated therein) is conducted on normal commercial terms and are fair and reasonable.

Further, we noted that the Annual Caps applicable to the PM Office Lease of RMB66,675, RMB114,300 and RMB114,300 for the seven months ending 31 December 2022 and the two financial years ending 31 December 2024 respectively are consistent with the annual rent under the PM Office Lease of RMB114,300 as discussed above. Therefore, we are of the view that the Annual Caps applicable to the PM Office Lease is fair and reasonable and in the interest of Spring REIT and the Unitholders as a whole.

10.2 Direct Operation Leasing Framework Agreement (including the Existing Direct Operation Leases)

As elaborated in the paragraph headed "5.4.3 Direct Operation Agreements and Direct Operation Leasing Framework Agreement" in the "Letter to the Unitholders" of the Circular, based on the information provided by the Sellers, there were six designated units (each, a "**Beauty Store**") under Direct Operation Agreements entered into in respect of five internationally recognised beauty products brands (the "**Beauty Retailers**") as at the Latest Practicable Date, of which one had been entered into with the Project Company and the remaining with the Direct Operation Lessee. Under each Direct Operation Agreement, the Project Company or the Direct Operation Lessee (as the case may be) is appointed as an authorised retailer of the relevant Beauty Retailer's merchandise. As advised by the Sellers and confirmed with the Market Consultant, the entering into of the Direct Operation Agreements are a normal operating model in the PRC for introducing international beauty brands to the local retail market. We understand from the Manager that in order to accommodate and continue with such arrangement while at the same time, without the Project Company assuming the risk of retail operations, upon Completion, the Direct Operation Lessee or its designated associate will assume the Project Company's rights, obligations and liabilities under the existing Direct Operation Agreement to which the Project Company is a party, as well as any other Direct Operation Agreements which may be entered into by the Project Company prior to Completion, and the Project Company will in turn lease the relevant premises to which each such Direct Operation Agreement relates to the Direct Operation Lessee or its designated associate (the Leases entered or to be entered into with the Direct Operation Lessee in relation to any existing Direct Operation Agreement shall be referred to as the "**Existing Direct Operation Leases**").

Further, as similar arrangements may be made for future prospective retailers who may prefer the operating model under Direct Operation Agreements and in cases where such operating model is the industry norm, we understand the Manager would expect the Project Company will from time to time lease part of the Target Property to the Direct Operation Lessee or its designated associate, which will in turn enter into the Direct Operation Agreement with the relevant retailer. Therefore, upon Completion, the Project Company and the Direct Operation Lessee will enter into the Direct Operation Leasing Framework Agreement, which will set out the framework terms governing such Direct Operation Leasing Transactions.

We noted that under the Direct Operation Leasing Framework Agreement, each Direct Operation Leasing Transaction shall be entered into based on the then prevailing market rate and on normal commercial terms. Further, before each transaction is first entered into, it will be cross-checked against an independent valuation. We are of the view that such terms are fair and reasonable and there are safeguard measures under the Direct Operation Leasing Framework Agreement. We have also obtained and reviewed a template agreement of the Direct Operation Leases and noted the terms contained therein are substantially the same as those in the standard leasing agreement entered into between the Project Company and tenants which are independent third parties.

We have also reviewed the Annual Caps applicable to the Direct Operation Leasing Framework Agreement of RMB2.8 million, RMB5.1 million and RMB5.5 million for the seven months ending 31 December 2022 and the two financial years ending 31 December 2024 respectively. We noted that in arriving at the relevant Annual Caps, the Manager has taken into account the followings:

(a) the Manager's expectation, after taking into account the tenant optimisation strategy for the Target Property and availability of suitable premises, that there might be a total of 20 Beauty Stores under new Direct Operation Agreements (including the six Beauty Stores under Existing Direct Operating Leases) and corresponding leases with the Direct Operation Lessee and/or its designated associate during the seven months ending 31 December 2022, which such quantity of Beauty Stores under Direct Operation Agreements is expected to remain steady during the remaining term of the Direct Operation Leasing Framework Agreement and that the relevant premises will have similar attributes as the existing Beauty Stores;

(b) based on the number of expected Beauty Stores in paragraph (a) above, calculating the aggregate rent, fees and payments (including operation and management expenses, promotion fees, building management fees, etc.) to be charged by the Target Company under such Leases, which shall be determined based on the prevailing market rates for similar locations and for similar purposes, and applying an annual rental growth rate of 7.0% after considering the annual rental growth rate forecast of 7.0% to 10.0% for Huicheng District between 2021 and 2024 as estimated by the Market Consultant; and

(c) apply a buffer of 20% for the total amount calculated in paragraph (b) above for each of the financial years from 2022 to 2024. Such buffer is intended for contingencies such as changes in rent, unforeseen increase in the number of Beauty Stores under Direct Operation Agreements in addition to those expected by the Manager in (a) and/or area leased and/or other market conditions in Huizhou and the PRC.

We have obtained and reviewed the calculation workings of the Manager in respect of the above. We noted that the Manager has assumed a maximum of 20 Beauty Stores under Direct Operation Agreements (including the six Beauty Stores under Existing Direct Operating Leases) during the term of the Direct Operation Leasing Framework Agreement. In this regard, we have considered the fact that the number of Beauty Stores under Direct Operation Agreements entered into with Beauty Retailers had increased significantly from two at the end of 2021 to six currently. These agreements on Beauty Stores were entered into with three internationally recognised beauty product and cosmetics conglomerates for different brands under their portfolios. Based on the pace of such increase, ongoing negotiations with other Beauty Retailers and that it is reasonable to assume the aforesaid three conglomerates will overtime enter into more leases for the various brands under their portfolios; we are of the view that the assumption made on the increment is reasonable. Further, we noted that the agreed rent and various fees and payments (including operation and management expenses, promotion fees, building management fees, etc.) to be charged by the Project Company for each Existing Direct Operation Lease to be entered into in connection with the relevant Beauty Stores are within the range of those of the other leases with tenants of the Target Property which are independent third parties. Given the nature of these businesses is likely similar, we are of the view that making reference to the Existing Direct Operating Leases is reasonable. We are also of the view that the buffer of 20% applied to the relevant Annual Caps is reasonable to cater for potential differences in actual rent and/or area leased.

Based on the above, we are of the view that the terms of the Direct Operation Leasing Framework Agreement and the relevant Annual Caps are fair and reasonable, and are in the interests of Spring REIT and the Unitholders as a whole.

10.3 Building Management Agreement (including the BM Carpark Lease thereunder)

As set out in the paragraph headed "5.6 Management of the Target Property" in the "Letter to the Unitholders" of the Circular, the Target Property has historically been managed by staff of Huamao Group. Beijing Guohua has extensive experience in the commercial and retail real estate sector in the PRC.

To enable a smooth transition and continuity of management services of the Target Property, on the Completion Date, the Project Company will enter into the Building Management Agreement with Beijing Huamao Property Management Co., Ltd. Huizhou Branch* as the Building Manager for provision of building management services in respect of the Target Property. The Manager understands that key management staff of the Building Manager will be selected from the team that has historically been managing the Target Property and hence, will have extensive experience in providing the relevant services in respect of the Target Property. The Manager will work with the JV Partner and supervise the Building Manager in respect of the day-to-day management of the Target Property.

Under the Building Management Agreement, the Building Manager agrees to provide building management services in respect of the Target Property (including the carpark spaces) for a term commencing on the Completion Date and expiring on 31 December 2024, which is renewable by the parties' agreement. The Building Manager shall collect building management fees and other fees from the tenants and deposit such fees into an account jointly maintained by the Project Company and the Building Manager. The building management fees will be borne and paid entirely by the tenants. Utilities charges of the Target Property (including the carpark spaces) will be borne by the Project Company. The Building Manager will specify the charges and the account of the Project Company to which such charges shall be paid to in the invoices issued to the tenants.

In addition, to facilitate the management of the carpark spaces of the Target Property, all carpark spaces of the Target Property, comprising 700 underground and 50 above-ground carpark spaces which have not been generating any profits for the Project Company in the past few years, will also be master-leased to the Building Manager for the same period at an annual rent of RMB10,000 (the "**BM Carpark Lease**"), and the Building Manager will be entitled to the revenue derived from the operation of those carpark spaces but will also bear the expenses related to the same.

In relation to the Building Management Agreement, we have obtained and reviewed the Building Management Agreement and the independent opinion letter issued by the Independent Property Valuer. We understand from the Independent Property Valuer that the Building Management Agreement is conducted on normal commercial terms at arm's length, and is fair and reasonable as compared to normal business practice for contracts of similar type. In addition, we noted that the building management fees will be borne and paid directly from the relevant tenants, rather than Spring REIT or the Project Company. In respect of the BM Carpark Lease, we understand from the Manager that the carpark spaces of the Target Property have been loss making over the past few years as their main operating objective is to offer parking services and convenience to visitors of the Target Property, instead of profit generating. Therefore, we are of the view that it is fair and reasonable for the Project Company to outsource the carpark operations at a nominal annual rent of RMB10,000 to the Building Manager. Overall, considering the above analysis, we concur with the opinion of the Independent Property Valuer.

10.4 Section summary

We noted that the PM Office Lease, the Direct Operation Leasing Framework Agreement (including the Existing Direct Operation Leases) as well as the Building Management Agreement (including the BM Carpark Lease thereunder) generally relate to arrangements which allow smooth transitions before and after the Acquisition. Meanwhile, the PAB Guarantees, the PAB Share Pledges, the Project Company Facility and the Novated Payables generally relate to steps to facilitate the Acquisition and settlement of the Consideration.

In addition, we understand that the Manager has reviewed and conducted appropriate due diligence on the Building Manager in order to be satisfied that they have the necessary skills, resources, competencies and capabilities to fulfil its role with respect to the Target Property. Overall, we understand and concur with the Manager that the aforementioned arrangements, which would ensure (i) continuity of operations at the Target Property; and (ii) continuity of leasing arrangement with the internationally recognised beauty products brand, are reasonable.

RECOMMENDATION

Having considered the above reasons and factors, we are of the view that (i) the Acquisition (including the entry into of the Acquisition Agreements and the transactions under or in connection with the Acquisition Agreements (being the Ancillary Transactions)), the Joint Venture (including the entry into of the Joint Venture Agreement and the transactions contemplated thereunder), and the transactions under the Property Management Agreement and the PM Office Lease are (a) on terms which are fair and reasonable; (b) on normal commercial terms and in the ordinary and usual course of business of Spring REIT; (c) consistent with the investment objectives and strategy of Spring REIT and in the interests of Spring REIT and the Unitholders as a whole; and (ii) the Annual Caps are fair and reasonable and in the interest of Spring REIT and the Unitholders as a whole.

Accordingly, we would recommend the Independent Board Committee to advise, and we ourselves recommend, the Independent Unitholders to vote in favour of the Acquisition Ordinary Resolution and the Property Management Ordinary Resolution.

Yours faithfully,
For and on behalf of
Altus Capital Limited

Chang Sean Pey
Executive Director

Leo Tam
Executive Director

*Mr. Chang Sean Pey ("**Mr. Chang**") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and permitted to undertake work as a sponsor. He is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Mr. Chang has over 25 years of experience in banking, corporate finance advisory and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.*

*Mr. Leo Tam ("**Mr. Tam**") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. He has over seven years of experience in corporate finance and advisory in Hong Kong, in particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions. Mr. Tam is a certified public accountant of the Hong Kong Institute of Certified Public Accountants.*

The financial information of Spring REIT for the past three financial years ended 31 December 2021 has been published in the reports as follows:

(1) the financial information of Spring REIT for the year ended 31 December 2021 is disclosed in the annual report of Spring REIT for the year ended 31 December 2021 published on 22 April 2022, from pages 133 to 178;

(2) the financial information of Spring REIT for the year ended 31 December 2020 is disclosed in the annual report of Spring REIT for the year ended 31 December 2020 published on 23 April 2021, from pages 107 to 152; and

(3) the financial information of Spring REIT for the year ended 31 December 2019 is disclosed in the annual report of Spring REIT for the year ended 31 December 2019 published on 15 April 2020, from pages 107 to 150.

The annual reports of Spring REIT for the years ended 31 December 2019, 2020 and 2021 have been published on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the website of Spring REIT (http://www.springreit.com).

STATEMENT IN RELATION TO FINANCIAL POSITION

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited financial statements of Spring REIT were made up.

WORKING CAPITAL

Taking into account the expected completion date of the Acquisition and the financial resources available to the Enlarged Group, including its internally generated funds and existing borrowings, the PAB Facility and the Upsized Existing Facility, the Manager believes that the Enlarged Group has sufficient liquid assets to meet its working capital and operating requirements for the 12 month period commencing from the date of this Circular.

To the extent that Spring REIT makes any acquisitions other than the Acquisition, it may be required to rely on external borrowings to finance such acquisitions.

INDEBTEDNESS

Indebtedness of Spring REIT

As at the close of business on 31 March 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular, Spring REIT had secured bank borrowings of RMB2,970.0 million and lease liabilities of RMB10.8 million. The details of the secured bank borrowings are as follows:

(1) a fully drawn term loan facility of USD403.0 million (equivalent to approximately RMB2,542.6 million) and an uncommitted facility of USD80.0 million, which will expire in December 2024; and

(2) a facility of GBP51.0 million (equivalent to approximately RMB431.7 million) (with GBP50.5 million (equivalent to approximately RMB427.4 million) drawn down) expiring in January 2025.

The above facilities are secured by a pledge of Spring REIT's investment properties, derivative financial instruments, rent receivables and all future rent receivables, restricted bank balances, interests in certain subsidiaries of Spring REIT and certain assets of a subsidiary of Spring REIT. In addition, the Trustee has provided guarantees in respect of the above facilities.

The lease liabilities are unguaranteed and unsecured.

Save as disclosed above and apart from intra-group liabilities, Spring REIT did not have any loan capital issued and outstanding, nor had Spring REIT agreed to issue any loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities, in each case as at the close of business on the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular.

RECENT DEVELOPMENT AND FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

With the global economic recovery proceeding slowly, and the Chinese economy needing time to adapt to government policies promoting balanced and healthy growth in strategic sectors including technology and real estate, the Manager expects to see continuing volatility in the office market in Beijing. Nonetheless, market sentiment in Beijing has improved now that new office supply in the Beijing CBD has almost come to an end, especially since the area has limited land supply for future office development. The volume of tenant enquiries has also risen somewhat, driven by businesses looking to take advantage of attractive rental levels to trade up their premises. Stiff market competition to fill up existing vacancies is expected to temporarily weigh on rental levels in the short term. However, the Manager remains cautiously optimistic that the dynamics of the Beijing office market will gradually improve as the market align itself with an increasingly favourable equilibrium of supply and demand. Building quality will be further consolidated by asset enhancement initiatives, as the Manager continues to upgrade the property's hardware and enhance its energy efficiency using the latest technology. Meanwhile, the UK Portfolio of Spring REIT will continue to provide stable cash flow, and should act as a buffer against any volatility in the more dynamic PRC property market.

As one of the main cities in the Greater Bay Area, Huizhou's transportation positioning is to become a core hub in the Greater Bay Area. In recent years, the rapid development of urban light rail, high-speed rail, and urban public transportation systems have led to continuous improvements. Huizhou is the only city with nine high-speed rail stations in Guangdong Province, connecting Guangzhou-Shantou, Xiamen-Shenzhen and Jiangxi-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. The growth in the shopping mall industry in the Greater Bay Area as well as in Huizhou is expected to be supported by further economic development, ongoing urbanization, continuous consumption upgrades, expanding retail facilities, and continued government supports.

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. Huamao Place has been a dominant regional market leader in terms of gross merchandise value, ranking 1st in Huizhou in 2021. Being a leading shopping mall in Huizhou, Huamao Place is anticipated to continue to enjoy a robust operational performance in the market. The Acquisition will complement Spring REIT's presence in Beijing with a new presence in the Greater Bay Area, capturing the growth potential from the region's economic growth and increasing strategic importance to the PRC. As a result of the Acquisition, the composition and locations of Spring REIT's portfolio assets will be diversified to shopping mall and the Greater Bay Area. This also reduces Spring REIT's exposure to concentration risk and other risks associated with its reliance on the income generated by the CCP Property or the performance of the Beijing office market.

The Acquisition is part of the Manager's consistent effort to execute its strategy to achieve the objective of Spring REIT to invest in income-producing real estate and seek yield-accretive investment opportunities. Looking ahead, the Manager will continue to look for high-quality investment opportunities to enhance Spring REIT's portfolio, and the Manager will ensure that any new acquisitions live up to the standards of quality and reliability of Spring REIT's existing assets.

The following is the text of a report set out on pages A2A-1 to A2A-3, received from Spring REIT's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SPRING ASSET MANAGEMENT LIMITED (AS THE MANAGER OF SPRING REAL ESTATE INVESTMENT TRUST)

Introduction

We report on the historical financial information of Huamao Capital Focus 03 Limited (the "**Offshore Target Company**") set out on pages A2A-4 to A2A-11, which comprises the statements of financial position as at 31 December 2019, 2020 and 2021, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the period from 22 November 2018 (date of incorporation) to 31 December 2019 and the years ended 31 December 2020 and 2021 (the "**Track Record Period**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages A2A-4 to A2A-11 forms an integral part of this report, which has been prepared for inclusion in the circular of Spring Real Estate Investment Trust ("**Spring REIT**") dated 3 May 2022 (the "**Circular**") in connection with the proposed acquisition of the Offshore Target Company by Spring REIT.

Directors' responsibility for the Historical Financial Information

The directors of Spring Asset Management Limited, as the manager of Spring REIT (the "**Manager**"), are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The financial statements of the Offshore Target Company for the Track Record Period ("**Underlying Financial Statements**"), on which the Historical Financial Information is based, were prepared by the directors of the Offshore Target Company. The directors of the Offshore Target Company are responsible for the preparation and fair presentation of the Underlying Financial Statements in accordance with the basis of preparation set out therein which conforms with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board, and for such internal control as the directors determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

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Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Offshore Target Company as at 31 December 2019, 2020 and 2021 and of its financial performance and its cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements have been made.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
3 May 2022

I HISTORICAL FINANCIAL INFORMATION OF THE PROJECT COMPANY

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The Underlying Financial Statements, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board.

The Historical Financial Information is presented in Hong Kong dollars.

(A) STATEMENTS OF COMPREHENSIVE INCOME

	Section II Notes	**Period ended from 22 November 2018 (date of incorporation) to 31 December 2019**	**Year ended 31 December 2020**	**2021**
		HKD	*HKD*	*HKD*
Revenue	*3*	–	–	–
Administrative expenses		–	–	–
Profit before income tax	*4*	–	–	–
Income tax expenses	*5*	–	–	–
Profit and total comprehensive income for the period/year		–	–	–

(B) STATEMENTS OF FINANCIAL POSITION

	Section II Notes	As at 31 December 2019	2020	2021
		HKD	*HKD*	*HKD*
Assets				
Cash and cash equivalents		8	8	8
Net assets		8	8	8
EQUITY				
Share capital	7	8	8	8
Retained earnings		–	–	–
Total equity		8	8	8

(C) STATEMENTS OF CHANGES IN EQUITY

	Retained earnings *HKD*	Share capital *HKD*	Total *HKD*
Balance as at 22 November 2018 (date of incorporation)	–	–	–
Transaction with owners in their capacity as owners			
Insurance of ordinary shares	–	8	8
Comprehensive income			
Profit and total comprehensive income for the period	–	–	–
As at 31 December 2019	–	8	8
Balance as at 1 January 2020	–	8	8
Comprehensive income			
Profit and total comprehensive income for the year	–	–	–
As at 31 December 2020	–	8	8
Balance as at 1 January 2021	–	8	8
Comprehensive income			
Profit and total comprehensive income for the year	–	–	–
As at 31 December 2021	–	8	8

(D) STATEMENTS OF CASH FLOWS

	Period ended from 22 November 2018 (date of incorporation) to 31 December	Year ended 31 December	
	2019	2020	2021
	HKD	*HKD*	*HKD*
Cash flows from operating activities			
Net cash generated from operations	–	–	–
Net cash generated from operating activities	–	–	–
Cash flows from investing activities			
Net cash used in investing activities	–	–	–
Cash flows from financing activities			
Issuance of ordinary shares	8	–	–
Net cash generated from financing activities	8	–	–
Net increase in cash and cash equivalents	8	–	–
Cash and cash equivalents at beginning of the period/year	–	8	8
Cash and cash equivalents at end of the period/year	8	8	8

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION

1.1 General information

Huamao Capital Focus 03 Limited (the "**Offshore Target Company**") was incorporated in Cayman Islands on 22 November 2018 with limited liability. The address of its registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Offshore Target Company is dormant during the Track Record Period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to the Track Record Period presented, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information of the Offshore Target Company has been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standard Board ("**IASB**"). The Historical Financial Information has been prepared under the historical cost convention.

The preparation of the Historical Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Offshore Target Company's accounting policies. There are no areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements.

The following new standards, amendments and improvements to existing standards have been issued but are not yet effective for the year ended 31 December 2021 and have not been early adopted by the Target Company:

		Effective for accounting periods beginning on or after
IFRS 16 Amendments	Covid-19-Related Rent Concessions beyond 30 June 2021	1 April 2021
IFRS 3, IAS 16 and IAS 37 Amendments	Narrow-Scope Amendments	1 January 2022
Annual Improvements to IAS 41, IFRS 1, IFRS 9, and IFRS 16	Annual Improvements 2018-2020 Cycle	1 January 2022
IAS 1 Amendments	Classification of Liabilities as Current or Non-current	1 January 2023
IAS 1 and IFRS Practice Statement 2 Amendments	Disclosure of Accounting Policies	1 January 2023
IAS 8 Amendments	Definition of Accounting Estimates	1 January 2023
IAS 12 Amendments	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
IFRS 17 and IFRS 17 Amendments	Insurance Contracts	1 January 2023
IFRS 10 and IAS 28 (2011) Amendments	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The directors of the Offshore Target Company anticipate that the adoption of these interpretation and new and amended standards would not result in any significant impact on the results and financial position of the Offshore Target Company. The Offshore Target Company will adopt these new standards and amendments to standards when they become effective.

2.2 Taxation

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where the Offshore Target Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.3 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.4 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Offshore Target Company are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The Historical Financial Information are presented in Hong Kong dollars ("**HKD**"), which is the Offshore Target Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the statements of comprehensive income.

2.5 Impairment of financial assets

The Offshore Target Company assesses on a forward-looking basis the expected credit losses associated with its financial instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Impairment on these financial assets are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

Impairment on cash and cash equivalents are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.6 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks with original maturities of three months or less.

2.7 Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably measured. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the management's best estimate of the expenditures required to settle the present obligation that reflects current market assessments of the time value of money and the risks specific to the obligation.

3 REVENUE

The Offshore Target Company did not generate any revenue during the Track Record Period.

4 PROFIT BEFORE INCOME TAX

No auditors' remuneration and employees' emoluments were paid by the Offshore Target Company during the Track Record Period.

5 INCOME TAX EXPENSES

No provision for Hong Kong profits tax has been made in the financial statements as the Offshore Target Company has no estimated assessable profit during the Track Record Period.

6 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

None of the directors and senior management of the Offshore Target Company received any emoluments in respect of their services rendered to the Offshore Target Company during the period ended 31 December 2019 and years ended 31 December 2020 and 2021.

7 SHARE CAPITAL

	No. of share	**As at 31 December**		
		2019	**2020**	**2021**
		HKD	*HKD*	*HKD*
Issued and fully paid share of US$1 each	*1*	8	8	8

The Offshore Target Company was incorporated on 22 November 2018 in the British Virgin Islands with authorised share capital of US$500,000 divided into 500,000 ordinary shares of US$1 each. On the date of incorporation, 1 ordinary share was issued at par.

8 EVENT AFTER BALANCE SHEET DATE

On 29 April 2022, RHZ01 Limited, a special purpose vehicle of Spring Real Estate Investment Trust, entered into a share purchase deed with Huamao Focus Limited, pursuant to which RHZ01 Limited agreed to acquire 100% of the issued shares of the Offshore Target Company, which after the reorganisation indirectly holds 31% of the equity interest of Huizhou Runxin Shopping Mall Development Co., Ltd.. According to the acquisition agreements, the reorganisation will be completed prior to the completion of the acquisition.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Offshore Target Company or any of its subsidiaries in respect of any period subsequent to 31 December 2021 and up to the date of this report.

The following is the text of a report set out on pages A2B-1 to A2B-3, received from Spring REIT's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SPRING ASSET MANAGEMENT LIMITED (AS THE MANAGER OF SPRING REAL ESTATE INVESTMENT TRUST)

Introduction

We report on the historical financial information of Huizhou Runxin Shopping Mall Development Co., Ltd. (the "**Project Company**") set out on pages A2B-4 to A2B-31, which comprises the statements of financial position as at 31 December 2019, 2020 and 2021, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for each of the years ended 31 December 2019, 2020 and 2021 (the "**Track Record Period**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages A2B-4 to A2B-31 forms an integral part of this report, which has been prepared for inclusion in the circular of Spring Real Estate Investment Trust ("**Spring REIT**") dated 3 May 2022 (the "**Circular**") in connection with the proposed acquisition of the Project Company by Spring REIT.

Directors' responsibility for the Historical Financial Information

The directors of Spring Asset Management Limited, as the manager of Spring REIT (the "**Manager**"), are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The financial statements of the Project Company for the Track Record Period ("**Underlying Financial Statements**"), on which the Historical Financial Information is based, were prepared by the directors of the Project Company. The directors of the Project Company are responsible for the preparation and fair presentation of the Underlying Financial Statements in accordance with the basis of preparation set out therein which conforms with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board, and for such internal control as the directors determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Project Company as at 31 December 2019, 2020 and 2021 and of its financial performance and its cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements have been made.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
3 May 2022

I HISTORICAL FINANCIAL INFORMATION OF THE PROJECT COMPANY

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The Underlying Financial Statements, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board.

The Historical Financial Information is presented in Renminbi and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

(A) STATEMENTS OF COMPREHENSIVE INCOME

	Section II Notes	**Year ended 31 December**		
		2019	**2020**	**2021**
		RMB'000	*RMB'000*	*RMB'000*
Revenue	*5*	185,909	185,751	217,911
Direct operating expenses	*6*	(35,286)	(34,092)	(48,815)
Net operating income		150,623	151,659	169,096
General and administrative expenses	*7*	(10,066)	(9,880)	(11,032)
Fair value gain/(loss) of investment property	*13*	125,000	(161,000)	349,315
Other gains, net	*8*	694	4,538	3,578
Operating profit/(loss)		266,251	(14,683)	510,957
Finance income		555	191	570
Finance costs	*9*	(22,329)	(19,577)	(15,571)
Profit/(loss) before income tax		244,477	(34,069)	495,956
Income tax (expenses)/credit	*10*	(64,162)	5,506	(131,837)
Profit/(loss) and total comprehensive income/(loss) for the year		180,315	(28,563)	364,119

(B) STATEMENTS OF FINANCIAL POSITION

	Section II Notes	As at 31 December 2019	2020	2021
		RMB'000	*RMB'000*	*RMB'000*
ASSETS				
Plant and equipment	*12*	604	410	551
Investment property	*13*	2,500,000	2,339,000	2,691,000
Restricted bank balance	*15*	1,000	1,000	1,000
Amount due from ultimate holding company	*22*	25,000	97,470	63,140
Amounts due from fellow subsidiaries	*22*	610,263	590,273	1,573,927
Trade and other receivables	*14*	16,796	28,199	21,844
Inventory		–	–	3,509
Cash and cash equivalents	*15*	30,196	32,000	16,305
Total assets		3,183,859	3,088,352	4,371,276
LIABILITIES				
Deferred income tax liabilities	*19*	512,264	481,979	576,588
Interest-bearing borrowings	*17*	387,500	337,500	287,500
Rental deposits	*16*	42,468	43,894	47,381
Amount due to immediate holding company	*22*	57,449	57,449	757,449
Amounts due to fellow subsidiaries	*22*	51,881	52,482	233,084
Tax payable		34,051	42,592	47,101
Trade and other payables	*16*	113,233	116,006	101,604
Total liabilities		1,198,846	1,131,902	2,050,707
Net assets		1,985,013	1,956,450	2,320,569
EQUITY				
Registered and paid-in capital	*18*	400,000	400,000	400,000
Other reserves		705	705	705
Statutory reserves		9,136	15,611	24,444
Retained earnings		1,575,172	1,540,134	1,895,420
Total equity		1,985,013	1,956,450	2,320,569
Total equity and liabilities		3,183,859	3,088,352	4,371,276

(C) STATEMENTS OF CHANGES IN EQUITY

	Registered and paid-in capital *(Note 18)* *RMB'000*	Other reserves *RMB'000*	Statutory reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
Balance as at 1 January 2019	400,000	705	2,872	1,401,121	1,804,698
Comprehensive income					
Profit and total comprehensive income for the year	–	–	–	180,315	180,315
Appropriation to statutory reserves	–	–	6,264	(6,264)	–
As at 31 December 2019	400,000	705	9,136	1,575,172	1,985,013
Balance as at 1 January 2020	400,000	705	9,136	1,575,172	1,985,013
Comprehensive income					
Loss and total comprehensive loss for the year	–	–	–	(28,563)	(28,563)
Appropriation to statutory reserves	–	–	6,475	(6,475)	–
As at 31 December 2020	400,000	705	15,611	1,540,134	1,956,450
Balance as at 1 January 2021	400,000	705	15,611	1,540,134	1,956,450
Comprehensive income					
Profit and total comprehensive income for the year	–	–	–	364,119	364,119
Appropriation to statutory reserves	–	–	8,833	(8,833)	–
As at 31 December 2021	400,000	705	24,444	1,895,420	2,320,569

(D) STATEMENTS OF CASH FLOWS

	Section II Notes	Year ended 31 December 2019	2020	2021
		RMB'000	RMB'000	RMB'000
Cash flows from operating activities				
Cash generated from operations	20(a)	157,343	142,538	156,242
Interest received		555	191	570
Tax paid		(19,616)	(16,238)	(32,719)
Net cash generated from operating activities		138,282	126,491	124,093
Cash flows from investing activities				
Purchase of plant and equipment	12	(60)	(47)	(335)
Additions of investment property		–	–	(2,685)
Advance to the ultimate holding company		(25,000)	(72,470)	–
Repayment from the ultimate holding company		–	–	34,330
Advance to fellow subsidiaries		(95,000)	(3,000)	(1,037,452)
Repayment from fellow subsidiaries		46,010	21,191	232,000
Net cash used in investing activities		(74,050)	(54,326)	(774,142)
Cash flows from financing activities				
Repayment of interest-bearing borrowings		(50,000)	(50,000)	(50,000)
Interest paid		(19,859)	(17,401)	(15,646)
Loan arrangement fees paid		(2,140)	(2,960)	–
Advance from an immediate holding company		–	–	700,000
Net cash (used in)/generated from financing activities	20(b)	(71,999)	(70,361)	634,354
Net (decrease)/increase in cash and cash equivalents		(7,767)	1,804	(15,695)
Cash and cash equivalents at beginning of the year		37,963	30,196	32,000
Cash and cash equivalents at end of the year	15	30,196	32,000	16,305

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION AND REORGANISATION

1.1 General information

惠州市潤鑫商城發展有限公司 (the "**Project Company**", "**潤鑫商城**") was incorporated in the People's Republic of China ("the **PRC**") on 31 January 2008 with limited liability. The address of its registered office is Huamao Place, No. 9 First Wenchang Road, Huicheng District, Huizhou, Guangdong Province, PRC.

The Project Company is principally engaged in leasing of property in the PRC.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to the Track Record Period presented, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information of the Project Company has been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standard Board ("**IASB**"). The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of investment property which was stated at fair value.

The preparation of the Historical Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Project Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

The Project Company applied IFRS 16 since the accounting period on 1 January 2019.

IFRS 16 "Leases"

IFRS 16 addresses the definition of a lease and recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases are accounted for on the statements of financial position for lessees. IFRS 16 provides a new provision for the accounting treatment of leases when the Project Company is the lessee. Almost all leases should be recognised in the form of assets (for the right-of-use) and financial liabilities (for the payment obligations). Short-term leases of twelve months or less and leases of low-value assets are exempted from the recognition.

The accounting for lessors does not change significantly.

IFRS 16 does not have a significant impact on the results and financial positions of Project Company upon adoption.

The following new standards, amendments and improvements to existing standards have been issued but are not yet effective for the year ended 31 December 2021 and have not been early adopted by the Project Company:

		Effective for accounting periods beginning on or after
IFRS 16 Amendments	Covid-19-Related Rent Concessions beyond 30 June 2021	1 April 2021
IFRS 3, IAS 16 and IAS 37 Amendments	Narrow-Scope Amendments	1 January 2022
Annual Improvements to IAS 41, IFRS 1, IFRS 9, and IFRS 16	Annual Improvements 2018-2020 Cycle	1 January 2022
IAS 1 Amendments	Classification of Liabilities as Current or Non-current	1 January 2023
IAS 1 and IFRS Practice Statement 2 Amendments	Disclosure of Accounting Policies	1 January 2023
IAS 8 Amendments	Definition of Accounting Estimates	1 January 2023
IAS 12 Amendments	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
IFRS 17 and IFRS 17 Amendments	Insurance Contracts	1 January 2023
IFRS 10 and IAS 28 (2011) Amendments	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Project Company has already commenced an assessment of the impact of the above new standards, amendments and interpretations to existing standards, certain of which may be relevant to the Group's operations and may give rise to changes in accounting policies, changes in disclosures and remeasurement of certain items in the financial statements. The Project Company will adopt these new standards, amendments and improvements to existing standards when they become effective.

2.2 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable in the ordinary course of the Group's activities. Amounts disclosed as revenue are net of returns and amounts collected on behalf of third parties. Revenue is recognised when or as the control of the good or service is transferred to the customer.

(a) Rental income

Operating lease rental income from investment properties is recognised in the statement of comprehensive income on a straight-line basis over the terms of lease agreements. Lease incentives provided, such as rent-free periods, are amortised on a straight-line basis and are recognised as a reduction of rental income over the respective term of the lease.

