

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION  
IF IN DOUBT, PLEASE SEEK PROFESSIONAL ADVICE**

If you are in any doubt as to any aspect of this Circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution licensed to deal in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all 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.

The Securities and Futures Commission of Hong Kong, Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.

**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**

**CIRCULAR TO UNITHOLDERS IN RELATION TO**

**(1) REMOVAL OF THE MANAGER**

**(2) INTERNALISATION OF REIT MANAGER**

**AND**

**(3) NOTICE OF EGM AND**

**CLOSURE OF REGISTER OF UNITHOLDERS**

A letter from the Board is set out on pages 9 to 37 of this Circular.

A notice convening the EGM to be held at 4:00 p.m. on Friday, 10 November 2017 at Room 2401-2, Admiralty Centre I, 18 Harcourt Road, Hong Kong is set out on pages N-1 to N-2 of this Circular. A form of proxy for use by the Unitholders at the EGM is enclosed with this Circular. Such form of proxy is also published on the website of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk).

Whether or not you intend to attend and vote at the EGM, you are advised to read the notice and complete the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and return the form of proxy to the branch Unit Registrar of Spring REIT in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the EGM or any adjournment thereof (as the case may be). The completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM, or any adjourned meeting, should you so wish.

25 October 2017

## TABLE OF CONTENTS

	<i>Page</i>
<b>CORPORATE INFORMATION</b> .....	1
<b>DEFINITIONS</b> .....	2
<b>LETTER FROM THE BOARD</b> .....	9
1. REQUEST LETTER AND PROPOSED RESOLUTIONS .....	10
2. RESOLUTION 1: REMOVAL OF MANAGER .....	10
3. RESOLUTION 2: INTERNALISATION OF REIT MANAGER .....	28
4. FURTHER REQUESTS BY THE PAG UNITHOLDERS .....	33
5. TRUSTEE'S VIEW .....	35
6. EXTRAORDINARY GENERAL MEETING .....	36
7. FURTHER ANNOUNCEMENTS .....	37
8. RESPONSIBILITY STATEMENT .....	37
<b>LETTER FROM THE PAG UNITHOLDERS</b> .....	38
<b>NOTICE OF EGM</b> .....	N-1

## CORPORATE INFORMATION

<b>Spring REIT</b>	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
<b>Manager</b>	Spring Asset Management Limited Room 2801, 28/F, Man Yee Building 68 Des Voeux Road Central Hong Kong
<b>Directors of the Manager</b>	
<i>Executive Directors:</i>	Mr. Leung Kwok Hoe, Kevin Mr. Nobumasa Saeki
<i>Non-executive Directors:</i>	Mr. Toshihiro Toyoshima ( <i>Chairman</i> ) Mr. Hideya Ishino
<i>Independent Non-executive Directors:</i>	Mr. Simon Murray Mr. Liping Qiu Mr. Lam Yiu Kin
<b>Trustee</b>	DB Trustees (Hong Kong) Limited (in its capacity as the trustee of Spring Real Estate Investment Trust) 52/F, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
<b>Unit Registrar</b>	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17/F, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
<b>Legal Adviser to the Manager</b>	Baker & McKenzie 14th Floor, Hutchison House 10 Harcourt Road, Central Hong Kong

## DEFINITIONS

*In this Circular, the following definitions apply throughout unless otherwise stated:*

“1H2017”	has the meaning given to this term in section 2.3.2.1 of this Circular
“1st Announcement”	the announcement by the Manager dated 30 August 2017 in relation to the letter from the PAG Unitholders requesting that the Manager convene an extraordinary general meeting to vote on certain resolutions detailed therein
“2nd Announcement”	the announcement by the Manager dated 9 October 2017 in relation to the Manager’s intention to convene an extraordinary general meeting to vote on certain matters raised in the Request Letter
“2015 Term Loan”	has the meaning given to this term in section 2.3.2.3 of this Circular
“B2V Reform”	has the meaning given to this term in section 2.3.2.1 of this Circular
“Board”	the board of Directors
“CAGR”	has the meaning given to this term in section 2.3.2.1 of this Circular
“CCP Building Manager”	Beijing CCP & Savills Property Services Management Co., Ltd., as the building manager of the CCP Property
“CCP Property”	the real estate property located at No. 79 and No. 81, Jianguo Road, Chaoyang District, Beijing, PRC and which comprises all of the office floors of Office Tower 1, China Central Place, Beijing, 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, 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 car parking spaces located in the underground levels of the two office buildings, which is wholly-owned by Spring REIT

## DEFINITIONS

“CCP Property Manager”	Beijing Hua-re Real Estate Consultancy Co., Ltd., as the property manager of the CCP Property
“Circular”	this circular which is issued on the date hereof and dispatched to the Unitholders, containing, among other things, (1) a letter from the Board to the Unitholders containing further information in respect of the resolutions to be considered at the EGM; and (2) the EGM Notice
“Deposited Property”	all of the assets of the Spring REIT, including all its Authorised Investments (as defined in the Trust Deed) for the time being held or deemed to be held upon the trusts of the Trust Deed and any interest arising on subscription monies from the issuance of Units
“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 extraordinary general meeting of Unitholders to consider and, if thought fit, approve Resolution 1 and/or Resolution 2
“First Request”	has the meaning given to this term in section 2.1 of this Circular
“Fourth Request”	has the meaning given to this term in section 4.2 of this Circular
“GBP”	British Pound Sterling, the lawful currency of the United Kingdom

## DEFINITIONS

“Gross Floor Area” or “GFA”	means, in respect of a property, the gross floor area of that property being the area contained within the external walls of the building measured at each floor level (including any floor below the level of the ground), together with the area of each balcony in the building, which shall be calculated from the overall dimensions of the balcony (including the thickness of the sides thereof), and the thickness of external walls of the building excluding any floor space that is constructed or intended to be used solely for parking motor vehicles, or for refuse storage chambers, material recovery chambers, refuse chutes, refuse hopper rooms and other types of facilities provided to facilitate the separation of refuse, or for access facilities for telecommunications and broadcasting services, or occupied solely by machinery or equipment for any lift, air-conditioning or heating system or any similar service
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	19 October 2017, being the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information contained in this Circular
“Listing Date”	has the meaning given to this term in section 2.3.1 of this Circular
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Management Subsidiary”	has the meaning given to this term in section 2.4.1 of this Circular
“Manager”	Spring Asset Management Limited, as manager of Spring REIT
“Manager Removal Notice”	has the meaning given to this term in section 2.4.1 of this Circular

## DEFINITIONS

“Mercuria Beijing”	MIBJ Consulting (Beijing) Co., Ltd. (formerly known as Asuka DBJ (Beijing) Investment Consulting Co., Ltd.)
“Mercuria Investment”	Mercuria Investment Co., Limited (formerly known as AD Capital Co., Ltd.)
“Mercuria Parties”	collectively, Mercuria Investment and Mercuria Beijing
“NAV”	has the meaning given to this term in section 2.3.2.4 of this Circular
“Offering Circular”	the offering circular of Spring REIT dated 25 November 2013 issued to the Unitholders in connection with the initial public offering of the Units
“Ordinary Resolution”	a resolution of Unitholders passed by a simple majority of the votes of those present, whether in person or by proxy, and entitled to vote, where the votes shall be taken by way of poll, but with a quorum of two or more Unitholders holding at least 10% of Units in issue
“PAG Unitholders”	collectively, BT Cayman Ltd. and Spirit Cayman Ltd., being investment vehicles held by PAG Holdings Limited, a significant holder
“PRC”	the People’s Republic of China
“Principal Valuer”	has the meaning given to this term in section 2.3.2.1 of this Circular
“Property Management Supervision Agreement”	has the meaning given to this term in section 2.4.2 of this Circular
“RCA01”	a company incorporated as an exempted company with limited liability in the Cayman Islands and is a special purpose vehicle wholly owned by Spring REIT
“RCA01 Facilities Agreement”	has the meaning given to this term in section 2.4.1 of this Circular

