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19 February 2025

To: the Independent Unitholders and the Trustee

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 2602, 26/F, LHT Tower
31 Queen's Road Central
Central, Hong Kong

Dear Sir or Madam,

DISPOSAL OF COMMERCIAL PROPERTIES IN THE UNITED KINGDOM AND SPECIAL DEAL

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Unitholders and the Trustee in relation to the Disposal, details of which are set out in the "Letter from the Board" contained in the circular of Spring REIT dated 19 February 2025 (the "**Circular**"). Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 18 February 2025, the Seller (being a wholly-owned subsidiary of Spring REIT), the Buyer (being a third party independent of Spring REIT and its connected persons), the Buyer Guarantor (being a third party independent of Spring REIT and its connected persons) and the Trustee (as Seller's guarantor) entered into the Sale and Purchase Agreement for: (a) the sale of the Target Company Shares, which represent the entire issued share capital of the Target Company; and (b) the assignment of the Target Shareholder Loan, by the Seller to the Buyer. The Target Company is the full legal and beneficial owner and registered owner of 83 commercial properties located in the United Kingdom (being the Target Properties).

Following Completion, Spring REIT will cease to hold any interest in the Target Company and the Target Properties.

REGULATORY IMPLICATIONS

REIT Code and Listing Rules

As one or more of the applicable percentage ratios in respect of the Disposal exceeds 5% but all the applicable percentage ratios are less than 25%, the Disposal pursuant to the Sale and Purchase Agreement constitutes a discloseable transaction of Spring REIT and is, pursuant to 10.10B of the REIT Code and Chapter 14 of the Listing Rules (modified as appropriate pursuant to 2.26 of the REIT Code), subject to reporting and announcement requirements, but is exempt from circular and Unitholders' approval requirements.

Takeovers Code

For the reasons disclosed in the Whitewash Circular, the Manager (in its personal capacity) had applied for, and subsequently obtained from the Executive, the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Transaction, as approved by Independent Unitholders at the extraordinary general meeting of Spring REIT held on 9 August 2024, was completed by the issuance of the Subject 2024 Manager Fee Units on 16 August 2024.

Notwithstanding the completion of the Whitewash Transaction, under Rule 25 of the Takeovers Code, any arrangement made with a Unitholder within six months after the close of the Whitewash Transaction that has favourable conditions not capable to be extended to all Unitholders is considered a "special deal". Given the Buyer and Itochu Hong Kong Limited (the latter being a Unitholder) are both subsidiaries of Itochu Corporation and the Sale and Purchase Agreement is entered into within six months from 16 August 2024, the Disposal is considered a "special deal" under Rule 25 of the Takeovers Code and requires the consent of the Executive.

The Executive's consent, if granted, would be conditional upon: (a) the Independent Financial Adviser giving a public opinion that the terms of the Disposal are fair and reasonable; and (b) the approval of the Disposal by more than 50% of the votes cast by the Independent Unitholders present and voting (either in person or by proxy) by way of a poll at the EGM.

If the Disposal is not approved by Independent Unitholders at the EGM or the Executive's consent is not obtained, the condition precedent under the Sale and Purchase Agreement will not be satisfied and the completion of the Disposal will not take place.

INDEPENDENT FINANCIAL ADVISER

According to the "Letter from the Board" of the Circular, given the Disposal is considered a "special deal" in the context of the Whitewash Transaction and the Whitewash Waiver, pursuant to Rule 2.8 of the Takeovers Code, it is not possible to form an independent committee of the Board, and the Independent Financial Adviser has been appointed to represent the interests of and to advise the Independent Unitholders in connection with the Disposal.

As the Independent Financial Adviser to the Independent Unitholders and the Trustee, our role is to give an independent opinion to the Independent Unitholders and the Trustee as to, among other things, whether the Disposal (including the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder) is, or is not, on terms which are fair and reasonable, in the interests of the Independent Unitholders and as to voting on the Disposal.

We (i) are not associated or connected, financially or otherwise, with Spring REIT or the Manager, their respective controlling Unitholders/shareholders or any parties acting, or presumed to be acting, in concert with any of them; and (ii) save that we were previously engaged as the independent financial adviser in relation to (a) the Whitewash Transaction; and (b) Spring REIT's connected transaction involving certain off-market unit buy-back, details of which are set out in Spring REIT's circulars dated 23 July 2024 and 27 May 2023 respectively, we have not acted as the financial adviser or independent financial adviser in relation to any transaction of Spring REIT or the Manager, their respective controlling Unitholders/shareholders or any parties acting in concert with any of them in the two years immediately preceding the date of the Circular. Given that (i) remuneration for our engagement to opine on the Disposal is at market level and not conditional upon the outcome of the EGM Resolution; (ii) no arrangement exists whereby we shall receive any fees or benefits from Spring REIT (other than our said remuneration) or the Manager, their respective controlling Unitholders/shareholders or any parties acting in concert with any of them; and (iii) our engagement is on normal commercial terms, we are independent of Spring REIT or the Manager, their respective controlling Unitholders/shareholders or any parties acting in concert with any of them and we can act as the Independent Financial Adviser to the Independent Unitholders and the Trustee in respect of the Disposal.