(b) Commission income from concessionaire sales

Commission income from concessionaire sales (as rental income under lease arrangement in accordance with IFRS 16) is recognised when it is entitled and is based on certain percentage of sales made by the tenants in accordance with the terms of contracts. When the tenants fail to meet the minimum guarantee income in accordance with the terms of certain contracts, the minimum guarantee amount is recognised as income as it is the amount that the Project Company has the right to receive.

(c) Sales of goods

Revenue from sales of goods to retail customers is recognised at a point in time when the goods are delivered to customers and title has passed.

(d) Advertising

Advertising service income is recognised over time when services are rendered and when the customer simultaneously receives and consumes all of the benefits provided by the Project Company.

(e) Early termination compensations

Early termination compensations by tenants are recognised upon the termination contract is signed.

(f) Service fee income

Property and facilities management service fees are recognised over time when services are rendered.

2.3 Direct operating expenses

Direct operating expenses include property related outgoings and other expenses, are recognised on an accrual basis.

2.4 Plant and equipment

Plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Project Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation of plant and equipment is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Office equipment	5 years
Motor vehicles	5 years
Computer equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains, net" in the statement of comprehensive income.

2.5 Investment property

Investment properties, principally comprising leasehold land and buildings, are held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Company. It also includes properties that are being constructed or developed for future use as investment properties. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs.

After initial recognition, investment property is carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are recorded in the statement of comprehensive income as part of a valuation gain or loss.

2.6 Trade and other receivables

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Project Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The Project Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, see note 2.7 for a further description of Project Company's impairment policies.

In the event that lease incentives, including rent free periods, are given to enter into operating leases, such incentives are recognised as deferred rent receivables. The aggregate benefit of incentives is recognised as a reduction of rental income on a straight-line basis.

2.7 Impairment of financial assets

The Project Company assesses on a forward-looking basis the expected credit losses associated with its financial instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Impairment on these financial assets are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses. For trade receivables, the Project Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 3.1(b) for further information about the Project Company's trade receivables and the impairment policies. The Project Company considers the probability of default upon initial recognition of a financial asset (except for trade receivables and contract assets) and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Project Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in external credit rating of the debtors
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant increases in credit risk on other financial instruments of the same borrower
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Project Company and changes in the operating results of the borrower

2.8 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks with original maturities of three months or less.

2.9 Inventories

Inventories comprise finished goods and are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

2.10 Interest-bearing borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

2.11 Borrowing costs

Borrowing costs are recognised in the statements of comprehensive income in the period in which they are incurred.

2.12 Payables and provisions

(i) Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(ii) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably measured. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the management's best estimate of the expenditures required to settle the present obligation that reflects current market assessments of the time value of money and the risks specific to the obligation.

(iii) Rental deposit

Rental deposits arise when the Project Company enters into lease agreement directly with a tenant.

2.13 Taxation

The income tax expense/credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where the Project Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Historical Financial Information. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using income tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax relating to investment properties is calculated having regard to the presumption that the value of these properties is capable of being recovered entirely through sale. This presumption is rebutted because the business model is to consume substantially all the economic benefits embodied in them over time rather than through sale. Accordingly, deferred tax relating to investment properties is determined on the basis of recovery through use.

Deferred income tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.14 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Project Company are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The Historical Financial Information are presented in Renminbi ("**RMB**"), which is the Project Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the statements of comprehensive income.

2.15 Statutory reserves

In accordance with the relevant regulations and their articles of association, the Project Company incorporated in the PRC is required to allocate at least 10% of the after-tax profit determined based on the PRC accounting standards and regulations to the general reserve until the reserve has reached 50% of the Project Company's registered capital. These reserves can only be used upon approval by the relevant authority, to offset previous years' losses or to increase the capital of respective companies.

3 FINANCIAL RISK AND CAPITAL RISK MANAGEMENT

3.1 Financial risk factors

The Project Company's activities expose it to a variety of financial risks: interest rate risk, credit risk, and liquidity risk. The Project Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Project Company's financial performance.

Risk management is carried out by the senior management. The management manages and monitors these risk exposures to ensure appropriate measures are implemented on timely and effective manners.

(a) Interest rate risk

The Project Company's interest-rate risk arises from its long-term borrowings. Borrowings at variable rates expose the Project Company to cash flow interest rate risk which is partially offset by bank deposits at variable rate. Under the Project Company's interest rate management policy, the Project Company generally raises borrowings at floating rates and may use plain vanilla interest rate caps to manage the risk where the Project Company forecasts a significant rise in interest rate in the foreseeable future.

During the Track Record Period, if interest rates had been 50 basis points higher/lower with all other variables held constant, profit for the year would have been RMB1,782,000, RMB1,523,000 and RMB1,351,000 lower/higher for the years ended 31 December 2019, 2020 and 2021 respectively.

(b) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Project Company. The Project Company's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

The Project Company is exposed to credit risk in relation to its cash and cash equivalents, restricted bank balance, trade and other receivables and amounts due from related parties, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The expected credit loss is minimal as the majority of the trade and other receivables are due from a number of independent customers for whom there is no recent history of default.

Credit risk of cash and cash equivalents and restricted bank balance

To manage risk arising from cash and cash equivalents and restricted bank balance, the Project Company only transacts with state-owned or reputable financial institutions. There has been no recent history of default in relation to these financial institutions. These instruments are considered to have low credit risk because they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term. Expected credit loss in respect of the cash and cash equivalents and restricted bank balance is minimal.

Credit risk of amounts due from related parties

To manage the risk from amounts due from related parties, the Project Company has made periodic assessment on recoverability for each individual receivable based on historical settlement records and adjusts for forward-looking information. In view of the strong financial capability of these related parties and considering the future prospects of the industry in which these related parties operate, the management of the Project Company considers that the expected credit loss on these balances is minimal.

Credit risk of trade receivables

To manage risk arising from trade receivables, the Project Company has policies in place by undertaking transactions with a large number of counterparties and conducting credit evaluations on prospective tenants before entering into lease agreements. The Project Company also has policies in place to ensure that rental deposits equivalent to 3 months rentals are required from tenants prior to commencement of leases. It also has other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts and the Project Company has the legal rights to recover any receivables in default through the rental deposits received according to the lease agreements. To measure the expected credit losses, trade receivables have been assessed for each individual tenant and incorporated forward-looking information which takes into account the macroeconomic factors. The Project Company has identified the GDP and the unemployment rate in the PRC to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors. In view of the sound collection history of receivables due from tenants, no impairment was recognised in respect of the trade receivables.

Credit risk of other receivables

Other receivables of the Project Company are considered to have no significant change in credit risk, and the loss allowance recognised during the period was therefore limited to 12 months expected losses. Other receivables are considered to have no significant change in credit risk when there is no adverse change in the expected performance and behaviour of the counterparties.

(c) Liquidity risk

Cash flow forecasting is performed by the Project Company's finance function ("**Company Finance**"). Company Finance monitors rolling forecasts of the Project Company's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Project Company's debt financing plans, compliance with internal financial position ratio targets and, if applicable external regulatory or legal requirements.

Liquidity risk management includes maintaining sufficient cash, the availability of funding from operating cash flow and seeking stable financing activities.

The table below analyses the Project Company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows which comprise both interest and principal cash flows.

	On demand/ within 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2019					
Trade and other payables	84,230	–	–	–	84,230
Rental deposits	19,649	8,501	7,639	6,679	42,468
Amount due to immediate holding company	57,449	–	–	–	57,449
Amounts due to fellow subsidiaries	51,881	–	–	–	51,881
Interest-bearing borrowings and interest payable	67,326	65,619	182,157	147,607	462,709
At 31 December 2020					
Trade and other payables	86,884	–	–	–	86,884
Rental deposits	21,004	7,914	9,558	5,418	43,894
Amount due to immediate holding company	57,449	–	–	–	57,449
Amounts due to fellow subsidiaries	52,482	–	–	–	52,482
Interest-bearing borrowings and interest payable	65,619	63,169	174,807	91,788	395,383
At 31 December 2021					
Trade and other payables	72,589	–	–	–	72,589
Rental deposits	22,541	10,993	12,059	1,788	47,381
Amount due to immediate holding company	757,449	–	–	–	757,449
Amounts due to fellow subsidiaries	233,084	–	–	–	233,084
Interest-bearing borrowings and interest payable	63,169	60,719	167,457	38,419	329,764

3.2 Capital risk management

The Project Company's objectives when managing capital are to safeguard the Project Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Project Company monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total asset value as shown in the statement of financial position.

The gearing ratios as at 31 December 2019, 2020 and 2021 were as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Total borrowings *(note 17)*	387,500	337,500	287,500
Total assets	3,183,859	3,088,352	4,371,276
Gearing ratio	12.2%	10.9%	6.6%

3.3 Fair value estimation

The carrying values of the Project Company's financial assets and liabilities approximate their fair values.

The disclosures of the investment property, that is measured at fair value, are set out in note 13.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Project Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets or liabilities are discussed below.

(a) Estimates of fair value of investment property

The fair value of the investment property is determined at each reporting date by independent valuer using valuation techniques. Details of the judgement and assumptions have been disclosed in note 13.

(b) Taxation

The Project Company is subject to various taxes in the PRC. Significant judgement is required in determining the amount of the provision for taxation and the timing of the related payments. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the taxation and deferred tax.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such difference will impact the recognition of deferred tax assets and income tax in the period in which such estimate is changed.

5 REVENUE AND SEGMENT INFORMATION

The Project Company holds an investment property in the PRC and is principally engaged in leasing of property, provision of related services and sales of goods. Management has determined the operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions. Given that management review the operating results of the Project Company on an aggregate basis, no segment information is therefore presented.

The Project Company's revenue is derived solely from its operation in the PRC. The assets of the Project Company are also located in the PRC. The additions to plant and equipment and investment property for each of the financial years are set out in Note 12 and Note 13 respectively.

An analysis of revenues of the Project Company is as follows:

	For the year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Rental income			
Base rental income	90,865	93,592	109,467
Turnover rental income	31,895	30,234	29,433
Commission income from concessionaire sales	15,225	10,167	10,693
Revenue recognised over time			
Service fee income	33,239	34,737	39,140
Advertising	3,810	4,177	4,468
Electricity and water	25,717	23,321	28,987
Less: Charged by supplier	(16,248)	(13,170)	(16,682)
Revenue recognised at a point in time			
Sale of goods	–	–	11,019
Other income *(note)*	1,406	2,693	1,386
	185,909	185,751	217,911

Note: Other income mainly represents compensation paid by tenants for early termination of lease and miscellaneous income charged to tenants.

6 DIRECT OPERATING EXPENSES

	For the year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Property taxes *(note i)*	14,747	14,289	17,197
Subcontracting property management fee	13,945	13,949	13,951
Cost of sales	–	–	9,906
Other taxes *(note ii)*	243	705	1,502
Electricity and water	6,351	5,149	6,259
	35,286	34,092	48,815

Notes:

(i) Property taxes represent real estate tax and land use tax in the PRC.

(ii) Other taxes represent urban construction and maintenance tax, education surcharge and stamp duty in the PRC.

7 GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Advertising and promotion expenses	5,457	6,331	5,358
Depreciation *(note 12)*	237	241	191
Auditor's remuneration	83	74	74
Others	4,289	3,234	5,409
	10,066	9,880	11,032

8 OTHER GAINS, NET

	For the year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Subsidies and tax preference *(note i)*	–	2,712	1,962
Loss on disposal of property, plant and equipment	–	–	(3)
Others *(note ii)*	694	1,826	1,619
	694	4,538	3,578

Notes:

(i) Since 1 April 2019, taxpayers in the manufacturing and consumer services industry are allowed to enjoy additional 10% of input VAT amount to deduct from tax payable.

(ii) Others mainly represent the overprovision of business tax and VAT recognised in the years ended 31 December 2015, 2016 and 2017.

9 FINANCE COSTS

	For the year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Interest expense on interest-bearing borrowings	20,439	17,799	15,571
Loan arrangement fees	1,890	888	–
Others	–	890	–
	22,329	19,577	15,571

Note: Interest expenses are calculated by applying the effective interest rates of 5.8%, 5.6% and 5.4% on interest-borrowings for the years ended 31 December 2019, 2020 and 2021 respectively.

10 INCOME TAX EXPENSES/(CREDIT)

The Project Company was incorporated and operating in the PRC, therefore it is subject to the PRC corporate income tax at a rate of 25% under Corporate Income Tax Law of the PRC.

No Hong Kong profits tax has been provided as the Project Company has no assessable profits in Hong Kong.

The amount of income tax charged/(credited) to the statement of comprehensive income represents:

	For the year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Current tax			
Current tax on profit for the year	24,190	24,779	37,228
Deferred taxation	39,972	(30,285)	94,609
	64,162	(5,506)	131,837

The taxation on the Project Company's profit before income tax differs from the theoretical amount that would arise using the corporate income tax rate of the PRC as follows:

	For the year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	244,477	(34,069)	495,956
Calculated at PRC corporate income tax rates of 25%	61,119	(8,517)	123,989
Expenses not deductible for tax purposes	535	445	–
Tax on deemed interest income *(note)*	2,601	2,554	7,730
Others	(93)	12	118
Income tax expenses/(credit)	64,162	(5,506)	131,837

Note: In accordance with PRC tax laws, the Project Company may be liable to pay taxes on the deemed interest income (based on prescribed rate) for the funding provided to fellow subsidiaries and ultimate holding company.

11 PROJECT COMPANY'S DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

None of the directors and senior management of the Project Company received any emoluments in respect of their services rendered to the Project Company during the years ended 31 December 2019, 2020 and 2021. Their remuneration was borne by the ultimate holding company.

12 PLANT AND EQUIPMENT

	Office equipment *RMB'000*	Computer equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
At 1 January 2019				
Cost	52	2,187	584	2,823
Accumulated depreciation	(30)	(1,748)	(264)	(2,042)
Net book amount	22	439	320	781
Opening net book amount at 1 January 2019	22	439	320	781
Additions	–	60	–	60
Depreciation	(9)	(115)	(113)	(237)
Closing net book amount	13	384	207	604
At 31 December 2019 and 1 January 2020				
Cost	52	2,247	584	2,883
Accumulated depreciation	(39)	(1,863)	(377)	(2,279)
Net book amount	13	384	207	604
Opening net book amount at 1 January 2020	13	384	207	604
Additions	6	41	–	47
Depreciation	(5)	(123)	(113)	(241)
Closing net book amount	14	302	94	410
At 31 December 2020 and 1 January 2021				
Cost	58	2,288	584	2,930
Accumulated depreciation	(44)	(1,986)	(490)	(2,520)
Net book amount	14	302	94	410
Opening net book amount at 1 January 2021	14	302	94	410
Addition	84	251	–	335
Disposal	–	(3)	–	(3)
Depreciation	(7)	(108)	(76)	(191)
Closing net book amount	91	442	18	551
At 31 December 2021				
Cost	142	2,226	584	2,952
Accumulated depreciation	(51)	(1,784)	(566)	(2,401)
Net book amount	91	442	18	551

13 INVESTMENT PROPERTY

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
At beginning of the years	2,375,000	2,500,000	2,339,000
Additions	–	–	2,685
Changes in fair value recognised in the statement of comprehensive income	125,000	(161,000)	349,315
At end of the years	2,500,000	2,339,000	2,691,000

Note:

The investment property comprises a seven-storey shopping mall (including two basement floors) and 700 underground and 50 above-ground carpark spaces located at No. 9, First Wenchang Road, Huicheng District, Huizhou, Guangdong Province, the PRC.

The land use rights of the property have been granted to the Project Company for a 40-year term expiring on 1 February 2048.

As at 31 December 2019, 2020 and 2021, the Project Company had no unprovided contractual obligations for future repairs and maintenance of the investment property.

As at 31 December 2019, 2020 and 2021, the investment property was pledged to secure the Project Company's interest-bearing borrowings (note 17).

Valuation process

The Project Company's investment property was valued by an independent professionally qualified valuer not connected to the Project Company who holds a recognised relevant professional qualification and has recent experiences in the locations and segments of the investment property valued.

As at 31 December 2019, 2020 and 2021, the fair value of the investment property has been determined by Knight Frank Petty Limited. The independent valuer adopted the income capitalisation approach.

Valuation techniques

The income capitalisation approach estimates the value of the property on an open market basis by capitalising the current passing rental income from existing tenancies and potential future reversionary income of the property from the date of valuation at appropriate investment yields. In this valuation method, the total rental income comprises the current passing rental income over the existing remaining lease terms (the "**term income**") and potential market rental income upon reversion (the "**reversionary income**"). The term value involves the capitalisation of the current passing rental income over the existing remaining lease terms. The reversionary value is estimated by capitalising the current market rental income on a fully leased basis. It is then discounted back to the valuation date. In this approach, the independent qualified valuer has considered the term and reversionary yields to capitalised the current passing rental income and the market rental income respectively.

Fair value hierarchy

	Fair value measurements using		
	Level 1	**Level 2**	**Level 3**
	RMB'000	*RMB'000*	*RMB'000*
Recurring fair value measurements			
As at 31 December 2021	–	–	2,691,000
As at 31 December 2020	–	–	2,339,000
As at 31 December 2019	–	–	2,500,000

There were no transfers between levels 1, 2 and 3 during the Track Record Period.

Key unobservable inputs used to determine fair values

(a) Capitalisation rate

This is estimated based on the market lease over market value on comparable. The higher the capitalisation rates used, the lower the fair values of the investment property. For the years ended 31 December 2019, 2020 and 2021 valuation, the capitalisation rate of 6% for each year are used in the income capitalisation approach.

(b) Base rent

Base rent is the standard rent payable under the lease exclusive of any other charges and reimbursements. This was estimated based on the market lease comparable. The higher the base rent used, the higher the fair values of the investment property. The ranges of gross monthly base rent for the retail units and for the years ended 31 December 2019, 2020 and 2021 are RMB45 to RMB227, RMB42 to RMB221 and RMB49 to RMB284 per square meter respectively.

14 TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	6,217	8,575	5,434
Deferred rent receivables	10,529	16,465	13,235
Other receivables	50	3,159	3,175
	16,796	28,199	21,844

Trade and other receivables are denominated in RMB and the carrying amounts of these receivables approximate their fair values.

There are no specific credit terms given to the tenants.

Fixed monthly rentals are payable in advance by tenants in accordance with the leases while the turnover rent is payables in arrears from tenants in accordance of the leases.

The Project Company's exposure from outstanding rent receivables in trade receivables and deferred rent receivables in PRC is generally fully covered by the rental deposits from the corresponding tenants (note 16).

As at 31 December 2019, 2020 and 2021, the Project Company's rent receivables and all future rent receivables were pledged to secure the Project Company's interest- bearing borrowings (note 17).

Deferred rent receivables represents the accumulated difference between effective rental revenue and actual rental receipts.

The aging of trade receivables, presented based on the invoice date, is as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
0 – 30 days	6,217	7,058	4,107
31 – 90 days	–	766	193
Over 90 days	–	751	1,134
	6,217	8,575	5,434

The maximum exposure to credit risk at the Track Record Period is the carrying amount of trade receivables.

15 RESTRICTED BANK BALANCE AND CASH AND CASH EQUIVALENTS

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Restricted bank balance *(note a)*	1,000	1,000	1,000
Cash and cash equivalents *(note b)*	30,196	32,000	16,305
	31,196	33,000	17,305

Note a:

Restricted bank balance is related to a bank account restricted under the interest-bearing borrowing agreements of the Project Company's interest-bearing borrowings (note 17).

Note b:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank	30,016	31,956	16,289
Cash on hand	180	44	16
	30,196	32,000	16,305

Restricted bank balances and cash and cash equivalents of the Project Company are denominated in RMB. The carrying amounts approximate their fair values.

The maximum exposure to credit risk at the Track Record Period is the carrying amounts of the restricted bank balance and cash and cash equivalents.

The Project Company's RMB balances are placed with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies in the PRC is subject to rules and regulations of foreign exchange control promulgated by the PRC Government.

The carrying amounts of restricted bank balances and cash and cash equivalents are expected to be recovered after one year and within the next twelve months, respectively.

16 RENTAL DEPOSITS AND TRADE AND OTHER PAYABLES

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Rental deposits *(note i)*	42,468	43,894	47,381
Trade and other payables:			
Receipt on behalf of tenants	58,742	63,360	48,606
Rental receipts in advance	7,983	8,717	10,872
Membership deposits	14,267	15,126	12,698
Provision for other taxes	21,020	20,405	18,143
Other deposits	3,522	3,640	4,414
Accrued expenses and other payables	7,699	4,758	6,871
	113,233	116,006	101,604

Notes:

(i) The ageing analysis based on terms of agreement is as follows and the carrying amount is expected to settle as below:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	19,649	21,004	22,541
Over 1 year	22,819	22,890	24,840
	42,468	43,894	47,381

The carrying amounts of rental deposits and trade and other payables approximate their fair values and mainly denominated in RMB.

17 INTEREST-BEARING BORROWINGS

The carrying amounts of interest-bearing borrowings at the end of the Track Record Period are expected to be settled as below:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	50,000	50,000	50,000
After 1 year	337,500	287,500	237,500
	387,500	337,500	287,500

The exposure of the Project Company's borrowings to interest rate changes and the contractual re-pricing dates at the end of the Track Record Period are as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
12 months or less	387,500	337,500	287,500

The interest-bearing borrowings as at 31 December 2019, 2020 and 2021 were denominated in RMB. The carrying amounts of interest-bearing borrowings approximate their fair value, as the borrowings were at floating interest rate. The nominal interest rate of the borrowings is reference to People's Bank of China lending rate for the years ended 31 December 2019, 2020 and 2021.

The interest-bearing borrowings were secured by the Project Company's investment property (note 13), restricted bank balance (note 15) and rent receivables (note 14) and all future rent receivables (note 21) as at 31 December 2019, 2020 and 2021.

18 REGISTERED AND PAID-IN CAPITAL

As at 31 December 2019, 2020 and 2021, the issued and paid-in capital of the Project Company is RMB400,000,000, representing 400,000,000 shares.

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Issued and fully paid	400,000	400,000	400,000

An additional registered capital of RMB179,710,000 will be allotted and issued by the Project Company to the PRC intermediary Company, a company to be incorporated upon completion, which the PRC intermediary Company will then hold 31% of the total equity interest in the Project Company.

19 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable income tax rate.

Deferred tax liabilities is expected to be recoverable and settled after one year.

The movements in deferred income tax liabilities during the Track Record Period are as follows:

	Fair value gain	Acceleration depreciation allowance	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019	423,818	46,129	2,345	472,292
Charged to profit or loss	31,250	8,571	151	39,972
At 31 December 2019	455,068	54,700	2,496	512,264
At 1 January 2020	455,068	54,700	2,496	512,264
(Credited)/charged to profit or loss	(40,250)	8,592	1,373	(30,285)
At 31 December 2020	414,818	63,292	3,869	481,979
At 1 January 2021	414,818	63,292	3,869	481,979
Charged/(credited) to profit or loss	87,329	8,232	(952)	94,609
At 31 December 2021	502,147	71,524	2,917	576,588

20 NOTE TO THE STATEMENTS OF CASH FLOWS

(a) Cash generated from operations

	For the year ended 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Profit/(loss) before income tax	244,477	(34,069)	495,956
Fair value (gain)/loss of investment property	(125,000)	161,000	(349,315)
Depreciation	237	241	191
Finance income	(555)	(191)	(570)
Finance cost	22,329	19,577	15,571
Operating profit before working capital changes	141,488	146,558	161,833
Loss on disposal of plant and equipment	–	–	3
(Increase)/decrease in trade and other receivables	(503)	(11,403)	6,355
Increase/(decrease) in trade and other payables	12,920	3,557	(14,327)
Increase in inventory	–	–	(3,509)
Increase in rental deposits	4,638	1,426	3,487
(Decrease)/increase in amounts due to fellow subsidiaries	(1,200)	2,400	2,400
Cash generated from operations	157,343	142,538	156,242

(b) Movement of financial liabilities arising from financing activities

The details of the movement of financial liabilities arising from financing activities are as follows:

	Amount due to immediate holding company	Interest bearing borrowings	Interest and loan arrangement fees payables (included in trade and other payables)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2019	57,449	437,500	4,067	499,016
Repayment of interest-bearing borrowings	–	(50,000)	–	(50,000)
Interest and loan arrangement fees paid	–	–	(21,999)	(21,999)
Finance costs	–	–	22,329	22,329
As at 31 December 2019	57,449	387,500	4,397	449,346
As at 1 January 2020	57,449	387,500	4,397	449,346
Repayment of interest-bearing borrowings	–	(50,000)	–	(50,000)
Interest and loan arrangement fees paid	–	–	(20,361)	(20,361)
Finance costs	–	–	19,577	19,577
As at 31 December 2020	57,449	337,500	3,613	398,562
As at 1 January 2021	57,449	337,500	3,613	398,562
Repayment of interest-bearing borrowings	–	(50,000)	–	(50,000)
Interest and loan arrangement fees paid	–	–	(15,646)	(15,646)
Advance from the immediate holding company	700,000	–	–	700,000
Finance costs	–	–	15,571	15,571
As at 31 December 2021	757,449	287,500	3,538	1,048,487

21 FUTURE MINIMUM RENTAL RECEIVABLES

As at 31 December 2019, 2020 and 2021, the analysis of the Project Company's aggregate future minimum rental receivables under non-cancellable leases is as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	85,518	89,917	98,882
1 – 2 years	43,048	49,509	53,898
2 – 3 years	26,433	29,654	30,544
3 – 4 years	17,045	18,623	18,564
4 – 5 years	12,273	12,764	7,537
After 5 years	21,189	10,951	8,372
	205,506	211,418	217,797

22 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) Nature of relationship with related parties

The table below summarises the names of the related parties, with whom the Project Company has significant balances, and their relationship with the Project Company during the Track Record Period:

Related parties	**Relationship with the Project Company**
北京國華置業有限公司	The ultimate holding company
惠州市華貿興業房地產開發有限公司	The immediate holding company
惠州市潤豐房地產開發有限公司	Fellow subsidiary
惠州市潤和房地產開發有限公司	Fellow subsidiary
惠州市華貿資產管理有限公司	Fellow subsidiary
拉薩經濟技術開發區潤津商務諮詢有限公司	Fellow subsidiary
惠州市惠裕房地產經紀有限公司	Fellow subsidiary
惠州市華貿商業管理有限公司 ("**華貿商業**")	Fellow subsidiary
惠州市潤豐房地產開發有限公司	Fellow subsidiary
北京華貿奧苑房地產開發有限公司	Fellow subsidiary
惠州市潤泰商貿有限公司	Fellow subsidiary

(b) Balances with related parties

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Amount due to immediate holding company	(57,449)	(57,449)	(757,449)
Amounts due from fellow subsidiaries	610,263	590,273	1,573,927
Amount due from the ultimate holding company	25,000	97,470	63,140
Amounts due to fellow subsidiaries	(51,881)	(52,482)	(233,084)

These balances were unsecured, interest free, repayable on demand and denominated in RMB.

Prior to the completion of the acquisition, all the balances with related parties will be settled except a net receivable of RMB890 million will be novated to RC Enterprise Management (Huizhou) Limited (瑞中企業管理(惠州)有限公司) a company incorporated in the PRC and a wholly-owned SPV of Spring REIT, which after the completion will indirectly holds 37% of the equity interest of the Project Company.

(c) Transaction with a related party

Save as disclosed elsewhere in the Historical Financial Information, the Project Company had the following transaction with a related party during the year:

	For the year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Subcontracting property management fee *(note 6)*	13,945	13,949	13,951

(d) Key management compensation

The directors are regarded as key management. During the Track Record Period, no emoluments of directors' services were paid or made, directly or indirectly, to the directors.

23 EVENT AFTER BALANCE SHEET DATE

Subsequent to 31 December 2021, the bank borrowing (note 17) of the Project Company was settled through current account with the immediate holding company in April 2022. In accordance with the acquisition agreements, the Project Company will draw down a new facility with a total amount of RMB800 million for a term of 10 years prior to completion of the acquisition, of which the principal will be repayable semi-annually.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Project Company or any of its subsidiaries in respect of any period subsequent to 31 December 2021 and up to the date of this report.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma consolidated statement of assets and liabilities and unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**") has been prepared on the basis of the notes set out below and in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effects on the consolidated statement of assets and liabilities and the consolidated statement of comprehensive income of the Enlarged Group as if the Acquisition had been completed on 31 December 2021 for the unaudited pro forma consolidated statement of assets and liabilities and on 1 January 2021 for the unaudited pro forma consolidated statement of comprehensive income.

The Unaudited Pro Forma Financial Information has been prepared based on (i) the audited consolidated statements of financial position and the audited consolidated income statements of the Group as at and for the year ended 31 December 2021, as set out in its published annual report for the year ended 31 December 2021; (ii) the statements of financial position and the statements of comprehensive income of the Project Company and Offshore Target Company as at and for the year ended 31 December 2021; and (iii) the pro forma adjustments prepared to reflect the effects of the Acquisition as explained in the notes set out below that are directly attributable to the Acquisition and not relating to future events or decisions and are factually supportable.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information contained in this circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors of the Manager for illustrative purposes only and is based on a number of assumptions, estimates and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position and financial performance of the Enlarged Group had the Acquisition been completed as at 31 December 2021 or 1 January 2021, where applicable, or at any future date.

(I) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AS AT 31 DECEMBER 2021

	The Group as at 31 December 2021	The Offshore Target Company as at 31 December 2021	The Project Company as at 31 December 2021	Pro forma adjustment		Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 31 December 2021
	RMB$'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 2*	*Note 3*	*Note 6*	
Assets						
Plant and equipment	–	–	551			551
Investment properties	9,307,096	–	2,691,000	(178,870)		11,819,226
Right-of-use assets	15,217	–	–			15,217
Derivative financial instruments	33,414	–	–			33,414
Restricted bank balances	320,223	–	1,000	39,000		360,223
Amount due from ultimate holding company	–	–	63,140	(63,140)		–
Amounts due from fellow subsidiaries	–	–	1,573,927	(1,573,927)		–
Trade and other receivables	52,006	–	21,844	55,423		129,273
Inventory	–	–	3,509	(3,509)		–
Cash and cash equivalents	156,047	–	16,305	(762,204)	794,899	205,047
Total assets	9,884,003	–	4,371,276			12,562,951
Liabilities, excluding net assets attributable to Unitholders						
Deferred income tax liabilities	2,760	–	576,588	(576,588)		2,760
Interest-bearing borrowings	2,960,830	–	287,500	512,500	794,899	4,555,729
Lease liabilities	11,009	–	–			11,009
Rental deposits	150,639	–	47,381			198,020
Amount due to the immediate holding company	–	–	757,449	(757,449)		–
Amounts due to fellow subsidiaries	–	–	233,084	(222,584)		10,500
Income tax payable	2,887	–	47,101			49,988
Trade and other payables	84,225	–	101,604			185,829
Total liabilities, excluding net assets attributable to Unitholders	3,212,350	–	2,050,707			5,013,835
Non-controlling interest	–	–	–	(877,463)		(877,463)
Net assets attributable to Unitholders	6,671,653	–	2,320,569			6,671,653

(II) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2021

	The Group for the year ended 31 December 2021	The Offshore Target Company for the year ended 31 December 2021	The Project Company for the year ended 31 December 2021	Pro forma adjustment							Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group for the year ended 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 7	*Note 8*	*Note 8*	*Note 4*	*Note 5*	*Note 6*	*Note 9*	*Note 10*	*Note 11*	*Note 12*	
Revenue	528,446	–	217,911						109		746,466
Property operating expense	(132,073)	–	(48,815)					(7,752)	(14)		(188,654)
Net property income	396,373	–	169,096								557,812
General and administrative expenses	(65,266)	–	(11,032)				(10,869)				(87,167)
Fair value gain of investment properties	128,015	–	349,315	(173,130)							304,200
Fair value gain of right-of-use assets	710	–	–								710
Other gains, net	72,108	–	3,578								75,686
Operating profit	531,940	–	510,957								851,241
Finance income	2,392	–	570								2,962
Finance costs	(17,926)	–	(15,571)		(25,197)	(15,432)					(74,126)
Profit before taxation and transactions with Unitholders	516,406	–	495,956								780,077
Income tax expense	(6,456)	–	(131,837)		6,299			1,938	(24)	(4,517)	(134,597)
Profit for the year, before transactions with Unitholders	509,950	–	364,119								645,480

	The Group for the year ended 31 December 2021	The Offshore Target Company for the year ended 31 December 2021	The Project Company for the year ended 31 December 2021				Pro forma adjustment				Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group for the year ended 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 7	*Note 8*	*Note 8*	*Note 4*	*Note 5*	*Note 6*	*Note 9*	*Note 10*	*Note 11*	*Note 12*	
Other comprehensive income for the period:											
Items that may be reclassified to profit or loss											
Exchange loss on translation of financial statements	(3,614)	–	–								(3,614)
Items that may not be reclassified to profit or loss											
Exchange loss on translation of financial statements	(34,657)	–	–								(34,657)
Other comprehensive loss for the period	(38,271)	–	–								(38,271)
Total comprehensive income for the period	471,679	–	364,119								607,209
Profit for the year, before transactions with Unitholders attributable to											
– Unitholders	509,950	–	364,119								593,694
– Non-controlling interest	–	–	–								51,786
	509,950	–	364,119								645,480
Total distributable income *(Note 14)*	297,687										336,932
Distribution per unit (HK$) *(Note 15)*	22.0 cents										24.8 cents

Notes:

1. The balances were extracted from the consolidated statement of financial position of Spring REIT as at 31 December 2021 as set out in the Spring REIT's published annual report for the year ended 31 December 2021.

2. The balances were derived from the audited statements of financial position of the Offshore Target Company as at 31 December 2021 and the Project Company as at 31 December 2021 as set out in Appendix 2A and 2B to this circular.

3. The Acquisition

The Acquisition is considered as an asset acquisition under IFRS 3 "Business Combination" issued by the International Accounting Standards Board, as substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset. As a result, the difference between the consideration paid and the fair value of the identifiable net assets acquired was recognised as a fair value adjustment to the carrying amount of the investment property. Such transaction or event does not give rise to goodwill or negative goodwill. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets.