## DEFINITIONS

“RCA Fund”	means RCA Fund 01, L.P., a partnership registered in the Cayman Islands as an exempted limited partnership with its limited partners having limited liability on 3 March 2006 and a significant holder of Spring REIT (as defined in the REIT Code)
“Register”	the register of Unitholders
“REIT”	Real Estate Investment Trust
“REIT Code”	the Code on Real Estate Investment Trusts published by the SFC as amended, supplemented or otherwise modified for the time being
“Request Letter”	has the meaning given to this term in section 1 of this Circular
“Resolution 1”	has the meaning given to this term in section 1 of this Circular
“Resolution 2”	has the meaning given to this term in section 1 of this Circular
“RMB”	Renminbi, the lawful currency of the PRC
“RUK01 Facility Agreement”	has the meaning given to this term in section 2.4.1 of this Circular
“RUK01 Limited”	a company incorporated as a par value limited company in Jersey and is a special purpose vehicle wholly owned by Spring REIT
“Second Request”	has the meaning given to this term in section 3.1 of this Circular
“SEHK”	The Stock Exchange of Hong Kong Limited
“SFC”	The Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified for the time being



## DEFINITIONS

“significant holder”	has the meaning ascribed to this term in the REIT Code
“Special Resolution”	means a resolution passed at a meeting of Unitholders carried by 75% or more of the votes of those Unitholders present and entitled to vote in person or by proxy where the votes shall be taken by way of poll, but with a quorum of two or more Unitholders holding at least 10% of Units in issue
“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
“sqm”	has the meaning given to this term in section 2.3.2.1 of this Circular
“Subscription Price”	has the meaning given to this term in section 2.3.2.3 of this Circular
“Third Request”	has the meaning given to this term in section 4.1 of this Circular
“Transitional Period”	has the meaning given to this term in section 2.4.1 of 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 the same may be amended and supplemented from time to time by any supplemental deed
“Trustee”	DB Trustees (Hong Kong) Limited, as trustee of Spring REIT
“UK Portfolio”	the 84 commercial properties located in the United Kingdom which are wholly-owned by Spring REIT
“Unit”	one undivided unit in Spring REIT
“Unit Registrar”	Computershare Hong Kong Investor Services Limited
“Unitholder”	any person registered as holding a Unit

## DEFINITIONS

“USD” or “US\$”	United States dollars, the lawful currency of the United States of America
“VAT”	has the meaning given to this term in section 2.3.2.1 of this Circular
“%”	per centum 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 in this Circular to any enactment is a reference to that enactment for the time being amended or re-enacted. Any reference to a time of day in this Circular shall be a reference to Hong Kong time unless otherwise stated.



## 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

Mr. Nobumasa Saeki

*Independent Non-executive Directors:*

Mr. Simon Murray

Mr. Liping Qiu

Mr. Lam Yiu Kin

*Registered Office of the Manager:*

Room 2801, 28/F, Man Yee Building

68 Des Voeux Road Central

Hong Kong

25 October 2017

*To: Unitholders of Spring REIT*

Dear Sir/Madam,

**CIRCULAR TO UNITHOLDERS IN RELATION TO  
(1) REMOVAL OF THE MANAGER  
(2) INTERNALISATION OF REIT MANAGER  
AND  
(3) NOTICE OF EGM AND  
CLOSURE OF REGISTER OF UNITHOLDERS**

Reference is made to the 1st Announcement and the 2nd Announcement. The purposes of this Circular are to: (a) provide you with further information in respect of the resolutions to be considered at the EGM; and (b) serve notice of the EGM.

## LETTER FROM THE BOARD

### 1. REQUEST LETTER AND PROPOSED RESOLUTIONS

As disclosed in the 1st Announcement, the Board received a letter dated 29 August 2017 from the PAG Unitholders, requesting the Manager to convene an extraordinary general meeting of Unitholders to vote on the resolutions set out therein (the “**Request Letter**”). The full text of the Request Letter, which was received in English, is reproduced in the “Letter from the PAG Unitholders” which forms part of this Circular. If there is any inconsistency between the English version of the Request Letter and its Chinese translation, the English version shall prevail.

Under the Trust Deed, the Manager shall at the request in writing of not less than two Unitholders registered as together holding not less than 10% of the Units, convene a meeting of Unitholders at such time or place in Hong Kong as the Manager thinks fit and propose resolutions for consideration at such meeting. Based on their latest disclosure of interests to SEHK and the Manager, the PAG Unitholders hold 157,150,000 Units, representing approximately 12.5% of the total Units presently in issue.

As the PAG Unitholders meet such requirements, the Manager wishes to convene the EGM to consider the subject matter of the first two resolutions requested under the Request Letter relating to the removal of the Manager (being “**Resolution 1**”) and the appointment of the internalised Management Subsidiary (being “**Resolution 2**”). Each of these resolutions require the approval of Unitholders by way of an Ordinary Resolution, although since Resolution 2 is conditional upon the passing of Resolution 1, Resolution 2 shall not be put forth for voting unless Resolution 1 is passed. The third resolution requested under the Request Letter (concerning the appointment of a non-executive director and adoption of certain principles relating to the election and retirement of directors) and the fourth resolution requested under the Request Letter (concerning the appointment of independent experts to conduct a strategic review and the establishment of a strategic review committee) are, for the reasons mentioned in section 4 of this Circular, more appropriate in the context of an internalised REIT, and therefore will be tabled and considered at a future extraordinary general meeting of Unitholders if Resolution 2 is passed.

### 2. RESOLUTION 1: REMOVAL OF MANAGER

#### 2.1. PAG Unitholders’ request to remove the Manager

The PAG Unitholders have in their Request Letter proposed the following Ordinary Resolution for approval at an extraordinary general meeting of Unitholders to be convened (the “**First Request**”):

*“THAT Spring Asset Management Limited be removed as the manager of Spring REIT as soon as practicable after this resolution is passed.”*

## LETTER FROM THE BOARD

The PAG Unitholders' rationale for the First Request is set out in the Request Letter which has been reproduced in the "Letter from the PAG Unitholders" which forms part of this Circular.

### 2.2. Resolution 1

The form of Resolution 1, which is identical in form to the First Request, is set out in the EGM Notice. The passing of Resolution 1 is a condition for Resolution 2 to be put forth for voting. **Unitholders should, when deciding whether to vote for or against Resolution 1, carefully consider the consequences of removing the Manager which are set out below.**

Pursuant to the REIT Code and the Trust Deed, all Unitholders, including the Manager and its associates (as defined in the REIT Code), are entitled to vote their Units on an Ordinary Resolution to dismiss the Manager and be counted in the quorum for the purpose of passing such Ordinary Resolution.

The Manager has received written confirmations from certain Unitholders (whose unitholdings in aggregate represent more than 50% of the voting rights of Spring REIT as at the Latest Practicable Date) stating that: (i) they are satisfied with the performance of the Manager in managing Spring REIT; (ii) have no intention to support any proposal to remove the Manager; and (iii) intend to vote against the First Request if proposed at an extraordinary general meeting of Unitholders. Notwithstanding such confirmations, whether Resolution 1 is approved or not approved will depend on the votes cast at the EGM.

### 2.3. Response from the Manager

#### 2.3.1. General

In response to the PAG Unitholders' request for the Manager to be removed, the Board has undertaken a review of the performance of the Manager since the listing of Spring REIT on 5 December 2013 (the "**Listing Date**") and up to and including the Latest Practicable Date.

In summary, the Board is of the view that the points put forward by the PAG Unitholders are unjustified and cannot be substantiated.

As stated in the Offering Circular, the key objectives of the Manager are to provide the Unitholders with **stable distributions with sustainable growth potential and enhancement in the value of the portfolio of real estate assets**. In order to achieve its objectives, the long-term strategies of the Manager involve:

- (a) maximising the long-term value of the portfolio through proactive leasing and property management strategies;

## LETTER FROM THE BOARD

- (b) continuously optimising and ensuring an efficient and well managed capital structure; and
- (c) capitalising on accretive acquisition opportunities as and when they arise.