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, among others, (i) the Sale and Purchase Agreement; (ii) the Valuation Report set out in Appendix 2 to the Circular; (iii) financial information of the Target Company for the years ended 31 December 2022 and 2023 respectively; (iv) the annual report of Spring REIT for the year ended 31 December 2023 (the "**2023 Annual Report**"); (v) the interim report of Spring REIT for the six months ended 30 June 2024 (the "**2024 Interim Report**"); and (vi) any other information 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 in all material aspects at the time they were made and continued to be so up to the Latest Practicable Date. The Manager and the Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular having been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We have no reason to believe that any such statements, information, opinions or representations relied on by us in forming our opinion are untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render them untrue, inaccurate or misleading. We consider that we have been provided with and have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. Spring REIT will notify the Unitholders of any material change after the Latest Practicable Date and after the despatch of the Circular. Independent Unitholders will also be informed as soon as practicable when there are any material changes to the information contained or referred to herein as well as changes to our opinion after the Latest Practicable Date and up to and including the date of the EGM. We have not, however, conducted any independent investigation into the business, financial conditions and affairs or the 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 of Spring REIT

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 in distributions and to enhance the value of its real estate assets.

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); (ii) a 68% interest in Huamao Place, being a seven-storey shopping mall located in Huizhou, Greater Bay Area; and (iii) the Target Properties.

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

	CCP Property
Premises	Two premium grade office buildings located in the central business district 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
Gross floor area	Office space: 120,245 sq.m. Car park space: 25,127 sq.m.
Occupancy rate as at 31 December 2024	89%

Revenue for the year ended 31 December 2023	Approximately RMB470.2 million
	<u>Huamao Place</u>
Premises	Seven-storey shopping mall (including two basement floors) and 700 underground and 50 above-ground carpark spaces
Gross floor area	144,925 sq.m.
Occupancy rate as at 31 December 2024	90%
Revenue for the year ended 31 December 2023	Approximately RMB219.8 million
	<u>Target Properties</u>
Premises	83 separate commercial properties located across the United Kingdom
Gross floor area	Gross internal area of approximately 499,886 sq.ft. (approximately 46,441 sq.m.) in total
Occupancy rate as at 31 December 2024	100.0% (leased to a single tenant)
Revenue for the year ended 31 December 2023	Annual contract rental income of approximately GBP4.76 million

For further details of the portfolio of Spring REIT, please refer to the 2023 Annual Report.

We note that the Target Properties are under a long-term Leases each with a remaining term of approximately 7 years, expiring in March 2032 with the Lessee's option to renew for a further term of 15 years on substantially the same key terms (apart from rent which is to be at a market level agreed between the parties). As at the date hereof, the Target Properties had an occupancy rate of 100%, with an annual contract rental income of approximately GBP4.76 million after the five-yearly rent review was completed during FY2023. Spring REIT enjoys substantial pass through of rental income as the leases are "full repairing and insuring" in nature, under which the tenant pays all real estate taxes, building insurance, and maintenance (the triple "nets") on the properties in addition to any normal fees that are specified under the agreement (e.g. rent, utilities, etc.).

1.2 Financial information of Spring REIT

Set out below is a table summarising certain financial information of Spring REIT for the two years ended 31 December 2023 as extracted from the 2023 Annual Report and during the six months ended 30 June 2023 and 30 June 2024 as extracted from the 2024 Interim Report.

	For the year ended 31 December ("FY")		For the six months ended 30 June ("1H")	
	2022	2023	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(unaudited)*	*(unaudited)*
Revenue	577,851	732,448	363,415	361,474
- *CCP Property*	*490,896*	*470,186*	*234,438*	*225,162*
- *Huamao Place*	*49,917*	*219,837*	*110,147*	*115,135*
- *Target Properties*[2]	*36,990*	*42,425*	*18,830*	*21,177*
Net property income	440,428	543,262	273,894	274,739
Fair value (loss)/gain of investment properties	268,730	(131,833)	(98,412)	(76,677)
Finance income/(costs) on interest-bearing borrowings	(397,726)	(236,994)	(219,610)	(120,966)
Cash interest expenses	*(110,181)*	*(181,190)*	*(92,380)*	*(100,660)*
(Loss)/profit for the year	118,432	(53,559)	(82,093)	59,274
Total distributable income	292,606	252,139	131,660	119,330
No. of Units outstanding ('000)	1,484,931	1,440,497	1,493,567	1,450,217
DPU (HK cents)	21.2	19.0	10.0	9.0

[2] In this context, Target Properties included a previous leasehold estate of a property under a head-lease which had expired on 28 September 2024 and was not renewed, and which does not form part of the Disposal.

FY2023 vs FY2022

Spring REIT's revenue increased by approximately 26.8% to approximately RMB732.4 million in FY2023 as compared to FY2022 due mainly to full-year revenue contribution of Huamao Place which Spring REIT acquired a 68% shareholding interests on 28 September 2022. Revenue from CCP Property declined by approximately 4.2% in FY2023 as the local office market was subdued. Meanwhile the revenue from Target Properties had increased by 14.7% in FY2023 compared with FY2022. Tenancy of the Target Properties was based on a fixed annual contract rental income in GBP to be reviewed every five years. In RMB terms, revenue from the Target Properties had increased by close to 15% due mainly to the upward adjustment of rent after the five-yearly rent review and a stronger GBP/RMB exchange rate in FY2023 (average rate of GBP/RMB of 8.8092) compared with FY2022 (average rate of GBP/RMB of 8.3281). In FY2023, CCP Property and Huamao Place contributed 64.2% and 30.0% of Spring REIT's revenue, while the Target Properties contributed comparatively lower 5.8% to the total revenue.