	RMB'000
Consideration satisfied in cash *(note (i))*	747,210
Consideration satisfied by assumptions of the Novated Payables *(note (i))*	890,000
Consideration for the Acquisition	1,637,210
Direct attributable cost *(note (ii))*	47,689
	1,684,899
Identifiable assets and liabilities acquired:	
Net assets of the Project Company	2,320,569
Add:	
Reversal of deferred tax liabilities *(note (iii))*	576,588
Called-up capital receivable *(note (iv))*	179,710
Indemnified liabilities *(note (v))*	55,423
Proceeds from the transfer of inventory *(note (vii))*	3,509
Cash inflow for minimum cash requirement *(note (viii))*	68,186
Settlement of ICBC Facility and intercompany payables with proceeds from PAB Facility *(note (vi))*	1,087,500
Less:	
Drawdown of PAB Facility *(note (vi))*	(800,000)
Minimum cash requirement and intercompany balance for settlement of ICBC Facility *(note (vi) and note (viii))*	(355,686)
Residual payables *(note (ix))*	(10,500)
Intercompany balances adjustment *(note (x))*	(200,848)
Transfer of inventory *(note (vii))*	(3,509)
Allocation of fair value deficit adjustment to investment properties	(178,870)
Total fair value of identifiable net assets for the Project Company	2,742,072
Non-controlling interest (32%)	(877,463)
Called-up capital payable of PRC Intermediary Company *(note (iv))*	(179,710)
	1,684,899

(i) Pursuant to the terms of the Offshore Share Purchase Deed and Onshore Share Purchase Agreement, the Acquisition involves (i) the acquisition of 100% of equity interest in Huamao Capital Focus 03 Limited (the "**Offshore Target Company**"), which in turn will immediately after the Reorganisation become the indirect owner of 31% of the equity interest in Huizhou Runxin Shopping Mall Development Co., Ltd. (惠州市潤鑫商城發展有限公司) (the "**Project Company**") and; (ii) the acquisition of 37% of the equity interest in the Project Company. After Completion, Spring REIT will indirectly hold 68% of the Project Company.

The Consideration will be satisfied in a combination of (i) RMB747.2 million which shall be paid in cash, and (ii) the assumption by Spring REIT (through the Onshore Purchaser) of the Novated Payables in the amount of RMB890.0 million.

(ii) Pursuant to the Trust Deed, the Manager of the Spring REIT is entitled to receive a one-time Acquisition Fee calculated at 1% of the Relevant Proportion of the Agreed Property Value. Basing on 68% of the Target Property Price amounting to RMB1,660.6 million, an additional Manager's fee of RMB16.6 million would be charged.

Pursuant to the Trust Deed, the Trustee is entitled to charge additional fees for duties undertaken in connection with the Acquisition. The Trustee has agreed with the Manager that it will charge Spring REIT a one-time additional fee based on the time and costs incurred by it for duties undertaken by the Trustee in connection with the Acquisition, with such additional fee expected to be HK$100,000 (equivalent to RMB83,000).

The estimated amounts regarding the legal and professional fees and other expenses incurred for the Acquisition is expected to be approximately RMB31.0 million.

Therefore, incremental costs of a total RMB47.7 million, including legal and professional fee of RMB31.0 million and additional trustee fee and REIT manager acquisition fee of RMB16.7 million, are treated as part of the cost of acquisition.

(iii) The adjustment represents the reversal of the deferred tax liabilities recognised by the Project Company as at 31 December 2021 in respect of the taxable temporary differences arising from the investment property before the Acquisition. In accordance with IAS 12 Income Taxes, deferred tax liabilities shall not be recognised for all taxable temporary differences if it is arising from the initial recognition of an asset in a transaction which is not a business combination, and at that time of the transaction, affects neither accounting profit nor taxable profit.

(iv) The adjustment represents the called-up capital adjustment for the subscribed registered capital to be allotted and issued by the Project Company to the PRC Intermediary Company, a company to be incorporated under the laws of the PRC upon completion of the Reorganisation, such that the PRC Intermediary Company holds 31% of the legal and beneficial interest in the Project Company. Since the capital will not be paid upon the Completion, a called-up capital receivable and called-up capital payable of RMB179.7 million each would be recognised. The financial information of the PRC Intermediary Company has not been taken into account in the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 31 December 2021.

(v) According to the Onshore Share Purchase Agreement, the Seller shall indemnify the Purchaser and the Project Company from certain liabilities of the Project Company for a period of seven years following the Completion, but it will not exceed 20% of the Consideration. As a result, indemnification assets of RMB55.4 million are recorded in trade and other receivables in the unaudited pro forma consolidated statement of assets and liabilities with respect to income tax payable and trade and other payables of RMB39.3 million and RMB16.1 million respectively.

(vi) As at the Latest Practicable Date, the ICBC Facility whose amount was RMB287.5 million as at December 2021 was fully repaid. Pursuant to the Acquisition Agreements, the Project Company will have drawn down the PAB Facility amounting to RMB800 million at Completion. The PAB Facility is with a maturity of 10 years and bears interest at a rate of 60 basis points above the loan prime rate for more than five years as announced by the National Interbank Funding Center on the business day immediately preceding the drawdown date and updated monthly. The loan under the PAB Facility is repayable semi-annually and the proceeds under the PAB Facility is to be used to settle the outstanding intercompany payables.

(vii) The adjustments represent the transfer of the Project Company's inventory at cost to Huizhou Huamao Operations Management Co., Ltd. (惠州華貿商業管理有限公司) (the "**Property Manager**") of RMB3.5 million regarding the novation of operation agreement with the Beauty Retailer to the Property Manager. The Project Company has also entered into a lease with the Property Manager on Completion which the Property Manager will lease space from the Project Company to carry out the retail business.

(viii) In accordance with the Acquisition Agreements, as at Completion, the Project Company will have a minimum cash balance of RMB89 million in its bank accounts. The minimum cash balance includes a restricted cash balance of RMB40 million under the PAB Facility. Therefore, there is an increase in cash inflow of RMB68.2 million through intercompany balances.

(ix) The adjustment represents the payables owing by the Project Company to members of the Seller's group as at Completion which are to be settled by the Project Company in cash after Completion.

(x) Pursuant to the Acquisition Agreements, the intercompany balances owing by the Onshore Seller to the Project Company will be consolidated into a net payable of RMB890 million and novated to the Onshore Purchaser on Completion as a partial settlement of the Consideration. Except for the Novated Payables and Residual payables, all the remaining net intercompany receivables of RMB200.8 million, after taking into the account the partial settlement of payables of RMB800 million and increase in intercompany payables of RMB287.5 million for settlement of ICBC Facility in note (vi) and RMB68.2 million cash inflow through intercompany balances in note (viii), will be settled prior to Completion. The Novated Payable is fully eliminated in the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 31 December 2021.

4. The amount represents the fair value surplus adjustment to the carrying amount of the investment property as if the Acquisition had been completed on 1 January 2021. The difference is recognised as a fair value change in the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group for the year ended 31 December 2021.

5. The amount represents the interest expense adjustment and the related tax income arising from the settlement of ICBC Facility and drawdown of PAB Facility (note 3(vi)). The adjustment has a recurring nature.

6. The amount represents the additional bank borrowing of HK$975.0 million (equivalent to RMB794.9 million) to finance the payment of cash consideration and Total Fees and Charges. The borrowing bears interest at a margin of 1.55% over HIBOR. An additional finance cost of HK$18.6 million (equivalent to RMB15.4 million) would be charged for the year ended 31 December 2021. The adjustment has a recurring nature.

7. The amounts represent the financial results of Spring REIT for the year ended 31 December 2021, which are extracted from the consolidated income statement and consolidated statement of distributions of Spring REIT and for the year ended 31 December 2021 as set out in the published annual report of Spring REIT.

8. The amounts are derived from the audited statements of comprehensive income of the Offshore Target Company and the Project Company for the year ended 31 December 2021 included in the Accountant's Reports as set out in the Appendix 2A and 2B to this Circular.

9. Pursuant to the Trust Deed, the Manager of the Spring REIT is entitled to receive in aggregate Manager's fee calculated at 3% per annum of the net property income attributable to the unitholders of Spring REIT and a base fee of 0.4% per annum on the carrying value of the Deposited Property, excluding non-controlling interest's share of the Project Company's carrying value of Deposited Property. An additional variable fee and base fee of RMB3.3 million and RMB7.3 million for the year ended 31 December 2021 would be charged respectively. The adjustment has a recurring nature. On 4 December 2020, the Manager had elected for the base fee payable in the form of cash as to 20% and in the form of Units as to 80%, and for Variable Fee, payable in the form of cash entirely arising from any real estate of Spring REIT, for the year ending 31 December 2021 in accordance with the Trust Deed. As such, an additional 2,512,000 new Units would be issued for payment of the base Manager's fee assuming the Acquisition had been completed on 1 January 2021 (note 15).

   Also, pursuant to the Trust Deed, Spring REIT will pay the Trustee a fee of 0.0175% per annum of the carrying value of the Deposited Property. An additional trustee fee of RMB0.3 million for the year ended 31 December 2021 would be charged. The adjustment has a recurring nature.

10. Pursuant to the Property Management Agreement, the property of the Project Company will be managed by the Property Manager. The employee benefit expense and the corresponding VAT incurred by the Property Manager would be fully reimbursed together with an additional fee equivalent to 3.0% of the annual revenue of the Project Company per annum. As a result of this arrangement, RMB7.8 million property management fee would be charged. Adjustments also include related income tax saving of RMB1.9 million for the year ended 31 December 2021. The adjustment has a recurring nature.

11. The adjustment represents the expected rental income of RMB109,000 and the related property operating expense of RMB14,000 in relation to the lease with the Property Manager entered on or prior to Completion as office space from which the Property Manager will carry out its property management activities. Adjustments also include related income tax expense of RMB24,000 for the year ended 31 December 2021. The adjustment has a recurring nature.

12. The adjustment represents the 10% withholding tax on the un-distributable earnings attributable to unitholders. The adjustment has a recurring nature.

13. Apart from the above, no adjustments have been made to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 31 December 2021. Unless otherwise stated the adjustments above do not have a recurring effect.

14. Total distributable income in respect of the Enlarged Group is determined in accordance with the Trust Deed and the annual report of the Group for the year ended 31 December 2021, that is the profit for the period before transactions with unitholders attributable to unitholders for the year ended 31 December 2021, after adjusting fair value gain on investment properties and right-of-use assets, deferred taxation in respect of fair value gain on investment properties and other tax deductions claimed, unrealised foreign exchange gain, manager's fee expense in units in lieu of cash, fair value gain on derivative financial instruments, amortisation of transaction cost for bank borrowings, gain on disposal of investment properties and depreciation attributable to Unitholders.

15. The distribution per unit of the Group for the year ended 31 December 2021 is disclosed in the published annual report of the Group for the year ended 31 December 2021.

The calculation of distribution per unit of the Enlarged Group is arrived at on the basis of 90% of the total distributable income of the Enlarged Group of RMB336.9 million and on the basis that 1,472,384,000 Units were in issue as at 31 December 2021, 3,619,000 new Units issued in respect of manager's fee paid in lieu of cash on 25 March 2022, 2,512,000 new Units issued for payment of Manager's fee for the Enlarged Group assuming the Acquisition had been completed on 1 January 2021. All distributions to Unitholders are determined and paid in Hong Kong dollar. The exchange rate adopted for the distribution per unit is HK$1=RMB0.8254, which represents the average of month-end central parity rates in the 2021 Final Distribution Period (as announced by the People's Bank of China).

Number of Units in issue as at 31 December 2021 ('000)		1,472,384
Add:		
– New Units issued for the payment of Manager's fee for the Group ('000)	*(a)*	3,619
– New Units issued pursuant to the Transaction for payment of Base Fee of manager's fee for the Project Company assuming the Acquisition had been completed on 1 January 2021 ('000)	*(b)*	2,512
– Total number of Units entitled to the dividend payments ('000)		1,478,515

(a) The newly issued units represents the units issued to the Manager on 25 March 2022 in respect of manager's fee for the period from 1 October 2021 to 31 December 2021. The amount was agreed to the Spring REIT's announcement dated 25 March 2022.

(b) For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, an assumed average issue price of HK$2.785 per Unit is adopted for the New Units to be issued as payment of the Base Fee of the Manager's Fee for the Enlarged Group, which is based on the average of the issue prices stated in Spring REIT's announcement dated 30 April 2021, 11 August 2021 and 29 October 2021 for the payment of Base Fee in Units in lieu of cash (note 9).

The following is the text of a report on the unaudited pro forma financial information of the Enlarged Group received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Spring Asset Management Limited, as the manager of Spring Real Estate Investment Trust (the "Manager")

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Spring Real Estate Investment Trust ("**Spring REIT**") and its subsidiaries (collectively the "**Group**") and Huamao Capital Focus 03 Limited and Huizhou Runxin Shopping Mall Development Co., Ltd. (the "**Target Group**") by the directors of the Manager for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2021, unaudited pro forma consolidated statement of comprehensive income for the year ended 31 December 2021 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages A3-1 to A3-9 of Spring REIT's circular dated 3 May 2022, in connection with the proposed acquisition of the Target Group (the "**Proposed Transaction**") by Spring REIT. The applicable criteria on the basis of which the directors of the Manager have compiled the Unaudited Pro Forma Financial Information are described on pages A3-1 to A3-9 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the directors of the Manager to illustrate the impact of the Proposed Transaction on the Group's financial position as at 31 December 2021 and its financial performance for the year ended 31 December 2021 as if the Proposed Transaction had taken place at 31 December 2021 and 1 January 2021 respectively. As part of this process, information about the Group's financial position and financial performance has been extracted by the directors of the Manager from the financial information of the Group's financial statements for the year ended 31 December 2021, on which an audit report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Manager are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing rules**") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

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Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Transaction at 31 December 2021 or 1 January 2021 respectively would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Manager on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing rules, as if paragraph 4.29 of the Listing Rules were applicable to Spring REIT.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
3 May 2022

The following is the full text of the Property Valuation Report, prepared for the purpose of incorporation in this Circular received from Knight Frank Petty Limited, the Independent Property Valuer, in connection with its valuation as at 28 February 2022 of the Target Property.

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The Board of Directors
Spring Asset Management Limited
(as manager of Spring Real Estate Investment Trust, the "**Manager**")
Room 2801, 28/F, Man Yee Building
68 Des Voeux Road Central
Hong Kong

DB Trustees (Hong Kong) Limited
(as trustee of Spring Real Estate Investment Trust, the "**Trustee**")
60/F, International Commence Centre
1 Austin Road West
Kowloon, Hong Kong

3 May 2022

Dear Sirs

Huamao Place, No. 9 First Wenchang Road, Jiangbei, Huicheng District, Huizhou City, Guangdong Province, The People's Republic of China (the "Target Property")

In accordance with the instructions of Spring Asset Management Limited and DB Trustees (Hong Kong) Limited for us to value the above-mentioned property held by Huizhou Runxin Shopping Mall Development Co., Ltd. (惠州市潤鑫商城發展有限公司) (the "**Target Company**") in the People's Republic of China (the "**PRC**"), we confirm that we have carried out site inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Target Property as at 28 February 2022 (the "**Valuation Date**").

BASIS OF VALUATION

In arriving at our opinion of market value, we complied with the requirements set out requirements contained in paragraph 6.8 of the Code on Real Estate Investment Trust (the "**REIT Code**") published by the Securities and Futures Commission, all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited, "The HKIS Valuation Standards 2020" issued by The Hong Kong Institute of Surveyors ("**HKIS**") and "The RICS Valuation — Global Standards 2022" issued by The Royal Institution of Chartered Surveyors ("**RICS**"). Under the said standards, market value is defined as:

"the estimated amount for which an asset or liability should exchange on the Valuation Date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

Market value is understood as the value of an asset or liability estimated without regard to the seller's costs of sale or the buyer's costs of purchase and without adjustment for any taxes payable by either party as a direct result of the transaction.

Market value is the most probable price reasonably obtainable in the market on the Valuation Date in keeping with the market value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of value available only to a specific owner or purchaser.

VALUATION METHODOLOGY

We have valued the Target Property which is intended to be held for investment by Spring Real Estate Investment Trust (the "**Spring REIT**") by "Income Approach — Term and Reversion Method" by capitalizing the rental income shown on tenancy schedules handed to us by the Target Company and made provisions for reversionary income potential.

We also made reference to Market Approach for cross-checking purpose. We have made reference to the recent market sales evidence which is available in the market. Appropriate adjustments have been made in our valuation to reflect the differences in the characteristics between the Target Property and the comparable properties such as location, size, age, condition and quality in arriving at our opinion of the market value.

TITLE DOCUMENTS AND ENCUMBRANCES

We have been provided with extracts of documents in relation to the titles to the Target Property. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. We have relied on the information given by the Manager and the Legal Advisor, Zhong Lun Law Firm, regarding the title and other legal matters relating to the Target Property.

No allowance has been made in our report for any charges, mortgages or amounts owing on any property nor for any expenses or taxation which may be incurred in affecting a sale. Unless otherwise stated, it is assumed that the Target Property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

SOURCE OF INFORMATION

We have relied to a very considerable extent on information given by the Manager and the Target Company. We have no reason to doubt the truth and the accuracy of the information provided by the Manager and the Target Company which is material to the valuation. We have accepted advice given by the Manager and the Target Company on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, tenancy particulars, site and floor areas, and all relevant matters. Dimension, measurements and areas included in the attached valuation report are based on the information provided to us and are therefore only approximations. We have not been able to carry out detailed on-site measurements to verify the site and floor areas of the Target Property and we have assumed that the areas shown on the documents handed to us are correct. We were also advised by the Manager and the Target Company that no material facts have been omitted from the information provided.

We have inspected the Target Property in January 2022 by Ms. Tara Luo, who has over 15 years of experiences in property valuation in the PRC. However, no structural survey has been made. We are not, however, able to report that the Target Property is free from rot, infestation or any other structural defects, nor were any tests carried out to any of the services. For the purpose of this valuation, we have assumed that the Target Property has been maintained in satisfactory condition.

IDENTITY OF PROPERTY TO BE VALUED

We have exercised reasonable care and skill (but will not have an absolute obligation to you) to ensure that the Target Property, identified by the property address in your instructions, are the Target Property inspected by us and contained within our valuation report. If there is ambiguity as to the property address, or the extent of the Target Property to be valued, this should be drawn to our attention in your instructions or immediately upon receipt of our report.

ENVIRONMENTAL ISSUES

We are not environmental specialists and therefore we have not carried out any scientific investigations of sites or buildings to establish the existence or otherwise of any environmental contamination, nor have we undertaken searches of public archives to seek evidence of past activities that might identify potential for contamination. In the absence of appropriate investigations and where there is no apparent reason to suspect potential for contamination, our valuation is prepared on the assumption that the Target Property is unaffected. Where contamination is suspected or confirmed, but adequate investigation has not been carried out and made available to us, then the valuation will be qualified.

COMPLIANCE WITH RELEVANT ORDINANCES AND REGULATIONS

We have assumed that the Target Property will be constructed, occupied and used in full compliance with, and without contravention of any Ordinances, statutory requirement and notices except only where otherwise stated. We have further assumed that, for any use of the Target Property upon which this report is based, any and all required licences, permits, certificates, consents, approvals and authorisation have been obtained, except only where otherwise stated.

MARKET CONDITIONS EXPLANATORY NOTE: NOVEL CORONAVIRUS (COVID-19)

The outbreak of COVID-19, declared by the World Health Organisation as a "Global Pandemic" on the 11 March 2020, has and continues to impact many aspects of daily life and the global economy — with real estate markets having experienced lower levels of transactional activity and liquidity. Travel restrictions have been implemented by many countries and "lockdowns" applied to varying degrees. Whilst restrictions have now been lifted in some cases, local lockdowns may continue to be deployed as necessary and the emergence of significant further outbreaks is possible.

The pandemic and the measures taken to tackle COVID-19 continues to affect economies and real estate markets both locally and globally. Nevertheless, as at the Valuation Date some property markets have started to function again, with transaction volumes and other relevant evidence returning to levels where an adequate quantum of market evidence exists upon which to base opinions of value.

MATERIAL VALUATION UNCERTAINTY

As at the Valuation Date we continue to be faced with an unprecedented set of circumstances caused by COVID-19 and an absence of relevant/sufficient market evidence on which to base our judgements. Our valuation is therefore reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation — Global Standards. Consequently, in respect of these valuations less certainty — and a higher degree of caution — should be attached to our valuation than would normally be the case.

For the avoidance of doubt this explanatory note, including the 'material valuation uncertainty' declaration, does not mean that the valuation cannot be relied upon. Rather, this explanatory note has been included to ensure transparency and to provide further insight as to the market context under which the valuation opinion was prepared. In recognition of the potential for market conditions to move rapidly in response to changes in the control or future spread of COVID-19 we highlight the importance of the Valuation Date.

REMARKS

In our valuation, Knight Frank has prepared the valuation based on information and data available to us as at the Valuation Date. While the market is influenced by various policies and regulations, increasing complexity in international trade tensions, the recent regional health issue of outbreak of COVID-19 is expected to bring additional fluctuations to the real estate market. It must be recognised that the regional health problem, change in policy direction, mortgage requirements and international trade tensions could have immediate and sweeping impact on the real estate market apart from typical market variations. It should therefore be noted that any market violation, policy, geographical or other unexpected circumstances after the Valuation Date may affect the value of the Target Property.

We hereby confirm that we are independent of Spring REIT, the REIT Manager, the Trustee and the Target Company and each of the substantial unitholders of Spring REIT and are considered independent in every respect set out in paragraph 6.5 of the REIT Code. Mr. Clement W M Leung possesses the necessary experience for the valuation of the Target Property and has no potential conflict of interest. The valuation is prepared on a fair and unbiased basis in accordance with Chapter 6.8(e) of the REIT Code.

CURRENCY

Unless otherwise stated, all sums stated in our valuation report are in Renminbi.

Our valuation report is attached.

Yours faithfully
For and on behalf of
Knight Frank Petty Limited
Clement W M Leung
MFin MCIREA MHKIS MRICS RPS (GP)
RICS Registered Valuer
Executive Director, Head of China Valuation & Advisory

Notes: *Clement Leung is a qualified valuer who has 29 years of experiences in property valuation and consultancy services in Asia Pacific region, including the People's Republic of China, Hong Kong, Macau, Vietnam, London, New York and San Francisco, and has been participating in various corporate valuation projects in the People's Republic of China and Hong Kong.*

VALUATION REPORT

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 28 February 2022
Huamao Place No. 9 First Wenchang Road Jiangbei Huicheng District Huizhou City Guangdong Province the PRC	The Target Property comprises a shopping mall namely Huamao Place, completed in 2011 and erected on a parcel of land with a site area of approximately 41,540.60 sq.m.. The Target Property comprises a 5-storey retail development erected over a 2-level basement with a total gross floor area of approximately 144,925.07 sq.m.. As advised by the Manager and the Target Company, the total gross lettable area of the Target Property is approximately 107,088.82 sq.m.. Details of the approximate gross lettable area are listed as follows:	Portion of the Target Property with a total gross lettable area of approximately 103,033.54 sq.m. has been leased under various tenancies with the last term expiring in June 2031, yielding a total monthly rental of approximately RMB17,500,000, inclusive of operation management fees but exclusive of building management fees, promotion fees and other outgoings. The remaining portion of the Target Property is currently vacant.	RMB2,691,000,000 (RENMINBI TWO BILLION SIX HUNDRED NINETY ONE MILLION)

Level	Approximate Gross Lettable Area *(sq.m.)*
Basement Level 1	20,457.56
Level 1	17,685.10
Level 2	16,183.29
Level 3	15,825.82
Level 4	16,962.17
Level 5	19,974.88
Total	**107,088.82**

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 28 February 2022
	The Target Property also comprises 700 car parking spaces on Basement Level 2 and 50 open car parking spaces on Level 1. The land use rights of the Target Property have been granted for a term expiring on 1 February 2048 for commercial use.		

Notes:

1. Pursuant to the State-owned Land Use Rights Certificate No. Hui Fu Guo Yong (2008) Di 1302010063 issued by Huizhou Bureau of Land Resources and Housing Management dated 7 November 2008, the land use rights of a parcel of land with a site area of 41,540.60 sq.m. have been granted to Huizhou Runxin Shopping Mall Development Co., Ltd. (惠州市潤鑫商城發展有限公司) for a term expiring on 1 February 2048 for commercial use.

2. Pursuant to the Real Estate Title Ownership Certificate No. Yue Fang De Quan Zheng Huizhou Zi Di 1100140394 issued by Huizhou Bureau of Land Resources and Housing Management dated 29 August 2012, the title of the Target Property with a total gross floor area of 144,925.07 sq.m. is vested in Huizhou Runxin Shopping Mall Development Co., Ltd. (惠州市潤鑫商城發展有限公司).

3. Our analysis of the existing tenancy profile according to the tenancy information provided by the Target Company is set out below:

Occupancy Profile

	Approximate Gross Lettable Area *(sq.m.)*	% of total
Leased	103,033.54	96.2%
Vacant	4,055.28	3.8%
Total:	**107,088.82**	**100.0%**

Tenancy Expiry Profile

Year	Approximate Leased Gross Lettable Area *(sq.m.)*	% of total	Monthly Rental *(RMB)*	% of total	No. of Tenancies	% of total
2022	31,368.85	30.5%	7,736,943	44.2%	225	55.8%
2023	18,896.06	18.3%	4,108,340	23.5%	104	25.8%
2024	8,984.93	8.7%	1,828,823	10.5%	32	8.0%
2025	6,676.01	6.5%	1,580,919	9.0%	18	4.5%
2026	24,191.93	23.5%	1,602,281	9.2%	17	4.2%
2027	860.49	0.8%	141,066	0.8%	2	0.5%
2028	1,734.80	1.7%	91,725	0.5%	2	0.5%
2029	1,155.62	1.1%	108,953	0.6%	1	0.2%
2031	9,164.85	8.9%	296,662	1.7%	2	0.5%
Total:	**103,033.54**	**100.0%**	**17,495,072**	**100.0%**	**403**	**100.0%**

Tenancy Duration Profile

Year	Approximate Leased Gross Lettable Area *(sq.m.)*	% of total	Monthly Rental *(RMB)*	% of total	No. of Tenancies	% of total
Up to 1 Year	18,213.52	17.7%	4,949,201	28.3%	157	39.0%
More than 1 Year and up to 2 Years	12,458.65	12.1%	3,061,835	17.5%	84	20.8%
More than 2 Years and up to 3 Years	15,496.79	15.0%	3,341,541	19.1%	81	20.1%
More than 3 Years and up to 4 Years	8,040.58	7.8%	2,126,940	12.2%	30	7.4%
More than 4 Years and up to 5 Years	8,184.35	7.9%	1,445,198	8.2%	24	6.0%
More than 5 Years	40,639.65	39.5%	2,570,357	14.7%	27	6.7%
Total:	**103,033.54**	**100.0%**	**17,495,072**	**100.0%**	**403**	**100.0%**

4. The key assumptions adopted in our valuation for the Target Property are summarised as follows:

(i)	Term Yield	5.5%
(ii)	Reversionary Yield	6.0%
(iii)	Average Monthly Unit Rent	RMB161

In undertaking our valuation, we have made reference to various asking rental references of retail comparables within the same and neighboring districts. These rental references were with reference to their similarity comparable to the Target Property. The monthly market unit rent assumed by us are consistent with the said rental references. Due adjustments to the unit rents of those rental references have been made to reflect factors including but not limited to location, operating scale and tenant bases in arriving at the key assumptions.

5. We have been provided with and taken into account the Group's PRC legal adviser's opinion, which inter-alia, contains the following:

(i) The Target Company has no building ownership for portion of the Target Property in Basement Level 2 with a total gross floor area of approximately 10,876.22 sq.m., which is designated for civil defense use. The Target Company has the legal and beneficially right to use and manage the mentioned area;

(ii) apart from the aforesaid area in Note 5(i), the Target Company has legally and beneficially obtained and validly in possession of the land use rights and building ownership right of the Target Property, and is the sole legal and beneficially user of the land use rights and the sole legal and beneficially owner of the Target Property;

(iii) the Target Company has the rights to legally and beneficially occupy, use, earn income from and dispose of the Target Property subject to the restrictions as stated in the agreements under the Target Company's existing loan contracts, lease contracts, joint operation contracts, direct sales contracts, property management contracts, and building management contracts;

(iv) the Target Property is subject to a mortgage in favour of Guangzhou Branch of Ping An Bank Co., Ltd dated 22 March 2022;

(v) the tenancy of a unit with a net lettable area of approximately 5,055 sq.m. located on Basement Level 1 of the Target Property was in the process of being terminated as at the Latest Practicable Date; and

(vi) apart from the aforesaid, the Target Property is free from mortgages and encumbrances.

6. As advised by the Target Company, the revenue of the parking space is not included in the revenue of the Target Company. It is obtained by the building management company who will bear the operating cost of the parking space. So the rent income from the car parking space has not been taken into account under the income approach in arriving at the market value of the Target Property.

7. Market Overview

Huizhou City locates at the southeast of Guangdong Province, China. It has a residential population of approximately 6.06 million within a total area of approximately 11,347 sq.km. as of 2021. The nominal Gross Domestic Product ("**GDP**") of Huizhou was approximately RMB497.7 billion in 2021 and RMB422.2 billion in 2020, rising by 17.9% year-on-year.

The Target Property is located at Jiangbei of Huicheng District, which is the central business district ("**CBD**") of Huizhou. Government offices, high-end residential buildings, 5-star hotels, landmark office buildings, shopping malls and community facilities such as gymnasiums, convention centers, museums and libraries are available within the area.

Jiangbei CBD accommodates most of the mid-to-high-end shopping malls in the city, of which Kaisa Plaza and Huamao Place are the major ones. Kaisa Plaza opened in 2013 with an approximate area of 120,000 sq.m. for commercial portion. Huamao Place, the Target Property, opened in 2011 and it is located at the center of Jiangbei CBD. There are 42 shopping centers in Huizhou as of end-2021, with a total commercial volume of approximately 2.7 million sq.m.. 14 new shopping malls are expected to launch in the coming five years.

The following is the reproduction of the text of a letter received from China Insights Consultancy, the Market Consultant, for the purpose of incorporation in this Circular.

March 2022

Seller Address

DB Trustees (Hong Kong) Limited
(as trustee of Spring Real Estate Investment Trust, the "**Trustee**")
60/F, International Commence Centre
1 Austin Road West
Kowloon, Hong Kong

Dear Sirs,

China Insights Consultancy is commissioned to conduct research and analysis of, and to produce a report on China's retail industry based on relevant economic data. The report commissioned has been prepared by China Insights Consultancy independent of the influence of the Seller and other interested parties. The MARKET RESEARCH REPORT will be used for the purpose of incorporation in the prospectus and the information will form part of the prospectus.

China Insights Consultancy's services include industry consulting, commercial due diligence, strategic consulting, etc. Its consulting team has been tracking the latest market trends in industrial, energy, chemicals, healthcare, education, consumer goods, transportation, agriculture, e-business, finance, etc., and has the most relevant and insightful market intelligence in these industries.

China Insights Consultancy conducts both primary and secondary research using various resources. Primary research involves interviewing key industry experts and leading industry participants. While secondary research involved analyzing data from various publicly available data sources, such as the National Bureau of Statistics of PRC, the International Monetary Fund, etc.

The market projections in the commissioned report are based on the following key assumptions:

1) The overall social, economic, and political environment in the PRC is expected to remain stable during the forecasted period;

2) China's economic development is likely to maintain a steady growth trend over the next decade;

3) There is no extreme force majeure or industry regulation in which the market may be affected dramatically or fundamentally.

All statistics are reliable and based on information available as of the date of this report. Other sources of information, including from government, industry associations, or market participants, may have provided some of the information on which the analysis is based. The information regarding the Seller has been obtained from the Seller's audited reports or management interviews.

Yours faithfully

China Insights Consultancy

Table of Content

EXECUTIVE SUMMARY

The key findings contained in this independent market research report are as follows:

Strong economic growth in the Greater Bay Area driven by consumption sector

The Guangdong-Hong Kong-Macao Greater Bay Area (the Greater Bay Area) is a city cluster comprises of the two Special Administrative Regions, Hong Kong, and Macao, and nine municipalities of Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing in Guangdong Province.

The Greater Bay Area's nominal GDP increased from RMB9.5 trillion in 2016 to RMB12.6 trillion in 2021, representing a CAGR of 5.9%. This number is forecasted to reach RMB17.1 trillion by 2026, representing a CAGR of 6.2% between 2021 and 2026.

The Chinese government is committed to optimizing the country's industrial structure in order to realize a more efficient and sustainable economic growth model. In the Greater Bay Area, the tertiary industry serves as an important driving force for China's nominal GDP. The proportion of the tertiary industry represented 66.0% of the Greater Bay Area's nominal GDP in 2021.

Increasing retail sales performance in the Greater Bay Area

The Greater Bay Area's total retail sales value for consumer goods grew from RMB3.0 trillion in 2016 to RMB3.9 trillion in 2021, representing a CAGR of 5.2% between 2016 and 2021. The repeated outbreaks of COVID-19 epidemic abroad have made it difficult for Chinese consumers to shop overseas, which resulted in the consumption return. In addition, with the gradual improvement of the COVID-19 epidemic, the economy of the whole China, especially the Greater Bay Area, has gradually recovered, driving the consumption enthusiasm of Chinese residents. In 2021, the total retail sales value of the Greater Bay Area increased by 11.8% compared with 2020, which is higher than the nominal GDP growth rate of 9.7%. It is expected that the Greater Bay Area's total retail sales value for consumer goods will grow to RMB5.6 trillion at a CAGR of 7.7% between 2021 and 2026.

The Greater Bay Area's rapidly expanding shopping mall market

As one of the major retail formats in the Greater Bay Area's retail industry, the Greater Bay Area's shopping mall industry has enjoyed strong growth momentum since 2016. In terms of total gross merchandise value (GMV), the Greater Bay Area's shopping mall market expanded from RMB392.9 billion in 2016 to RMB692.8 billion in 2021, representing a CAGR of 12.0%, mainly driven by the rapidly growing retail GFA of shopping malls as well as the steady growth of per capita disposable income of urban households in the Greater Bay Area. Shopping malls can provide customers with rich and diverse shopping experience by offering services such as catering, entertainment, lifestyle and family activities, thus the Greater Bay Area's shopping mall market is expected to continue growing to reach RMB1,259.9 billion by 2026, indicating a CAGR of 12.7% for the period from 2021 and 2026.