As the manager of a collective investment scheme that represents the interests of numerous unitholders, Spring Asset Management Limited is fully committed to upholding a high level of corporate governance standard. The Manager has been and will continue to act in best interests of the Unitholders and Spring REIT as a whole within the regulatory framework applicable to Spring REIT.

### *2.3.2. Investment philosophy of the Manager to achieve its objectives for Spring REIT*

In order to accomplish the stated objectives, the Manager has diligently implemented the following strategies at the CCP Property which can be broadly categorised as follows:

#### *2.3.2.1. Proactive asset management strategies*

- (a) Strong track record in maintaining high occupancy rate

The average occupancy rate of Office Tower 1 and Office Tower 2 of the CCP Property has remained above 94% since the Listing Date and up to 30 June 2017. The average occupancy rate of 94.0% in the six month period ended 30 June 2017 (“1H2017”) was at par with the average occupancy rate of Grade-A offices in the central business district in Beijing during the corresponding period<sup>1</sup>.

	2013	2014	2015	2016	1H2017
Average occupancy of the CCP Property (%)	<u>96.0%</u>	<u>96.0%</u>	<u>95.2%</u>	<u>94.3%</u>	<u>94.0%</u>

<sup>1</sup> Source: Jones Lang LaSalle Research, June 2017

## LETTER FROM THE BOARD

The satisfactory level of occupancy rate achieved over the years was mainly attributable to high degree of tenant loyalty which results in strong tenant retention. Out of the 186 tenancies as at 30 June 2017, 120 of them, representing 71% of the leased GFA, have remained with the CCP Property since the listing of Spring REIT. The tenant retention rate remained healthy at 67.9% for leases expired during the six months ended 30 June 2017.

- (b) Unabated growth in passing rent on the back of positive rental reversion

Against the backdrop of significant Grade-A office supply in the pipeline in Beijing, the Manager managed to achieve unabated rental reversion and significant growth in average monthly passing rent by striking a delicate balance between optimising rental rates and tenant retention. Average monthly net passing rent increased from RMB274 per square metre (“sqm”) for the year ended 31 December 2013 to RMB354 per square metre for the six months ended 30 June 2017 implying a growth of 29.2% over the period or a compound annual growth rate (“CAGR”) of 7.6%.

	2013	2014	2015	2016	1H2017
Average monthly net passing rent (RMB/sqm)	<u>274</u>	<u>334</u>	<u>337</u>	<u>343</u>	<u>354</u>

- (c) Proactive leasing strategy to ensure long-term resilience

Year 2016 marked the beginning of a pipeline of new supply of Grade-A office space in Beijing. In response, the Manager has undertaken steps to enter into leases with longer tenure in order to enhance stability and certainty of future revenue. As a result, the Manager managed to build up the GFA-weighted average lease expiry of the CCP Property to 2.0 years as at 30 June 2017, up 11.1% from 1.8 years as at 31 December 2013.

The Manager has maintained a diversified tenant base to ensure the defensive quality of the CCP Property against business cycles. As at 30 June 2017, the top five tenants accounted for 22.6% of total revenue and occupied 24.4% of total leased GFA. The CCP Property also has a diversified exposure towards different industries. Approximately 39% of the tenants are financial institutions, insurance and investment companies, 17% are

## LETTER FROM THE BOARD

professional and business service companies, 10% are machine and equipment manufacturers, 10% are education, media and sports with the rest evenly spanning across real estate, consumer products, technology, energy, resources, shipping, trading, business centre and other industries.

(d) Navigating changing tax regimes

Notwithstanding the efforts of the Manager in managing Spring REIT, evolving tax and regulatory environments may (from time to time) create uncertainty for businesses in China. For instance, the PRC government made changes in respect of two tax regimes during 2016 which, if not managed diligently with foresight by the Manager, may have had longer term adverse impacts on Spring REIT:

- (i) From 1 May 2016, the 5% business tax applicable to Spring REIT was replaced by value-added tax (“VAT”) at a rate of 11% levied on rental revenues (“**B2V Reform**”), subject to applicable input VAT credits. In light of that, the Manager worked closely with the tenants to mitigate risks and minimise the impact of the changes. As a result, the B2V Reform did not have a significant impact on the overall performance of Spring REIT. Rental income, excluding the applicable business tax and/or VAT, would have grown by approximately 1.1% from RMB458.21 million (for the year ended 31 December 2015) to RMB463.42 million (for the year ended 31 December 2016).
- (ii) From 1 July 2016, the Beijing municipal government revised the tax basis for real estate tax. Under this new regime, real estate tax is levied on the leased portion of the CCP Property at a rate of 12% of the annual rental income of the CCP Property (net of VAT) and on the vacant portion of the CCP Property at a rate of 1.2% of the residual value attributable to such vacant portion. Considering that the original tax rate was set at 1.2% of the residual value of the CCP Property, such revision, effective as at 1 July 2016, added to the tax burden of all the landlords in Beijing. The 7.2% year-on-year decrease in net property income of Spring REIT for the year ended 31 December 2016 was largely attributable to the revised tax basis for real estate tax.



## LETTER FROM THE BOARD

(e) Growing property value

On the back of the Manager's continuous efforts in enhancing the operating performance of the CCP Property, its value as appraised by Knight Frank Petty Limited, being the independent principal valuer of Spring REIT (the "**Principal Valuer**"), has increased to RMB9,028 million as at 30 June 2017. This is 17% (or RMB1,281 million) higher than the latest appraised property value of the CCP Property at the time of Spring REIT's listing. According to the Principal Valuer, the valuation of the CCP Property was arrived at using the income capitalisation approach and cross-checked by the direct comparison approach. Hence, the growth in appraised value has reflected the solid achievement by the Manager in maintaining a high level of occupancy, sustainable rental reversion and secure future rental income through longer term leasing and tenant diversification.

*2.3.2. Acquisition strategy for long-term growth potential and portfolio diversification*

Geographically, the Manager's original investment policy for Spring REIT at the time of its listing was to invest primarily in high quality income-producing real estate assets in the mainland China. While mainland China continues to be the core focus of Spring REIT, on the back of Unitholders' approval<sup>2</sup>, the investment scope, was expanded in 2015 to allow Spring REIT to invest in high quality income-producing real estate located in any part of the world, including but not limited to mainland China, Hong Kong, Macau, Taiwan, Japan and other areas in Asia.

The acquisition of the UK Portfolio (which was completed in July 2017) represented the first strategic initiative of the Manager to implement this expanded investment scope. Equivalent to approximately 7% of the total assets of Spring REIT as at 30 June 2017, the acquisition of the UK Portfolio was small relative to Spring REIT's assets prior to the acquisition. Notwithstanding this, the acquisition of the UK Portfolio comes with the benefits of both diversification (in terms of geographic location, property types, and tenants' profile) and high-quality cash flows.

<sup>2</sup> Special resolution No.4 in relation to the proposed expansion of the geographical scope of Spring REIT's investment policy and objective beyond mainland China, Hong Kong, Macau, Taiwan, Japan and other areas of Asia was duly passed by 99.991747% of the Units voted at the extraordinary general meeting of Unitholders held on 20 May 2015.