In line with the higher revenue despite a slightly lower property income margin of approximately 74.2% in FY2023 compared to approximately 76.2% in FY2022, net property income increased by approximately 23.3% to approximately RMB543.3 million. Finance costs on interest-bearing borrowings decreased from approximately RMB397.7 million in FY2022 to approximately RMB237.0 million in FY2023 due to lower non-cash foreign exchange loss which reduced from approximately RMB252.9 million in FY2022 to approximately RMB50.6 million in FY2023. Cash interest expenses were higher due to additional funding drawn down for the acquisition of Huamao Place.

As Spring REIT incurred fair value loss of investment properties of approximately RMB131.8 million in FY2023 in contrast with fair value gain of approximately RMB268.7 million in FY2022, it recorded loss after tax attributable to Unitholders of approximately RMB77.5 million in FY2023. Total distributable income for FY2023 decreased by approximately 13.8% year-on-year after adjusting for exclusion of foreign exchange loss and decrease in fair value of investment properties which are non-cash in nature. Consequently, DPU had reduced from 21.2 HK cents in FY2022 to 19.0 HK cents in FY2023.

1H2024 vs 1H2023

Spring REIT's revenue slightly decreased by approximately 0.5% in 1H2024 due to lower revenue from CCP Property as the Beijing Grade A office market continued to face strong headwinds and landlords such as Spring REIT had to focus on tenant retention by adopting flexible leasing strategies. Such a decline was cushioned by the increase in revenue of Huamao Place as both its average monthly rent and average occupancy rate improved following the continuous efforts to strengthen Huamao Place's reputation as Huizhou's premier shopping destination. Revenue from Target Properties increased by 12.5% in 1H2024 due mainly to stronger GBP/RMB exchange rate in 1H2024 (average rate of GBP/RMB of 9.1298) compared with 1H2023 (average rate of GBP/RMB of 8.5492).

Net property income margin improved from approximately 75.4% in 1H2023 to approximately 76.0% in 1H2024. Consequently, despite the lower revenue, net property income increased marginally from approximately RMB273.9 million in 1H2023 to approximately RMB274.7 million in 1H2024.

Total finance costs on interest-bearing borrowings were approximately 44.9% lower as non-cash foreign exchange loss reduced substantially despite an approximate 9.0% increase in cash interest expenses to approximately RMB100.7 million in 1H2024 from approximately RMB92.4 million in 1H2023. As Spring REIT also recorded a lower fair value loss on investment properties, it recorded a profit after tax attributable to Unitholders of approximately RMB59.3 million in 1H2024 compared with a loss in 1H2023.

As Spring REIT recorded higher general and administrative expenses and cash interest expenses in 1H2024 compared with 1H2023, after adjusting for exclusion of foreign exchange loss and decrease in fair value of investment properties which are non-cash in nature, total distributable income for 1H2024 decreased by approximately 9.4% compared with 1H2023. DPU similarly decreased from 10.0 HK cents to 9.0 HK cents over the same period.

	As at		
	31 December 2022	**31 December 2023**	**30 June 2024**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(unaudited)*
Total assets	12,930,993	12,785,525	12,804,751
- *Investment properties*	*12,082,952*	*12,039,343*	*11,981,863*
Total liabilities	(5,424,985)	(5,683,711)	(5,741,768)
- *Interest-bearing borrowings*	*(4,857,346)*	*(5,054,490)*	*(5,194,625)*
NAV attributable to the Unitholders	6,558,843	6,130,664	6,078,034
Gearing ratio	37.6%	39.5%	40.6%

Total assets

Spring REIT's total assets decreased by approximately 1.1% from approximately RMB12,931.0 million as at 31 December 2022 to approximately RMB12,785.5 million as at 31 December 2023 in line with the slight decrease in fair value of investment properties. Total assets increased marginally to approximately RMB12,804.8 million as at 30 June 2024 despite further decrease in fair value of investment properties as Spring REIT had maintained higher aggregate amount of restricted bank balances, time deposits and cash and cash equivalents.

Total liabilities

Spring REIT's liabilities, which primarily consisted of debt facilities, had increased from approximately RMB5,425.0 million as at 31 December 2022 to approximately RMB5,683.7 million as at 31 December 2023 and further to approximately RMB5,741.8 million as at 30 June 2024 due primarily to increase in interest-bearing borrowings from approximately RMB4,857.3 million to RMB5,054.5 million to RMB5,194.6 million as at those dates. The gearing ratios (being total borrowings to gross asset value) correspondingly increased from approximately 37.6% to 39.5% and to 40.6% as at those dates.

According to the 2024 Interim Report, as at 30 June 2024, the debt facilities of Spring REIT of approximately RMB5,194.6 million comprised (i) a combined facility of HK$4,875 million relating to CCP Property which bears an interest rate of 1-month HIBOR plus 1.65% per annum and will mature in September 2025 with outstanding balance of

HK$4,495 million; (ii) a facility of GBP51 million relating to the Target Properties which bears an interest rate of 2.20% margin per annum plus Sterling Overnight Index Average and will expire in January 2025 with outstanding balance of GBP47.8 million; and (iii) a facility of RMB900 million relating to Huamao Place which bears an interest rate of 60 basis points above the PRC loan prime rate (for five years or more) and will mature in March 2032 with outstanding balance of RMB700.92 million.

NAV attributable to the Unitholders

With the combined effects of the above, the NAV attributable to the Unitholders of Spring REIT had declined from approximately RMB6,558.8 million to RMB6,130.7 million and to RMB6,078.0 million as at 31 December 2022, 2023 and 30 June 2024 respectively.