Huizhou's shopping mall industry outgrowing the Greater Bay Area

Between 2016 and 2021, Huizhou's nominal GDP increased from RMB336.0 billion to RMB497.7 billion, representing a CAGR of 8.2%. Looking forward, Huizhou's nominal GDP is projected to reach RMB707.1 billion by 2026, with a CAGR of 7.3% between 2021 and 2026, which is higher than that of the past five years as Huizhou will play a more important role in petrochemical energy, new materials, energy technological innovation and cross- border e-commerce in the Greater Bay Area.

Huizhou's total retail sales value for consumer goods grew at a CAGR of 6.9% from RMB141.7 billion in 2016 to RMB197.9 billion in 2021. As Huizhou's economy and residents' income levels continue to grow, it is expected that Huizhou's total retail sales value of consumer goods will reach RMB298.0 billion by 2026, representing a CAGR of 8.5% from 2021 to 2026.

The shopping mall industry in Huizhou City is estimated to increase rapidly, driven by high economic growth potential, ongoing urbanization process, consumption upgrading, expanding retail facilities, and continued government supports. The rapid growth of retail GFA of Huizhou's shopping malls has driven the GMV of shopping malls in Huizhou to increase from RMB11.5 billion in 2016 to RMB22.9 billion in 2021, with a CAGR of 14.7%. Despite its fast growth, Huizhou is still falling behind Hong Kong, Guangzhou and Shenzhen in terms of per capita retail GFA of shopping mall by the end of 2021. Moreover, the role of shopping malls will become increasingly important in the future as an offline retail channel due to consumers' demand for high-quality products and a one-stop shopping experience, and the GMV of shopping mall industry in Huizhou is expected to reach RMB42.8 billion in 2026.

Competitive landscape of Huizhou's shopping mall industry

Huizhou's shopping mall industry had 39 shopping malls in operation as of December 31, 2020. There are 42 shopping malls in operation owned by approximately 35 property developers in Huizhou as of December 31, 2021. Huizhou's shopping mall industry is not highly concentrated, with the top ten property developers accounting for 54.2% of the market in terms of retail gross floor area as of December 31, 2021. Property developers have plenty of opportunities to achieve a breakout in this kind of fast-growing environment.

Huizhou HuaMao Place's market position

Huizhou HuaMao Place is developed by Huizhou HuaMao Xingye Real Estate Development Co., Ltd. and managed by HuaMao Group, one of the leading modern service industry operation platforms in China. It has brought its rich experience in development and operation of high-end shopping malls from central cities nationwide, such as SKP Beijing and Beijing HuaMao Place, to Huizhou. Huizhou HuaMao Place has become the most high-end shopping mall in Huizhou since it commenced to operate in 2011.

Huizhou HuaMao Place ranked first in terms of gross merchandise value (GMV) in 2021. Huizhou HuaMao Place is the fourth largest shopping mall in Huizhou in terms of retail gross floor area, with 145 thousand square meters as of December 31, 2021.

Huizhou HuaMao Place is located in the central part of Huicheng District, which has been the political, economic and cultural center of Huizhou City since the city government moved there 20 years ago. Moreover, Jiangbei commercial area, where Huizhou HuaMao Place is located, is one of the three core commercial areas in Huizhou, and it has developed at a relatively high pace compared to other mature commercial areas.

In addition, Huizhou HuaMao Place has first tier international brands such as Estee Lauder, Lancôme, Hugo Boss, and BOSE, which are rarely seen in shopping malls of Huizhou City. Convenient transportation and one-stop shopping experience enable Huizhou HuaMao Place could attract middle and upper-class residents, white-collar workers, and young groups who prefer sports and fashion brands from the entire Huizhou City to come to the mall.

Moreover, China's real estate industry has been affected by the governmental policy in the past few years, and the capital pressure of developers has indirectly led to a decline in the construction speed and operation quality of commercial properties. For example, some shopping malls in Huizhou City cannot gain support from their developer groups and have to reduce subsidies for tenants and marketing activities for customers. On the contrary, through a number of marketing activities and HuaMao Group's rich experience in commercial property operation, Huizhou HuaMao Place has achieved a relatively higher year-of-year growth rate in 2021 compared to the shopping mall industry of Huizhou.

Conclusion

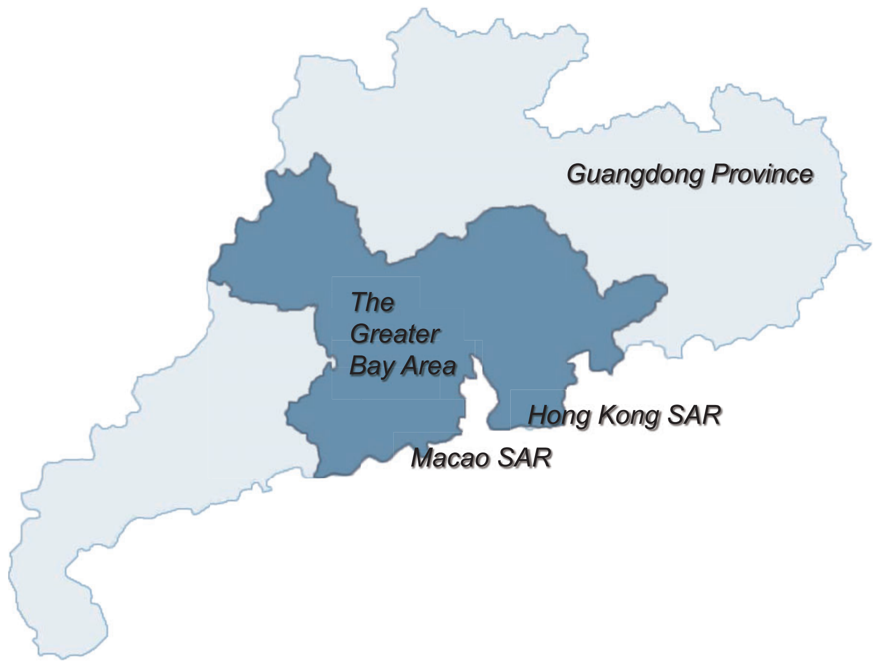
The Greater Bay Area's economy and retail industry are expected to experience stable growth in the next five years. The shopping mall industry in the Greater Bay Area as well as in Huizhou City is estimated to increase rapidly, driven by the economy growth, ongoing urbanization process, consumption upgrading,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

1. MACROECONOMIC OVERVIEW OF THE GREATER BAY AREA

1.1 Greater Bay Area Overview

The Guangdong-Hong Kong-Macao Greater Bay Area (Greater Bay Area) is a city cluster comprising China's two Special Administrative Regions, ie., Hong Kong, and Macao, and the nine municipalities in Guangdong Province including Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing. With a total area of 55,910 square kilometers and a total population of about 87 million at the end of 2021, the Greater Bay Area is one of the key regions with the highest degree of openness and the strongest economic vitality in China, having an important strategic position in overall national development. The "Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area" issued in February 2019 clarified five strategic goals for the Greater Bay Area, namely, to become a vibrant world-class city cluster, an international science and technology innovation center with global influence, an important base of support for the "Belt and Road", a demonstration zone for in-depth cooperation between mainland China together with Hong Kong and Macao, and a high-quality environment for living, working, and traveling.

Map of the Greater Bay Area



Source: China Insights Consultancy (January 2022)

The development of the Greater Bay Area has taken more than 20 years from initial academic discussions to local policy consideration, all the way to the proposal of a national strategy. Its construction represents not only an innovative attempt to promote the formation of a new pattern of comprehensive opening-up in the new era, but also a renewed practice to promote the continued development of "one country, two systems".

Historical development of the Greater Bay Area

Year	Policies
2007	The development concept of deepened cooperation between Hong Kong and Shenzhen was first proposed by academic scholars.
2008	In the "Outline of Reform and Development Plan in the Pearl River Delta Region", a key action plan for the development of the bay area was proposed.
2009	In the "Planning Study on the Coordinated Development of the Greater Pearl River Delta Townships", the bay area was included in a spatial coordination plan.
2010	In the "Framework Agreement on Cooperation between Macao and Hong Kong", an action plan for the construction of a livable bay area around the Pearl River Delta was proposed.
2014	In the "Report on the Work of the Shenzhen Government", the establishment of the bay area economy was put forward for the first time.
2015	The publication of an action plan entitled "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road" placed the Guangdong-Hong Kong-Macao Greater Bay Area at the country level.
2016	"China's 13th Five-year Plan" clarified the development objectives for the Greater Bay Area: to develop the region into a first-class bay area and world-class city cluster.
2017	The "Report on the Work of the Government" stated that the government would draw up a plan for the development of a city cluster in the Greater Bay Area. The "Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Greater Bay Area" was issued in July, 2017.
2019	The newly issued "Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area" aimed to fully leverage the composite advantages of Guangdong, Hong Kong and Macao into building a first-class bay area and world-class city cluster.

Year	Policies
2021	"China's 14th Five-year Plan and long-term target program for 2035" aimed to actively yet prudently carry forward the construction of the Greater Bay Area by strengthening the collaborative development of industry-university research in the Greater Bay Area, improving the "two corridors and two points" framework system for innovation in science and technology, promoting the construction of a comprehensive national science center, and facilitating the cross-border flow of innovation elements.
2021.09	"General Construction Plan for Hengqin Guangdong-Macao In-depth Cooperation Zone" details measures in the second, third, fourth and fifth parts, with a focus on developing moderate diversified new industries to promote the economic development of Macao, building a new home to facilitate the life and working of Macao residents, establishing a new openness system at a high level integrated with Macao, and improving the new Guangdong-Macao system of joint negotiating, constructing, managing and sharing.
2021.12	"Guangdong Oceanic Economic Development during the 14th Five-Year Plan Period" issued by the People's Government of Guangdong Province proposes to build 10 high-quality marine economy development demonstration zones in four categories: high-end marine industrial agglomeration, marine technology innovation leadership, marine economic cooperation in the Guangdong-Hong Kong-Macao Greater Bay Area, and marine ecological civilization construction, and to build 5 oceanic industrial clusters with a value of RMB100 billion or more.
2021.12	"The outline of the three-dimensional Transportation Network Development Plan" issued by the People's Government of Guangdong Province proposes that the expenditures will strengthen the connection between rail transit and airport planning in Guangzhou, Shenzhen and other cities, build a cluster of passenger hubs in the Guangdong-Hong Kong-Macao Greater Bay Area with international influence jointly with Hong Kong and Macao, and improve the internal transportation network in the Guangdong-Hong Kong-Macao Greater Bay Area.

Source: China Insights Consultancy (January 2022)

With the Chinese government's support, the Greater Bay Area has gradually evolved from only a basic concept more than ten years ago into a promising national strategic region, a region that was conceptualized to foster China's economic growth by developing technology and innovation, improving infrastructure, and increasing inter-city financial transactions.

1.2 Economic Outlook and Development of Infrastructure in the Greater Bay Area

1.2.1 Economic Outlook of the Greater Bay Area

To further enhance the supporting and leading role of the Greater Bay Area in China's economic development and opening-up, while supporting the integration of Hong Kong and Macao into China's overall development, the "Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area" issued in 2019 pointed out that by 2022 the comprehensive strength of the Guangdong, Hong Kong and Macao bay area would be significantly enhanced; the cooperation between Guangdong, Hong Kong and Macao becoming more in-depth and extensive; the endogenous development power of the area being further enhanced; while achieving an international first-class bay area and world- class urban agglomeration framework with a robust development vitality; generating outstanding innovation capabilities, an optimized industrial structure, a smooth flow of key inputs and a beautiful ecological environment. Furthermore, by 2035, the Greater Bay Area will form an economic system and development mode with innovation as the main support.

During this process, the Plan pointed out that it was necessary to support Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen, Zhaoqing and other cities to give full play to their own advantages, deepen reform and innovation, enhance the comprehensive strength of cities, and form important node cities with distinctive characteristics, complementary functions and competitiveness. It also mentioned the paramount importance of enhancing the coordination of development, strengthening interactions and cooperation with central cities, driving the development of surrounding characteristic towns, and jointly improving the quality of urban agglomeration development. With the deepened division, specialization and optimization of industries within the region, the economy of the Greater Bay Area is expected to develop more efficiently. The living standards and purchasing power of residents in the Greater Bay Area are expected to continue increasing steadily as well, showing a vast growth potential for the retail industry.

1.2.2 Infrastructure of the Greater Bay Area

Infrastructural connectivity is key to in-depth integration within the Greater Bay Area. Many infrastructures construction plans have been implemented by the government aimed at building an efficient and convenient modern integrated transportation system. The construction of a one-hour living circle among major cities in the Greater Bay Area will stimulate the mobility of the local population and hence generate great opportunities for commercial real estate.

Contents of the development plan for the Guangdong-Hong Kong-Macao Greater Bay Area (粵港澳大灣區發展規劃綱要)

Spatial Layout 空間布局	• To adhere to the concepts of pole driven, axis belt support, and radial circulation • To promote the rational division of labor and functional complementarity of large and medium-sized cities • To further improve the coordination of regional development • To promote the integration of urban and rural development • To build a scientific, intensive and efficient development pattern for the Greater Bay Area
Developing an International Innovation and Technology Hub 建設國際科技創新中心	• To develop a "Guangzhou-Shenzhen-Hong Kong-Macao" innovation and technology corridor • To develop a Greater Bay Area big data center • To facilitate the cross-boundary and regional flow of innovation elements

Expediting Infrastructural Connectivity 加快基礎設施互聯互通

- To build a modern and comprehensive transport system
  - To enhance the international competitiveness of the Pearl River Delta port cluster
  - To develop a world-class airport cluster
  - To ensure the smooth flow of comprehensive external transport links
  - To build a rapid transport network for reducing travelling time among major cities within the region to one hour or less
- To enhance and upgrade information infrastructure
  - To conduct comprehensive planning for the next generation of network-based IPv6
  - To facilitate reductions in long-distance and roaming charges for mobile phones, launching a feasibility study on removing long-distance and roaming charges for mobile phones

Building a Globally Competitive Modern Industrial System 構建具有國際競爭力的現代產業體系	• Advanced manufacturing industry • To promote the integration of the Internet, big data and artificial intelligence, and pursue the smart development of the manufacturing industry, focusing on robotics, high-speed and high-precision processing equipment as well as intelligent equipment sets • Strategic emerging industries • To pursue the development of new pillar industries including new-generation information technology, biotechnology, high-end equipment manufacturing and new materials, while nurturing major industry projects such as 5G, biopharmaceuticals, genetic testing, modern Chinese medicine, 3D printing and applications for the BeiDou satellite navigation system • Modern service industry • To expand the scale and scope of the cross-boundary use of RMB in the Greater Bay Area • To support Guangzhou in the establishment of an innovative futures exchange that takes carbon emissions as its first trading commodity • To develop cross-boundary insurance products and enhance the Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and Bond Connect

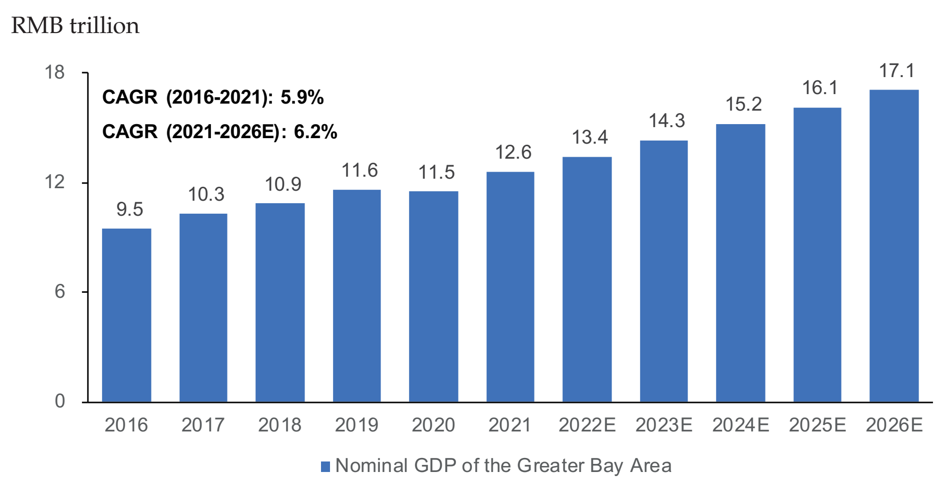
Source: China Insights Consultancy (January 2022)

1.3 An Overview of the Macroeconomic Environment in the Greater Bay Area

1.3.1 Macroeconomic Indicators in the Greater Bay Area

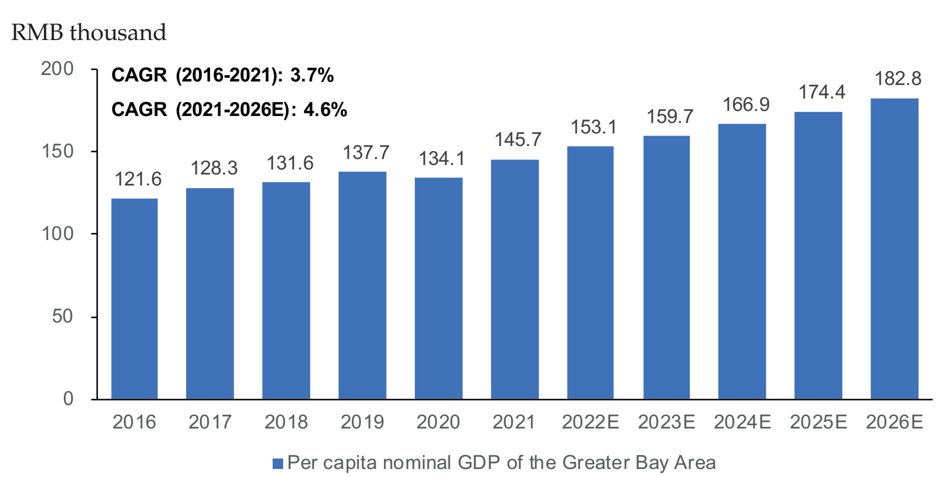
The Greater Bay Area has witnessed strong economic growth. Between 2016 and 2021, the Greater Bay Area's nominal GDP increased from RMB9.5 trillion to RMB12.6 trillion, representing a CAGR of 5.9% over the same period. Its GDP is expected to continue to grow at a CAGR of 6.2% from 2021 to 2026. Furthermore, the per capita GDP of the Greater Bay Area reached RMB145.7 thousand in 2021 while that of mainland China was only RMB81.0 thousand.

Nominal GDP, the Greater Bay Area, 2016-2026E



Source: NBSC, China Insights Consultancy (January 2022)

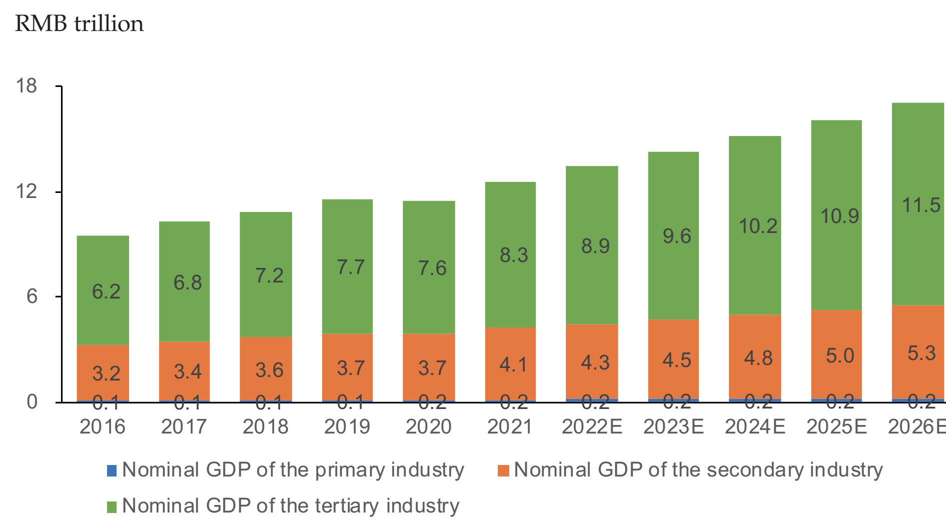
Per capita nominal GDP, the Greater Bay Area, 2016-2026E



Source: NBSC, China Insights Consultancy (January 2022)

The Chinese government is committed to optimizing the country's industrial structure in order to realize a more efficient and sustainable economic growth model. In the Greater Bay Area, the tertiary industry serves as an important driving force for nominal GDP. The overall size of the tertiary industry represented 66.0% of the Greater Bay Area's nominal GDP in 2021, while the tertiary industry account for 53.3% of mainland China's nominal GDP in 2021.

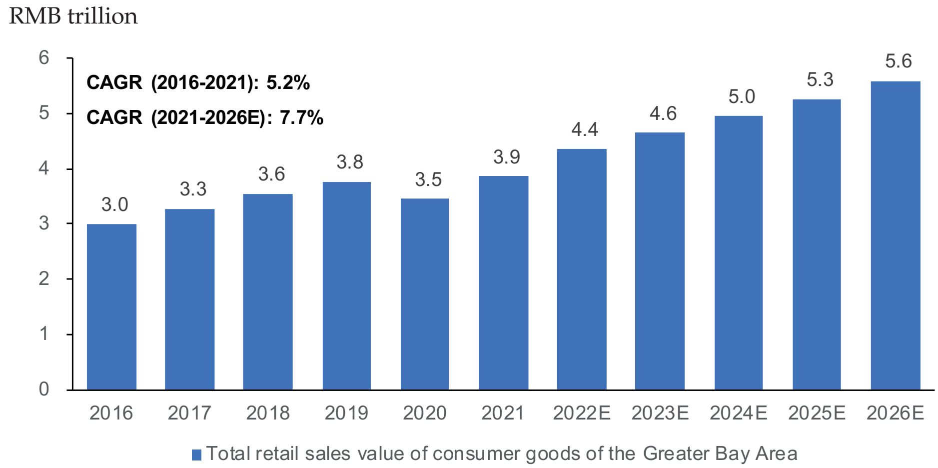
Nominal GDP, breakdown by industry, the Greater Bay Area, 2016-2026E



Source: NBSC, China Insights Consultancy (January 2022)

As a major economic engine, the Greater Bay Area contributed 10.8% to the sum of mainland China, Hong Kong and Macao's GDP in 2021; Given the continuous net residential population inflow and stable growth in its GDP, the retail industry of the Greater Bay Area outpaces Beijing in the past five years and is expected to maintain its rapid growth, with a CAGR of 7.7% in terms of total retail sales value of consumer goods over the next five years.

Total retail sales value of consumer goods, the Greater Bay Area, 2016-2026E

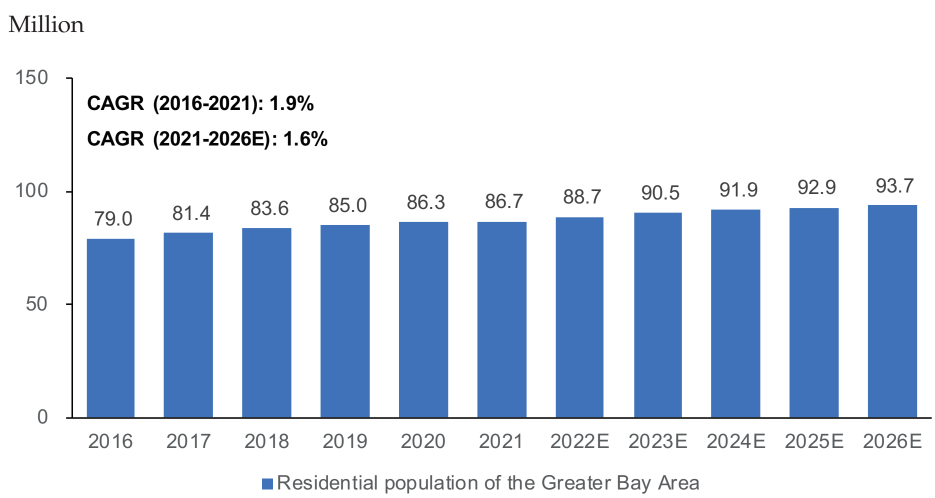


Source: NBSC, China Insights Consultancy (January 2022)

1.3.2 Demographic Information of the Greater Bay Area

The Greater Bay Area is a populous area in China. During the period from 2016 to 2021, the Greater Bay Area's total population grew from 79.0 million to 86.7 million, representing a CAGR of 1.9%. It is projected that by 2026, the Greater Bay Area's population will top 93.7 million, with a CAGR of 1.6% during the period from 2021 to 2026. The residential population in the Greater Bay Area is expected to grow at a CAGR of 1.6% between 2021 and 2026 faster than that of China, indicating a consistent net population inflow.

Residential population, the Greater Bay Area, 2016-2026E



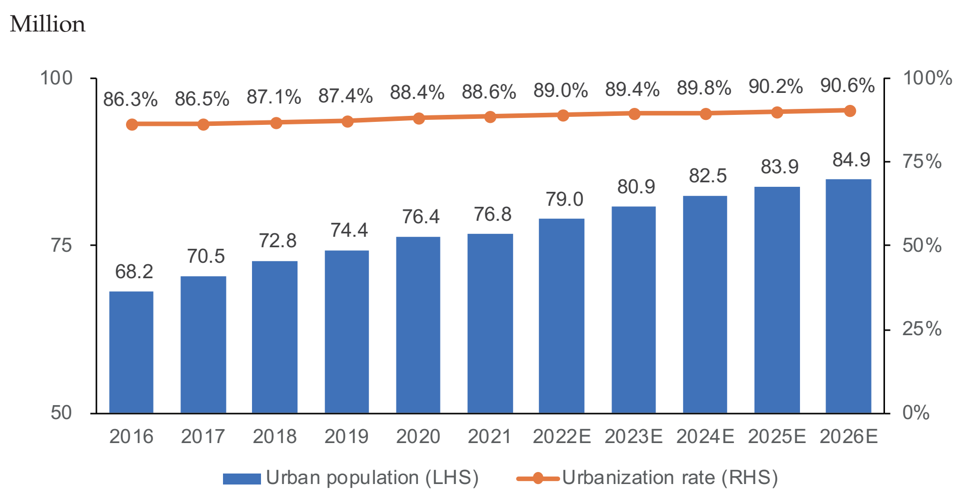
Source: NBSC, China Insights Consultancy (January 2022)

Between 2016 and 2021, the Greater Bay Area's urban population increased from 68.2 million to 76.8 million, representing a CAGR of 2.4% over the same period. During that period, the Greater Bay Area's urbanization rate meanwhile increased from 86.3% to 88.6%.

Local governments in the Greater Bay Area have remained committed to promoting urbanization. In 2021, the Greater Bay Area's urbanization rate rose to 88.6% with a total urban population of 76.8 million. During the next five years, the Greater Bay Area's urbanization rate is projected to maintain a steady growth trend. It is expected that by 2026, there will be around 84.9 million residents living in urban areas in the Greater Bay Area, representing an urbanization rate of 90.6% during that same year.

Urbanization is an important driving force for the Greater Bay Area's economy. With the development of non-agricultural industries and an increase in overall productivity, a growing number of people have sought to leave rural areas and seek out opportunities to improve their living standards, with urban areas offering better public facilities along with greater prospects in terms of jobs and education. Furthermore, an increasingly larger number of rural villages are being upgraded into modern towns in order to improve people's living environments. The ongoing urbanization process in the Greater Bay Area has brought about significant changes in lifestyles, consumption patterns and consumers' habits. Residents who have moved into urban areas are willing to increase their daily expenditures, driving demand in the consumer goods industry and the continued development of retail facilities.

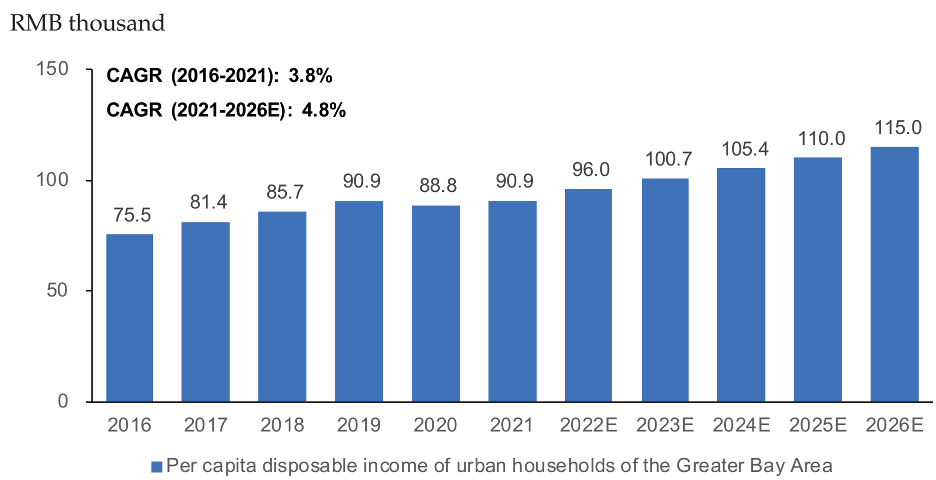
Urban population and urbanization rate, the Greater Bay Area, 2016-2026E



Source: NBSC, IMF, China Insights Consultancy (January 2022)

Residents in the Greater Bay Area are benefiting from the continual expansion of their local economy. Between 2016 and 2021, urban households' per capita disposable income in the Greater Bay Area increased from RMB75.5 thousand to RMB90.9 thousand, representing a CAGR of 3.8%. Looking forward, urban households' per capita disposable income in the Greater Bay Area is projected to reach RMB115.0 thousand by 2026, representing a CAGR of 4.8% during the period from 2021 to 2026. An increase in per capita disposable income of urban households necessarily suggests a concomitant increase in their consumption power and a greater willingness to spend among consumers.

Per capita disposable income of urban households, the Greater Bay Area, 2016-2026E



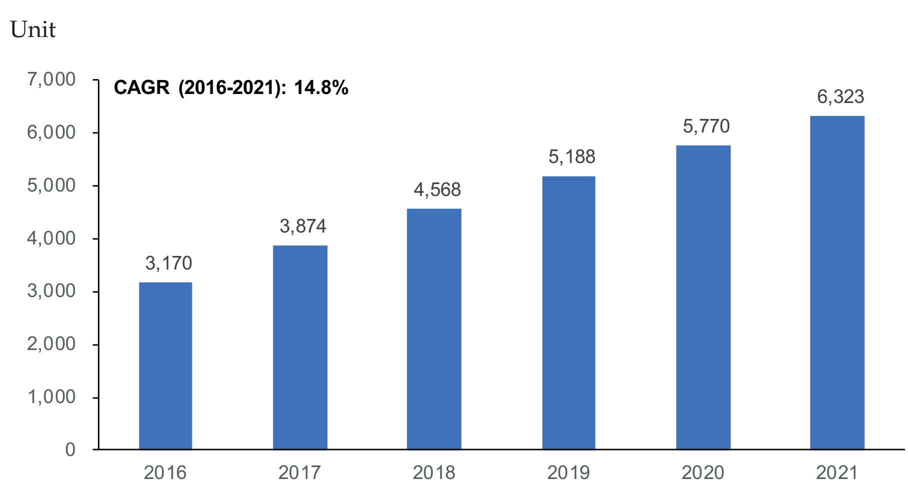
Source: NBSC, China Insights Consultancy (January 2022)

1.4 Analysis of Shopping Mall Industry

1.4.1 An Overview of Shopping Malls in China

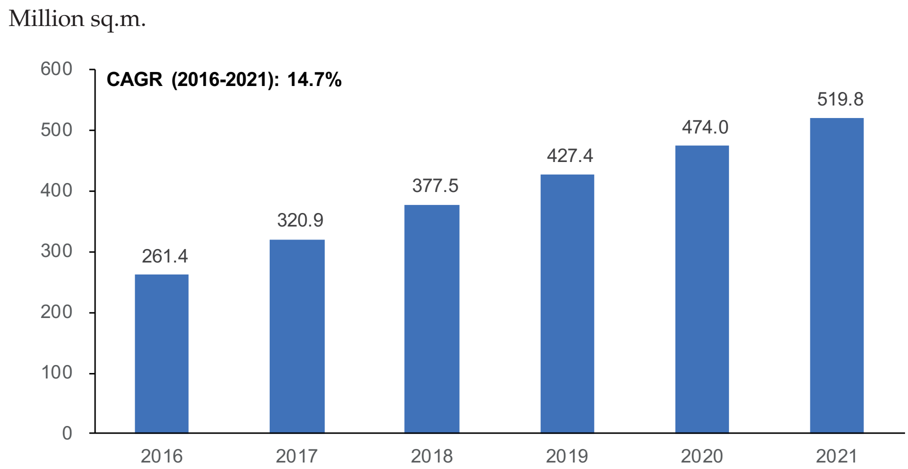
The shopping mall industry in China has undergone a period of continued expansion during the past five years. As new shopping malls open each year, both the number and the retail gross floor area of shopping malls in China increased at a rapid pace, with respective CAGRs close to 15% between 2016 and 2021. The number of shopping malls has increased from 3,170 in 2016 to 6,323 in 2021, while the retail gross floor area also increased at a similar growth pace, expanding from 261.4 million sq.m. to 519.8 million sq.m. in 2021.