## LETTER FROM THE BOARD

When evaluating the merits of the acquisition of the UK Portfolio, the Manager had considered the following characteristics of the UK Portfolio:

- (a) **Long-term lease with a reputable tenant:** Each of the properties in the UK Portfolio is under a long-term lease with Kwik-Fit (GB) Limited, a leading car servicing and repair operator in the United Kingdom. All but one of the leases have a remaining term of approximately 15 years from the Latest Practicable Date, and include a lessee's option to renew for a further term of 15 years.
- (b) **Defensive yet attractive cash flow:** The UK Portfolio offered an initial gross rental yield of approximately 6.1% at the time of the acquisition and all future rent is contractually guaranteed by the lessee's parent company, Kwik-Fit Holdings Limited, which is an indirect wholly-owned subsidiary of Itochu Corporation. Itochu Corporation is a global trading company listed in Japan with total assets as at 31 March 2016 of 8,036.4 billion Japanese yen (approximately USD72 billion). As such Spring REIT's rental income is well-protected.
- (c) **Upward-only rent review mechanism:** The rents under the leases are subject to a rent review mechanism every five years, to adjust the rent level to the prevailing market level. Under the mechanism, if an adjustment is warranted the rent can only be revised upward. This provides downside protection to the landlord.
- (d) **Optimal operating structure for REIT platform:** Under the leases with Kwik-Fit (GB) Limited, costs for building insurance, property maintenance and real estate taxes are borne by the tenant, hence the cost structure of the UK Portfolio is simple and easy to manage. In addition, as the properties in the UK Portfolio are leased to a single tenant and are managed by a professional property manager, additional resources required to manage the UK Portfolio are limited.

Given the defensive nature of the cash flow from the UK Portfolio, from a risk-reward point of view, the acquisition is akin to investing in a long-term fixed income instrument that gives an attractive yield return which is secured by the ownership of the underlying real estate assets. To take advantage of the favourable interest rate environment and to achieve asset-liability match, the acquisition of the UK Portfolio was fully financed by bank loans denominated in Pound Sterling.

## LETTER FROM THE BOARD

The acquisition of the UK Portfolio was conditional upon the Unitholders approving the underlying leases by way of an Ordinary Resolution. The resolution was passed by approximately 83.6% of the Units voted at the extraordinary general meeting of Unitholders held on 25 May 2017. For illustrative purposes only, assuming RCA Fund (the largest unitholder of Spring REIT holding 345,204,000 units at the time) casted all its Units to vote in favour of the Ordinary Resolution at the extraordinary general meeting of Unitholders held on 25 May 2017 and deducting all such Units from the 731,520,380 units which had voted in favour of the Ordinary Resolution, the Ordinary Resolution would still have been passed by 73.2% of the Units voted at the extraordinary general meeting of Unitholders.

### *2.3.2.3. Effective capital and risk management strategy*

The CCP Property is located in the PRC (with RMB being the underlying currency of the asset) but is held directly by its holding company RCA01 (a Cayman incorporated company) outside of the PRC. Given the offshore holding structure of the CCP Property, Spring REIT has been utilising bank borrowings denominated in USD since its listing. The Manager believes that by accessing the USD lending market, Spring REIT benefits from the liquidity and depth of the USD market, warranting relatively low borrowing costs while reducing refinancing risks. This is consistent with the strategy of the Manager to ensure stable distributions for Unitholders.

Changes in the PRC's foreign exchange policy in recent years, however, has resulted in notable depreciation of RMB against USD. Between 31 December 2014 and 30 June 2017, RMB had weakened against USD by about 9.3%. With Spring REIT's bank borrowings denominated in USD, the weakening RMB has added pressure to the gearing ratio of the CCP Property.

In order to mitigate the effect of the weakening RMB on Spring REIT, the Manager has implemented the following strategies to optimise Spring REIT's capital structure:

- (a) Entering into the RCA01 Facilities Agreement in February 2015 to refinance the then existing term loan facility due in January 2016 (the "**2015 Term Loan**"). This initiative has brought tangible financial benefits to the Unitholders of a 75 basis points saving in annual cash interest payment, which (for illustrative purposes only) is equivalent to approximately USD3.08 million per annum.

## LETTER FROM THE BOARD

- (b) Partial repayment of the RCA01 Facilities Agreement in the first half of 2017 which reduced the principal amount of the 2015 Term Loan from USD480 million to USD450 million as at 30 June 2017. The repayment resulted in an interest saving of approximately USD1.21 million<sup>3</sup> per annum, partially facilitated by the proceeds from the issuance of new Units at a subscription price of HKD3.25 per Unit (“**Subscription Price**”). The Subscription Price represents a minimal discount of 0.3% to the 10-day average closing price of the Units of HKD3.26 as quoted on the Stock Exchange immediately prior to the execution of the subscription agreement dated 13 April 2017 for the issuance of the new Units.
- (c) Successfully negotiated a 110 basis points reduction in the interest margin of the RCA01 Facilities Agreement. The reduction became effective from 27 June 2017 and for illustrative purposes is equivalent to an interest saving of approximately USD4.95 million per annum.

These initiatives by the Manager would have achieved an estimated aggregate interest saving of 185 basis points (representing a decrease in interest margin of approximately 53%). The estimated total cash savings (contributing to distributions to Unitholders) amount to approximately USD9.24 million per annum or approximately 26% of Spring REIT’s total distributable income for the year ended 31 December 2016. In the meantime, the gearing ratio has been maintained at well below the 45% limit prescribed under the REIT Code. As at 30 June 2017, the gearing ratio of Spring REIT stood at 31.4%.

In addition to the abovementioned initiatives, the Manager has been exploring different options, including the possibility of replacing the existing USD bank loan with RMB-denominated borrowings. Nonetheless, given the borrowing cost of RMB is much higher than that of USD, the conversion of the existing USD bank loan to RMB could result in a sharp decline<sup>4</sup> in distributable income. With the objective to achieve stable distributions to Unitholders, instead of refinancing in RMB, the Manager implemented the abovementioned initiatives over the past 2.5 years to improve the financial position of Spring REIT and its resistance against currency and interest rate risks. Looking ahead, the Manager will remain proactive in its capital management efforts for Spring REIT, and will continue to monitor the RMB lending market when considering future financing needs.

<sup>3</sup> Based on the interest rate of the 2015 Term Loan is 4.049% as at 30 June 2017 (i.e. 3 months USD London Interbank Offered Rate of 1.299% as at 30 June 2017 plus interest margin of 2.75%).

<sup>4</sup> For illustrative purposes, assuming that the RMB borrowing rate for Spring REIT is the base lending rate for a 5-year loan as provided by the People's Bank of China (being 4.75% as at the Latest Practicable Date), Spring REIT's borrowing cost would be 57.8% higher than the current interest rate of the RCA01 Facilities Agreement of 3.01%. This represents an additional interest expense of approximately USD7.8 million per annum (equivalent to approximately 22% of Spring REIT's 2016 distributable income).

## LETTER FROM THE BOARD

### 2.3.2.4. *Spring REIT has maintained stable distributions to Unitholders*

REITs are highly regulated instruments governed by the REIT Code and are required to distribute to unitholders at least 90% of their audited annual net income after tax (subject to certain allowable adjustments pursuant to their trust deed). Typically, REITs are not designed to deliver short term capital gain (through disposal of assets) but to provide long-term stable distributions. To demonstrate the Manager's commitment to delivering stable distributions to the Unitholders and in recognition of the continued support of the Unitholders, the Manager has declared and paid out USD137 million in distributions since Spring REIT's listing, representing a payout ratio of 104% of Spring REIT's distributable income<sup>5</sup> in aggregate.

The Manager is of the view that distribution is the most important parameter in assessing a REITs' performance:

- (a) The distribution yield of Spring REIT is currently approximately 6.8% based on DPU in 2016 using the closing unit price of HKD3.37 on the Latest Practicable Date.
- (b) The average annualised distribution yield of Spring REIT from 2013 to 2016 was approximately 7.5% based on annual reports.
- (c) Since its listing in December 2013, Spring REIT has already made distributions amounting to HK94.1 cents per unit (equivalent to approximately 24.7% of the offer price of Spring REIT's units at the date of its listing).

The Manager believes that Spring REIT will continue to present an attractive investment option to Unitholders seeking steady long-term cash flow backed by high quality assets.

The Unit price is presently at a discount to net asset value ("NAV"), which is commonly observed in Hong Kong listed property investment companies including REITs. As a property investment company, its interests in real estate are treated as operating assets (rather than inventory for sale) to provide long-term stable and continuous cash flow. This strategy is different from those of the property developers which focus on capital gains. The Manager does not consider discount to NAV (which is more aligned to a buy-and-sell strategy) to be a representative performance indicator for REITs in general, and in some cases may even undermine a good performer.