*Unaudited operating statistics for the three months ended 30 September 2024 ("**2024Q3**") and the three months ended 31 December 2024 ("**2024Q4**")*

We noted that Spring REIT had announced certain operating statistics on 30 October 2024 and 24 January 2025 where comparing (a) 2024Q3 with the three months ended 30 June 2024 ("**2024Q2**"), and (b) 2024Q4 with 2024Q3, respectively:

(i) the **CCP Property** had experienced an approximate 2.0% decrease (2024Q3 vs 2024Q2) and 0.8% decrease (2024Q4 vs 2024Q3) in average monthly passing rent, and its occupancy rate had declined from approximately 87% in 2024Q2 to 83% in 2024Q3, and increased to approximately 86% in 2024Q4;

(ii) the occupancy of the **Target Properties** was the same under the long term lease with the Lessee; and

(iii) **Huamao Place** recorded an approximate 0.5% increase (2024Q3 vs 2024Q2) and 11.4% increase (2024Q4 vs 2024Q3) in average monthly rent, and average occupancy rate had increased from approximately 96% in 2024Q2 to 99% in 2024Q3, and decreased to approximately 90% in 2024Q4.

Overall, we observed that the financial performance of Spring REIT had deteriorated since FY2022 due mainly to slowdown in the Beijing office market which adversely affected performance of the CCP Property. The improved operating results of Huamao Place had partially cushioned the underperformance of CCP Property while the Target Properties provided stable (in GBP terms), albeit small, financial contribution. Revenue of Target Properties in RMB terms had been subject to fluctuations in GBP/RMB foreign exchange rates over the period.

Spring REIT's financial position had marginally shrunk as its asset base declined following fair value losses of its investment properties while Spring REIT had also continuously made distributions to Unitholders and conducted buyback of Units which depleted its cash resources. Its total liabilities had increased since FY2022 in line with borrowings obtained following the acquisition of Huamao Place.

1.3 Prospects of Spring REIT

The Manager has stated in the 2024 Interim Report that it expects the economic landscape in China to remain complex as it undergoes deleveraging. While outlook of China's property sector remains challenging, there has been encouraging signs on consumer spending and industrial output.

For the CCP Property, we concur with the Manager's view that the short-term outlook of CCP Property is precarious as the Beijing Grade A office market undergoes a rebalancing process where, as rental levels continue to fall, certain companies will look for opportunities to upgrade thus providing market demand. Based on our independent research having reviewed reports from Knight Frank Research, Savills Research and Jones Lang Lasalle, all of which are well known global commercial real estate advisers and service firms, there had been strong leasing demand for Grade A offices in Beijing in the third quarter of 2024 but rental rate had continued to decrease. New office supply is also expected to suppress rental rates and put pressure on occupancy rates.

For Huamao Place, Spring REIT intends to allocate additional resources with the goal of further enhancing the mall's social media presence and promoting Huamao Place as a premier venue for festive events and celebrations. Having raised the occupancy rate and built up a robust tenant profile for Huamao Place, Spring REIT believes it is well-positioned to continue benefiting from the mall's status as Huizhou's leading high-end shopping destination.

For the Target Properties, we noted that they are all under a long-term Leases with the Lessee, with all Leases expiring in March 2032. Spring REIT will continue to receive the annual contract rental income of approximately GBP4.76 million until the next five-yearly rent review in 2027. Future financial contributions of the Target Properties to Spring REIT in RMB terms will depend on the foreign exchange rate of GBP versus RMB while its investment returns will also depend on GBP interest rates payable on the corresponding bank facility relating to the Target Properties.

2. Background information of the Buyer, the Seller, the Target Company and the Target Properties

2.1 Information of the Buyer

The Buyer is a private limited company incorporated under the laws of England and Wales and an indirectly wholly-owned subsidiary of Itochu Corporation. The Buyer is currently engaged in business of holding and managing investment properties, which will include holding the Target Company following Completion. Itochu Corporation is a global trading company which is currently listed on the Tokyo Stock Exchange. It is ranked no. 108 in Fortune Global 500 in 2024. Its trading business and investments spans across 65 countries and regions around the world and covers sectors including textile, machinery, metals, minerals, energy, chemicals, food, in formation and communications technology, general products, insurance, logistics services, construction, realty and finance.

2.2 Information of the Seller

The Seller is a private limited company incorporated under the laws of Jersey and is a wholly-owned subsidiary of Spring REIT. The Seller is not currently engaged in any business other than the holding of the Target Company which in turn holds the Target Properties.

2.3 Information of the Target Company

The Target Company is a private limited company incorporated under the laws of Jersey and is a wholly-owned subsidiary of Spring REIT. The Target Company is not currently engaged in any business other than the holding of the Target Properties.

2.4 Financial information of the Target Company

Set out below is a table summarising certain financial information of the Target Company for the financial years ended 31 December 2022 and 2023.

Extract of statement of comprehensive income

	For the year ended 31 December	
	2022	**2023**
	(audited)	*(audited)*
	(£)	*(£)*
Revenue	4,441,612	4,816,044
Fair value loss of investment properties	(3,544,000)	(3,882,000)
Finance costs	(3,047,864)	(4,486,100)
Net loss before tax	(2,621,255)	(4,585,218)
Net loss after tax	(2,465,944)	(5,091,535)

Extract of statement of financial position

	As at 31 December	
	2022	**2023**
	(audited)	*(audited)*
	(£)	*(£)*
Total assets	80,348,948	75,231,772
- Investment properties	*74,281,000*	*70,399,000*
Total liabilities	68,547,589	69,121,948
- Interest-bearing borrowings	*49,678,347*	*47,375,570*
- Amounts due to group companies	*16,509,024*	*18,826,659*
Net asset value	11,801,359	6,109,824

The Target Company's revenue is solely derived from rental income generated by the Target Properties. During the years ended 31 December 2022 and 2023, the Target Company recorded net loss after tax of approximately £2.5 million and £5.1 million respectively, primarily due to fair value losses of the Target Properties and finance costs incurred during the respective years.