Year-end number of shopping malls, China, 2016-2021



Source: China Insights Consultancy (January 2022)

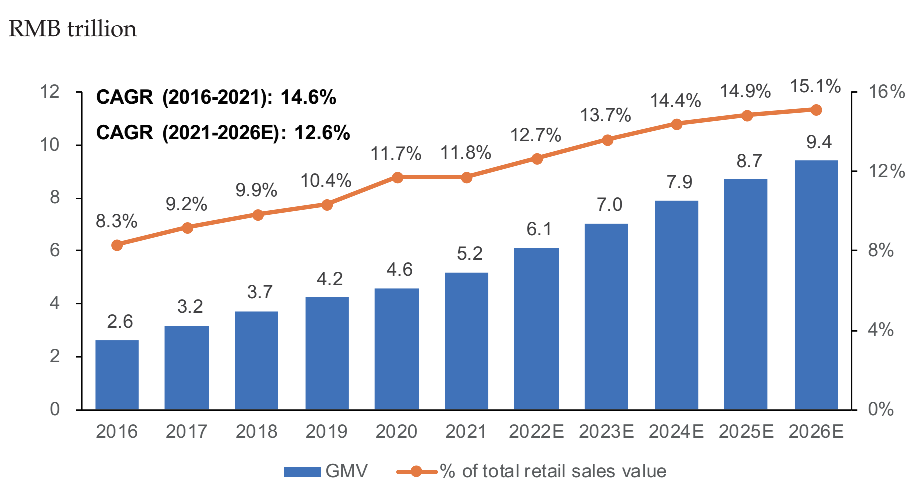
Year-end retail gross floor area of shopping malls, China, 2016-2021



Source: China Insights Consultancy (January 2022)

The GMV of shopping malls also increased over the past five years, at a sustainable CAGR of 14.6% between 2016 and 2021. As the shopping mall gradually becoming a more important offline retail channel supported by diversified goods and services, the GMV of shopping malls in China is expected to account for 15.1% of total retail sales value in China by 2026, reaching RMB9.4 trillion by that year.

GMV of shopping malls and GMV as a percentage of total retail sales value of consumer goods, China, 2016-2026E



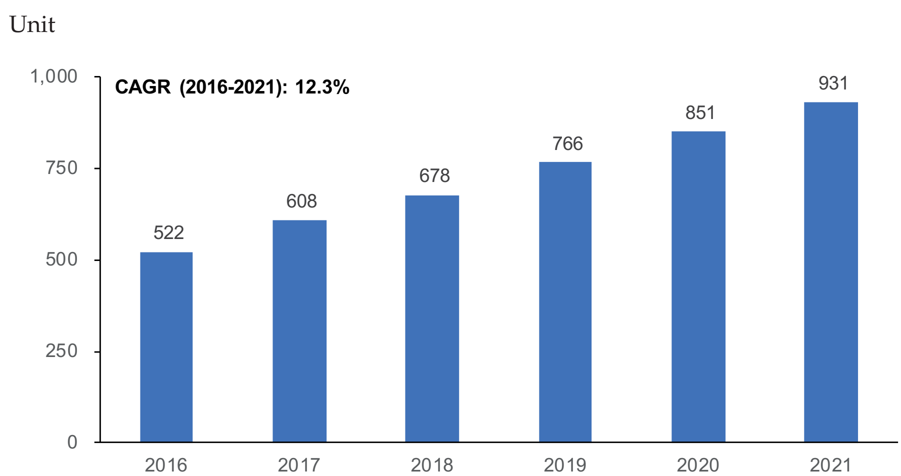
Source: China Insights Consultancy (January 2022)

1.4.2 An Overview of Shopping Malls in the Greater Bay Area

The shopping mall market in the Greater Bay Area has experienced moderate growth during the past five years in terms of the total number, area and GMV of shopping malls. The number of shopping malls in the Greater Bay Area increased from 522 in 2016 to 931 in 2021, with a CAGR of 12.3% between 2016 and 2021. Considering the number of shopping malls and commercial buildings under construction, the number of shopping malls in the Greater Bay Area is expected to further increase in the near future.

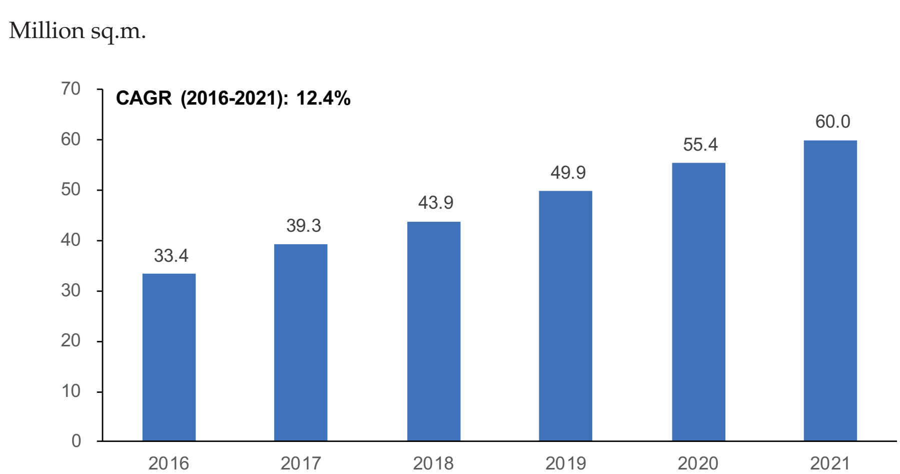
The year-end retail gross floor area of shopping malls in the Greater Bay Area also increased from 33.4 million sq.m. in 2016 to 60.0 million sq.m. in 2021, representing a CAGR of 12.4% between 2016 and 2021.

Year-end number of shopping malls, the Greater Bay Area, 2016-2021



Source: China Insights Consultancy (January 2022)

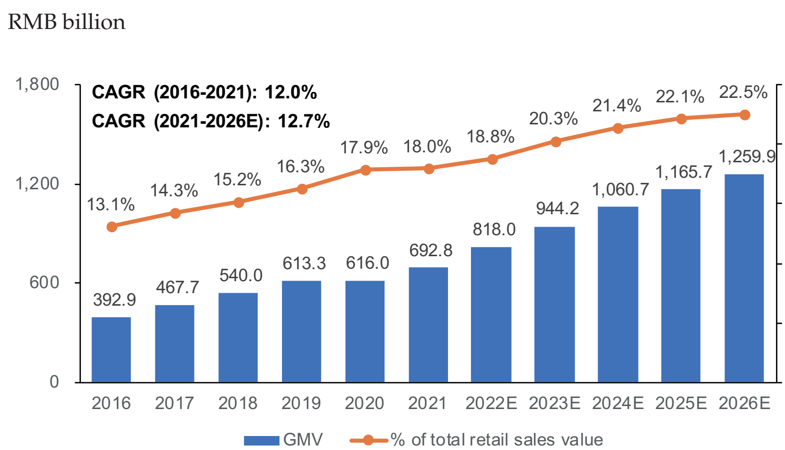
Year-end retail gross floor area of shopping malls, the Greater Bay Area, 2016-2021



Source: China Insights Consultancy (January 2022)

In terms of total retail sales, the GMV of shopping malls in the Greater Bay Area reached RMB692.8 billion in 2021, representing a CAGR of 12.0% between 2016 and 2021. As new shopping malls are planned to be set up in the following years, the GMV of shopping malls in the Greater Bay Area is expected to continue to increase at a CAGR of 12.7% for the next five years, reaching RMB1,259.9 billion by 2026.

GMV of shopping malls and GMV as a percentage of the total retail sales value of consumer goods, the Greater Bay Area, 2016-2026E



Source: China Insights Consultancy (January 2022)

1.5 Strategic Positioning of Cities in the Greater Bay Area

With a strengthened integrated transport network in the Greater Bay Area in the near future, 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.

Cities	Positioning	Future infrastructure plan
Guangzhou	National Central City & Integrated Gateway City 國家中心城市和綜合性門戶城市	Guangzhou Second International Airport 廣州第二機場
Shenzhen	Special Economic Zone, National Economic City, National Innovation City & International Modern City 經濟特區、全國性經濟中心城市、國家創新型城和現代化國際化城市	Shenzhen-Maoming Railway 深茂鐵路 Shenzhen-Huizhou Intercity Railway 深惠城際軌道交通
Huizhou	National Cross-border E-commerce Comprehensive Pilot Zone City, World-class Energy Technology Innovation Centre & Modern City in the Greater Bay Area 全國跨境電商綜合試驗區城市、國際一流灣區能源科技創新中心和粵港澳大灣區現代化城市	Huizhou North Station of the Jiangxi-Shenzhen Railway 贛深鐵路惠州北站 Huizhou section of the Guangzhou-Shantou Railway 廣汕鐵路惠州段 Xiaojinkou Huizhou north section of the Dongguan-Huizhou Intercity Railway 莞惠城際小金口至惠州北段 Hong Kong-Shenzhen-Huizhou-Shanwei maritime tourism 香港-深圳-惠州-汕尾海上旅遊航線

Cities	Positioning	Future infrastructure plan
Zhongshan	Regional Transportation Hub, Technology & Innovation Centre on the West Bank of the Pearl River 珠江西岸區域性綜合交通樞紐和區域科技創新研發中心	Shenzhen-Zhongshan Bridge 深中通道
Zhuhai	Bridgehead & Innovation Highland 粵港澳大灣區創新高地和橋頭堡	Shenzhen-Zhuhai Bridge 深珠通道
Foshan	National Manufacturing Innovation Centre 國家製造業創新中心	Pearl River Delta International Airport 珠三角新幹線機場 Guangzhou-Foshan-Jiangmen-Zhuhai Circular 廣佛江珠城際輕軌 Foshan-Dongguan Intercity Railways 佛莞城際軌道交通
Dongguan	International Manufacturing Centre 國際製造中心	Lotus Hill Cross-river Channel 蓮花山過江通道 Nansha-Dongguan Cross-river Channel 南沙至東莞過江通道

Cities	Positioning	Future infrastructure plan
Zhaoqing	Famous Historical and Cultural City of China 中國歷史文化名城	Zhuhai-Zhaoqing High-speed Railway 珠肇高鐵 Zhaoqing-Shunde-Nansha Intercity Railway 肇順南城際軌道交通
Jiangmen	Important node city in the Greater Bay Area & National Advanced Manufacturing Centre 粵港澳大灣區重要節點城市、國家級先進製造業基地	Nansha Port Railway 南沙港鐵路 Shenzhen-Jiangmen Railway 深圳至江門鐵路
Hong Kong	World-class Finance, Trade and Logistics Centre 全球金融、貿易及物流中心	Shatin to Central Link 沙田至中環線
Macao	World-class Tourism and Leisure Centre & Commerce and Trade Cooperation Service Platform between China and Lusophone Countries 世界旅遊休閑中心、中國與葡語國家商貿合作服務平臺	Regional business aircraft service 澳門機場發展區域公務機業務

Source: China Insights Consultancy (January 2022)

Key infrastructure map of cities in the Greater Bay Area

Source: China Insights Consultancy (January 2022)

2. MACROECONOMIC ANALYSIS OF HUIZHOU

2.1 Introduction to Huizhou

Huizhou, a prefecture level city with a residential population of 6.06 million in Guangdong Province, is located on the East Bank of the Greater Bay Area. In terms of geographical location, Huizhou is located in the core area of the Pearl River Delta economic belt, and it is the gateway to eastern Guangdong Province, connecting the Pearl River Delta city group, eastern and northern Guangdong Province. Huizhou is also the closest city in mainland China to Hong Kong apart from Shenzhen. With a total area of 11,347 square kilometers, Huizhou is rich in natural, energy and tourism resources. Relying on its superior geographical location and rich resources, Huizhou has attracted many high-quality enterprises to set up operations and invest in the city. Especially as the back yard of Dongguan and Shenzhen, Huizhou has undertaken many industrial spillover transfers to promote the economic and population development of the city.

Location of Huizhou

Source: China Insights Consultancy (January 2022)

As one of the main cities in the Greater Bay Area, Huizhou's transportation positioning is to become a core hub in the Greater Bay Area. In recent years, the rapid development of urban light rail, high-speed rail, and urban public transportation systems have led to continuous improvements. Huizhou is the only city with nine high-speed rail stations in Guangdong Province, connecting Jiangxi-Shenzhen, Guangzhou-Shantou and Xiamen-Shenzhen and Jiangxi-Shenzhen high-speed rail. The construction of light rail connecting Dongguan and Shenzhen is also quickly progressing. The annual passenger throughput of Huizhou airport for 2021 has exceeded 2 million, with a year-on-year increase of 1.2%, and the mail throughput reached 8,556.4 tons with 18,749 take-off and landing sorties. Besides, the navigation points covered 20 provincial capital hub airports as well as major city airports in East China, Southwest China and Central South China, with a series of new routes such as Lanzhou, Wanzhou, Mianyang, and Sipsongpanna. Since the opening of the airport in 2015, the growth rate in the throughput of the airport has ranked first in Guangdong and top 20 in China, which has expanded the scope of activities of citizens and greatly improved the service radius of the commercial areas, providing basic conditions for the sustained development of shopping centers.

Key infrastructure map of Huizhou

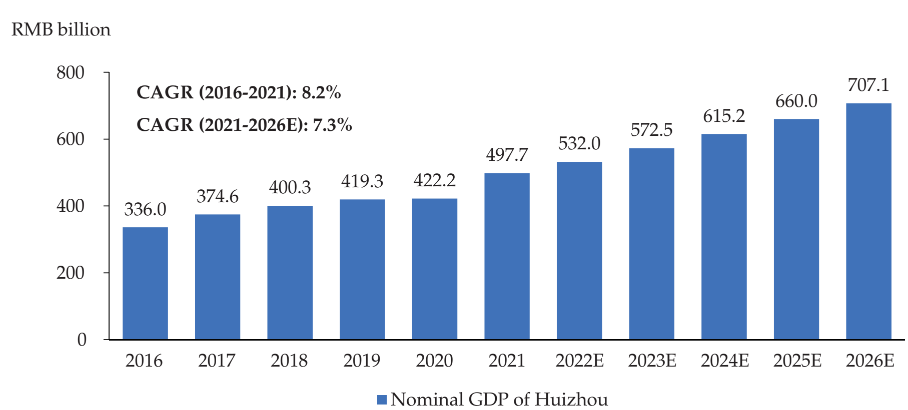
Source: China Insights Consultancy (January 2022)

In the future, Huizhou aims to realize socialist modernization, ensuring its economic strength and development quality rank among the first-class cities in China by 2035. Furthermore, with a strengthened and integrated transport network in the Greater Bay Area in the near future, Huizhou will play a more important role in the petrochemical, energy and new materials industries, as well as driving technological innovation in energy and cross-border e-commerce in the Greater Bay Area.

2.2 Macroeconomics of Huizhou

Between 2016 and 2021, Huizhou's nominal GDP increased from RMB336.0 billion to RMB497.7 billion, representing a CAGR of 8.2%. Looking forward, Huizhou's nominal GDP is projected to reach RMB707.1 billion by 2026, with a CAGR of 7.3% between 2021 and 2026.

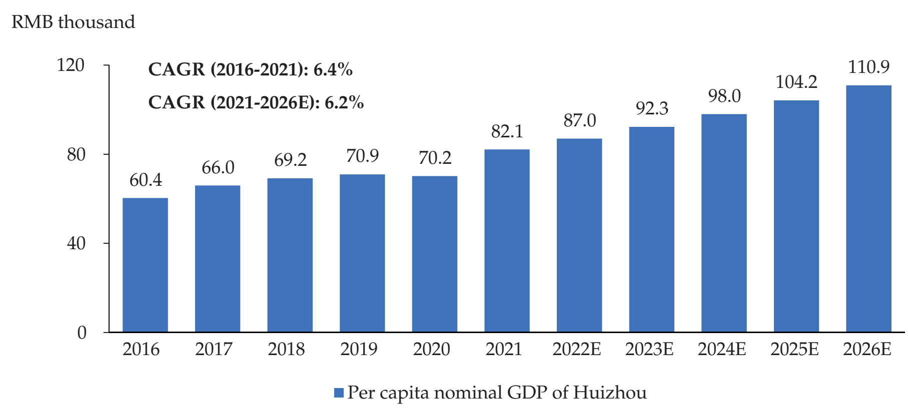
Nominal GDP, Huizhou, 2016-2026E



Source: NBSC, China Insights Consultancy (January 2022)

Along with the fast development of Huizhou, the city's per capita GDP also experienced a high period of growth between 2016 and 2021. During this period, the per capita GDP of Huizhou grew from RMB60.4 thousand to RMB82.1 thousand, representing a CAGR of 6.4%. Looking forward, Huizhou's GDP per capita is expected to reach RMB110.9 thousand by 2026, representing a CAGR of 6.2% during the period between 2021 and 2026.

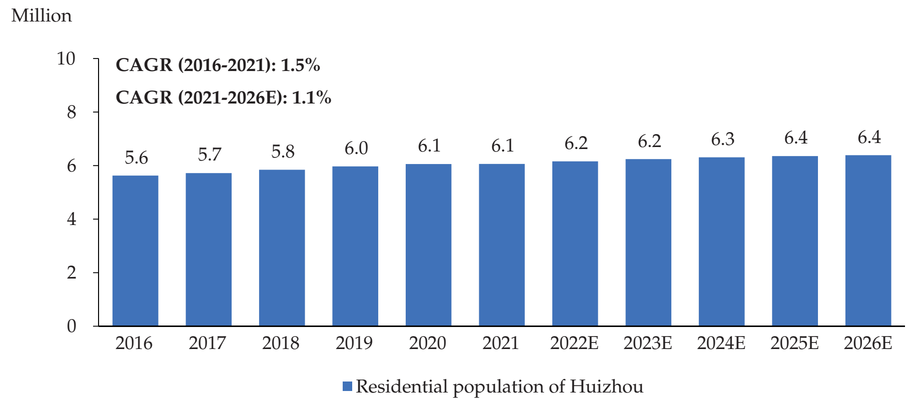
Per capita nominal GDP, Huizhou, 2016-2026E



Source: Bureau of Statistics of Huizhou, China Insights Consultancy (January 2022)

Huizhou exhibited a higher growth rate in its residential population compared to the national average level during the period between 2016 and 2021. The economic development of Huizhou driven by its industrial system development, continuous improvement of transportation connecting surrounding cities, immigrants friendly Huizhou's Household Registration Policy, and its superior geographical location are the main factors that attract population inflow and thus, drive Huizhou's residential population growth. During the period from 2016 to 2021, Huizhou's total population grew from 5.6 million to 6.1 million, representing a CAGR of 1.5%. It is projected that by 2026, Huizhou's population will top 6.4 million, with a CAGR of 1.1% during the period from 2021 to 2026.

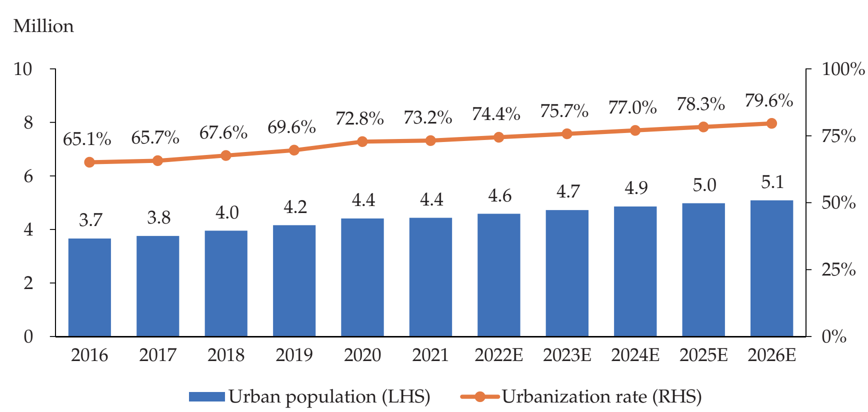
Residential population, Huizhou, 2016-2026E



Source: Bureau of Statistics of Huizhou, China Insights Consultancy (January 2022)

Compared to China's urbanization rate, Huizhou is very high above the national average. Huizhou's urban population totaled 4.4 million in 2021, accounting for 73.2% of the total residential population. This compares with an urban population of 3.7 million in 2016, which represented 65.1% of the city's total residential population. Between 2016 and 2021, Huizhou's urban population increased by 0.7 million. Huizhou's urban population is expected to grow to 5.1 million by 2026 (rising from 4.4 million in 2021), meanwhile reaching an urbanization rate of 79.6%.

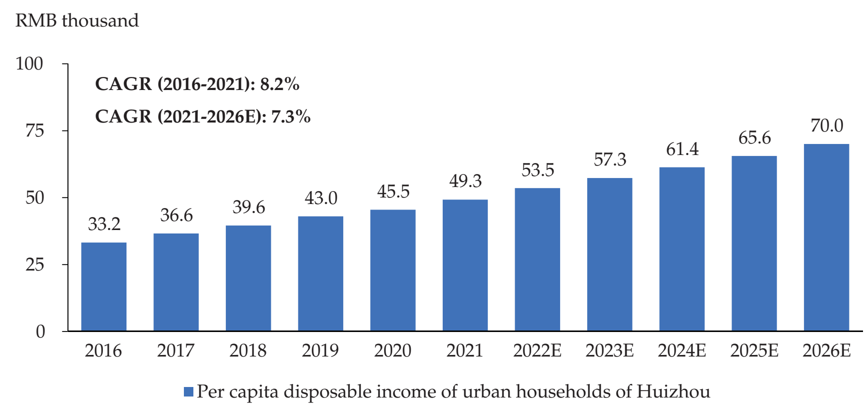
Urban population and urbanization rate, Huizhou, 2016-2026E



Source: Bureau of Statistics of Huizhou, China Insights Consultancy (January 2022)

Huizhou's per capita disposable income of urban households maintained a steady growth trend between 2016 and 2021. In 2016, Huizhou's per capita disposable income of urban households was RMB33.2 thousand, while after five years as of 2021, the city's per capita disposable income of urban households had grown to RMB49.3 thousand. During the period 2021 to 2026, Huizhou's per capita disposable income of urban households is projected to have a CAGR of 7.3%, reaching RMB70.0 thousand by 2026. With the steady growth of Huizhou's economy and per capita disposable income of urban households, the consumption power of Huizhou's residential population is expected to continue to increase in the next five years.

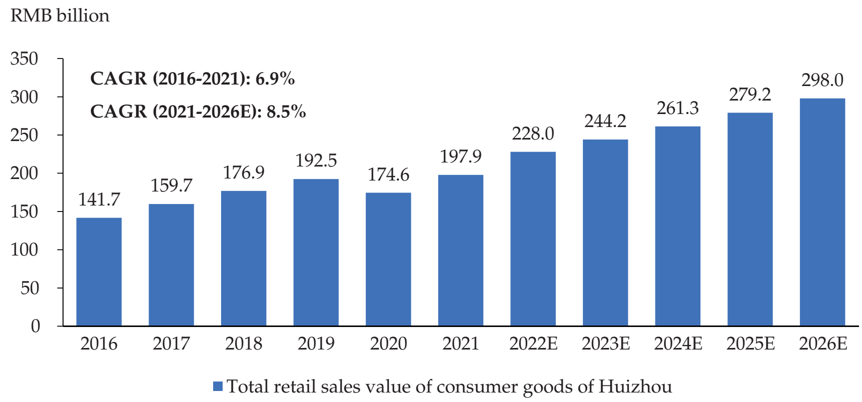
Per capita disposable income of urban households, Huizhou, 2016-2026E



Source: Bureau of Statistics of Huizhou, China Insights Consultancy (January 2022)

Huizhou's total retail sales value of consumer goods has experienced rapid growth during the past few years (2016-2021) in line with the rapidly growing GDP and income levels of the city. Compared to Guangzhou, Huizhou's total retail sales increased at a much faster pace. Specifically, Huizhou's total retail sales value of consumer goods increased from approximately RMB141.7 billion in 2016 to RMB197.9 billion in 2021, representing a CAGR of 6.9%, having been temporarily affected by the COVID-19 pandemic in 2020 and its occasional outbreak in 2021. As Huizhou's economy and residents' income levels continue to grow in the future, it is expected that Huizhou's total retail sales value of consumer goods will reach RMB298.0 billion by 2026, representing a CAGR of 8.5% between 2021 and 2026.

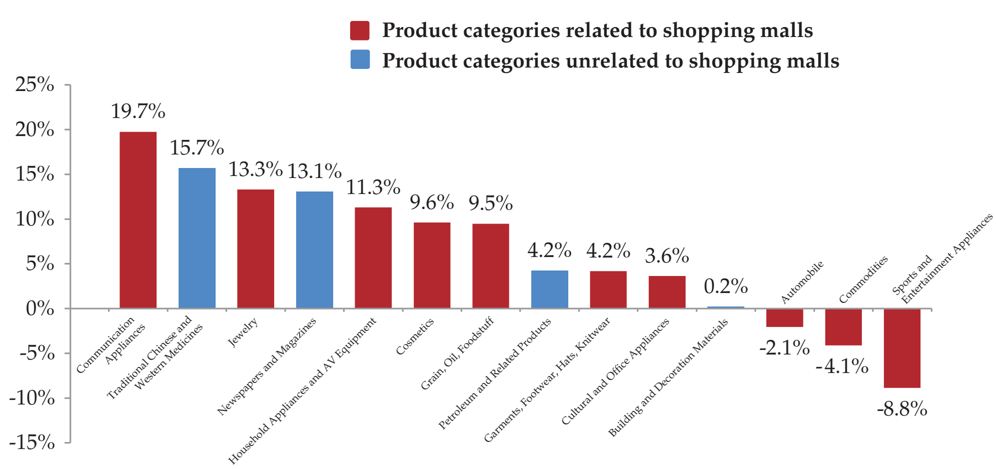
Total retail sales value of consumer goods, Huizhou, 2016-2026E



Source: Bureau of Statistics of Huizhou, China Insights Consultancy (January 2022)

The chart below shows the CAGR (2016-2020) for total retail sales value by product category (above the designated size) in Huizhou.

2016-2020 CAGR of total retail sales value of consumer goods by product categories, Huizhou



Source: Bureau of Statistics of Huizhou, China Insights Consultancy (January 2022)

2.3 Relevant Regulatory Policies for Huizhou's Retail Industry

In March 2021, the *Report on the Implementation of the 2020 National Economic and Social Development Plan of Huizhou City and the 2021 National Economic and Social Development Plan*《惠州市2020年國民經濟和社會發展計劃執行情況及2021年國民經濟和社會發展計劃》 was published by the Huizhou Development and Reform Committee.

The report mentioned that one of the key tasks for Huizhou's government is to systematically promote consumption upgrades. The Huizhou government plans to formulate measures to promote consumption expansion and improve quality, and smooth internal and external economic cycles to further stimulate consumption.

To achieve this goal, the Huizhou government will organize and carry out various activities to promote consumption, actively develop "festival consumption", "network consumption" and "nighttime consumption", accelerate the development of education, child-care, pension, medical, cultural, tourism and other industries, and cultivate new consumption hotspots such as 5G and new energy vehicles. Secondly, the Huizhou government will vigorously support the development of commercial circulation enterprises, guide merchants and business associations to jointly carry out the promotion of online and offline linkage, and create night economy demonstration streets and characteristic commercial areas. Thirdly, the Huizhou government will strengthen the supervision of the circulation field, safeguard the legitimate rights and interests of consumers, and create a good market consumption environment for consumers.

The report is favorable for Huizhou's retail industry and shopping mall market since measures taken by the government can increase customer demand and therefore, it is expected that there will be a larger market for those businesses to develop. More importantly, Huizhou will gradually form a stable business environment for those businesses.

In June 2021, the Working *Measures to Promote the High Quality Development of Commercial Consumption in Huizhou《惠州市促進商業消費高質量發展工作措施》* was approved by an executive meeting of the Huizhou municipal government.

The key points of the working measures were to promote the high-quality development of commercial consumption and enhance the role of consumption in economic development in aiming for Huizhou to cultivate and release new momentum in development and accelerate the construction of a new "dual circulation" development pattern.

The plan demonstrates the encouraging attitude of the Huizhou government in terms of stimulating consumption. Thus, the reform and expansion of the retail market and retail industry of Huizhou will benefit from these supportive polices.

In September 2021, *the Several Measures for promoting Cross-border E-commerce High-quality Development《惠州市鼓勵跨境電子商務高質量發展若干措施》* was issued by the Huizhou municipal government.

The key points of the Several measures comprise supporting the cross-border e-commerce through constructing service platforms, cultivating business entities, developing industry agglomeration, expanding supply chain, and reinforcing talent cultivation and copperation.

The Measures indicate the policy guidance to boom the cross-border e-commerce industry from the Huizhou municipal government. Since e-commerce has been an important part of the retail market, all these measures are expected to contribute to the retail industry of Huizhou.

3. ANALYSIS OF HUIZHOU'S SHOPPING MALL MARKET

3.1 Overview of Huizhou's Commercial Areas

Huizhou is located on the east coast of the Greater Bay Area and it governs Huicheng District, Huiyang District, Huidong County, Boluo County and Longmen County, and consists of two national development zones, the Zhongkai High Tech Industrial Development Zone and Daya Bay Economic and Technological Development Zone. Among them, Huicheng District is the economic, political and cultural center of Huizhou City, and it is the place where most of Huizhou's businesses concentrate. From the perspective of geographical location, residential population and transportation networks, Huicheng District has incomparable regional advantages. The commercial areas and shopping centers in Huicheng District are the most representative and core landmarks of Huizhou.

In terms of commercial areas, Huicheng District is mainly composed of 3 core commercial areas, namely, the Jiangbei commercial area, Huabianling commercial area and Jinshan Lake commercial area. HuaMao Place is located in the CBD core area of Jiangbei, Huizhou.

Jiangbei

Jiangbei's CBD is the only administrative and business center in Huizhou at present. It integrates office buildings, hotels, commerce, government affairs and municipal buildings. The area of the commercial area is 2.6 million sq.m., with a residential population of 40,000 and a working population of 113,000. It has opened five shopping malls and its location and commercial value ranks first in the city. According to the "2006-2020 Urban Master Plan", Jiangbei District is positioned as a municipal administrative, exhibition and cultural center. At present, Jiangbei is not only the administrative and cultural center of Huizhou, but also the central business district of the city. There are nearly 100 key commercial buildings and more than 2,000 domestic and foreign enterprises. Moreover, the Jiangbei commercial area has a high level of influence and a large catchment radius since it is surrounded by highways, which lead to Heyuan City, Shanwei City, Boluo County and Huidong County.

The Huizhou Housing and Urban-Rural Development Bureau plans to integrate the Huizhou North Railway Station New Town area into the core area of the Jiangbei commercial area. Relying on the construction of the integrated transportation hub of intercity rail stations and passenger bus stations, the government aims to promote the integrated development of Huicheng District and Boluo county, and build an ecological "river-field-city" vitality city by consolidating the land and speeding up the construction of supporting service facilities. In the future, the Huizhou Housing and Urban-Rural Development Bureau will continue to develop the commercial land, as well as the planned Urban Planning Exhibition Hall and Art Museum along the Jiangbei central axis.

Huabianling

The Huabianling commercial area is located in the core area of Huicheng District. With a prime location, dense commercial flows, capital flows and information flows, it has 24 large retail outlets, with an average daily passenger flow of 180,000, a half-hour commuting circle serving a total population of 840,000, and an annual business volume of nearly RMB4.3 billion.

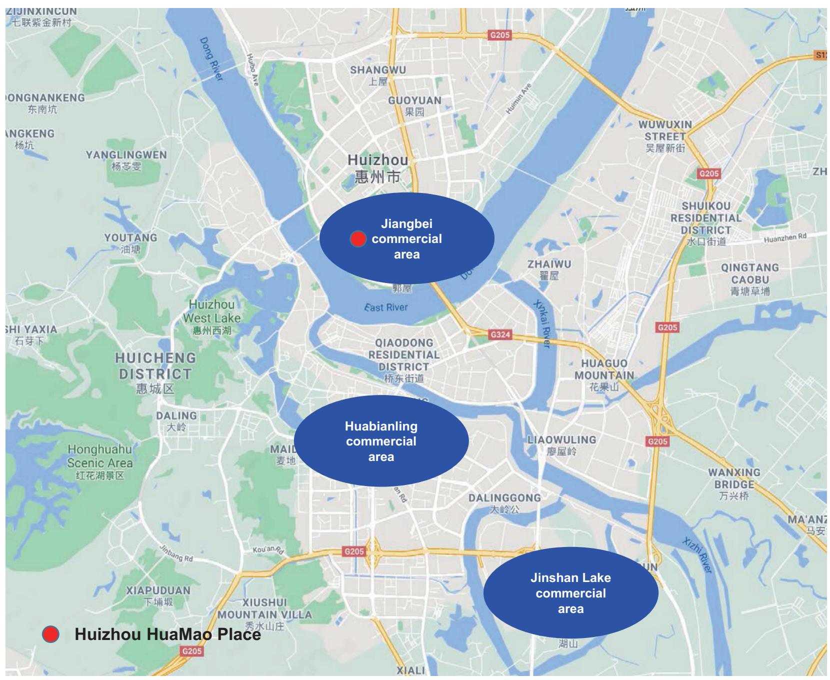
According to the survey conducted by the Huizhou Housing and Urban-Rural Development Bureau on the commercial status of Huizhou central district in 2018, it is believed that the main problem for the Huabianling commercial area is that the business mainly comprises low-end shopping. Although the proportion of catering is gradually increasing, the proportion of parent-child and entertainment facilities is still small, which is less attractive to the surrounding residents.

According to the "13 Key Tasks of Housing and Urban-Rural Construction in Huizhou in 2020" as issued by the Huizhou Housing and Urban-Rural Development Bureau, it was proposed to comprehensively begin revitalization work for the Huabianling old commercial area, refining the urban design of important nodes in the area, and promoting the initiation of project construction with the joint efforts of government and enterprises to ensure quick results.

Jinshan Lake

With the promotion of Huizhou's strategy of "Expanding from South to North and Extending from East to West", the Jinshan Lake area, which is suitable for living and business operations, is expected to become the next "city-level commercial area" in Huizhou. According to the "Detailed Regulatory Plan for the Jinshan Lake Area in Huizhou City", the population of Jinshan Lake will reach about 180,000 by 2030.