<sup>5</sup> Including the Special Dividend of USD9.912 million distributed in May 2014.

## LETTER FROM THE BOARD

The levels of discount to NAV implied by the Unit price of Spring REIT have been consistent since its listing. In other words, the trading of Spring REIT has been continuing on the basis of such discount levels. In fact, the discount to NAV has improved from 47% at the time of Spring REIT's listing to 43% as at the Latest Practicable Date, which is better the all-time average discount to NAV since its listing of 45%. The Manager believes that the discount to NAV depends on the prevailing market conditions, including but not limited to the demand and supply driven by the required yield of investors.

### *2.3.2.5. Spring REIT management structure and fees conform to well-established market standards*

There are currently 10 REITs listed in Hong Kong, nine of which are externally managed, including Spring REIT. It is the Manager's view that the external management structure adopted by Spring REIT conforms to a well-established market standard for Hong Kong REITs.

As the external manager of Spring REIT, the Manager is entitled to charge a management fee based on an agreed fee formula set out in the Trust Deed, which was determined at the time of Spring REIT's listing with reference to established market standards and disclosed in Offering Circular. Seven of the eight other externally managed REITs in Hong Kong (i.e. excluding Spring REIT) have adopted management fee structures similar to that of Spring REIT, which comprises, among other fees, a base fee and a variable fee.

Under the abovementioned common fee structure, the total management fee payable to the external manager is a function of the REIT's asset value and its net property income. The REIT manager is incentivised to enhance the market value of the underlying real estate assets (which in turn is primarily determined by the prospect of future rental income under a given market condition) and the net property income, thus aligning the interests of the REIT manager and unitholders.

Among the management fees charged by the seven other external REIT managers which have adopted management fee structures similar to that of Spring REIT, the base fee charged ranges from 0.3% to 0.4% of the REIT's total assets (as defined in each REIT's trust deed) and the variable fee ranges from 3% to 4% of the REIT's net property income (as defined in each REIT's trust deed). The Manager currently charges a base fee of 0.4% of the total assets of Spring REIT and a variable fee of 3% of the net property income of Spring REIT (as defined in the Trust Deed), which are within the fee ranges stated above.

## LETTER FROM THE BOARD

Further, in the case of Spring REIT, the Manager's management fee can be paid in the form of cash and/or Units, subject to an annual election by the Manager. Since the listing of Spring REIT, the Manager has elected to receive a substantial percentage of its fees (averaging approximately 72%) in the form of Units. Such election, on the one hand, enhances internal cash resources of Spring REIT, and, on the other hand, further aligns the Manager's interests with the Unitholders.

### 2.3.3. Summary

Based on the above, the Manager has a consistent solid track record and experience to continue to well manage Spring REIT in accordance with its stated objectives. In summary, the Manager has in connection with Spring REIT:

- (a) a strong track record in maintaining a high occupancy rate at above 94% since the listing of Spring REIT and at par with the rate achieved in the central business district in Beijing during 1H2017 according to JLL Research dated June 2017;
- (b) achieved an unabated CAGR of approximately 7.6% from the year ended 31 December 2013 to the six months ended 30 June 2017 in passing rent on the back of positive rental reversion of the CCP Property;
- (c) implemented a proactive leasing strategy to ensure long-term resilience of Spring REIT's rental income;
- (d) prudently navigated through evolving tax and regulatory regimes, as well as external conditions, with a view to mitigating potential negative impact;
- (e) reported growth in property value on the back of solid operating performance;
- (f) successfully completed the first acquisition in the United Kingdom to bring additional cash flow to Spring REIT along with the benefits of diversification;
- (g) implemented effective capital and risk management initiatives, resulting in an estimated cash interest savings amounting to approximately USD9.24 million per annum (equivalent to approximately 26% of Spring REIT's total distributable income for the year ended 31 December 2016).

## LETTER FROM THE BOARD

It can be seen from the above that the Manager has been diligently managing Spring REIT with a view to provide stable distribution to the Unitholders while, at the same time, exploring opportunities to further enhance the growth of distributions and the value of Spring REIT's portfolio.

Unitholders are strongly reminded that the request from PAG Unitholders to remove the Manager has serious consequences for Spring REIT and its Unitholders (please refer to section 2.4 headed "Consequences if Resolution 1 is approved"). In particular:

- (a) PAG Unitholders have not provided sufficient clarity or guidance on the specific steps to be taken by Spring REIT if Resolution 1 is passed.
- (b) Approval of Resolution 1 may trigger various breaches of obligations, events of default and early repayment obligations under Spring REIT's financing agreements with outstanding principal amounts of USD450 million and GBP40 million. PAG Unitholders have not addressed this imminent risk in its Request Letter.

**Based on the above, as well as the consequences if Resolution 1 is approved as set out in section 2.4 below, the Board (including the independent non-executive Directors) considers Resolution 1 to not be in the interests of Spring REIT and the Unitholders as a whole.**

### **2.4. Consequences if Resolution 1 is approved**

In deciding whether to vote for or against Resolution 1, Unitholders are advised to carefully consider the potentially serious and adverse consequences for Spring REIT and its Unitholders if the Manager is removed.

#### *2.4.1. Default under Spring REIT's financing arrangements*

**The removal of the Manager would, unless the lenders' prior consent or waiver is obtained, result in a breach and event of default under certain financing agreements, potentially giving rise to an obligation to immediately repay all amounts outstanding under the same. This may have a material and adverse impact on Spring REIT's operations and financial condition, and may in turn consequently affect Spring REIT's ability to make distributions to Unitholders.**

The removal of the Manager as manager of Spring REIT may trigger various breaches of obligations, events of default and early repayment obligations under the financing agreements implemented by Spring REIT. This may have a material and adverse impact on Spring REIT's operations and financial condition, and may in turn adversely affect Spring REIT's ability to make distributions to Unitholders.



## LETTER FROM THE BOARD

Spring REIT has entered into certain financing arrangements through its special purpose vehicles, RCA01 and RUK01 Limited. As at the Latest Practicable Date, Spring REIT's outstanding borrowings comprise:

- (a) USD450,000,000 outstanding under a facilities agreement dated 18 February 2015, pursuant to which the lenders agreed to extend to RCA01 a secured term loan in an aggregate amount of USD480,000,000 and a uncommitted revolving loan facility in an aggregate amount of USD20,000,000 (the "**RCA01 Facilities Agreement**"). The Trustee (in its capacity as trustee of Spring REIT) is a guarantor of the indebtedness owing under the RCA01 Facilities Agreement.
- (b) GBP37,000,000 outstanding under a facility agreement dated 7 July 2017, pursuant to which the lender agreed to extend to RUK01 Limited a secured term loan in an aggregate amount of GBP40,000,000 (the "**RUK01 Facility Agreement**"). The Trustee (in its capacity as trustee of Spring REIT) is a guarantor of the indebtedness owing under the RUK01 Facility Agreement.

The removal of the Manager would, unless the lenders' prior consent or waiver is obtained, constitute a breach and event of default under the RCA01 Facilities Agreement and RUK01 Facility Agreement. Upon the occurrence of an event of default, the respective lenders may, among other things: (i) declare that the loans under the RCA01 Facilities Agreement or RUK01 Facility Agreement (as applicable) are immediately due and payable; and (ii) enforce their rights and remedies under the RCA01 Facilities Agreement or RUK01 Facility Agreement (as applicable) and related finance documents, including the right to demand payment under the abovementioned guarantees and to enforce upon the collateral granted as security for the indebtedness under the RCA01 Facilities Agreement or RUK01 Facility Agreement (as applicable).

Obtaining the lenders' prior consent or waiver with respect to a breach or event of default caused by the removal of the Manager requires Spring REIT to enter into negotiations with the lenders which may or may not be successful. Even if successful, such negotiations will require time and costs, both of which are beyond Spring REIT's control. Further, Spring REIT may be required to accept any additional fee or condition imposed by the lenders in exchange for such consent or waiver.

