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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

ANNOUNCEMENT

CONTINUING CONNECTED PARTY TRANSACTIONS IN RELATION TO TERMINATION OF THE EXISTING MERCURIA BEIJING LEASE AND ENTERING INTO OF THE RELOCATION MERCURIA BEIJING LEASE

TERMINATION OF THE EXISTING MERCURIA BEIJING LEASE AND ENTERING INTO OF THE RELOCATION MERCURIA BEIJING LEASE

The Board wishes to announce that, to facilitate an independent third party tenant's request to expand its office premises to the premises subject to the Existing Mercuria Beijing Lease at Office Tower 2 of China Central Place, the Manager, acting in the best interests of Spring REIT and its unitholders, has sought and obtained Mercuria Beijing's agreement to relocate to another premises of a similar but slightly larger size at Office Tower 2 of China Central Place. Accordingly, on 19 September 2022, Spring REIT and Mercuria Beijing entered into: (a) the Termination Agreement to terminate the Existing Mercuria Beijing Lease without any further or outstanding liability on either party with effect from 30 September 2022; and (b) the Relocation Mercuria Beijing Lease for a term of three years commencing from 1 October 2022 and expiring on 30 September 2025.

As Mercuria Beijing is a wholly-owned subsidiary of Mercuria Holdings, which is an associate of the Manager, Mercuria Beijing is an associate of the Manager and a connected person of Spring REIT pursuant to paragraph 8.1(f) of the REIT Code.

Accordingly, the termination of the Existing Mercuria Beijing Lease contemplated under the Termination Agreement is subject to the announcement requirement under rule 14A.35 of the Listing Rules (modified as appropriate pursuant to 2.26 of the REIT Code). In addition, the transactions under the Relocation Mercuria Beijing Lease constitute continuing connected party transactions of Spring REIT under Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio calculated in respect of the Annual Cap applicable to the transactions under the Relocation Mercuria Beijing Lease exceeds 0.1% but is less than 5%, such transactions and the Annual Cap applicable thereto are subject to the announcement, reporting and annual review requirements but are exempted from the unitholders' approval requirement under Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules.

This announcement is made pursuant to paragraph 10.5A of the REIT Code.

A. BACKGROUND

Reference is made to the announcement of Spring Real Estate Investment Trust (“**Spring REIT**”) dated 29 December 2020 (the “**Mercuria Beijing Lease Announcement**”) in relation to the renewal of the tenancy agreement entered into by MIBJ Consulting (Beijing) Co., Ltd.* (“**Mercuria Beijing**”) for certain office premises at Office Tower 2 of China Central Place for a term of 36 months expiring on 31 December 2023 (the “**Existing Mercuria Beijing Lease**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Mercuria Beijing Lease Announcement.

B. TERMINATION OF THE EXISTING MERCURIA BEIJING LEASE AND ENTERING INTO OF THE RELOCATION MERCURIA BEIJING LEASE

Background and reasons for and benefits of terminating the Existing Mercuria Beijing Lease and entering into the Relocation Mercuria Beijing Lease

The Manager has been approached by an independent third party tenant of China Central Place, who has expressed interest in expanding its office premises to the premises subject to the Existing Mercuria Beijing Lease at Office Tower 2 of China Central Place. To facilitate such independent third party tenant's request, the Manager, acting in the best interests of Spring REIT and its unitholders, has sought and obtained Mercuria Beijing's agreement to relocate to another premises of a similar but slightly larger size at Office Tower 2 of China Central Place (the “**Relocation Premises**”) for a term of three years by entering into a relocation lease (the “**Relocation Mercuria Beijing Lease**”).

Accordingly, on 19 September 2022, Spring REIT and Mercuria Beijing entered into: (a) a termination agreement (the “**Termination Agreement**”) to terminate the Existing Mercuria Beijing Lease without any further or outstanding liability on either party with effect from 30 September 2022; and (b) the Relocation Mercuria Beijing Lease in respect of the Relocation Premises commencing from 1 October 2022 and expiring on 30 September 2025.

The principal business of Spring REIT is property investment for rental income. Based on the opinion of the independent property valuer, the rental amounts under the Relocation Mercuria Beijing Lease are fair and reasonable and represent the prevailing market rent for similar properties in the locality that are used for similar purposes in the PRC, and the Relocation Mercuria Beijing Lease is on normal commercial terms or better. The Relocation Mercuria Beijing Lease will contribute towards the occupancy rate for Office Tower 2 of China Central Place. Therefore, having regard to the foregoing, the directors of the Manager believe that the entry into and terms of the Relocation Mercuria Beijing Lease are fair and reasonable and in the interests of Spring REIT and its unitholders as a whole.