Core commercial areas in Huicheng District, Huizhou



Source: China Insights Consultancy (January 2022)

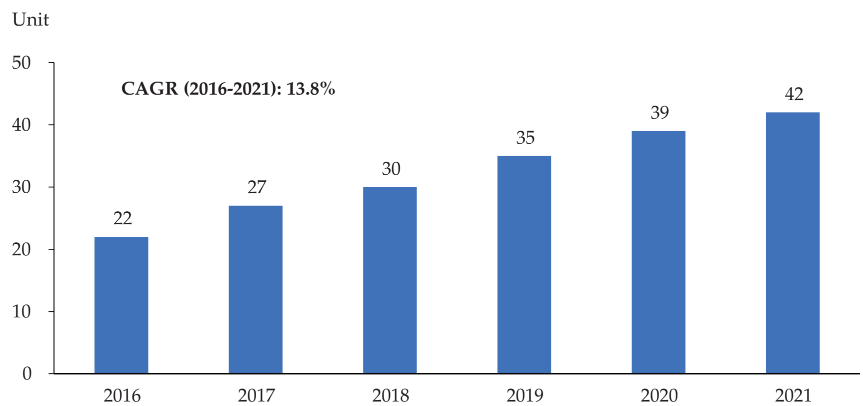
3.2 Overview of Huizhou's Shopping Mall Industry

3.2.1 Market Size of Huizhou's Shopping Mall Industry

In China, the retail industry refers to an industry that mainly provides demanded goods and related services to final consumers (individuals or social groups). According to China Insights Consultancy and the Ministry of Commerce of the PRC, China's retail industry can be divided into nine retail formats: shopping malls, department stores, hypermarkets, supermarkets, convenience stores, grocery stores, specialty stores, e-commerce, and others. In Huizhou, the retail sales value of shopping malls, department stores, hypermarkets, supermarkets, convenience stores, grocery stores, specialty stores, e-commerce, and others accounted for 12%, below 5%, below 5%, 5-10%, below 5%, 5%-10%, 30%-40%, approximately 30%, below 5% of the total retail sales value of consumer goods respectively in 2021.

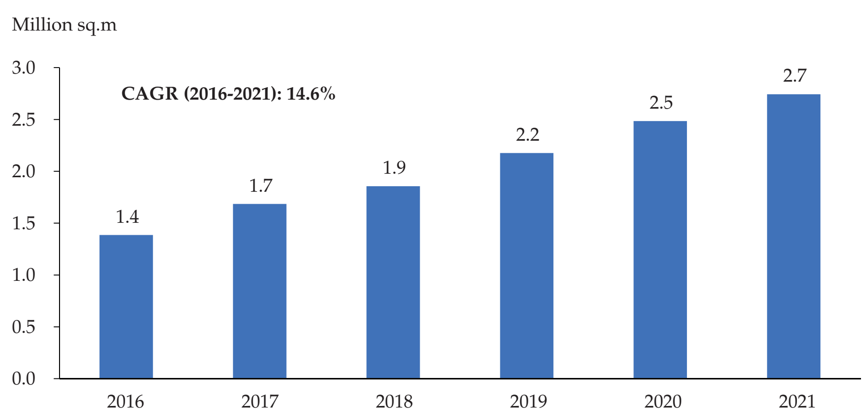
The shopping mall industry in Huizhou has experienced a period of continued expansion. As new shopping malls open each year, both the number and the retail gross floor area of shopping malls in Huizhou have increased at a rapid pace, with respective CAGRs of 13.8% and 14.6% between 2016 and 2021. The number of shopping malls has increased from 22 in 2016 to 42 in 2021, while the retail gross floor area has also increased at a similar growth pace, expanding from 1.4 million sq.m. to 2.7 million sq.m. in 2021. With the continuous growth of Huizhou's shopping mall industry, the retail gross floor area of shopping malls is predicted to increase to approximately 4.3 million sq.m. in 2026.

Year-end number of shopping malls, Huizhou, 2016-2021



Source: China Insights Consultancy (January 2022)

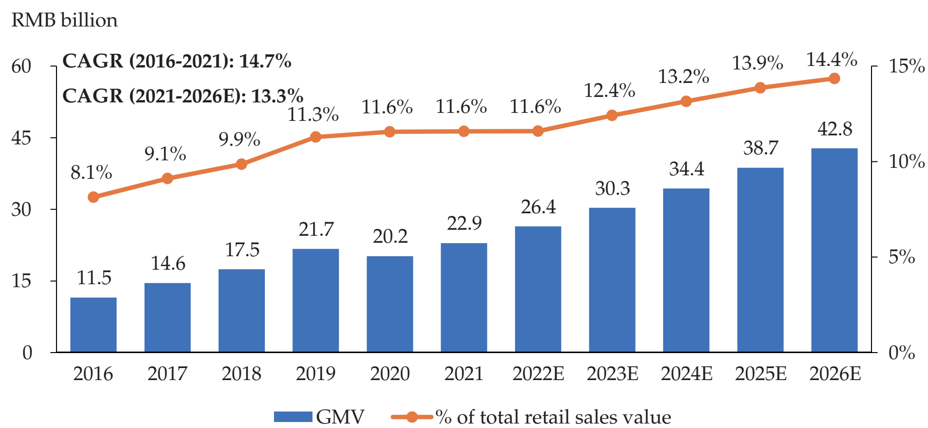
Year-end retail gross floor area of shopping malls, Huizhou, 2016-2021



Source: China Insights Consultancy (January 2022)

The GMV of shopping malls in Huizhou has also increased during the past five years, rising at a robust CAGR of 14.7% between 2016 and 2021. The role of the shopping malls will become increasingly important in the future as an offline retail channel due to consumers' demand for high-quality products and a one-stop shopping experience. The GMV of shopping malls in Huizhou is expected to grow in its comparative size and weight to account for 14.4% of total retail sales value for consumer goods in Huizhou, reaching RMB42.8 billion by 2026.

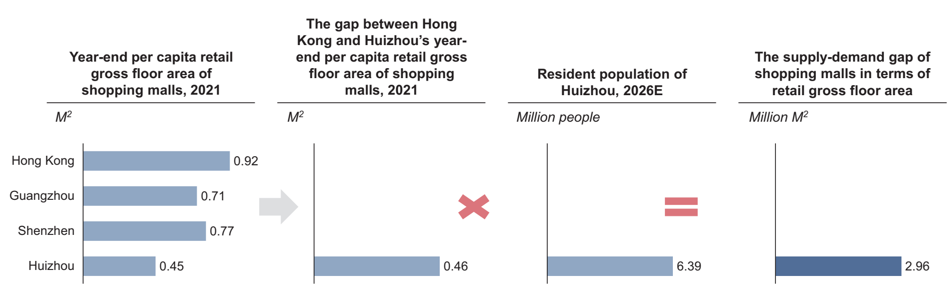
GMV of shopping malls and GMV as a percentage of total retail sales value of consumer goods, Huizhou, 2016-2026E



Source: China Insights Consultancy (January 2022)

3.2.2 Supply and Demand Gap in Huizhou's Shopping Mall Industry

Despite its fast growth, Huizhou is still falling behind Hong Kong, Guangzhou and Shenzhen in terms of its shopping mall industry. By the end of 2021, Huizhou's per capita retail gross floor area for shopping malls was 0.5 sq.m./person, lower than that of Hong Kong by 0.4 sq.m./person. Supposing that the year-end per capita retail gross floor area for shopping malls in Huizhou by the year 2026 will at least reach the same level as that of Hong Kong in 2021, approximately 3.0 million sq.m. of shopping malls would still be in demand for future completion.



Source: China Insights Consultancy (January 2022)

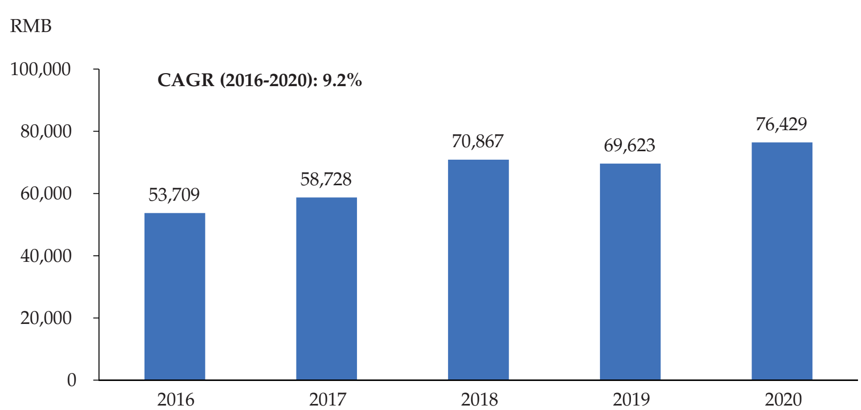
3.2.3 Occupancy Rate and Market Rent in Huizhou's Shopping Mall Industry

The average occupancy rate of shopping malls in Huizhou was around 80% in 2021. At the same time, the average rent for gross lettable area of Huizhou's shopping mall was around RMB70/sq.m./month. The average rent is expected to grow at 6-8% per year in Huizhou and 7%-10% per year in Huicheng District during 2021 to 2024. The average rent of Huizhou HuaMao Place grew at a CAGR of about 7.8% during 2018-2021 and it is projected that HuaMao Place's average rent will increase at a relatively higher growth pace in the next five years.

3.2.4 Wholesale and Retail Industry Employee Average Salary in Huizhou

Between 2016 and 2021, the shopping mall industry in Huizhou underwent moderate growth. In 2016, the average annual salary for an employee in Huizhou's wholesale and retail industry was RMB53,709, reaching RMB76,429 in 2020 and representing a CAGR of 9.2%.

Wholesale and retail industry annual average salary for employees, Huizhou, 2016-2020



Source: Bureau of Statistics of Huizhou, China Insights Consultancy (January 2022)

3.3 Competitive Landscape of Huizhou's Shopping Mall Industry

3.3.1 Market Shares of Top Shopping Mall Property Developers in Huizhou

Huizhou's shopping mall industry had 42 shopping malls in operation as of December 31, 2021. Huizhou's shopping mall industry is not highly concentrated, with the top ten property developers accounting for 54.2% of the market in terms of retail gross floor area (retail GFA) as of December 31, 2021. The Huizhou shopping mall market remains attractive, which has attracted many property developers to enter the market. Property developers have plenty of opportunities to achieve a breakout in this fast-growing environment.

The top three property developers with total seven shopping malls, account for 21.2% of the industry in terms of retail gross floor area in Huizhou as of December 31, 2021.

With two shopping malls in operation, Guangdong Longsun Investment Co., Ltd. ranks first in Huizhou's shopping mall market in terms of retail gross floor area as of December 31, 2021.

With four shopping malls in operation, Rainbow Digital Commercial Co., Ltd. ranks second in Huizhou's shopping mall industry in terms of retail gross floor area as of December 31, 2021.

With one shopping malls in operation, Huizhou Tianyi Investment Co., Ltd. ranks third in Huizhou's shopping mall industry in terms of retail gross floor area as of December 31, 2021.

Top ten property developers by retail gross floor area in Huizhou's shopping mall industry, December 31, 2021

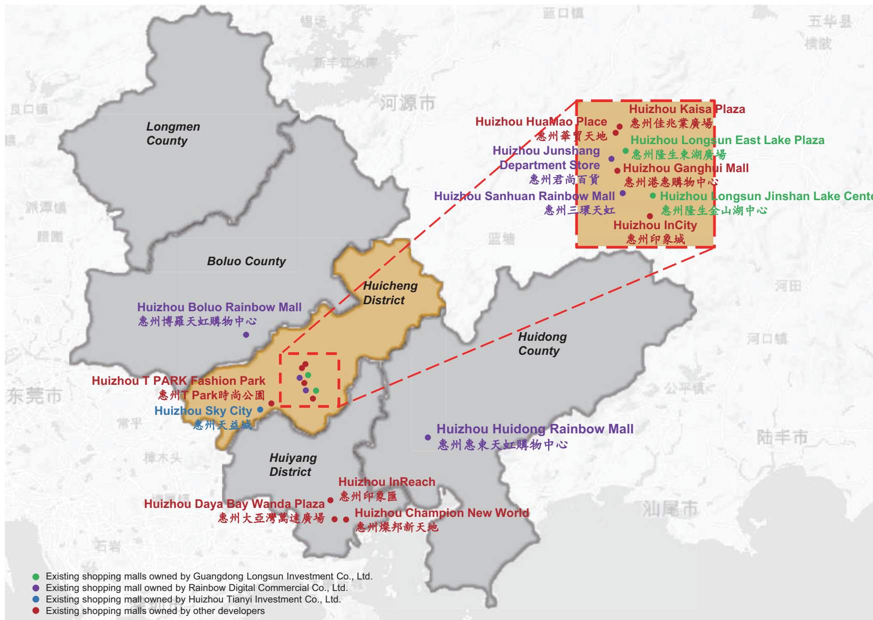
Ranking	Property developer	Number of shopping malls in Huizhou *(units)*	Retail GFA of shopping malls* in Huizhou *(thousand sq.m.)*	Market share by retail GFA of shopping malls in Huizhou *(%)*	Retail GFA of shopping mall buildings* in Huizhou *(thousand sq.m.)*
1	Guangdong Longsun Investment Co., Ltd. (廣東隆生企業投資有限公司)	2	210	7.7%	210
2	Rainbow Digital Commercial Co., Ltd. (天虹數科商業股份有限公司)	4	207	7.5%	207
3	Huizhou Tianyi Investment Co., Ltd. (惠州天益投資有限公司)	1	166	6.1%	120
4	Champion Group (燦邦集團)	1	150	5.5%	105
5	Huizhou HuaMao Xingye Real Estate Development Co., Ltd. (惠州華貿興業房地產開發有限公司)	1	145	5.3%	145
6	Dalian Wanda Commercial Management Group Co., Ltd. (大連萬達商業管理集團股份有限公司)	1	139	5.1%	103
7	Huizhou Fuying Real Estate Development Co., Ltd. (惠州富盈置業有限公司)	1	130	4.7%	130
8	SCP Group (印力集團)	2	121	4.4%	121
9	Kaisa Commercial Group Co., Ltd. (佳兆業地產)	1	120	4.4%	65
10	Guangdong Hetianxia Property Group Co., Ltd. (廣東和天下置業集團有限公司)	1	100	3.6%	100
	Top Ten	15	1,488	54.2%	1,306
	Others	27	1,255		
	Total	42	2,743		

Source: China Insights Consultancy (January 2022)

Note: Retail GFA of a **shopping mall** includes retail GFA of the **shopping mall building** and other ancillary commercial properties, such as commercial street and recreation facilities.

3.3.2 Location of the Top Shopping Mall Property Developers in Huizhou

Map of shopping malls owned by the top ten property developers in Huizhou, December 31, 2021



Source: China Insights Consultancy (January 2022)

Ten of the fifteen shopping malls managed by the top ten developers in terms of retail gross floor area in Huizhou as of December 31, 2021, are located in Huicheng District. Huicheng District has three core business commercial areas: Jiangbei commercial area, Huabianling commercial area, and Jinshan Lake commercial area, making Huicheng District the economic and cultural center of Huizhou.

3.3.3 Market Shares of Top Ten Shopping Malls in Huizhou

In terms of retail GFA, Huizhou Sky City with 166 thousand sq.m. is the largest shopping mall in Huizhou as of December 31, 2021, followed by Huizhou Longsun Jinshan Lake Center with a retail GFA of 160 thousand sq.m., and Huizhou Champion New World ranked third with a retail GFA of 145 sq.m.. Huizhou HuaMao Place is the fourth largest shopping mall in Huizhou in terms of retail GFA as of December 31, 2021.

Top ten shopping malls by retail gross floor area in Huizhou, December 31, 2021

Ranking	Shopping mall	Opening year	Retail GFA of shopping malls* in Huizhou *(thousand sq.m.)*	Market share by retail GFA of shopping malls in Huizhou *(%)*	Retail GFA of shopping mall buildings* in Huizhou *(thousand sq.m.)*
1	Huizhou Sky City (惠州天益城)	Phase I in 2016, Phase II in 2021	166	6.1%	120
2	Huizhou Longsun Jinshan Lake Center (惠州隆生金山湖中心)	2020	160	5.8%	160
3	Huizhou Champion New World (惠州燦邦新天地)	2019	150	5.5%	105
4	Huizhou HuaMao Place (惠州華貿天地)	2011	145	5.3%	145
5	Huizhou Daya Bay Wanda Plaza (惠州大亞灣萬達廣場)	2017	139	5.1%	103
6	Huizhou Ganghui Mall (惠州港惠購物中心)	Phase I in 2008, Phase II in 2010	130	4.7%	130
7	Huizhou Kaisa Plaza (惠州佳兆業廣場)	2013	120	4.4%	65
8	Huizhou T PARK Fashion Park (惠州T Park時尚公園)	2014	100	3.6%	100

Ranking	Shopping mall	Opening year	Retail GFA of shopping malls* in Huizhou *(thousand sq.m.)*	Market share by retail GFA of shopping malls in Huizhou *(%)*	Retail GFA of shopping mall buildings* in Huizhou *(thousand sq.m.)*
9	Huizhou Lonan Plaza (惠州龍光商業廣場)	2018	85	3.1%	85
10	Huizhou Party City (惠州匯樂城)	2015	80	2.9%	80
	Top ten	10	1,275	46.5%	1,093
	Others	32	1,468	53.5%	
	Total	42	2,743	100.0%	

Source: China Insights Consultancy (January 2022)

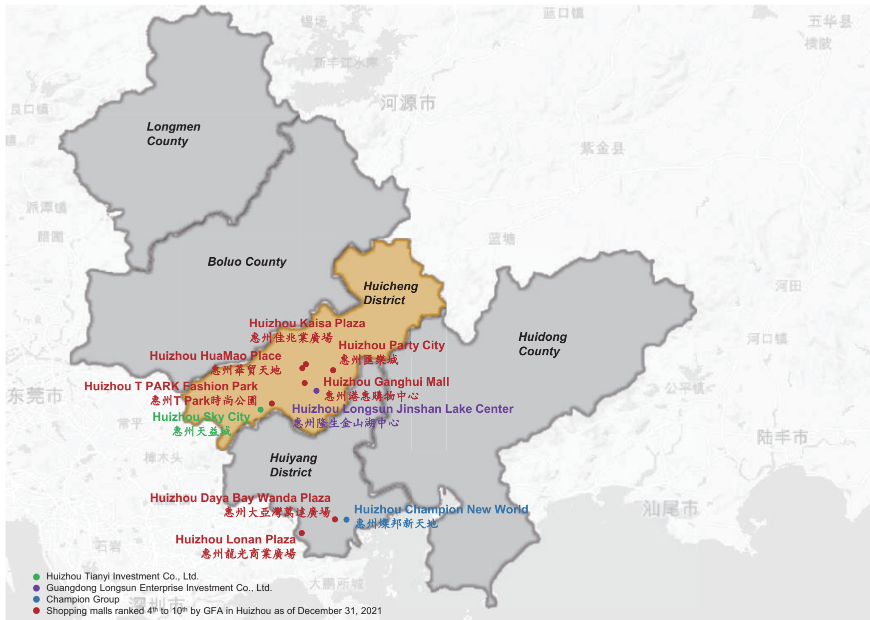
Note: Retail GFA of a **shopping mall** includes retail GFA of the **shopping mall building** and other ancillary commercial properties, such as commercial street and recreation facilities.

Huizhou Sky City, Huizhou Champion New World and Huizhou Daya Bay Wanda Plaza have commercial streets separate from the shopping mall buildings. For example, Huizhou Sky City has *"Tian street" (天街)* and *"Yi street" (益街)* outside the main building.

Huizhou Kaisa Plaza is a commercial complex with three parts. The main shopping mall building has a retail GFA of 65 thousand sq.m., and other two parts are a separate supermarket and a sunken commercial plaza.

3.3.4 Location of the Top Ten Shopping Malls in Huizhou

Map of top ten shopping malls by GFA in Huizhou, December 31, 2021



Source: China Insights Consultancy (January 2021)

As the economic and cultural center of Huizhou City, Huicheng District has seven of the top ten shopping malls in terms of retail GFA as of December 31, 2021, including Huizhou HuaMao Place, Huizhou Ganghui Mall, and other middle-to-high end shopping malls with a retail GFA of over 100 thousand sq.m..

3.3.5 *Comparison of Top Five Shopping Malls by Gross Merchandise Value (GMV) in Huizhou's Shopping Mall Industry*

In 2021, Huizhou Huamao Place ranked first in terms of gross merchandise value (GMV) of RMB2.1 billion, higher than the second-ranked Huizhou Ganghui Mall of approximately RMB1.5-2.0 billion.

Comparison of top five shopping malls by GMV in Huizhou's shopping mall industry, December 31, 2021/2021

Ranking	Shopping mall	Opening year	Coverage	Position	GMV, *RMB million*	Occupancy rate* as of December 31, 2021, *%*	Average rent for gross lettable area*, *RMB/sq.m.•month*	Daily footfall*, *thousand people*	Retail GFA of shopping mall building*, *thousand sq.m.*	Floor efficiency for retail GFA of shopping mall building, *RMB/sq.m.•month*
1	Huizhou HuaMao Place (惠州華貿天地)	2011	Huicheng District on weekdays, Huizhou City on weekends	High-end	2,130	96%	146	50-60 on weekends, 30-40 on weekdays	145	1,225
2	Huizhou Ganghui Mall (惠州港惠購物中心)	Phase I in 2008, Phase II in 2010	Central urban area in Huizhou	Middle to high-end	1,500-2,000	~100%	200-250	80-90	130	950-1,300
3	Huizhou Daya Bay Wanda Plaza (惠州大亞灣萬達廣場)	2017	Daya Bay Area	Middle to high-end	1,160	~100%	~150	42	130	939
4	Huizhou Kaisa Plaza (惠州佳兆業廣場)	2013	Mainly Jiangbei commercial area	Middle to high-end	~820	98%	200-250	18	65	1,051
5	Huizhou Sky City (惠州天益城)	Phase I in 2016, Phase II in 2021	Mainly Chen Jiang commercial area	Middle	760	97%	~100	34	120	528

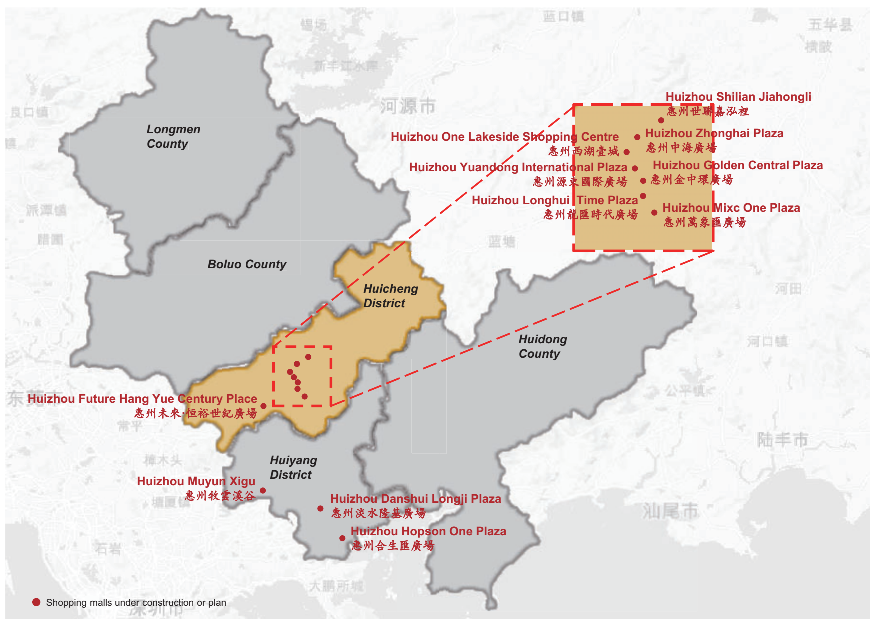
Source: China Insights Consultancy (January 2022)

Note: The position of the shopping mall, according to the comprehensive evaluation of the its tenant mix, floor efficiency for retail GFA of shopping mall building, field investigation and other factors.

Since some shopping malls do not have other ancillary commercial properties such as commercial streets, **only the operational metrics for main shopping mall buildings are compared.**

3.3.6 Future Plans of the Top Property Developers of Shopping Malls in Huizhou in the Next Five Years

Map of shopping malls under construction or plan in Huizhou



Source: China Insights Consultancy (January 2022)

In the past few years, several new residential lands have been added to the area near Jiangbei CBD, and 15 new schools are planned to be built, which will greatly increase the surrounding residential population. In addition, several commercial property projects are under construction, such as Taidong Financial Building (太東金融大廈) project, Tensheng Building (騰盛大廈) project and the Headquarter Building of Huizhou Communication Investment Group Co., Ltd. (惠州交投總部大樓), which are expected to greatly improve the life and business atmosphere of Jiangbei CBD.

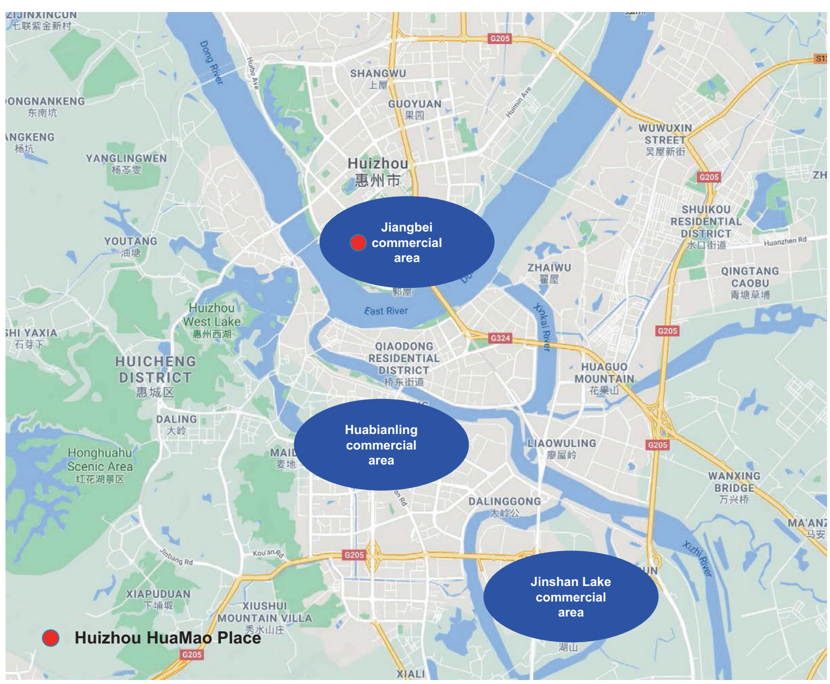
Therefore, Jiangbei commercial area is attracting a great deal of property investment from developers, promoting the development of the local shopping mall industry. For example, Zhonghai Plaza (中海廣場) developed by China Oversea Land and Investment Ltd., is located just beside Huizhou HuaMao Place. As a commercial complex, Zhonghai Plaza (中海廣場) has a total planned construction area of 229 thousand sq.m., including a middle to high-end shopping mall with a retail GFA of 24 thousand sq.m.. In total, the property consists of a luxury hotel, Huizhou Hilton Hotel, two office buildings, four commercial buildings and a basement.

Looking at Huizhou City as a whole, it is expected that at least 11 shopping malls will open in next five years, including four large shopping malls with a retail GFA over 100 thousand sq.m..

4. COMPETITION ANALYSIS OF SELLER'S PROPERTIES

4.1 Overview of Huizhou HuaMao Place

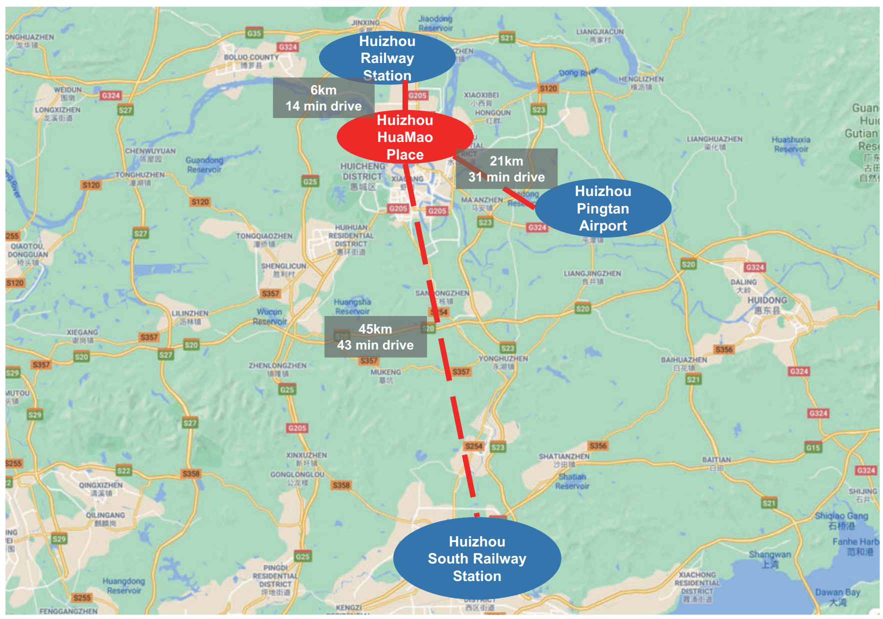
Location



Source: China Insights Consultancy (January 2022)

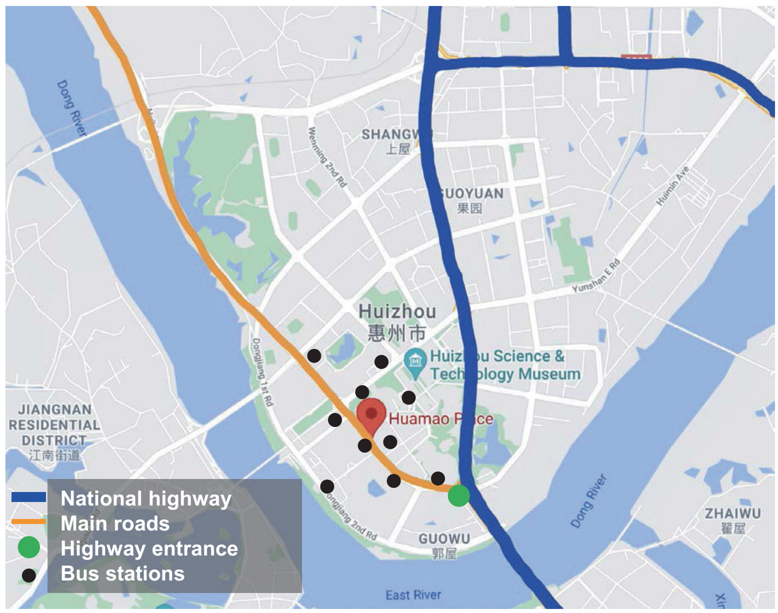
Huizhou HuaMao Place is located in central Huicheng District, which has been the political, economic and cultural center of Huizhou City since the municipal government moved there 20 years ago. Moreover, Jiangbei commercial area, in which Huizhou HuaMao Place is located, is one of the three core commercial areas in Huizhou and has developed at a relatively high pace compared to other mature commercial areas.

Transport



Source: China Insights Consultancy (January 2022)

Located in Huicheng District, the central area of Huizhou City, Huizhou HuaMao Place has obvious transportation advantages. It is 21 km away from Huizhou Pingtan Airport (approximately a 31-minute drive), 6 km away from Huizhou Railway Station (approximately a 14-minute drive), and 45 km away from Huizhou South Railway Station (approximately a 43-minute drive).

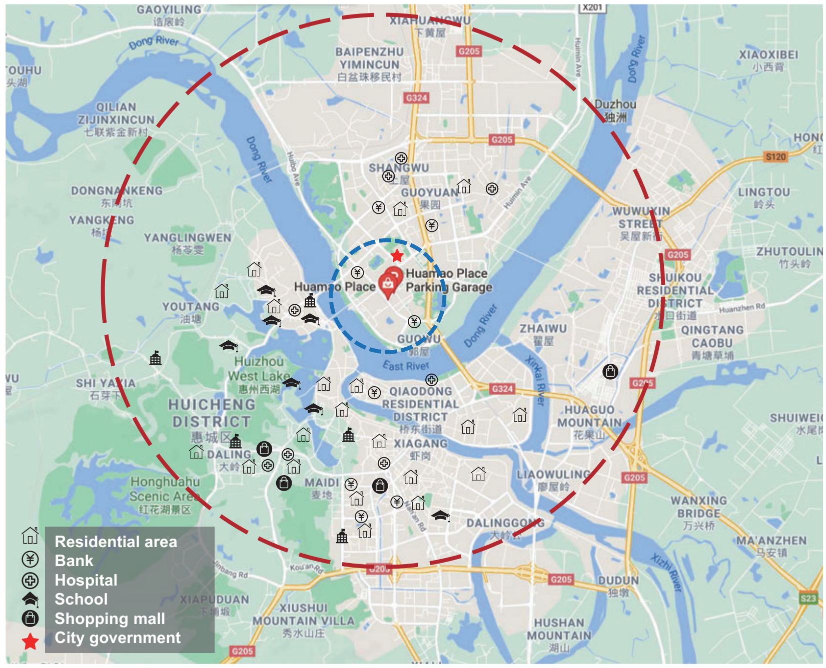


Source: China Insights Consultancy (January 2022)

In addition, a national highway entrance is located within 1 km of Huizhou HuaMao Place, making it a convenient hub for travel to other cities, such as Guangzhou, Shenzhen and Dongguan.

Moreover, there are nearly 20 direct bus lines to Huizhou HuaMao Place, which increases the scope of its target consumer market, including the entire Huicheng District during weekdays, and the whole of Huizhou City during weekends and holidays.

Surrounding facilities



Source: China Insights Consultancy (January 2022)

Located in central Huizhou, Huizhou HuaMao Place is surrounded by a large number of high-quality facilities. Due to the large concentration of people with high spending power such as center city residents, white-collar workers and youth students populating the area within a 5 km radius from the shopping center, Huizhou HuaMao Place is assured favorable daily footfall and revenue at any given time. In addition, as a mature city center, Huicheng District is full of superior supporting facilities, the best hotels in Huizhou such as R&F Renaissance Hotel Huizhou (惠州富力萬麗酒店) and Kempinski Hotel Huizhou (惠州凱賓斯基酒店), the best local hospitals as ranked by Classification of Chinese hospitals (中國醫院等級劃分), and Huizhou branches of large banks like PAB, BOC, CCB and ABC.

Tourism resources

Huizhou is accredited as one of the national historic and cultural cities and thus holds rich tourism resources. There are more than 60 scenic spots in the city, with 19 national and provincial scenic spots and nature reserves, including two national 5A-level tourist attractions and 11 national 4A-level tourist attractions.