## LETTER FROM THE BOARD

The removal of the Manager would, unless the lenders' prior consent or waiver is obtained, result in a breach and event of default under the RCA01 Facilities Agreement and RUK01 Facility Agreement, potentially giving rise to an obligation to immediately repay all amounts outstanding in respect of such financings. The Manager is unable to provide any view or assurance as to whether the lenders would consent to replacing the Manager with the Management Subsidiary or an external management company (in the event that Resolution 2 is not approved), particularly given the lack of clarity and guidance regarding the establishment of the Management Subsidiary and potential negative consequences for Spring REIT during the Transitional Period. Breach of such financing agreements may also affect Spring REIT's ability to obtain future financing or refinancing on reasonable terms or at all. This would have a material and adverse impact on Spring REIT's operations and financial condition, and may in turn consequently affect Spring REIT's ability to make distributions to Unitholders.

### *2.4.2. Spring REIT's property management arrangements*

**The removal of the Manager will terminate the Property Management Supervision Agreement. There is no guarantee that the Mercuria Parties will agree to provide similar services in the future to assist with the management of the CCP Property.**

As disclosed in the Offering Circular, the Manager, the Trustee, RCA01 and the Mercuria Parties entered into a property management supervision agreement dated 21 November 2013 (the "**Property Management Supervision Agreement**"), pursuant to which the Manager has appointed the Mercuria Parties (being connected persons of Spring REIT) at its own cost to assist with the management of the CCP Property.

The services provided by the Mercuria Parties include monitoring and supervising the CCP Property Manager and the CCP Building Manager, conveying the instructions of the Manager regarding the management of the CCP Property to each of RCA01, the CCP Property Manager and the CCP Building Manager and assisting in the implementation of such instructions and providing such other services incidental to the foregoing or as otherwise agreed by the Mercuria Parties.

In the event that the Manager ceases to be the manager of Spring REIT, the Property Management Supervision Agreement shall terminate pursuant to the terms thereof. **There is no guarantee that the Mercuria Parties, who have been providing the abovementioned services in respect of the management of the CCP Property since the listing of Spring REIT, will agree to enter into similar arrangements with the Management Subsidiary (or an external management company if Resolution 2 is not approved).**

## LETTER FROM THE BOARD

### *2.4.3. Management Transitional Period*

The removal of the Manager will necessitate the appointment of the internalised REIT manager (or another external management company if Resolution 2 is not approved), which requires effecting steps that are beyond Spring REIT's control. If such steps are not carried out successfully and expeditiously, this may result in serious consequences for Spring REIT and consequentially adversely affect Spring REIT's ability to make distributions to Unitholders. During the Transitional Period, the Manager will also not be in a position to actively pursue any investment opportunities for Spring REIT. The missed opportunities may no longer be available, or be more costly for Spring REIT to pursue, after the Transitional Period. Further, no assurance can be given as to the performance of Spring REIT during an extended period of investment inactivity or as to the future performance of the internalised REIT manager (or an external management company if Resolution 2 is not approved).

The PAG Unitholders have not provided sufficient clarity or guidance in their Request Letter on the specific steps to be taken by Spring REIT if Resolution 1 is passed, other than to generally: (i) direct the Trustee to effect the internalisation of the REIT management function by incorporating a subsidiary, to be wholly owned by the Trustee, to act as the manager of Spring REIT (the "**Management Subsidiary**"); (ii) retain Spring REIT's existing management staff to maintain management continuity; and (iii) hire and appoint qualified candidates with a strong track record of direct real estate management experience as the directors and staff of the Management Subsidiary in accordance with the applicable requirements of the SFC.

In particular, no clarity or guidance has been provided by the PAG Unitholders in their Request Letter as to the timing for when the Management Subsidiary will be appointed and the necessary prerequisites for such appointment including but not limited to:

- staffing of the Management Subsidiary if Spring REIT's existing management staff (all of whom are employed by the Manager) decline their respective offers to join the Management Subsidiary;
- the obtaining of the necessary licences and relevant approvals and/or waivers where necessary from the SFC for the Management Subsidiary to manage Spring REIT;

## LETTER FROM THE BOARD

- any necessary Trust Deed amendments which would be required to effect the internalisation of the REIT management function, and the convening of a further extraordinary general meeting of Unitholders to approve such Trust Deed amendments to effect the internalisation of the REIT management function; and
- the timing and costs of effecting the abovementioned steps.

In relation to staffing, the success of a REIT manager's performance is dependent on the experienced leadership of directors and stable performance of employees with the requisite experience in the real estate sector and the relevant financial, technical and corporate credentials in REIT management. Time and costs will need to be incurred in searching for qualified directors and employees in the REIT management industry for the internalised REIT manager. There is no assurance that experienced directors and employees will be readily available at a cost acceptable to Spring REIT or at all, and this may result in a prolonged period of uncertainty for Spring REIT and its Unitholders until the appointment of an internalised REIT manager, the timing of which cannot be estimated. Similar considerations will apply if the Manager will be replaced by an external management company (in the event that Resolution 2 is not approved), and further, a separate approval from Unitholders will be required to effect such external management company's appointment pursuant to the REIT Code and the Trust Deed.

Under the Trust Deed: (i) Spring REIT will terminate in the event that there is no REIT manager for a period of more than 60 calendar days or such longer period as the Trustee considers appropriate; and (ii) where Unitholders vote to remove the Manager, the Trustee shall issue a notice to effect the removal of the manager of Spring REIT (the "**Manager Removal Notice**"). Having regard to the abovementioned uncertainties in connection with the proposal put forward by the PAG Unitholders, and to mitigate the risk of the termination of Spring REIT, the Trustee has requested (and the Manager has agreed) for the Manager to remain as the manager of Spring REIT until the Management Subsidiary or another external management company (as the case may be if Resolution 2 is not approved) has been appointed by the Trustee to assume the role as the new REIT manager, at which time the Trustee shall issue the Manager Removal Notice. The termination of the appointment of the Manager as manager of Spring REIT will become effective on the date specified in the Manager Removal Notice.

## LETTER FROM THE BOARD

During the time period between the passing of Resolution 1 for the removal of the Manager and until the effective date of the appointment of the new REIT manager (the “**Transitional Period**”), the Manager shall continue to carry out activities as it may deem necessary for the day-to-day management of Spring REIT and its business in accordance with the Trust Deed in the interests of Unitholders. However, having regard to the expected appointment of a replacement REIT manager, the Manager shall refrain from making any material decision in relation to the strategies of Spring REIT or committing Spring REIT to any investment or divestment during the Transitional Period, including but not limited to acquisitions and disposals of properties. As such, Spring REIT may miss or forego suitable investment opportunities that arise during the Transitional Period which could have otherwise furthered the interests of Spring REIT and Unitholders as a whole. The Transitional Period may thus impede the implementation of Spring REIT’s strategic objectives, and accordingly, have a material adverse impact on Spring REIT’s operations and financial condition.