From the perspective of financial position, the Target Properties are the principal assets of the Target Company, which carried at fair values of approximately £74.3 million and £70.4 million as at 31 December 2022 and 2023 respectively and constituted over 90% of the Target Company's total assets as at the respective dates. In terms of liabilities, interest-bearing borrowings and amounts due to group companies are the major items which together, constituted over 95% of the Target Company's total liabilities as at 31 December 2022 and 2023 respectively.

The Target Company recorded net asset value of approximately £11.8 million and £6.1 million as at 31 December 2022 and 2023 respectively. Such decrease was mainly attributable to the decrease in fair values of the Target Properties.

2.5 Information of the Target Properties

The Target Properties comprise 83 commercial properties located across the United Kingdom which are currently leased to and operated by the Lessee as car servicing centres.

The Target Properties are under long term Leases each with a remaining term of approximately 7 years, expiring on 19 March 2032 with the Lessee's option to renew for a further term of 15 years on substantially the same key terms (apart from rent which is to be at a market level agreed between the parties).

For further details, please refer to the paragraph headed "Target Properties" in the "Letter from the Board" of the Circular.

3. Principal terms of the Sale and Purchase Agreement

On 18 February 2025, the Seller (being a wholly-owned subsidiary of Spring REIT), the Buyer (being a third party independent of Spring REIT and its connected persons), the Buyer Guarantor (being a third party independent of Spring REIT and its connected persons) and the Trustee (as Seller's guarantor) entered into the Sale and Purchase Agreement for: (a) the sale of the Target Company Shares, which represent the entire issued share capital of the Target Company; and (b) the assignment of the Target Shareholder Loan, by the Seller to the Buyer. The Target Company is the full legal and beneficial owner and registered owner of 83 commercial properties located in the United Kingdom (being the Target Properties).

Following Completion, Spring REIT will cease to hold any interest in the Target Company and the Target Properties.

We summarise below the principal terms of the Sale and Purchase Agreement. For details, please refer to the paragraph headed "Sale and Purchase Agreement" in the "Letter from the Board" of the Circular.

Date : 18 February 2025

Parties	:	(1) RUK01 Limited as Seller (2) Anglo-Dutch Property (UK) Holding Limited as Buyer (whose ultimate beneficial owner is Itochu Corporation) (3) European Tyre Enterprise Limited as Buyer Guarantor (whose ultimate beneficial owner is Itochu Corporation) (4) DB Trustees (Hong Kong) Limited (in its capacity as trustee of Spring REIT) as Seller's guarantor
Subject matter of the Disposal	:	The entire issued share capital of Hawkeye Properties 501 Limited (being the Target Company), which is the full legal and beneficial owner and registered owner of the 83 commercial properties located in the United Kingdom (being the Target Properties)
Consideration	:	The Consideration payable by the Buyer shall be £26,385,802, being an amount equal to the aggregate of (i) the consideration for the sale of the Target Company Shares ("**Share Consideration**") and (ii) the consideration for the assignment of the Target Shareholder Loan ("**Loan Consideration**"). For details, please refer to the paragraph headed "3.1 Consideration of the Disposal" below.
Conditions precedent	:	Completion is subject to and conditional upon the satisfaction of the following conditions precedent: (1) the passing of the Ordinary Resolution by the Independent Unitholders approving the transactions contemplated under the Sale and Purchase Agreement; and (2) the consent of the Executive in relation to the transactions contemplated under the Sale and Purchase Agreement as may be required under Rule 25 of the Takeovers Code having been obtained, and such consent not having been revoked by end of 31 March 2025 (or such later date as agreed between the Seller and the Buyer).

When considering the fairness and reasonableness of the terms of the Sale and Purchase Agreement, we have taken into account the following factors.

3.1 Consideration of the Disposal

Pursuant to the Sale and Purchase Agreement, the Consideration shall be equal to the aggregate of Share Consideration and Loan Consideration.

The Share Consideration shall be £6,971,971, being the aggregate of (a) the net asset value of the Target Company as at 31 December 2024 (being £5,782,394) (the "**Reference NAV**"); and (b) an amount equal to £1,189,577 (the "**Agreed Premium**"). The Reference NAV is based on the unaudited balance sheet of the Target Company as at 31 December 2024, after taking into account the Appraised Value. According to the Manager, the Agreed Premium, which represents approximately 1.7% of the Appraised Value, is the uplift to the value of the Target Properties as at 31 December 2024 as offered by the Buyer and agreed by the Seller.

The value of net asset of the Target Company reflects the Appraised Value (which valuation is conducted using a commonly adopted approach to value real estate properties). Given that this Agreed Premium is payable on top of the value of net asset of the Target Company, we are of the view that such premium is favourable to Spring REIT. To further assess how this 1.7% premium to the Appraised Value compares with the current market condition, we have performed independent research on public information by making reference to recent circulars published by companies listed on the Stock Exchange in January 2025 (being the most recent month preceding the entering into of the Sale and Purchase Agreement) in relation to acquisition or disposal of property assets in the United Kingdom. From the research, we identified one transaction involving the disposal of commercial property located in the United Kingdom, in which the consideration is equivalent to the appraised value of the subject property (i.e. nil premium/discount to the appraised value). This further reinforces our view that the agreed premium is favourable to Spring REIT.