Key terms of the Existing Mercuria Beijing Lease and the Relocation Mercuria Beijing Lease

Details of the Existing Mercuria Beijing Lease and the Relocation Mercuria Beijing Lease are as follows:

	Existing Mercuria Beijing Lease <i>(terminating with effect from 30 September 2022)</i>	Relocation Mercuria Beijing Lease <i>(commencing from 1 October 2022)</i>
Premises	Unit 1407, Office Tower 2 of China Central Place, No. 79 Jianguo Road, Chaoyang District, Beijing, the PRC	Unit 402, Office Tower 2 of China Central Place, No. 79 Jianguo Road, Chaoyang District, Beijing, the PRC ⁽¹⁾
Lease commencement date	1 January 2021	1 October 2022 ⁽²⁾
Term	36 months, expiring 31 December 2023	36 months, expiring on 30 September 2025 ⁽²⁾
Rental amount	RMB 79,457.39 per month (exclusive of property management fee and value added tax)	RMB 82,401.75 per month (exclusive of property management fee and value added tax)

	Existing Mercuria Beijing Lease <i>(terminating with effect from 30 September 2022)</i>	Relocation Mercuria Beijing Lease <i>(commencing from 1 October 2022)</i>
Security deposit amount	RMB 280,628.88	RMB 295,072.95 ⁽⁴⁾
Fitting-out period	None	The tenant is entitled to a 50% discount to the monthly rental amount during the fitting-out period from 1 October 2022 to 30 November 2022
Early termination option	The tenant does not have the right to terminate the lease prior to its expiry, except in limited circumstances such as when there are major defects in the leased premises that are not corrected within a reasonable time	Same as the Existing Mercuria Beijing Lease
Renewal option	The tenant has an option to renew the lease for an additional term by providing at least six months' prior written notice before the expiry of the current term and entering into a new lease three months before the expiry of the current term. The rental amount for the additional term is determined through negotiation in accordance with the then prevailing market level	Same as the Existing Mercuria Beijing Lease

Notes:

- (1) The Relocation Premises are of a similar but slightly larger size compared with the the premises subject to the Existing Mercuria Beijing Lease.
- (2) The Relocation Mercuria Beijing Lease replaces the Existing Mercuria Beijing Lease which will be terminated with effect from 30 September 2022.
- (3) The rental amount under the Relocation Mercuria Beijing Lease reflects: (a) a slightly lower rent per sq.m. as the Existing Mercuria Beijing Lease; and (b) a slightly larger area of the Relocation Premises.

- (4) The security deposit amount under the Relocation Mercuria Beijing Lease reflects: (a) the same basis as the Existing Mercuria Beijing Lease; and (b) a slightly larger area of the Relocation Premises.

Historical rental amounts and Annual Cap

The historical rental amounts payable in each of the years/periods from 1 January 2019 and ended on 30 June 2022 are as follows:

Year/Period	Historical Rental Amount
For the financial year ended 31 December 2019	RMB966,952.80 ⁽¹⁾
For the financial year ended 31 December 2020	RMB955,732.70 ⁽¹⁾
For the financial year ended 31 December 2021	RMB953,488.86 ⁽²⁾
For the six months ended 30 June 2022	RMB476,744.34 ⁽²⁾

Notes:

- (1) As disclosed in the announcement dated 28 February 2020 of Spring REIT, Mercuria Beijing was previously occupying the premises at Unit 1407, Office Tower 1 of China Central Place, No. 81 Jianguo Road, Chaoyang District, Beijing, the PRC (the “**Terminated Mercuria Beijing Lease**”). A relocation lease (the “**First Relocation Lease**”) was entered into between Spring REIT and Mercuria Beijing to relocate Mercuria Beijing to the current premises at Unit 1407, Office Tower 2 of China Central Place, No. 79 Jianguo Road, Chaoyang District, Beijing, the PRC, with effect from 1 March 2020. For the financial year ended 31 December 2019, the rental amount comprised the sums payable under the Terminated Mercuria Beijing Lease during such period. For the financial year ended 31 December 2020, the rental amount comprised the sums payable under the Terminated Mercuria Beijing Lease during the period from 1 January 2020 to 28 February 2020 and the sums payable under the First Relocation Lease during the period from 1 March 2020 to 31 December 2020.
- (2) For the financial year ended 31 December 2021 and the six months ended 30 June 2022, the rental amount comprised the sums payable under the Existing Mercuria Beijing Lease.