**The successful implementation of Resolution 1 is therefore highly dependent on whether experienced directors and employees for the Management Subsidiary will be available at a cost acceptable to Spring REIT, or at all. It is also dependent on the abovementioned necessary prerequisites for appointing the Management Subsidiary (including obtaining Unitholders’ approval for the necessary amendments to the Trust Deed) being satisfied.**

**There is no certainty that any of the abovementioned steps to appoint the Management Subsidiary (or an external management company if Resolution 2 is not approved) will be carried out successfully and expeditiously. If any of these steps cannot be successfully implemented, this may result in serious consequences for Spring REIT and consequentially adversely affect its ability to make distributions to Unitholders. Further, no assurance can be given as to the future performance of the Management Subsidiary (or an external management company if Resolution 2 is not approved).**

**In addition, during the Transitional Period, the Manager will not be in a position to actively pursue any investment opportunities for Spring REIT that may arise during the Transitional Period. The missed opportunities may no longer be available, or be more costly for Spring REIT to pursue, after the Transitional Period. Also, there is no guarantee that the performance of Spring REIT would not be negatively affected by an extended period of investment inactivity.**

## LETTER FROM THE BOARD

### 2.5. Board's view

The Board (including the independent non-executive Directors) is of the view that the points put forward by the PAG Unitholders to remove the Manager are unjustified and cannot be substantiated. The Board (including the independent non-executive Directors) also considers Resolution 1 to **not** be in the interests of Spring REIT and the Unitholders as a whole and would strongly recommend the Unitholders to vote against Resolution 1 in view of the Manager's response to the First Request and the consequences if Resolution 1 is approved, details of which are set out in sections 2.3 and 2.4 above. **As Resolution 1 pertains to the replacement of the Manager, Unitholders should note that the Board has a material interest in Resolution 1, and accordingly, Unitholders are encouraged to consult their own professional adviser if in doubt as to any aspect of this Circular or action to be taken.**

### 3. RESOLUTION 2: INTERNALISATION OF REIT MANAGER

#### 3.1. PAG Unitholders' request to internalise the REIT management function

The PAG Unitholders have in their Request Letter proposed the following Ordinary Resolution for approval at an extraordinary general meeting of Unitholders to be convened (the "**Second Request**"):

*"THAT, conditional upon the passing of Resolution 1 and subject to the approval of the Securities and Futures Commission, the Trustee be directed to:*

- (i) effect the internalization of the REIT management function by incorporating a subsidiary, to be wholly owned by the Trustee, to act as the manager of Spring REIT (the "**Management Subsidiary**"); and*
- (ii) retain Spring REIT's existing management staff to maintain management continuity and, if resolution 4 is passed and subject to the result of the strategic and governance review, to hire and appoint qualified candidates, with a strong track record of direct real estate management experience, as the directors and staff of the Management Subsidiary in accordance with applicable requirements of the Securities and Futures Commission."*

The PAG Unitholders' rationale for the Second Request is set out in the Request Letter which has been reproduced in the "Letter from the PAG Unitholders" which forms part of this Circular.

## LETTER FROM THE BOARD

### 3.2. Resolution 2

The form of Resolution 2, which is identical in form to the Second Request (other than to remove the reference to the Fourth Request which shall not be tabled at the upcoming EGM), is set out in the EGM Notice. The passing of Resolution 2 is a condition for the Third Request and Fourth Request to be tabled and considered at a future extraordinary general meeting of Unitholders. **Given Resolution 2 is conditional upon the passing of Resolution 1, Resolution 2 shall not be put forth for voting unless Resolution 1 is passed.**

To the best of the Manager's knowledge, information and belief after having made reasonable enquires, the Manager takes the view that no Unitholder is required to abstain from voting on Resolution 2.

### 3.3. Response from the Manager

In the absence of a detailed implementation plan for the establishment and appointment of the Management Subsidiary proposed by the PAG Unitholders, the Manager is unable to see any benefits of an internalised model over the current management model which is established with a strong experienced team and strong track record.

The Manager has been acting as the manager for Spring REIT since the listing of Spring REIT almost four years ago. The Manager has accumulated significant experiences on the implementation of Spring REIT's strategic objectives and the management of Spring REIT's property portfolio, which is evidenced by the high occupancy rates, growth in passing rent, initiatives to improve Spring REIT's capital structure, the successful acquisition of the UK Portfolio to bring additional cash flow to the Unitholders and paying out 104% of total distributable income since the listing of Spring REIT. The Manager has also established a strong relationship with both the tenants and the lenders, which is supported by the longer tenancy duration profile and the total cash savings of USD9.26 million per annum related to the RCA01 Facilities Agreement.

There is no assurance that future directors and employees of the Management Subsidiary would have experience, skills and knowledge that is at least comparable with that of the current Manager. Recruitment of suitable candidates may result in a prolonged period of uncertainty for Spring REIT and its Unitholders during the Transitional Period. Such uncertainty coupled with the consequences listed out in section 3.4 headed "Consequences if Resolution 2 is approved" may impede the implementation of Spring REIT's strategic objectives, and accordingly, have a material adverse impact on Spring REIT's operations and financial condition during the Transitional Period.

## LETTER FROM THE BOARD

The replacement of the Manager with the Management Subsidiary may require additional resources and costs, which may ultimately affect Spring REIT's ability to make distributions to Unitholders. Such resources/costs include but are not limited to:

- (a) any additional fee imposed by the lenders under the RCA01 Facilities Agreement and RUK01 Facility Agreement in exchange for their consent or waiver with respect to a breach or event of default caused by the removal of the Manager;
- (b) any costs associated with refinancing the RCA01 Facilities Agreement and/or the RUK01 Facility Agreement if such facilities are terminated;
- (c) any costs associated with the establishment of the Management Subsidiary (or, if Resolution 2 is not passed, the appointment of an external management company) and searching for qualified directors and employees in the REIT management industry for the Management Subsidiary;
- (d) any additional costs of the Trustee;
- (e) any costs associated with the implementation of the necessary prerequisites for appointing the Management Subsidiary (including Unitholders' approval for effecting the necessary amendments to the Trust Deed);
- (f) any costs associated with the obtaining of the necessary licences for the Management Subsidiary to manage Spring REIT;
- (g) any other costs associated with the replacement of the Manager with the Management Subsidiary; and
- (h) any loss of opportunity during the Transitional Period.

All these costs are uncertain and unquantified by the PAG Unitholders who have not provided any clarity or guidance on how these costs will be covered. **Based on the above, and in particular (i) the unspecified costs for the implementation of Resolution 2 which may ultimately affect Spring REIT's ability to make distributions to Unitholders, as well as (ii) the risk of a prolonged period of uncertainty for the implementation of Resolution 2 (as set out in section 3.4 below) which may impede the implementation of Spring REIT's strategic objectives, the Board (including the independent non-executive Directors) considers Resolution 2 to not be in the interests of Spring REIT and the Unitholders as a whole.**



## LETTER FROM THE BOARD

### 3.4. Consequences if Resolution 2 is approved

**There is no assurance that the implementation of Resolution 2, which is conditional upon and subject to various prerequisites set out in sections 2.4 and 3.4 being satisfied, will be successfully and expeditiously carried out. There is also a risk of a prolonged period of uncertainty as the amount of time required for implementation cannot be estimated or controlled by Spring REIT.**

The serious consequences of replacing the Manager with the Management Subsidiary, including but not limited to the risk of a prolonged period of uncertainty during the Transitional Period, are set out in section 2.4 headed "Consequences if Resolution 1 is approved".

In addition, the implementation of Resolution 2 is subject to the following requirements:

- (a) Paragraph 5.3 of the REIT Code requires the manager of Spring REIT to be licensed under Part V of the SFO and approved by the SFC to manage Spring REIT. Such processes are highly dependent on the experience of the new management team to be identified and employed by the Management Subsidiary.
- (b) Paragraph 4.8 of the REIT Code requires the REIT trustee and manager to be independent of each other. As the Management Subsidiary will be wholly-owned by the Trustee, this relationship may not be in strict compliance with paragraph 4.8 of the REIT Code, and hence, possibly require the SFC to grant a technical waiver from such requirement.
- (c) Amendments to the Trust Deed will be required to implement the proposed internalised REIT management structure. Such amendments shall require the approval of Unitholders by way of a Special Resolution (which must be carried by at least 75% of the votes of those Unitholders present and entitled to vote in person or by proxy, compared to an Ordinary Resolution which only needs to be carried by at least 50% of the votes).