The Share Consideration shall be subject to adjustments to reflect the difference between the Reference NAV and the net asset value of the Target Company as at the Completion Date, if any. We understand from the Manager that when computing the net asset value of the Target Company as at the Completion Date, the Appraised Value of the Target Properties as at 31 December 2024 will be adopted (i.e. there will not be any further adjustment to the valuation of the Target Properties). In this regard, we have considered and taken into account that (i) past valuations of the Target Properties had historically been stable at approximately £70.3 million and £70.9 million as at 31 December 2023 and 30 June 2024 respectively, according to the 2023 Annual Report, the 2024 Interim Report and information provided by the Manager; (ii) the Target Properties have stable and uniform tenancy terms with long term Leases, which are the main attributes in deriving the valuation of the Target Properties; (iii) the expected Completion Date will be around March to April 2025, which is only three to four months away from the date of valuation (i.e. 31 December 2024); and (iv) preparing another valuation report for the Target Properties as at the Completion Date would be overly burdensome and time consuming for Spring REIT. All in all, we consider the use of the Appraised Value of the Target Properties as at 31 December 2024 to derive the Share Consideration is practical, fair and reasonable.

The Loan Consideration shall be £19,413,831, being the aggregate amount outstanding under the Target Shareholder Loan as at 31 December 2024. The Seller shall procure that: (i) at Completion the aggregate amount outstanding under the Target Shareholder Loan does not exceed £19,413,831; and (ii) on or prior to Completion the Target Company shall have repaid any accrued but unpaid interest under the Target Shareholder Loan for the period beginning on 1 January 2025 and ending on the Completion Date. On this basis, we are of the view that the Loan Consideration, which was the outstanding Target Shareholder Loan as at 31 December 2024 and which will also be capped at such amount at Completion, is fair and reasonable.

We are of the view that the method of arriving at the Consideration, which shall take into account the (i) amount of net asset value of the Target Company as at the Completion Date; and (ii) amount of the Loan Consideration (being the aggregate amount outstanding under the Target Shareholder Loan as at 31 December 2024) which will be sold on a dollar-for-dollar basis, is fair and reasonable. Additionally, we note that in determining the Share Consideration, there is an Agreed Premium of £1,189,577, payable on top of the net asset value of the Target Company, which is favourable to Spring REIT. Further, considering that the fair market valuation of the Target Properties as at 31 December 2024, being the basis for determining the Consideration, is being assessed by the Independent Property Valuer, we are of the view that the Consideration is fair and reasonable. For discussions of the market valuation of the Target Properties, please refer to the paragraph headed "3.3 Valuation of the Target Properties".

3.2 Payment terms for the Disposal

According to the Sale and Purchase Agreement, the Buyer shall pay to the Seller the Share Consideration determined based on the Estimated Completion NAV (which is calculated with reference to the Draft Completion Statement) on the Completion Date.

After Completion and following the agreement or determination of the Final Completion Statement (which set out the Final Completion NAV):

(a) if the Final Completion NAV exceeds the Estimated Completion NAV, the Buyer shall pay to the Seller the amount equal to such excess in cash within 15 days of the agreement of the Final Completion Statement; or

(b) if the Final Completion NAV is less than the Estimated Completion NAV, the Seller shall pay to the Buyer the amount equal to such shortfall in cash within 15 days of the agreement of the Final Completion Statement; or

(c) if the Final Completion NAV is equal to the Estimated Completion NAV, neither the Seller or the Buyer shall be required to make any further payment to the other in respect of the Completion NAV.

The Buyer shall also pay to the Seller the Loan Consideration on the Completion Date.

Considering that the payment of both Share Consideration and Loan Consideration will be made in cash upon Completion, we are of the view that the payment terms for the Consideration are fair and reasonable. We are also of the view that the adjusting mechanism of the Share Consideration, which shall take into account the difference in net asset value of the Target Company as calculated with reference to the Draft Completion Statement and the Final Completion Statement, is fair and reasonable.

3.3 Valuation of the Target Properties

When assessing the fairness and reasonableness of the valuation for the Target Properties, we have in particular considered the Valuation Report. In this respect, we note 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 Properties for the purpose of the Disposal. According to the Valuation Report, the details of which are set out in Appendix 2 to the Circular, the Appraised Value of the Target Properties amounted to £71,154,000 as at 31 December 2024. We note that the Appraised Value is equivalent to the value of the Target Properties adopted in deriving the Reference NAV, which in turn, derive the Consideration for the Disposal.

To assess the fairness and reasonableness of the valuation, we have reviewed the 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 Properties as well as whether such methodology and assumptions are appropriate and acceptable; (ii) their scope of work for conducting the valuation on the Target Properties; and (iii) their relevant professional qualifications as a property valuer.

3.3.1 Valuation methodology

In arriving at the Appraised Value, we note that the Independent Property Valuer has valued the Target Properties, which are 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 Properties; 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 Properties which have stable and uniform tenancy terms, and has taken into account the rental income of the Target Properties derived from the existing Leases. Such income is then capitalised to determine the market value of each of the Target Properties at an appropriate capitalisation rate.

Further, we understand that the Independent Property Valuer has also cross-checked the Appraised Value with reference to the market approach. We note that such valuation methodologies adopted by the Independent Property Valuer are the same as those currently adopted for the valuation of properties of Spring REIT.