Huizhou West Lake, one of the two 5A-level tourist attractions, is located approximately 1.5 km away from Huizhou HuaMao Place. In addition, there are many tourist attractions and cultural venues, such as Huizhou Museum, Huizhou Science and Technology Museum, and Dayun Temple, within 5 km of Huizhou HuaMao Place. The booming tourism industry of Huizhou is bound to attract tourists to Huizhou Jiangbei commercial area, as well as Huizhou HuaMao Place.

Property overview

Overview of Huizhou HuaMao Place

Source: Extracted from Huizhou HuaMao Place (January 2022)

Huizhou HuaMao Place commenced operations in April 2011 and, with a retail gross floor area of 145 thousand sq.m., it is the largest shopping mall in Jiangbei commercial area as of December 31, 2021. Huizhou HuaMao Place is the most high-end shopping mall in Huizhou, and it offers relatively comprehensive services to its customers.

Operation strategy

Huizhou HuaMao Place is developed by Huizhou HuaMao Xingye Real Estate Development Co., Ltd. and managed by HuaMao Group, one of the leading modern service industry operation platforms in China. It has brought its rich experience in development and operation of high-end shopping malls from central cities nationwide, such as SKP Beijing and Beijing HuaMao Place, to Huizhou. Huizhou HuaMao Place has become the most high-end shopping mall in Huizhou since it commenced to operate in 2011. Thanks to the multi-year cooperation and win-win relationship between HuaMao Group and top-tier brands. Many international and domestic top-tier fashion brands are willing to open their first stores in Huizhou HuaMao Place. In addition, Huizhou HuaMao Place has also signed exclusive agreements with most of them, requiring the brand's store in Huizhou HuaMao Place to be the only store or the flagship store in the Huizhou region.

With a tenant mix of 406 as of December 31, 2021, Huizhou HuaMao Place covers international top-tier fashion brands (i.e. Hugo Boss, Lancôme, Estee Lauder), well-known domestic brands (i.e. Youngor), famous chain restaurant brands (i.e. Pizzahut, Haidilao hot pot), as well as a high-end supermarket and an OSGH cinema.

Huizhou HuaMao Place launched its membership system since its opening in 2011. The brand matrix has been dynamically adjusted according to member's brand preferences and consumption habits. In addition, Huizhou HuaMao Place has introduced a large number of leisure and entertainment formats in recent years, such as VR theme park, OSGM cinema, beauty and health clubs, etc., to better meet the consumption needs of customers and further enhance the shopping experience.

Huizhou HuaMao Place offers a diversified lessee mix and brand coverage, with apparel, food, entertainment, kid's fashion and lifestyle and other sectors accounting for 33.2%, 25.7%, 7.9%, 5.4% and 24.1% respectively of its gross lettable area as of December 31, 2021.

Proportion in terms of gross lettable area, December 31, 2021

Apparel	33.2%
Food	25.7%
Entertainment	7.9%
Kid's fashion and lifestyle	5.4%
Others	24.1%
Total	96.3%

Source: China Insights Consultancy (January 2022)

Note: Main stores include supermarket, cinema, INDITEX group (ZARA) and other stores that attract customers.

Value proposition

Located in the Jiangbei commercial area of Huizhou, Huizhou HuaMao Place enjoys an obvious transportation advantage, and it could attract shoppers from a wide geographical area from not only the 1.6 million residents of Huicheng District, but also from the greater Huizhou City as well as tourists from all over the country during weekends and holidays with its comprehensive products, services, and experiences.

Huizhou's large population base and rapid economic development have resulted in a large base of middle and upper-class residents who are well-educated, well paid, and loyal to their preferred clothing and beauty brands such as Hugo Boss, Lancôme and Estee Lauder, which they patronize at Huizhou HuaMao Place. Separately, younger groups like white-collar workers as well as students show preference for sports brands and fast fashion apparel. Huizhou HuaMao Place is able to provide its variety of consumers with a one-stop service for their shopping, dining, and entertainment needs by means of its comprehensive tenant mix.

4.2 Performance Metrics of Huizhou HuaMao Place

Over the past ten years since its opening in April of 2011, Huizhou HuaMao Place has consistently delivered strong performance and many brands are keen to open stores in Huizhou HuaMao Place. As a result, Huizhou HuaMao Place is in a strong position to select the best brands to set up shops on its premises and only retain the top performers.

In terms of both revenue from leasing and revenue from operations, Huizhou HuaMao Place has maintained a high and rapidly-increasing level of performance from 2016 to 2021. The increase of revenue in both leasing and operations indicates that Huizhou HuaMao Place has strong growth momentum, which cushioned the unfavourable impact brought about by COVID-19. In addition, Huizhou HuaMao Place maintained a high occupancy rate of 96.3% as at December 31, 2021.

Year	Unit	December 31, 2021/2021
Total Revenue, 2021	RMB million	218
Occupancy Rate as at December 31, 2021	%	96.3%
Retail gross floor area as at December 31, 2021	thousand sq.m.	145
Gross lettable area as at December 31, 2021	thousand sq.m.	108
Leased gross lettable area as at December 31, 2021	thousand sq.m.	101
Daily Footfall, 2021	thousand people	50-60 on weekends, 30-40 on weekdays
Gross merchandise value (GMV), 2021	RMB billion	2,130
Floor Efficiency for retail GFA of shopping mall building, 2021	RMB/sq.m. month	1,225
Average rent for gross lettable area, 2021	RMB/sq.m. month	146

Source: China Insights Consultancy (January 2022)

Due to the excellent operational efficiency of Huizhou HuaMao Place, an increasing number of international and domestic top-tier brands are competing to settle in the mall. Meanwhile, Huizhou HuaMao Place is actively benchmarking shopping malls in first-tier cities by optimizing the brand structure of the entire mall, such as introducing renowned international cosmetics brands and fashion lite-luxury brands. Through the differentiated competition strategy, Huizhou HuaMao Place could consolidate its position as the most high-end shopping mall in Huizhou, and continue to enhance its competitive advantage by increasing the brand awareness.

The average rent for gross lettable area of Huizhou HuaMao Place grew at a CAGR of about 7.8% during 2018-2021, relatively high compared to the CAGR between 2018 and 2021 of -1.0%, -2.5%, 6.3%, -5.0% and 0.0% achieved by retail properties in Beijing, Shanghai, Guangzhou, Shenzhen and Huizhou, respectively.

The shopping mall industry in the Greater Bay Area is estimated to increase rapidly, driven by the economy growth, ongoing urbanization process, consumption upgrading, expanding retail facilities, and continued government supports. As one of the few high-end shopping malls in Huizhou, the average rent for gross lettable area of Huizhou HuaMao Place has maintained a certain growth from 2016 to 2021. The main reasons are that the excellent operation performance of Huizhou HuaMao Place attracts middle to high-end brands willing to pay premium to settle in the mall, the tenants of middle to high-end brands in Huizhou HuaMao Place are not sensitive to rent fee, and the whole shopping mall industry of Huizhou maintains a high vitality within the Greater Bay Area.

4.3 Competition Analysis of the Shopping Mall Industry in Huizhou

4.3.1 Addressable Market of Huizhou HuaMao Place

Huizhou HuaMao Place is one of the largest regional malls and its target customer base includes white-collar workers, middle and upper-class residents, and fashionable young people, which it caters to with its comprehensive services and top-tier brands. Therefore, Huizhou HuaMao Place attracts consumers not only from Huicheng District, but also from other districts and even other cities.

There are six shopping malls in Jiangbei commercial area as of December 31, 2021, including Huizhou HuaMao Place (惠州華貿天地), Huizhou Kaisa Plaza (惠州佳兆業廣場), Huizhou Collection City (惠州萬匯城), Huizhou Powerlong Plaza (惠州榮燦寶龍廣場), Liri Jiangbei Mall (惠州麗日江北購物中心), and Huizhou Dingfeng Huamanli (惠州鼎峰花漫裡). The combined gross floor area of these shopping malls is approximately 446 thousand sq.m.. Among these shopping malls, only Huizhou HuaMao Place and Huizhou Kaisa Plaza are positioned as mid to high-end shopping malls and have a GFA of more than 100 thousand sq.m..

In addition, there are five middle to high-end shopping malls in Huizhou City as of December 31, 2021, including Huizhou HuaMao Place (惠州華貿天地), Huizhou Kaisa Plaza (惠州佳兆業廣場), Huizhou Longsun Jinshan Lake Center (惠州隆生金山湖中心), Huizhou Ganghui Mall (惠州港惠購物中心), Huizhou Daya Bay Wanda Plaza (惠州大亞灣萬達廣場), among which all except Huizhou Daya Bay Wanda Plaza (惠州大亞灣萬達廣場) are within 10 kilometres of Huizhou HuaMao Place (惠州華貿天地).

4.3.2 Performance Metrics of Comparable Properties

Huizhou Ganghui Mall is a middle to high-end shopping mall located in Huabianling commercial area. It ranked 3th by retail GFA of shopping mall building as at December 31, 2021 and 2nd by GMV of shopping mall building for 2021.

Property name	Huizhou Ganghui Mall (惠州港惠購物中心)
Property developer	Huizhou Fuying Real Estate Co., Ltd (惠州富盈置業有限公司)
Property type	Shopping mall
Year of completion	2008
Retail GFA of shopping mall building (thousand sq.m.), 2021	130
GLA of shopping mall building (thousand sq.m.), 2021	75
Number of floors	6
Location	• Core area of Huicheng District, Huabianling commercial area • 11 Yanda Avenue
Coverage	Central urban area in Huizhou
Target consumers	Mid-end consumers in Huicheng District, Huizhou
Leased GLA by trade sector (%) as at December 31, 2021	• **F&B:** 30% • **Retail:** 55% • **Others:** 15%
Daily footfall (thousand people), 2021	80-90

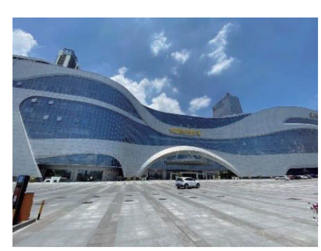
Occupancy rate (%) as at December 31, 2021	Nearly 100%
Average rent for gross lettable area (RMB/sq.m. ·month), 2021	200-250
Floor Efficiency for retail GFA of shopping mall building, (RMB/sq.m. ·month), 2021	950-1,300
Current tenants	Over 400; including Walmart, Wanda Cinema, DHC, L'Oréal, Pizza Hut, Ecco, etc.
Nearby facilities and amenities	• **Banks:** ICBC, CGB, CMB, BOC, BOCOM • **Commercial services:** Huizhou West Lake Scenic Area, Walston International Hotel • **Hospitals:** Huicheng Traditional Chinese Medicine Hospital, Huizhou Central People's Hospital
Comparability	• Located in the Huabianling commercial area, one of two core area of Huicheng District. • The shopping mall is surrounded by mature residential communities, and it is easier to reach due to its comparatively high number of traffic lines. • Huizhou Ganghui Mall will add more experiential interactive content, such as themed shopping street, IMAX cinema, skating rink, etc. after the completion of phase III of the shopping mall.

Huizhou Kaisa Plaza is a middle to high-end shopping mall located in Jiangbei commercial area. It ranked 10th by retail GFA of shopping mall building as at December 31, 2021 and 4th by GMV of shopping mall building for 2021.

Property name	Huizhou Kaisa Plaza (惠州佳兆業廣場)
Property developer	Kaisa Real Estate (佳兆業地產)
Property type	Shopping mall
Year of completion	2013
Retail GFA of shopping mall building (thousand sq.m.), 2021	65
GLA of shopping mall building (thousand sq.m.), 2021	33
Number of floors	6
Location	• Core area of Huicheng District, Jiangbei commercial area • 11 Huizhou Avenue
Coverage	Jiangbei commercial area
Target consumers	Mid-end consumers and white-collar workers in Jiangbei commercial area
Leased GLA by trade sector (%) as at December 31, 2021	• **F&B:** 40% • **Retail:** 40% • **Others:** 20%
Daily footfall (thousand people), 2021	18
Occupancy rate (%) as at December 31, 2021	98%

Floor Efficiency for retail GFA of shopping mall building, (RMB/sq.m. ·month), 2021	~1,050
Current tenants	~250; including H&M, Levi's, VERO MODA, cinema, KTV, etc.
Nearby facilities and amenities	• **Banks:** ICBC, CCB, ABC, SPDB, PSBC, Huizhou Rural Commercial Bank • **Commercial services:** Kempinski Hotel Huizhou, Huizhou Kaisa Pullman Hotel, Huizhou Culture and Art Center, Huizhou Central Civic Park • **Hospitals:** Huizhou First People's Hospital, Huizhou Youhe Hospital
Comparability	• Located in the core area of Jiangbei commercial area, Huicheng District, close to the city government building; • A large number of small and medium-sized enterprises are in the surrounding office buildings, and the shopping mall meet the dining and shopping needs of many white-collar workers.

Huizhou Longsun Jinshan Lake Center is a middle to high-end shopping mall located in Jinshan Lake commercial area. It ranked 1st by retail GFA of shopping mall building as at December 31, 2021 and 6th by GMV of shopping mall building for 2021.



Property name	Huizhou Longsun Jinshan Lake Center (惠州隆生金山湖中心)
Property developer	Guangdong Longsun Investment Co., Ltd. (廣東隆生企業投資有限公司)
Property type	Shopping mall

Year of completion	2020
Retail GFA of shopping mall building (thousand sq.m.), 2021	160
GLA of shopping mall building (thousand sq.m.), 2021	96
Number of floors	6
Location	• Jinshan Lake commercial area, Southern area of Huicheng District • 32 Third Ring South Road
Coverage	Jinshan Lake commercial area
Target consumers	Nearby mid to high-end residents
Leased GLA by trade sector (%) as at December 31, 2021	• **F&B:** 30% • **Retail:** 40% • **Others:** 30%
Daily footfall (thousand people), 2021	~20
Occupancy rate (%) as at December 31, 2021	~100%
Average rent for gross lettable area (RMB/sq.m. ·month), 2021	~200 Since nearly half of the ground floor of the shopping mall was rented to Aeon Supermarket at a very low price.
Current tenants	238; including Aeon supermarket, Kidswant, Gome Electric, Wanda IMAX cinema, KFC, Pizza Hut, etc.
Nearby facilities and amenities	• **Banks:** CCB, ABC, BOC, CGB, CIB

- **Hospitals:** Huizhou Hospital of Guangzhou University of Chinese Medicine

Comparability

- Located in a brand-new commercial area.
- Surrounded by mid to high-end residential communities.

Among these comparable shopping malls, Huizhou HuaMao Place has a relatively good operation performance. In 2021, Huizhou HuaMao Place ranked first with a GMV of RMB2,130 million, which is higher than the second-place Huizhou Ganghui Mall's approximately RMB1,500-2,000 million. However, the average daily footfall of Huizhou HuaMao Place is only about half of that of Huizhou Ganghui Mall. It can be seen that Huizhou HuaMao Place has a relatively higher overall purchase rate and consumption level.

4.3.3 Competition with E-commerce

Shopping mall industry is irreplaceable by online or other retail channels

Chinese shopping mall has no longer focused solely on the retail sector, but instead placed an emphasis on services such as catering – approximately 30%, and other services like entertainment, lifestyle and family activities – approximately 25%. In comparison, retail sector still took a share of nearly 70% on average in the U.S. shopping malls as of 2021.

Along with the development of e-commerce in China, the online sales channel has become a popular retail sales channel, especially for physical products. At the same time, consumers now also expect to spend more on catering, lifestyle, and family activities. Considering different trade sectors' different substitutability in response to the development of e-commerce, and consumers expenditure expectations in different trade sectors, the percentage of retail sector is expected to further decrease while that of catering and other sectors are expected to further increase in shopping malls of China.

Popular forms of entertainment, lifestyle, and family activities in shopping malls now include entertainments like cinemas and KTVs, lifestyle services like salons, children education, and non-regular mall activities like exhibitions and pop-up stores. The shopping malls in China are now actively seeking diversified business, to provide consumers one-stop shopping experience, which is irreplaceable by online or other offline retail channels.

Huizhou HuaMao Place's efforts towards implementing the New Retail concept

Huizhou HuaMao Place has launched a membership system since its opening in 2011. Relying on HuaMao Group's years of experience in the operation of high-end shopping malls, and combined with the local economy and consumption level of Huizhou, Huizhou HuaMao Place could effectively manage its members. For example, Huizhou HuaMao Place could analysis the brand preferences and consumption habits of its customers by using big data technology, so as to guide the leasing department and operation department to optimize the brand structure and marketing activities in order to further enhance the stickiness of the members.

In addition, Huizhou HuaMao Place launched WeChat official account a few years ago to form a closed-loop service process. The functions made available on the smart-phone include parking navigation, shopping guides, promotion display and coupon collection. Moreover, Huizhou HuaMao Place created a special mini-app called "HuaMao Selected" in 2020, where customers can purchase selected cosmetics, clothing, accessories and other products, and enjoy home delivery services.

By providing a relatively comprehensive online and offline shopping service system for its customers, Huizhou HuaMao Place has increased its brand awareness and customers loyalty in competition with other traditional shopping malls in Huizhou or ordinary e-commerce platforms, and further enhanced its competitive advantage.

Therefore, with nearly 50% of its leased gross lettable area is food, entertainment and other service as at December 31, 2021, and an active embrace of new retail, Huizhou HuaMao Place suffers little impact from e-commerce.

5. SWOT ANALYSIS OF HUIZHOU HUAMAO PLACE

5.1. Strengths of Huizhou HuaMao Place

First-class operational performance

Occupancy rate

Since its opening, Huizhou HuaMao Place has maintained a high occupancy rate, with a rate of 96.3% as at December 31, 2021. Even under the influence of COVID-19 during the past two yeras, the shopping mall still managed to maintain it occupancy rate at a high level. In comparison, the average occupancy rate of the Huizhou shopping malls industry was approximately 80% in 2021.

Daily footfall

In 2021, the average daily footfall of Huizhou HuaMao Place exceeded 30 thousand on weekdays and nearly 60 thousand on weekends, which amounts to a total of around 15 million people visiting Huizhou HuaMao Place in 2021. Compared with its nearest comparable shopping mall, Huizhou Kaisa Plaza, whose average daily footfall of 2021 was nearly 18 thousand, Huizhou HuaMao Place demonstrates a strong advantage in attracting consumers.

Floor efficiency

Huizhou HuaMao Place's monthly floor efficiency for retail GFA of shopping mall building was RMB1,225 per sq.m. in 2021. Compared with its comparable middle to high-end shopping mall in Jiangbei commercial area, Huizhou Kaisa Plaza, whose monthly floor efficiency of 2021 was nearly RMB1,051 per sq.m. for retail GFA of shopping mall building, indicating Huizhou HuaMao Place's strong performance in terms of floor efficiency.

Excellent location and convenient transportation

Huizhou HuaMao Place is located in the core area of Huicheng District, which serves as the economic, political and cultural center of the entire Huizhou City. As such, Huicheng District has obvious transportation advantages. For example, Huizhou Railway Station is within Huicheng District, and Huizhou Airport is only a 31-minute drive away from Huizhou HuaMao Place.

Moreover, there are nearly 20 direct bus lines to Huizhou HuaMao Place, which allows its target customer base to cover the whole of Huicheng District during weekdays, and the whole of Huizhou City during weekends and holidays.

Mature infrastructure and other property supporting facilities

Huizhou HuaMao Place is located in Jiangbei commercial area, one of the three core commercial areas of Huizhou. Jiangbei commercial area has maintained its position as the leading commercial area since the city government relocated there 20 years ago. Compared with the city's earlier-established commercial areas such as Huabianling commercial area and Dongping commercial area, the Jiangbei business area is not the most mature, but it is one of the fastest-developing business areas.

Renowned tenants, broad brand coverage, and innovative format

In terms of brand coverage, Huizhou HuaMao Place is a top player in Huizhou's shopping mall industry due to its large-scale operation. Huizhou HuaMao Place has first tier international brands such as Lancôme, Estee Lauder, Hugo Boss, and BOSE, which are rarely seen in shopping malls in Huizhou City. Moreover, there is a large offering of sports brands and fashion lite-luxury brands in Huizhou HuaMao Place, which are highly sought-after among by the younger consumer groups.

While attracting a large number of top-tier brands to enter and remain in the mall, Huizhou HuaMao Place has also signed exclusive agreements with most of them, requiring the brand's store in Huizhou HuaMao Place to be the only store or the flagship store in the Huizhou region.

5.2. Weaknesses of Huizhou HuaMao Place

Relatively less residential communities surround Huizhou HuaMao Place

Jiangbei commercial area is the Central Business District (CBD) of Huizhou City, so compared with other commercial areas such as Huabianling commercial area and Jinshan Lake commercial area, there are more office buildings in Jiangbei commercial area, but fewer residential communities.

Limited attractiveness compared to Guangzhou and Shenzhen

In the short term, Huizhou HuaMao Place has limited attractiveness for customers from other major cities in the Greater Bay Area, such as Guangzhou and Shenzhen.

5.3. Opportunities of Huizhou HuaMao Place

Supply and demand gap of shopping malls in Huizhou City

Despite its fast growth, Huizhou is still falling behind Hong Kong in terms of its shopping mall industry. At the end of 2021, Huizhou's per capita retail gross floor area for shopping malls was 0.5 sq.m./person, lower than that of Hong Kong by 0.4 sq.m./person. Supposing that the year-end retail area of shopping malls per capita in Huizhou by 2026 will at least reach the same level of that of Hong Kong in 2021, approximately 3.0 million sq.m. of shopping malls would still be in demand for future completion.

Future trend of Huizhou HuaMao Place's surrounding neighbourhood

In the past few years, a number of new residential lands have been added to the area near the Jiangbei commercial area, and 15 new schools are planned to be built, which will greatly increase the residential population of the surrounding area. In addition, more commercial property projects are under construction, which are expected to greatly improve the life and business atmosphere of Jiangbei commercial area.

5.4. Threats of Huizhou HuaMao Place

New entrants in Huizhou City

Looking at Huizhou City as a whole, it is expected that at least 11 shopping malls will open in next five years, including four large shopping malls with a retail GFA over 100 thousand sq.m.. Moreover, Jiangbei commercial area is attracting plenty of property investment from developers, promoting the development of shopping mall industry. For example, Zhonghai Plaza (中海廣場) developed by China Oversea Land and Investment Ltd., is located beside Huizhou HuaMao Place.

Facilities become aging and less attractable

As time goes by, the facilities will be aging, which could mean losing customers to newer shopping malls.

APPENDIX: TERMS AND ABBREVIATIONS

ABC: Agricultural Bank of China 中國農業銀行

BOCOM: Bank of Communications 交通銀行

BOC: Bank of China 中國銀行

Bureau of Statistics of Huizhou 惠州市統計局

CAGR: Compound Annual Growth Rate 複合年均增長率

CCB: China Construction Bank 中國建設銀行

CGB: China Guangfa Bank 廣發銀行

Champion Group 燦邦集團

China Oversea Land and Investment Ltd. 中海地產

CIB: Industrial Bank 興業銀行

CMB: China Merchants Bank 招商銀行

COVID-19: Coronavirus Disease of 2019 新型冠狀病毒

Dalian Wanda Commercial Management Group Co., Ltd.
大連萬達商業管理集團股份有限公司

GFA: Gross Floor Area 總建築面積

Guangdong Hetianxia Property Group Co., Ltd. 廣東和天下置業集團有限公司

Guangdong Longsun Investment Co., Ltd. 廣東隆生企業投資有限公司

Huizhou Fuying Real Estate Development Co., Ltd. 惠州富盈置業有限公司

Huizhou HuaMao Xingye Real Estate Development Co., Ltd.
惠州華貿興業房地產開發有限公司

Huizhou Rural Commercial Bank 惠州農商銀行

Huizhou Tianyi Investment Co., Ltd. 惠州天益投資有限公司

ICBC: Industrial and Commercial Bank of China 中國工商銀行

IMF: International Monetary Fund 國際貨幣基金組織

Kaisa Commercial Group Co., Ltd. 佳兆業地產

National Development and Reform Commission 中華人民共和國國家發展和改革委員會

NBSC: National Bureau of Statistics of the People's Republic of China 中華人民共和國國家統計局

GLA: Gross Lettable Area 可出租總面積

Nominal GDP: Nominal Gross Domestic Production 名義國內生產總值

PRC: People's Republic of China 中華人民共和國

PSBC: Postal Savings Bank of China 中國郵政儲蓄銀行

Rainbow Digital Commercial Co., Ltd. 天虹數科商業股份有限公司

SCP Group (SCPG) 印力集團

SPDB: Shanghai Pudong Development Bank 上海浦東發展銀行

sq.m.: square meters 平方米

sq km: square kilometers 平方千米

State Council of the PRC: 中華人民共和國國務院

An investment in real estate involves risks. Unitholders should consider carefully, together with all other information contained in this Circular, the risk factors described below before deciding how to vote on the Acquisition Ordinary Resolution.

1. The Target Property is located in Huizhou, Guangdong Province. The Manager does not have prior experience with owning, operating and managing shopping malls in Huizhou, Guangdong Province or at all

Spring REIT's current portfolio includes CCP Property which is located in Beijing, the PRC and 84 commercial properties in the United Kingdom which are currently operating as car servicing centres. The acquisition of 68% of the Target Property represents Spring REIT's first investment in a shopping mall and also in Guangdong Province. Although the Manager has experience with managing office properties in Beijing, it has no operating history or experience in managing a shopping mall or any other properties in Huizhou or Guangdong Province. The Manager's experience in managing Spring REIT's properties in Beijing and the United Kingdom may not be applicable in other regions. Given the differences in the economic conditions, local property market conditions and property values and rental rates between Huizhou and Beijing, as well as the differences with operating shopping malls, there is no assurance that the Manager will be successful in managing the Target Property.

Furthermore, the PRC is geographically large and divided into various provinces and municipalities and as such, different laws, rules, regulations and policies apply in different provinces, and they may have different and varying applications and interpretations in different parts of the PRC. Accordingly, although the Manager might be familiar with the laws, rules, regulations and policies applicable in Beijing, this may not be applicable in Huizhou.

Any failure by the Manager to understand and adapt to the property market in Huizhou may have a material adverse effect on Spring REIT's business, financial condition and results of operations.

2. A downturn in the business of retail tenants of the Target Property and/or competition from nearby shopping malls or e-commence could reduce its property value and operating income, thereby having a material adverse effect on Spring REIT's operating results, financial condition and future levels of distribution

The operating income of the Target Property may be adversely affected by the insolvency or downturn in the business of retail tenants in Huizhou, where the Target Property is located. The property values and rental rates in Huizhou have been affected by, among other factors, supply and demand dynamics, economic conditions, interest rates, inflation and political developments in the PRC. The value of the Target Property may be adversely affected by these and a number of local property market conditions,such as oversupply, the performance of other competing commercial properties or reduced demand for commercial space. In particular, there are a few other shopping malls in Huizhou that may compete directly or indirectly with the Target Property in attracting tenants and result in downward pressure on rental rates. The shopping mall industry in general may also face strong competition from e-commerce and other online retail channels.

If there is a downturn in the business of retail tenants, the operating income of the Target Property may be reduced significantly. In the event of defaults by tenants whose rents make up the operating income of the Target Property, Spring REIT is likely to experience delays and costs in enforcing its rights as landlord, as well as finding sufficient numbers of replacement tenants. In addition, the value of the Target Property could be adversely affected by the loss of anchor tenants in the event that such anchor tenants file for bankruptcy or insolvency or experience a downturn in its business, including the decision by any such tenants not to renew their Leases or Joint Operation Agreements. Space that has been vacated by anchor tenants can reduce the demand for and value of other spaces within the Target Property because of the loss of the departed anchor tenants' customer drawing power. Any of such events could materially and adversely affect Spring REIT's operating results, financial condition and future levels of distribution.

3. The Project Company may be unable to renew Leases or Joint Operation Agreements, lease vacant space or re-lease space in the Target Property as these agreements expire

As at 28 February 2022, approximately 29.3%, 17.6% and 8.4% of all the Leases, Joint Operation Agreements and Direct Operation Agreements (calculated in terms of gross lettable area) of the Target Property were scheduled to expire during each of the three years ending 31 December 2022, 31 December 2023 and 31 December 2024, respectively. As at the Latest Practicable Date, the Supermarket Lease, which represented approximately 7.2% of the gross lettable area of the Target Property and contributed approximately 1.2% of the Project Company's monthly gross rental income in February 2022, was also in the process of being terminated (please refer to section 2.8.3 headed "Litigation with Supermarket Lessee" in this Circular for details), and the Manager understands from the Sellers that the Project Company was proactively identifying and engaging with potential new tenants to replace the Supermarket Lessee. The Manager cannot assure that such Leases or Joint Operation Agreements will be renewed or that new Leases or Joint Operation Agreements will be entered into for the vacant spaces on acceptable terms upon or promptly after the expiry of the current Leases and Joint Operation Agreements. Tenants of the Target Property may also decide not to renew their Leases or Joint Operation Agreements or to terminate their Leases or Joint Operation Agreements early, and the Project Company may not be able to re-lease the space. If the rent for the Target Property decreases or Spring REIT is unable to enter into new Leases or Joint Operation Agreements in respect of a significant portion of the Target Property's gross lettable area, Spring REIT's financial condition, results of operations, cash flow, trading price of the Units, and its ability to satisfy its debt service obligations could be materially adversely affected.

4. The due diligence survey on buildings and equipment may not have identified all material defects, breaches of laws and regulations and other deficiencies

Prior to the entering into of the Acquisition Agreements, the Manager had, or had instructed its advisers to, conduct physical and technical inspection and investigation of the Target Property. Nevertheless, there can be no assurance that such reviews, surveys or inspections (or the relevant review, survey or inspection reports on which Spring REIT or the Manager have relied upon to proceed to Completion) would have revealed all defects or deficiencies affecting the Target Property.

In particular, there can be no assurance as to the absence of: (a) latent or undiscovered defects or deficiencies; or (b) inaccuracies or deficiencies in such reviews, surveys or inspection reports, any of which could have a material adverse impact on Spring REIT's business, financial condition and results of operations.

If the Target Property has design, construction or other latent property or equipment defects, these may require additional capital expenditure, special repair or maintenance expenses or the payment of damages or the incurring of other obligations to third parties. Costs or liabilities arising from such property or equipment defects may involve significant and potentially unpredictable patterns and levels of expenditure which may have a material adverse effect on Spring REIT's earnings and cash flows.

5. Failure by the Sellers to fulfil their respective obligations under the Acquisition Agreements may have a material adverse effect on Spring REIT's operations

Under each Acquisition Agreement, the relevant Seller is subject to certain obligations in favour of the relevant Purchaser which will continue after Completion, including, among others, the following continuing obligations: (a) to pay amounts that may be due to the relevant Purchaser pursuant to the adjustment mechanisms stated in the relevant Acquisition Agreement; (b) to compensate the relevant Purchaser in the event of any breach of the warranties made by the relevant Seller under the relevant Acquisition Agreement; and (c) to indemnify the relevant Purchaser for certain losses, including those set out in sections 2.8.1 headed "Non-registration of Leases" and 5.4.2 headed "Joint Operation Agreements" in this Circular. However, failure by the one or both Sellers to fulfil any of their continuing obligations may have a material adverse effect on Spring REIT's operations. Unitholders should also note that each Seller's aggregate liability under the relevant Acquisition Agreement is subject to the applicable Maximum Liability Cap. In the event that losses exceed the applicable Maximum Liability Cap, the relevant Purchaser will not be able to recover the excess losses from the relevant Seller.

In addition, the Tax Holdback Amount may not be sufficient to cover the obligations of the Offshore Seller in respect of China Indirect Transfer Taxes. The Sellers' liability under the Acquisition Agreements is also subject to various limitations including the minimum per claim threshold, aggregate amount recoverable threshold, maximum aggregate liability and limitation period. For further details regarding these limitations, please refer to section 2.5.7 headed "Warranties and Indemnities" in this Circular.

6. There are inherent risks in joint venture investments

Like any other joint venture investments, the Joint Venture may involve certain risks which are inherent in investments with joint ownership arrangements, including the Manager not having complete management control and oversight over the daily operations and financial condition of the Target Property, reliance on the Property Manager and the Building Manager to manage the affairs of the Target Property, and the potential for an exit by or disputes with the JV Partner or its successor or transferee. Disputes with the JV Partner or its successor or transferee may lead to legal proceedings, and serious disputes may also lead to Spring REIT prematurely disposing of its investment (for example, in the event that a deadlock cannot be resolved), and there is no assurance that Spring REIT will be able to dispose of its investment at fair market value under such circumstances, which in turn may negatively impact the value of its investment. Also, there is no assurance that the JV Partner or its successor or transferee will not commit a default under the Joint Venture Agreement. The Manager has sought to mitigate such risks by clearly setting out the respective rights, obligations and responsibilities of each JV Party as shareholder of the Project Company in the Joint Venture Agreement (including reserving certain key matters to be subject to unanimous approval) and mechanisms for resolving any dispute or deadlock and (if necessary) effecting any exits.

7. Spring REIT is exposed to the risks of economic, legal system and property market conditions in the PRC

Upon Completion, Spring REIT's portfolio will include the Target Property, CCP Property which is located in Beijing, the PRC and 84 commercial properties in the United Kingdom. Spring REIT's business, financial condition and results of operations depends, and will continue to depend, to a large extent, on the performance of the economy of the PRC. An economic downturn or a downturn in the property market in the PRC could adversely affect Spring REIT.

The PRC economy differs from the economies of most developed countries in many respects, including (a) economic and political structure, (b) level of development, (c) growth rate, (d) control of foreign exchange, and (e) allocation of resources. The value of the Target Property may be adversely affected by a number of local property market conditions, such as oversupply of commercial properties, the performance of other competing commercial properties and reduced demand for commercial space in the PRC.

The PRC real estate industry is subject to extensive government regulations. As with other property owners in the PRC, Spring REIT must comply with various requirements mandated by the PRC laws and regulations. The Manager cannot predict whether the changes in the PRC's economic and other policies will have any adverse effect on Spring REIT's current or future business and financial conditions and results of operations.