The annual cap (the “**Annual Cap**”) applicable to the transactions under the Relocation Mercuria Beijing Lease in each of the following years/periods has been determined based on the previous transactions and effective rental amount ⁽¹⁾ payable thereunder, and is as follows:

Year/Period	Annual Cap
For the three months ending 31 December 2022	RMB 240,338.44 ⁽²⁾
For the financial year ending 31 December 2023	RMB 961,353.74
For the financial year ending 31 December 2024	RMB 961,353.74
For the nine months ending 30 September 2025	RMB 721,015.31 ⁽³⁾

Notes:

- (1) The effective rental amount under the Relocation Mercuria Beijing Lease represents the aggregate rental amount receivable under the Relocation Mercuria Beijing Lease recognised on a straight-line basis over the term of the Relocation Mercuria Beijing Lease. Lease incentives provided are amortised on a straight-line basis and are recognised as a reduction of rental income over the term of the Relocation Mercuria Beijing Lease.
- (2) This comprises the effective rental amount payable under the Relocation Mercuria Beijing Lease for the three months from 1 October 2022 and ending on 31 December 2022.
- (3) This comprises the effective rental amount payable under the Relocation Mercuria Beijing Lease for the nine months from 1 January 2025 and ending on 30 September 2025.

Information about Mercuria Beijing

The principal business activity of Mercuria Beijing is investment management. The ultimate beneficial owner of Mercuria Beijing is Mercuria Holdings Co., Ltd. (“**Mercuria Holdings**”), which is listed on the First Section of the Tokyo Stock Exchange, and the principal business activity of Mercuria Holdings is investment management.

C. REGULATORY IMPLICATIONS

As Mercuria Beijing is a wholly-owned subsidiary of Mercuria Holdings, which is an associate of the Manager, Mercuria Beijing is an associate of the Manager and a connected person of Spring REIT pursuant to paragraph 8.1(f) of the Code on Real Estate Investment Trust (the “**REIT Code**”).

Accordingly, the termination of the Existing Mercuria Beijing Lease contemplated under the Termination Agreement is subject to the announcement requirement under rule 14A.35 of the Listing Rules (modified as appropriate pursuant to 2.26 of the REIT Code). In addition, the transactions under the Relocation Mercuria Beijing Lease constitute continuing connected party transactions of Spring REIT under Chapter 8 of the REIT Code and Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (modified as appropriate pursuant to paragraph 2.26 of the REIT Code) (the “**Listing Rules**”).

As the highest applicable percentage ratio calculated in respect of the Annual Cap applicable to the transactions under the Relocation Mercuria Beijing Lease exceeds 0.1% but is less than 5%, such transactions and the Annual Cap applicable thereto are subject to the announcement, reporting and annual review requirements but are exempted from the unitholders’ approval requirement under Chapter 8 of the REIT Code and Chapter 14A of the Listing Rules.

D. OPINIONS

Board

The board of directors of the Manager (the “**Board**”) (including the independent non-executive directors of the Manager) is of the view that each of the Termination Agreement and the Relocation Mercuria Beijing Lease: (a) was entered into at arms’ length and in the ordinary and usual course of business of Spring REIT; (b) is consistent with the investment objective of Spring REIT; (c) is on normal commercial terms or better; and (d) is fair and reasonable and in the interests of Spring REIT and its unitholders as a whole.

Each of Mr. Toshihiro Toyoshima and Mr. Hideya Ishino has a material interest in the Termination Agreement and the Relocation Mercuria Beijing Lease and accordingly, each of them has abstained from voting on the board resolution of the Manager to approve the Termination Agreement and the Renewed Mercuria Beijing Lease.

Save as disclosed, none of the other directors of the Manager has a material interest in the Termination Agreement and the Relocation Mercuria Beijing Lease and/or is required to abstain from voting on the board resolutions of the Manager to approve the Termination Agreement and the Relocation Mercuria Beijing Lease.

Independent property valuer

The Manager has also obtained an opinion from Knight Frank Petty Limited, an independent property valuer and the principal valuer of Spring REIT, that the rental amounts under the Relocation Mercuria Beijing Lease are fair and reasonable and represent the prevailing market rent for similar properties in the locality that are used for similar purposes in the PRC, and the Relocation Mercuria Beijing Lease is on normal commercial terms or better.