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 2020. We note that in the case of the Disposal, the Sale and Purchase Agreement 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 Disposal 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 note that the Independent Property Valuer relied on the information provided by the Manager and the legal opinion issued by the Manager's UK 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, or any element of value available only to a specific owner or purchaser; (ii) no allowance has been made in for any charges, mortgages or amounts owing on any of the properties nor for any expense or taxation which may be incurred in effecting a sale; and (iii) the Target Properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

For the Income Approach, the Independent Property Valuer takes into account the rental income of each of the Target Properties derived from the existing Leases, which has been then capitalised to determine the market value of each of the Target Properties at an appropriate capitalisation rate. We understand from the Independent Property Valuer that, having considered the long term lease nature of the Target Properties (i.e. each with a remaining term of approximately 7 years), the current rent levels under the Leases of each of the Target Properties have been adopted to determine their market value. We have discussed with the Independent Property Valuer, who confirmed that it is normal market practice to value properties with lease terms of such nature using this approach.

As to the capitalisation rates, the Independent Property Valuer has adopted yields ranging from approximately 4% to 9%. We understand from the Independent Property Valuer that such yields have taken into account (i) its research and analysis of the commercial property market in the United Kingdom, where the observed market yields range from 3% to 9%; and (ii) the location and characteristics of each of the Target Properties.

We have reviewed and discussed with the Independent Property Valuer the aforesaid basis and assumptions adopted in the Income Approach together with the lists of market lease information referred to when making the relevant assumptions in relation to the capitalisation rates. In addition, we have also examined the historical performance of the Target Properties, such as occupancy rates and average rent. We note that the assumptions made in the Income Approach have reflected the historical revenue generating ability of the Target Properties. 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 transactions of car servicing centres (i.e. the current usage of the Target Properties) in the United Kingdom, and considering that the Target Properties comprise numerous commercial properties situated across various locations within the United Kingdom, the Independent Property Valuer has identified and analysed, in general, the asking price or prevailing market sales information of 53 commercial properties across various locations in the United Kingdom. We have obtained the aforementioned sales information and noted that these references include properties located in the south east, south west, central and north of the United Kingdom and are commercial in nature. 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 Buyer, each of the substantial Unitholders as well as other parties to the Disposal. 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 Properties.

We note 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 a wide range of Hong Kong listed companies in the past. The persons who are responsible for signing off the Independent Property Valuer's Property Valuation Report, Mr. Gary Lau and Mr. Cyrus Fong, are qualified valuers with over 15 years of experiences in property valuation and consultancy services in Hong Kong, the PRC, UK and in the Asia Pacific region. Inspection of the Target Properties for preparation of the 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 Valuation Report having taken into account its relevant experience, expertise, its independence, and its scope of work.

3.3.4 Section conclusion

Having considered that (i) the Independent Property Valuer has the relevant qualification, competence and experience to prepare the Valuation Report; (ii) the Independent Property Valuer's scope of work is appropriate for performing the valuation on the Target Properties; and (iii) the valuation methodologies, basis and assumptions for valuing the Target Properties are fair and reasonable, we are of the view that the fair market valuation of the Target Properties has been fairly and reasonably determined.

3.4 Other terms for the Disposal

Under the Sale and Purchase Agreement, there are other terms such as warranties and limitation of liability as further elaborated in the paragraph headed "Sale and Purchase Agreement" in the "Letter from the Board" of the Circular. We note that the aggregate maximum liability of the Seller and the Trustee in respect of all claims (including warranty, indemnity and tax covenant claims) under the Sale and Purchase Agreement shall not exceed the Consideration. The liability of the Seller and the Trustee in respect of all tax-related claims, all non-tax-related claims (other than any indemnity claims), and all indemnity claims under the Sale and Purchase Agreement shall be capped at the Consideration, £10,000,000 and £250,000 respectively. This limits Spring REIT's liability, in the worst-case scenario if the Buyer has valid claims, at a level no more than the amount it has already received from the Buyer. Since such scenarios should occur only when Spring REIT is at fault, we believe this term is fair and reasonable.

The Sale and Purchase Agreement also provides for a limitation period of liability of 18 months after the Completion Date (save for those relating to fundamental warranties or tax-related claims, in which case the limitation period is, respectively, five years and seven years after the Completion Date). We are of the view that such periods reasonably cover the time period where any breach may manifest given the nature of the transactions thereunder.

Additionally, we note that the conditions precedent pursuant to the Sale and Purchase Agreement have taken into account, among other things, the necessary regulatory approval in relation to the Disposal (i.e. the approval of Independent Unitholders and the consent of the Executive). In this respect, we are of the view that they are fair and reasonable and on normal commercial terms.

3.5 Section conclusion

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

4. Manager's rationale for the Disposal

As stated in the paragraph headed "VIII. Reasons for and benefits of the Disposal" in the "Letter from the Board" of the Circular, the Disposal represents a strategic move to streamline Spring REIT's portfolio by divesting non-core assets and to focus its resources on the PRC commercial real estate market. Further, the Disposal is expected to reduce Spring REIT's gearing ratio (as further discussed in the paragraph headed "5. Financial effects of the Disposal on Spring REIT" below), thereby enhancing its overall financial flexibility for future funding needs, including acquisitions, asset enhancements, or other strategic initiatives.