8. Spring REIT may be adversely affected by the illiquidity of property investments

Property investments are relatively illiquid, particularly investments in high value properties such as those in which Spring REIT has already invested or intends to invest, including the Target Property. Such illiquidity may affect Spring REIT's ability to vary its investment portfolio or liquidate part of the Target Property in response to changes in economic, property market or other conditions. For example, Spring REIT may be unable to liquidate its assets on short notice or may be forced to agree to a substantial reduction in the price that may otherwise be sought for such assets, to ensure a quick sale. In addition, Spring REIT may face difficulties in securing timely and commercially favourable financing in asset-based lending transactions secured by real property due to the illiquid nature of real property assets. These factors could have an adverse effect on Spring REIT's business, financial condition or results of operations, with a consequential adverse effect on Spring REIT's ability to make expected distributions to Unitholders.

9. Pandemics, geopolitical tensions and other macro factors may negatively affect property investments

Macro factors such as COVID-19 and other pandemics, geopolitical tensions, and other global or regional developments affecting investor confidence, all of which are beyond the Manager's control, may materially and adversely affect the economy, infrastructure and livelihood of tenants in the PRC. In particular, the outbreak of COVID-19 across the world may result in prolonged measures to contain the spread of COVID-19, such as regulatory lock-downs, quarantines of people, suspension of operations or delayed resumption of work and production, and global travel restrictions imposed by the PRC and/or other regions. COVID-19 could potentially affect tenants' ability to pay rent and impact rental income of the Target Property. In addition, market uncertainty can lead to potential volatility in real estate prices as well as the RMB exchange rate. This may negatively impact the distributable income of Spring REIT and valuation of the Target Property.

10. The Project Company may face difficulties when it seeks to extend the term of land use rights upon expiry of the term of such land use rights

The land and real estate laws of the PRC, including laws relating to land use right and building ownership regulations and laws applicable to landlords and tenants, are still under development and reform. In recent years, the National People's Congress, the State Council, the Ministry of Natural Resources, the Ministry of Housing and Urban-Rural Development and other relevant authorities have promulgated a number of laws and regulations and departmental rules relating to legal problems in respect of land and real estate. In addition, the local people's congresses and local governmental authorities in many provinces and cities have also promulgated various local regulations or local rules. There may be uncertainties in the interpretation and application of these laws, administrative regulations, departmental rules, local regulations and local rules, and we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. These uncertainties could limit the legal protections available to Spring REIT. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of Spring REIT's resources and management attention.

The term of land use rights for the Target Property will expire on 1 February 2048. It is expected that the Project Company will, at least one year prior to this date, submit an application for extension of the land use rights. Under the current applicable PRC laws and regulations, the application for extension of non-residential land use rights shall be approved except for public interest considerations concerning the land. Where the application for extension of land use rights is granted, a new land grant contract must be executed and a premium must be paid by the Project Company in respect of the relevant land use rights and additional conditions may also be imposed. The current PRC laws and regulations do not specify the terms and conditions of such new land grant contract or the amount of such premium. In certain circumstances, the PRC government may, where it considers it to be in the public interest, terminate land use rights and expropriate the land before the expiration of the term. In addition, the PRC government has the right to terminate long-term land use rights and withdraw early the land in the event the grantee fails to observe or perform certain terms and conditions pursuant to the land use rights grant contracts. In the event that the Project Company's application for extension of the land use right for the Target Property is granted, but the terms and conditions of the new land grant contracts are likely to be less favourable than the existing land grant contracts, or there may be a significant increase in the premium payable by the Project Company, the business operations of the Project Company, in turn Spring REIT's business, financial condition, results of operations, cash flow and cash available for distributions to Unitholders, may be materially and adversely affected.

In the event that the application for extension of land use rights for the Target Property is not approved, the land use rights, together with the buildings and auxiliaries thereon, must be returned to the PRC government for no consideration when the land use rights expire and the Project Company would lose the entire value of the Target Property and Spring REIT's investment in the Target Group would correspondingly be worthless. In that case, the business operations of the Project Company, in turn Spring REIT's business, financial condition, results of operations, cash flow and cash available for distributions to Unitholders, may be materially and adversely affected.

11. The Target Property may be compulsorily acquired or expropriated by the PRC government

The PRC government has the power to compulsorily acquire any land in the PRC to meet the demand of public interest pursuant to the provisions of applicable legislation. In the event of any compulsory acquisition of property in the PRC, the amount of compensation to be awarded is based on the open market value of a property, the cost for relocation and resettlement and the losses arising from interruption of business and production caused by the compulsory acquisition and is assessed on the basis prescribed in the relevant law. If the Target Property is compulsorily acquired by the PRC government, the level of compensation paid to the Project Company pursuant to this basis of calculation may be less than the Agreed Property Value and/or the fair value of the Project Company's interest in the Target Property as shown in its financial statements and Spring REIT's investment in the Target Group would correspondingly be affected.

12. RMB is not freely convertible

The ability to remit RMB offshore and for Spring REIT to make distributions to the Unitholders is subject to foreign exchange controls. The PRC government continues to regulate conversion between RMB and foreign currencies, including HKD, despite its significant relaxation of controls in recent years over routine foreign exchange transactions on the current account.

The State Administration of Foreign Exchange (the "**SAFE**"), under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations. Transactions involving conversion between foreign currencies and RMB are subject to significant foreign exchange controls and the approval of the SAFE. There is also no assurance that the current policies regarding conversion of RMB into foreign currencies will not be subject to tighter controls or restrictions in the future.

13. Fluctuations in the value of the RMB could affect the amount of distributions to Unitholders and Unit price

Spring REIT receives majority of its revenue in RMB, which will have to translated to HK$ for payment as distributions to the Unitholders. A substantial portion of Spring REIT's borrowings are denominated in US$. Any decrease in value of the RMB may adversely affect accounting profit for Spring REIT and will adversely affect the value of distributions paid in HK$ and Spring REIT's Unit price.

14. Changes in market interest rates may adversely affect the property market and could negatively affect Spring REIT's ability to pay interest on its bank borrowings

Investment in real estate involves the risk that subsequent changes in market interest rates may adversely affect the value of the property in question. There is therefore a risk that changes in market interest rates may adversely affect the value of the Target Property and, subsequently, the value of Spring REIT's investment after Completion.

Increase in market interest rates will increase the finance cost of the Upsized Existing Facility and Spring REIT's existing bank borrowings which charge floating interest rate. Increased finance costs would negatively impact Spring REIT's reported profit, distributable income and DPU.

Set out below is the management discussion and analysis of the Project Company, which is based on the Accountant's Report of the Project Company as set out in Appendix 2B of this Circular.

BUSINESS OVERVIEW

The Project Company is a company established in the PRC with limited liability. It is principally engaged in leasing of properties in the PRC. The Project Company is the registered legal owner of the land use rights and current ownership rights underlying the Target Property, being a shopping mall known as "Huamao Place" (華貿天地) located in Huizhou, Guangdong Province, the PRC.

FINANCIAL OVERVIEW

Set out below is a summary of the operating results of the Project Company for the years indicated:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	185,909	185,751	217,911
Direct operating expenses	(35,286)	(34,092)	(48,815)
Net operating income	**150,623**	**151,659**	**169,096**
General and administrative expenses	(10,066)	(9,880)	(11,032)
Fair value gain/(loss) of investment property	125,000	(161,000)	349,315
Other gains, net	694	4,538	3,578
Operating profit/(loss)	**266,251**	**(14,683)**	**510,957**
Finance income	555	191	570
Finance costs	(22,329)	(19,577)	(15,571)
Profit/(loss) before income tax	**244,477**	**(34,069)**	**495,956**
Income tax (expenses)/credit	(64,162)	5,506	(131,837)
Profit/(loss) and total comprehensive income/(loss) for the year	**180,315**	**(28,563)**	**364,119**

Revenue

The Project Company holds an investment property in the PRC and is principally engaged in leasing of property, commission income from concessionaire sales and sales of goods. Revenue mainly consists of rental income from lessees, service fee income and commission income from concessionaire sales.

The following table sets forth a breakdown of the Project Company's revenue for the years indicated:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Rental income			
Base rental income	90,865	93,592	109,467
Turnover rental income	31,895	30,234	29,433
Commission income from concessionaire sales	15,225	10,167	10,693
Revenue recognised over time			
Service fee income	33,239	34,737	39,140
Advertising	3,810	4,177	4,468
Electricity and water	25,717	23,321	28,987
Less: Charged by supplier	(16,248)	(13,170)	(16,682)
Revenue recognised at a point in time			
Sales of goods	–	–	11,019
Other income	1,406	2,693	1,386
Total	**185,909**	**185,751**	**217,911**

The Project Company's revenue reduced by approximately 0.1% from approximately RMB 185.9 million for the year ended 31 December 2019 to approximately RMB185.8 million for the year ended 31 December 2020, primarily attributable to the decrease in turnover rental income and commission income from concessionaire sales, partially offset by the increase in base rental income and service fee income.

The Project Company's revenue increased by approximately 17.3% from approximately RMB185.8 million for the year ended 31 December 2020 to approximately RMB217.9 million for the year ended 31 December 2021, primarily attributable to the increase in base rental income and service fee income, and the new source of revenue generated from Direct Operation Agreements.

	Year ended 31 December		
	2019	**2020**	**2021**
Average rent (RMB/sq.m./month)	129.07	123.37	146.36
Average occupancy rate (%) [(1)]	98.4%	98.6%	97.1%

Notes:

(1) Average occupancy rate for the relevant period.

The rental income is affected by the Target Property's rental rates and occupancy rates, which in turn are affected by various factors such as: (a) outlook of macro economy in the PRC in general and in particular Huizhou; (b) supply of new malls similar to the Target Property in the Huizhou Jiangbei area; (c) the age, condition and specifications of the Target Property; (d) supporting facilities like transportation infrastructure as well as tourist attractions in the surrounding districts of the Target Property; and (e) the quality of building and property management services in respect of the Target Property.

Direct operating expenses

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Property taxes	14,747	14,289	17,197
Subcontracting property management fee	13,945	13,949	13,951
Cost of sales	–	–	9,906
Other taxes	243	705	1,502
Electricity and water	6,351	5,149	6,259
Total	**35,286**	**34,092**	**48,815**

The Project Company's direct operating expenses principally consist of: (a) property taxes; (b) subcontracting property management fee; (c) cost of sales; (d) other taxes; and (e) electricity and water expenses. For the years ended 31 December 2019, 31 December 2020 and 31 December 2021, the Project Company's property operating expenses amounted to approximately RMB35.3 million, RMB34.1 million and RMB48.8 million, respectively.

(a) Property taxes

Property taxes represent real estate tax and land use tax in the PRC. Real estate tax is either charged at the rate of 12.0% on the rental income basis for the leased area or at 1.2% on 70% of the original cost of the property for the self-use area. The fluctuation for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 was primarily attributable to the change in rental income and occupancy rate in respective years. As the Project Company is holding land use rights in Huizhou, the Project Company is also subject to a land use tax at the rate of RMB10 per sq.m. on the Target Property.

(b) Subcontracting property management fee

The property management fee for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 represents fees payable to the incumbent property manager under the existing property management agreement. The services provided by the incumbent property manager under the existing property management agreement include, but are not limited to, leasing management services, property management advisory services and operational management services.

(c) Cost of sales

Cost of sales arises from the Direct Operation Agreement entered into by the Project Company with the Beauty Retailers since the first half of 2021. Under the Direct Operation Agreement, the Project Company agrees to acquire merchandise from the Beauty Retailers at a discount to the retail price and offers such merchandise for sale at the retail price at the Beauty Stores within the Target Property, and the difference will be retained by the Project Company as profit from the operation of the Beauty Stores. For further details, please refer to section 5.4.3 headed "Direct Operation Agreements and Direct Operation Leasing Framework Agreement" in this Circular.

(d) Other taxes

Other taxes represent urban construction and maintenance tax, education surcharge, local education surcharge, stamp duty and etc. in the PRC.

(e) Electricity and water

Electricity and water charges recognized under Direct Operating Expense are related to the utilities consumed by public area of the Target Property.

General and administrative expenses

The Project Company's general and administrative expenses principally consist of: (a) advertising and promotion expenses; (b) depreciation; (c) auditor's remuneration; and (d) others. For the years ended 31 December 2019, 31 December 2020 and 31 December 2021, the Project Company's general and administrative expenses amounted to approximately RMB10.1 million, RMB9.9 million and RMB11.0 million, respectively.

Fair value change on the investment property

The fair values of the Project Company's investment property as at 31 December 2019, 31 December 2020 and 31 December 2021 were arrived at based on the valuation performed by the Independent Property Valuer in accordance with the relevant requirements of the Listing Rules and the REIT Code, as well as the valuation standards on properties issued by the Hong Kong Institute of Surveyors, the Royal Institution of Chartered Surveyors and the International Valuation Standards Council.

The fair value of the Target Property as at 31 December 2019, 31 December 2020, and 31 December 2021 amounted to approximately RMB2,500 million, RMB2,339 million and RMB2,691 million, respectively, representing fair value increase of RMB125 million, fair value decrease of RMB161 million, and fair value increase of 349 million compared with that as at the end of the immediately preceding financial year, respectively. The fair value increases were primarily attributable to the growth in rental income of the Target Property, including the recovery from the COVID-19 pandemic during which the Target Property recorded a fair value decrease in the unfavourable macroeconomic environment.

During the reporting period, the valuation methodology for the Target Property was the income capitalisation method by taking into account the rental income of the Target Property derived from its existing tenancies and/or achievable in the existing market with due allowance for the reversionary income potential of the tenancies, which have been then capitalised to determine the fair value at an appropriate capitalisation rate. A capitalisation rate of 6.0% was used by the Independent Property Valuer in the income capitalisation approach to derive the fair value of the Target Property.

To derive the fair value of the Target Property, the following have been taken into account by the Independent Property Valuer: (a) supply and demand of comparable properties; (b) the rate of economic growth in the PRC overall and in Huizhou specifically; (c) interest rates; (d) inflation; (e) political and economic developments in the PRC; (f) overall rental level of Huizhou's retail market; (g) the operating status of the Target Property; and (h) reversionary income based on the existing market conditions.

Other gains, net

The Project Company's net other gains primarily comprises: (a) subsidies and tax preference; (b) loss on disposal of property, plant and equipment; and (c) others. For the years ended 31 December 2019, 31 December 2020 and 31 December 2021, the Project Company's net other gains amounted to approximately RMB0.7 million, RMB4.5 million and RMB3.6 million, respectively.

Finance costs

Finance costs of the Project Company include: (a) interest expense on interest-bearing borrowings; (b) loan arrangement fees; and (c) others. For the years ended 31 December 2019, 31 December 2020 and 31 December 2021, the Project Company's finance costs amounted to approximately RMB22.3 million, RMB19.6 million and RMB15.6 million, respectively. The reduction in finance costs over the years was mainly attributable to the scheduled annual repayment of RMB50.0 million on interest-bearing borrowings.

Income tax (expenses)/credit

The Project Company is incorporated and operating in the PRC and therefore subject to PRC corporate income tax under the Corporate Income Tax Law of the PRC. The current tax is charged based on 25% of the taxable income after book-to-tax adjustments.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred taxation is determined using income tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled. The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through use instead of sales. Deferred income tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

For the years ended 31 December 2019, 31 December 2020 and 31 December 2021, the Project Company's income tax (expenses)/credit amounted to approximately income tax expenses of RMB64.2 million, income tax credit of RMB5.5 million and income tax expenses of RMB 131.8 million, respectively. The higher deferred taxation and income tax expenses for the years ended 31 December 2019 and 31 December 2021 reflected the fair value gains for the respective years.

Profit and loss

Profit of the Project Company for the years ended 31 December 2019 and 31 December 2021 amounted to approximately RMB180.3 million and RMB364.1 million, respectively. Loss of approximately RMB28.6 million was recorded for the year ended 31 December 2020 and this was mainly attributable to the decrease in fair value of the Target Property.

LIQUIDITY AND CAPITAL RESOURCES

Set out below is a summary of the financial information of the Project Company for the years indicated:

	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Total assets	3,183,859	3,088,352	4,371,276
Total liabilities	1,198,846	1,131,902	2,050,707
Net assets	1,985,013	1,956,450	2,320,569
Total equity	1,985,013	1,956,450	2,320,569
Total equity and liabilities	3,183,859	3,088,352	4,371,276

Restricted bank balance and cash and cash equivalent

As at 31 December 2019, 31 December 2020 and 31 December 2021, the Project Company had cash and cash equivalent of approximately RMB30.2 million, RMB32.0 million and RMB16.3 million, respectively. RMB1.0 million of bank balance was maintained as restricted bank balance as at 31 December 2019, 31 December 2020 and 31 December 2021. The restricted bank balance and cash and cash equivalent of the Project Company are denominated in RMB.

Capital structure

As at 31 December 2019, 31 December 2020 and 31 December 2021, the issued and fully paid share capital and other reserves of the Project Company was approximately RMB400.7 million, respectively.

Indebtedness

	As at 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Total borrowings	387,500	337,500	287,500
Total assets	3,183,859	3,088,352	4,371,276
Gearing ratio	12.2%	10.9%	6.6%

The Project Company was financed by ICBC Facility which was denominated in RMB and amounted to approximately RMB 387.5 million, RMB337.5 million and RMB287.5 million as at 31 December 2019, 31 December 2020 and 31 December 2021, respectively. The ICBC Facility was long-term and secured. The effective interest rates were 4.9%, 4.9% and 4.9% as at 31 December 2019, 31 December 2020 and 31 December 2021. As at 31 December 2019, 31 December 2020 and 31 December 2021, the Project Company did not have other committed borrowing facilities.

As at 31 December 2019, 31 December 2020 and 31 December 2021, the Project Company's gearing ratio (calculated as a percentage of the total borrowings to total assets of the Project Company) was approximately 12.2%, 10.9% and 6.6%, respectively.

Charges on assets

The ICBC Facility was secured by, among other things, mortgage over the Target Property, rent receivables and all future rent receivables. As at 31 December 2019, 31 December 2020 and 31 December 2021, the outstanding balance under the ICBC Facility was approximately RMB 387.5 million, RMB337.5 million and RMB287.5 million, respectively.

Contingent liabilities

As at 31 December 2019, 31 December 2020 and 31 December 2021, respectively, the Project Company did not have any outstanding material contingent liabilities.

Major acquisition and disposals of subsidiaries, associates and joint ventures

During the reporting period, there were no material acquisitions or disposals of subsidiaries, associates or joint ventures.

Capital commitments

As at 31 December 2019, 31 December 2020 and 31 December 2021, respectively, the Project Company did not have any material capital commitments.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS AND PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for the interests in the Target Property, the Project Company did not hold any significant investments, and did not have any material acquisitions or disposals of subsidiaries or associated companies for the years ended 31 December 2019, 31 December 2020 and 31 December 2021, respectively.

As at 31 December 2019, 31 December 2020 and 31 December 2021, respectively, save for the continuous upgrades and decoration to the Target Property, the Project Company did not have any future plans for material investments or capital assets.

EMPLOYEES' REMUNERATION AND POLICY

As the Project Company is a property-holding special purpose vehicle with no employees, no employees' remuneration had been paid and no policy for employees' remuneration had been adopted by the Project Company for the years ended 31 December 2019, 31 December 2020 and 31 December 2021, and such responsibilities were discharged by the incumbent property manager and/or the building manager.

FOREIGN CURRENCY EXPOSURE

The operation of the Project Company is located in the PRC and its principal assets and liabilities are denominated in RMB. As such, the Project Company considered that it did not have any material exposure to fluctuations in exchange rate during the reporting period. Accordingly, the Project Company did not have any hedging policies or any financial instruments for hedging purpose.

1. INFORMATION ABOUT THE PARTIES

Information about Spring REIT and the Purchasers

Spring REIT is a real estate investment trust, the units of which were first listed on the Hong Kong Stock Exchange on 5 December 2013. Spring REIT's current portfolio comprises the CCP Property and a portfolio of 84 commercial properties in the United Kingdom which is leased to Kwik-Fit (GB) Limited, a leading car servicing provider in the United Kingdom with over 600 centres nationwide.

Each of the Offshore Purchaser and the Onshore Purchaser is a wholly-owned SPV of Spring REIT incorporated for the purposes of the Acquisition and their principal business activity is to acquire and hold Spring REIT's 68% interest in the Target Property.

Information about the Sellers, the Offshore Seller Guarantor, the Property Manager and the Building Manager

To the best of the knowledge, information and belief of the Manager having made all reasonable enquiries as at the Latest Practicable Date, each of the Sellers and the Property Manager was an associate of Huamao Property, whose ultimate beneficial owners (i.e. natural persons who control one-third or more of Huamao Property) were Ms. Chia Seok Eng, Mr. Lin Minghan and Mr. Fang Chao. Based on their respective most recent disclosure of interest forms, each of them was deemed under the SFO to be interested (through Huamao Property) in 12.55% of the Units then in issue. The principal business activity of Huamao Property and the Sellers was investment holding and the principal business activity of the Property Manager was property management.

To the best of the knowledge, information and belief of the Manager having made all reasonable enquiries as at the Latest Practicable Date, the principal business activity of the Building Manager was estate management and its ultimate beneficial owners (i.e. natural persons who control one-third or more of the Building Manager) were Mr. Xiao Juntao and Ms. Cao Zhicheng.

Information about the Target Group

To the best of the knowledge, information and belief of the Manager having made all reasonable enquiries as at the Latest Practicable Date, the Offshore Target Company, the HK Intermediary Company, the PRC Intermediary Company and the Project Company will, after the Reorganisation and immediately prior to Completion: (a) have the principal business activity of investment holding in the Target Property; (b) not hold any other investment properties other than the Target Property or operate any other businesses; and (c) not have any employees.

2. DISCLOSURE OF INTERESTS IN UNITS

Interests held by the Manager, the Directors and Chief Executive

The REIT Code requires that connected persons of Spring REIT shall disclose their interests in Units. In addition, under the provisions of the Trust Deed, Part XV of the SFO is also deemed to be applicable, among other things, to the Manager, the Directors and the Chief Executive of the Manager.

The interests and short positions held by the Directors and the Chief Executive of the Manager in the Units required to be recorded in the register kept by the Manager under Schedule 3 of the Trust Deed are set out below:

Name	Capacity/ Nature of Interest	As at the Latest Practicable Date Number of Units interested in (Long Position)	Approximate % of interest
The Manager			
Spring Asset Management Limited	Beneficial owner/ Beneficial interest	24,783,874	1.68%
Directors			
Toshihiro Toyoshima	Beneficial owner/ Personal interest	1,100,000	0.07%
Hideya Ishino	Beneficial owner/ Personal interest	115,000	0.01%
Leung Kwok Hoe, Kevin	Beneficial owner/ Personal interest	759,000	0.05%
Simon Murray	Beneficial owner/ Personal interest	913,000	0.06%
Qiu Liping	Beneficial owner/ Personal interest	913,000	0.06%
Lam Yiu Kin	Beneficial owner/ Personal interest	929,000	0.06%

Unitholdings of Substantial Holders

The following persons have interests or short position in the Units required to be recorded in the register kept by the Manager under Schedule 3 of the Trust Deed:

		As at the Latest Practicable Date		
Name	Capacity/ Nature of interest	Number of Units interested in (Long Position)	Number of underlying Units interested in (Long Position)	Approximate % of issued Units
RCAC	Interest of controlled corporation/ corporate interests	304,699,361	N/A	20.64%
Sumitomo Mitsui Banking Corporation	Person having a security interest in shares/ other interests	334,720,159	N/A	22.68%
Mercuria Investment Co., Ltd.	Interest of controlled corporation/ corporate interests	336,720,159	N/A	22.81%
Mercuria Holdings Co., Ltd.	Interest of controlled corporation/ corporate interests	361,504,033	N/A	24.49%
PAG Holdings Limited	Interest of controlled corporation/ corporate interests	233,562,089	N/A	15.82%
Spirit Cayman Limited	Beneficial owner/ Beneficial interest	169,552,089	N/A	11.49%
Huamao Property	Interest of controlled corporation & beneficial owner/ corporate interests & beneficial interests	185,249,742	N/A	12.55%
Fang Chao	Interest of controlled corporation/ corporate interests	185,249,742	N/A	12.55%

Name	Capacity/ Nature of interest	As at the Latest Practicable Date Number of Units interested in (Long Position)	Number of underlying Units interested in (Long Position)	Approximate % of issued Units
Lin Minghan	Interest of controlled corporation/ corporate interests	185,249,742	N/A	12.55%
Chia Seok Eng	Interest of controlled corporation/ corporate interests	185,249,742	N/A	12.55%
Shining Path Limited	Interest of controlled corporation/ corporate interests	162,096,029	N/A	10.98%
Skyland Union Holdings Limited	Interest of controlled corporation/ corporate interests	162,096,029	N/A	10.98%
Sino-Ocean Group	Interest of controlled corporation/ corporate interests	176,408,678	N/A	11.95%

Unitholdings of other Connected Persons

As at the Latest Practicable Date, save as disclosed above and based on information available to the Manager, the Manager is not aware of any other connected persons of Spring REIT whose interests (or deemed interests) in the Units or underlying Units were required to be notified to the Manager and the Hong Kong Stock Exchange pursuant to the REIT Code or pursuant to the Trust Deed.

3. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS AND COMPETING BUSINESSES

Save as disclosed in this Circular, as at the Latest Practicable Date:

(a) none of the Directors had any direct or indirect interest in any assets which had since 31 December 2021, being the date to which the latest published audited financial statements of Spring REIT were made up, been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to the Group;

(b) none of the Directors was materially interested in any subsisting contract or arrangement which was significant in relation to the business of the Group taken as a whole; and

(c) none of the Directors or any of their close associates had any interest in a business which competes or may compete, either directly or indirectly, with the business of the Group, or had or may have had any other conflicts of interest with the Group pursuant to rule 8.10 of the Listing Rules.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into a service contract with any member of the Group which does not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. INDEBTEDNESS OF THE TARGET GROUP

At the close of business on 31 March 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular, the Target Group had bank borrowing of RMB275.0 million, which was secured by the Project Company's property mortgage, rent receivables and all future rent receivables and restricted bank balance. Save as disclosed above and apart from intra-group liabilities, the Target Group did not have any loan capital issued and outstanding, nor had the Target Group agreed to issue any loan capital, bank overdrafts and liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities, in each case as at the close of business on the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular.

6. EXPERTS AND CONSENTS

Each of the Financial Adviser, the Reporting Accountant, the PRC Legal Adviser, the Independent Financial Adviser, the Independent Property Valuer, the Building Consultant and the Market Consultant has given and has not withdrawn its written consent to the issue of this Circular, with the inclusion herein of the reference to its name and its opinion or report in the form and context in which it appears.

The following are the qualifications of the experts who have been named in this Circular or who have given an opinion or report contained in this Circular.

PricewaterhouseCoopers	Certified Public Accountants
Zhong Lun Law Firm	PRC Legal Adviser
Altus Capital Limited	A corporation licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
Knight Frank Petty Limited	Independent Property Valuer
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Building Consultant
China Insights Consultancy	Market Consultant

As at the Latest Practicable Date, none of the experts had any interest in any member of the Group nor did it have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the experts had any direct or indirect interest in any assets which had since 31 December 2021, being the date to which the latest published audited financial statements of Spring REIT were made up, been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to the Group.

7. LITIGATION

Save for the litigation disclosed in section 2.8.3 headed "Litigation with Supermarket Lessee" in this Circular, as at the Latest Practicable Date, none of Spring REIT, the Manager, the Trustee (in its capacity as the trustee of Spring REIT), the Purchasers, the Offshore Target Company or the Project Company were involved in any litigation or claims of material importance, and no litigation or claims of material importance, by or against Spring REIT, the Manager, the Trustee (in its capacity as the trustee of Spring REIT), the Purchasers, the Offshore Target Company or the Project Company, was pending or threatened.

8. MATERIAL CONTRACTS

Save for the documents referred to in paragraph 10(a) below, Spring REIT has not entered into any other material contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date in this Circular. Please refer to section 2.5 headed "Acquisition Agreements" in this Circular for further details regarding the Acquisition Agreements.

9. RESPONSIBILITY STATEMENT

This Circular, for which the Manager and the Directors collectively and individually accept full responsibility (including for the accuracy of the information contained therein), includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to Spring REIT. The Manager and the Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Circular misleading.

10. DOCUMENTS ON DISPLAY

Copies of the following documents are available for inspection on the websites of the Stock Exchange (http://www.hkexnews.hk) and Spring REIT (http://www.springreit.com) from the date of this Circular up to and including the date of the EGM:

(a) the Acquisition Agreements (and their respective attachments thereto (including the Joint Venture Agreement, the Novated Payables, the Project Company Facility, the Property Management Agreement, the PM Office Lease, the Direct Operation Leasing Framework Agreement and the Building Management Agreement);

(b) the Letter from the Independent Board Committee;

(c) the Letter from the Independent Financial Adviser;

(d) the Accountant's Reports of the Offshore Target Company and the Project Company from PricewaterhouseCoopers as set out in Appendix 2A and Appendix 2B to this Circular;

(e) the report on the pro forma financial information of the Enlarged Group from PricewaterhouseCoopers as set out in Appendix 3 to this Circular;

(f) the Independent Property Valuer's Property Valuation Report as set out in Appendix 4 to this Circular;

(g) the Market Consultant's Report as set out in Appendix 5 to this Circular; and

(h) the written consents referred to in section 6 headed "Experts and Consents" of this Appendix.

The Trust Deed will also be available for inspection at the registered office of the Manager for so long as Spring REIT continues to be in existence.

Spring Real Estate Investment Trust
春泉產業信託

(A Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

(Stock code: 01426)

Managed by

Spring Asset Management Limited

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the unitholders (the "**Unitholders**") of Spring Real Estate Investment Trust ("**Spring REIT**") will be held at Room 2401-2, One Admiralty Centre, 18 Harcourt Road, Hong Kong on 26 May 2022 at 4:15 p.m. for the purpose of considering and, if thought fit, passing with or without modifications, the resolution below as ordinary resolutions.

Words and expressions that are not expressly defined in this notice of extraordinary general meeting shall bear the same meaning as that defined in the unitholder circular dated 3 May 2022 (the "**Circular**").

ORDINARY RESOLUTIONS

1. "**THAT** approval (where relevant, shall include approval by way of ratification) be and is hereby given for the Acquisition (including the entry into of the Acquisition Agreements and the transactions under or in connection with the Acquisition Agreements (being the Ancillary Transactions)), as well as the Joint Venture (including the entry into the Joint Venture Agreement and the transactions contemplated thereunder), each as more particularly described in the Circular and on the terms and conditions set out in the relevant agreements (as more fully described in the Circular);

   AND THAT authorisation be granted to the Manager, any director of the Manager, the Trustee, any authorised signatory of the Trustee, each Purchaser and any authorised signatory of each Purchaser to complete and to do all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager, the Trustee, such authorised signatory of the Trustee, such Purchaser or such authorised signatory of such Purchaser, as the case may be, may consider expedient or necessary or in the interest of Spring REIT to give effect to all matters authorised and/or contemplated under this resolution."

2. **"THAT**, conditional upon the Acquisition Ordinary Resolution being passed, approval (where relevant, shall include approval by way of ratification) be and is hereby given for the transactions under the Property Management Agreement and the PM Office Lease and the Annual Caps applicable thereto, each as more particularly described in the Circular and on the terms and conditions set out in the Property Management Agreement and the PM Office Lease (as more fully described in the Circular);

   AND THAT authorisation be granted to the Manager, any director of the Manager, the Trustee, any authorised signatory of the Trustee, each Purchaser and any authorised signatory of each Purchaser to complete and to do all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager, the Trustee, such authorised signatory of the Trustee, such Purchaser or such authorised signatory of such Purchaser, as the case may be, may consider expedient or necessary or in the interest of Spring REIT to give effect to all matters authorised and/or contemplated under this resolution."

By order of the board of Directors of
Spring Asset Management Limited
(as manager of Spring Real Estate Investment Trust)
Mr. Toshihiro Toyoshima
Chairman of the Manager

Hong Kong, 3 May 2022

Registered Office:
Room 2801, 28/F, Man Yee Building
68 Des Voeux Road Central
Hong Kong

Notes:

(a) A Unitholder who is entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend, on a poll, vote in his/her stead. The person appointed to act as a proxy need not be a Unitholder.

(b) In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the registered office of the Unit Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof. Completion and return of the proxy will not preclude you from attending and voting in person should you so wish. In the event that you attend the meeting or adjourned meeting (as the case may be) after having lodged a form of proxy, the form of proxy will be deemed to have been revoked.

(c) Where there are joint registered Unitholders of a unit, any one of such Unitholders may vote at the meeting in respect of such unit as if he/she were solely entitled thereto, but if more than one of such Unitholders is present at the meeting, that one of such Unitholders so present whose name stands first on the Register of Unitholders in respect of such unit shall alone be entitled to vote in respect thereof.

(d) In order to determine which Unitholders will qualify to participate in and vote at the EGM, the Register of Unitholders will be closed from 23 May 2022 to 26 May 2022, both days inclusive, during which period no transfer of units will be registered. For those Unitholders who are not on the Register of Unitholders, in order to be qualified to participate in and vote at the EGM, all unit certificates accompanied by the duly completed transfer forms must be lodged with the unit registrar of Spring REIT in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 20 May 2022.

(e) In view of COVID-19 pandemic situation and recent recommendations for prevention and control of its spread, the Manager will implement certain precautionary measures at the EGM to protect attending Unitholders, staff and other persons from the risk of infection. For further details, please refer to the Circular.

(f) Subject to the development of the COVID-19 pandemic and the requirements or guidelines of the Hong Kong government and/or regulatory authorities, the Manager may announce further updates on the EGM arrangement on the Stock Exchange's website at http://www.hkexnews.hk and Spring REIT's website at http://www.springreit.com as and when appropriate.

As at the date of this notice, the Board comprises:

Non-executive Director:	*Mr. Toshihiro Toyoshima (Chairman) and Mr. Hideya Ishino*
Executive Directors:	*Mr. Leung Kwok Hoe, Kevin (Chief Executive Officer) and Mr. Chung Wai Fai, Michael*
Independent Non-executive Directors:	*Mr. Simon Murray, Mr. Qiu Liping and Mr. Lam Yiu Kin*