Trustee

Based and in sole reliance on the respective opinions of the Board and the independent property valuer above and the information and assurances provided by the Manager, the Trustee, having taken into account its duties set out in the trust deed constituting Spring REIT (the “**Trust Deed**”) and the REIT Code:

- (a) has no objection to the Manager to enter into the Termination Agreement and the Relocation Mercuria Beijing Lease;
- (b) is of the view that each of the Termination Agreement and the Relocation Mercuria Beijing Lease is consistent with Spring REIT’s investment policy and in compliance with the REIT Code and the Trust Deed;

- (c) is of the view that each of the Termination Agreement and the Relocation Mercuria Beijing Lease is on normal commercial terms or better, fair and reasonable and in the interests of Spring REIT and its unitholders as a whole; and
- (d) confirms that unitholders' approval is not required under the REIT Code or the Trust Deed for entering into the Termination Agreement and the Relocation Mercuria Beijing Lease.

These views are not to be taken as a recommendation or representation by the Trustee on the merits of the termination of the Existing Mercuria Beijing Lease and entering into of the Relocation Mercuria Beijing Lease.

E. REVIEW AND REPORTING PROCESS

The Relocation Mercuria Beijing Lease will also be subject to the following review and reporting processes:

(a) Annual review by the independent non-executive directors of the Manager

The independent non-executive directors of the Manager shall review the Relocation Mercuria Beijing Lease annually and confirm in Spring REIT's annual report for the relevant financial period that the transactions under the Relocation Mercuria Beijing Lease have been entered into:

- (i) in the ordinary and usual course of business of Spring REIT;
- (ii) on normal commercial terms or better; and
- (iii) in accordance with the Relocation Mercuria Beijing Lease on terms that are fair and reasonable and in the interests of Spring REIT and its unitholders as a whole.

(b) Annual review by the auditors of Spring REIT

In respect of each relevant financial period, the Manager shall engage the auditors of Spring REIT to report on the Relocation Mercuria Beijing Lease annually. The auditors of Spring REIT must provide a letter to the board of directors of the Manager confirming whether anything has come to their attention that causes them to believe that any transaction:

- (i) has not been approved by the Board;
- (ii) was not, in all material respects, in accordance with the pricing policies of Spring REIT;

(iii) was not entered into, in all material respects, in accordance with the terms of the Relocation Mercuria Beijing Lease; and

(iv) has exceeded the Annual Cap.

The Manager shall allow, and procure the tenant to allow, the auditors of Spring REIT sufficient access to its records for the purpose of reporting on the Relocation Mercuria Beijing Lease.

(c) Notification to the Securities and Futures Commission

The Manager shall promptly notify the Securities and Futures Commission and publish an announcement if the independent non-executive directors of the Manager and/or the auditors of Spring REIT will not be able to confirm the matters set out in (a) and/or (b) above.

(d) Annual reports

A brief summary of each transaction containing the information specified in rules 14A.71 and 14A.72 of the Listing Rules shall be included in Spring REIT's annual reports.

Changes to Annual Cap or terms

If the Annual Cap is exceeded or Spring REIT proposes to renew the Relocation Mercuria Beijing Lease or effect a material change to its terms, Spring REIT shall comply with the relevant requirements under the REIT Code and the Listing Rules.

F. GENERAL

Spring REIT is a real estate investment trust, the units of which were first listed on The Stock Exchange of Hong Kong Limited on 5 December 2013. Spring REIT's current portfolio includes all office floors of Office Tower 1 and Office Tower 2 of China Central Place (which are located in Beijing, the PRC) and a portfolio of 84 commercial properties in the UK which is leased to Kwik Fit, a leading car servicing provider in the UK with over 600 centres nationwide.

This announcement is made pursuant to paragraph 10.5A of the REIT Code.

By order of the Board of
Spring Asset Management Limited
(as manager of Spring Real Estate Investment Trust)
Mr. Toshihiro Toyoshima
Chairman of the Manager

Hong Kong, 19 September 2022

As at the date of this announcement, the directors of the Manager are Toshihiro Toyoshima (Chairman and non-executive director); Leung Kwok Hoe, Kevin (Chief Executive Officer and executive director) and Chung Wai Fai, Michael (executive director); Hideya Ishino (non-executive director); and Simon Murray, Lam Yiu Kin and Liping Qiu (independent non-executive directors).

** For identification purposes only.*