We note that subsequent to Spring REIT acquiring a 68% interest in Huamao Place, Huizhou in September 2022, the Target Properties represented an insignificant portion of Spring REIT's property portfolio (i.e. approximately 5.4%) as at 30 June 2024. In terms of rental income, the Target Properties also constituted a nominal share (i.e. approximately 5.9%) of Spring REIT's rental income in 1H2024. In this regard, we concur with the Manager's view that the Disposal allows Spring REIT to concentrate on its core PRC portfolio and conserve resources needed to support its UK-specific team and various service providers for the relatively small portfolio of Target Properties. Additionally, the Disposal enables Spring REIT to realise the value of the Target Properties at a premium to market price and would strengthen its balance sheet position with a larger gearing headroom for potential future opportunities.

In summary, the Target Properties contribute a comparatively small proportion of revenue and profit to Spring REIT. The Disposal can provide Spring REIT with immediate capital and liquidity which will strengthen its financial position along with improvement in gearing ratio. This will allow Spring REIT to concentrate its efforts on stabilising the performance of CCP Property and at the same time further enhancing the performance of Huamao Place, both of which are located in the PRC. This also allows Spring REIT to maintain consistent distribution while maintaining a robust financial position in the future. On this basis, we are of the view that the Disposal is in the interests of the Independent Unitholders.

5. FINANCIAL EFFECTS OF THE DISPOSAL ON SPRING REIT

Upon Completion, Spring REIT will cease to hold any interest in the Target Company and the Target Properties. The financial effects of the Disposal on Spring REIT are set out below, as extracted from the paragraph headed "VI. Financial impact of the Disposal" in the "Letter from the Board" of the Circular. However, it should be noted that the analysis below is for illustration purpose only and does not purport to represent how the financial position of Spring REIT would become upon Completion.

5.1 Pro Forma DPU

As further illustrated in the paragraph headed "VI. Financial impact of the Disposal" in the "Letter from the Board" of the Circular, assuming the Disposal was completed on 1 January 2023, the DPU for the year ended 31 December 2023 will decrease marginally by approximately 0.5% from HK$19.0 cents to HK$18.9 cents.

5.2 Pro Forma NAV attributable to Unitholders per Unit

As further illustrated in the paragraph headed "VI. Financial impact of the Disposal" in the "Letter from the Board" of the Circular, assuming the Disposal was completed on 31 December 2023, the NAV attributable to Unitholders per Unit as at 31 December 2023 will increase marginally by approximately 0.2% from HK$4.70 to HK$4.71.

5.3 Expected gearing ratio

As disclosed in the 2024 Interim Report, the gearing ratio of Spring REIT was approximately 40.6% as at 30 June 2024. The gearing ratio of Spring REIT is expected to decrease to approximately 38.5% immediately after Completion, assuming that the proceeds would be used towards general working capital of Spring REIT.

5.4 Expected gain on the Disposal

Upon Completion, an after-tax gain of approximately £0.23 million (equivalent to approximately RMB2.16 million), which is calculated based on the Agreed Premium of £1,189,577 (equivalent to approximately RMB10.91 million), less: (i) related accumulated exchange loss of £0.18 million (equivalent to approximately RMB1.62 million) as at 31 December 2024 arising from the Target Company to be reclassified to consolidated income statement (which is extracted from the consolidated unaudited management accounts); and (ii) estimated Expenses of £0.78 million (equivalent to approximately RMB7.13 million, is expected to result from the Disposal.

Overall, we note that the impact on DPU and NAV attributable to Unitholders per Unit appears to be nominal due to the insignificant size of the Target Properties in Spring REIT's overall portfolio. Spring REIT is expected to recognise a gain from the Disposal and benefit from an improved gearing ratio and working capital position. On balance, we are of the view that the Disposal generally has positive financial effects on Spring REIT.

RECOMMENDATION

Having considered the above principal factors and reasons, in particular,

(i) Spring REIT's financial position had marginally shrunk from 31 December 2022 to 30 June 2024 as its asset base declined following fair value losses of its investment properties while Spring REIT had also continuously made distributions to Unitholders and conducted buyback of Units which depleted its cash resources;

(ii) the Disposal can provide Spring REIT with immediate capital and liquidity which will strengthen its financial position along with improvement in gearing ratio. This will also allow Spring REIT to concentrate its efforts on its core PRC portfolio, namely CCP Property and Huamao Place;

(iii) the method of arriving at the Consideration is fair and reasonable as it takes into account the (a) amount of net asset value of the Target Company as at the Completion Date (which has taken into account the fair market valuation of the Target Properties); and (b) amount of the Loan Consideration which will be sold on a dollar-for-dollar basis. Additionally, there is an Agreed Premium payable on top of the net asset value of the Target Company, which is favourable to Spring REIT;

(iv) the payment terms for the Consideration is fair and reasonable as the payment of both Share Consideration and Loan Consideration will be made upon Completion;

(v) the fair market valuation of the Target Properties has been fairly and reasonably determined, having considered that (a) the Independent Property Valuer has the relevant qualification, competence and experience to prepare the Valuation Report; (b) the Independent Property Valuer's scope of work is appropriate for performing the valuation on the Target Properties; and (c) the valuation methodologies, basis and assumptions for valuing the Target Properties are fair and reasonable; and

(vi) the Disposal generally has positive financial effects on Spring REIT,

we are of the view that the Disposal (including the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder) is on terms which are fair and reasonable and in the interests of the Independent Unitholders. Accordingly, we advise the Independent Unitholders to vote in favour of the EGM Resolution.

Yours faithfully,
For and on behalf of
Altus Capital Limited

Chang Sean Pey
Responsible Officer

*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.*