**Accordingly, Unitholders should note that Resolution 2, if approved, shall remain conditional upon and subject to: (i) the staffing and licensing of the Management Subsidiary; (ii) the implementation of the abovementioned necessary prerequisites for appointing the Management Subsidiary (including Unitholders' approval for the necessary amendments to the Trust Deed) by way of Special Resolution at a further extraordinary general meeting of Unitholders to be convened; and (iii) the approval of the Trustee. Even if Unitholders vote to retain Spring REIT's existing management staff to maintain management continuity, there can be no assurances that such staff (who are presently employed by the Manager) will agree to employment with the Management Subsidiary. Further, due to the uncertainties described in sections 2.4 and 3.4, the amount of time required to implement the proposed internalised REIT management structure cannot be estimated or controlled by Spring REIT.**

## LETTER FROM THE BOARD

### 3.5. Consequences if Resolution 2 is proposed but not approved

**If Resolution 2 is not approved, the Manager will be replaced by another external management company. There is no assurance that a company which meets the requisite licensing requirements will be readily available to assume the role as the new REIT manager, or with respect to the fees which such company will charge Spring REIT in connection with its appointment.**

Resolution 2 (to internalise the REIT management function of Spring REIT) will only be proposed if Resolution 1 (to remove the Manager) is approved. In the event that Resolution 2 is proposed but not approved, the Manager will necessarily be replaced by another external management company which will need to be identified and appointed in accordance with the REIT Code and the Trust Deed. There is no assurance that an external management company which meets the requisite licensing requirements will be readily available to assume the role as the new REIT manager, or with respect to the fees which such external management company will charge Spring REIT in connection with its appointment (which may be higher or lower than the fees currently charged by the Manager and/or be paid in a different proportion of cash and Units).

In addition, a separate approval from Unitholders will be required to effect the appointment of the new external REIT manager pursuant to the REIT Code and the Trust Deed. As such, the search for and appointment of a new external REIT manager may incur time and costs which cannot be estimated at present and may also result in a prolonged period of uncertainty for Spring REIT and its Unitholders.

### 3.6. Board's view

The Board (including the independent non-executive Directors) is of the view that the points put forward by the PAG Unitholders to internalise the Manager are unjustified and cannot be substantiated. The Board (including the independent non-executive Directors) also considers Resolution 2 to **not** be in the interests of Spring REIT and the Unitholders as a whole and would strongly recommend the Unitholders to vote against Resolution 2 in view of the Manager's response to the Second Request which are set out in section 3.3 above, having regard to undesirable consequences which may arise if Resolution 2 is approved or not approved as set out in sections 3.4 and 3.5 above. **As Resolution 2 pertains to the internalisation of the REIT management function, Unitholders should note that the Board has a material interest in Resolution 2, and accordingly, Unitholders are encouraged to consult their own professional adviser if in doubt as to any aspect of this Circular or action to be taken.**

## LETTER FROM THE BOARD

### 4. FURTHER REQUESTS BY THE PAG UNITHOLDERS

#### 4.1. PAG Unitholders' request to appoint Mr. Broderick Storie to the board and adoption of certain corporate governance principles

The PAG Unitholders have in their Request Letter proposed the following Ordinary Resolution for approval at an extraordinary general meeting of Unitholders to be convened (the "Third Request"):

*"THAT the Board of Directors of any manager of Spring REIT (a) appoint Mr. Broderick Storie as a non-executive director (for an initial three-year term, subject to re-election as set forth below) to increase the industry expertise on the Board of Directors and (b) adopt the following corporate governance principles:*

- (i) at each annual general meeting, one-third of the Directors shall retire but shall be eligible for re-election by the affirmative vote of a majority of the Unitholders present in person or by proxy at such meeting; and*
- (ii) the Board of Directors will appoint an appropriately experienced and qualified individual, who is independent of the manager of Spring REIT if Resolution 2 is not passed, to act as the Chair of the Board of Directors."*

The PAG Unitholders' rationale for the Third Request is set out in the Request Letter which has been reproduced in the "Letter from the PAG Unitholders" which forms part of this Circular.

The appointment, removal and retirement of the directors of an external manager is a matter governed by that external manager's articles of association, which ordinarily (and in the context of the Manager's own articles of association), leaves such matters to the discretion of the external manager's shareholders or board. Unitholders do not ordinarily (and in the context of the Manager) have the power to appoint or remove the directors of a REIT manager unless such power is prescribed under the manager's articles of association or the REIT that it manages has an internalised management model (in which case the REIT manager's shareholder is the REIT itself). **Accordingly, the Third Request shall be tabled and considered at a future extraordinary general meeting of Unitholders if Resolution 2 is approved.**

## LETTER FROM THE BOARD

### 4.2. PAG Unitholders' request for the Review and establishment of the Strategic and Governance Review Committee

The PAG Unitholders have in their Request Letter proposed the following Ordinary Resolution for approval at an extraordinary general meeting of Unitholders to be convened (the "Fourth Request"):

*"THAT independent experts shall be appointed to review the strategy, performance and governance of Spring REIT (the "Review"). A committee of three members shall be formed to oversee and receive the results of the Review (the "Strategic and Governance Review Committee"). The Strategic and Governance Review Committee shall consist of Mr. Broderick Storie, as chair of the committee, and two independent non-executive directors. The Review shall include the following elements:*

***Financial Performance:** The experts shall (a) evaluate Spring REIT's operational and asset performance against appropriate benchmarks and develop models for future performance, with in depth analysis of asset management, asset enhancement, operating and overhead costs, and capital management (e.g., financing and hedging); and (b) provide recommendations on operational actions and initiatives to enhance financial performance.*

***Strategy:** The experts shall take the following steps to analyze strategic options for Spring REIT:*

- Understand the strategic drivers of current and potential performance;*
- Test the current strategy and strategic initiatives;*
- Identify, develop and agree a set of strategic options; and*
- Evaluate and pose recommendations regarding the best strategic options to enhance value to Unitholders.*

***Governance:** The experts appointed to conduct the Review should have the diagnostic tools to assess the performance of management, the Board of Directors and systems with reference to the governance standards required by the Hong Kong Code on Real Estate Investment Trusts, the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and the Trust Deed constituting Spring REIT. The experts' primary objective will be to ensure that Spring REIT's management structure is grounded in market-leading corporate governance practices, with Directors and managers who are directly accountable to Unitholders. The experts will report their recommendations to the Strategic and Governance Review Committee, which will then report the results of the Review to the Board of Directors."*

The PAG Unitholders' rationale for the Fourth Request is set out in the Request Letter which has been reproduced in the "Letter from the PAG Unitholders" which forms part of this Circular.

## LETTER FROM THE BOARD

Under the REIT Code, the Manager shall perform all the key functions in relation to the management of Spring REIT, and is required to do so in accordance with the Trust Deed in the sole interests of Unitholders. The REIT Code sets out certain requirements in this regard, including requirements pertaining to the licensing and experience of the Manager. The Trust Deed states that Unitholders are prohibited from giving any directions to the Manager (whether at a general meeting or otherwise), and the Manager shall not be bound to follow such directions, if it would require the Manager to do anything which may result in the exercise of any discretion expressly conferred on the Manager under the Trust Deed. The Trust Deed expressly gives the Manager the discretion to appoint independent experts (including an independent financial adviser) to advise the Manager in connection with its obligations. The establishment of a strategic review committee also falls squarely within the discretion of the board of the incumbent manager of Spring REIT under its articles of association. Notwithstanding the above, if a REIT has an internalised management model (in which case the REIT manager's shareholder is the REIT itself), the REIT manager's articles of association can be revised by its shareholder (i.e. the REIT) to make these matters subject to Unitholders' approval. **Accordingly, the Fourth Request shall be tabled and considered at a future extraordinary general meeting of Unitholders if Resolution 2 is approved.**

### 5. TRUSTEE'S VIEW

The Trustee is of the view that the Manager is obliged to convene a meeting of Unitholders to consider Resolution 1 and Resolution 2 under the Trust Deed as requested in writing by not less than two Unitholders registered as together holding not less than 10% of the Units for the time being in issue and outstanding.

Based on its review of the Trust Deed, the Trustee is of the view that the trustee and the management company need to be independent of each other. If the proposal to internalise the REIT management function is approved by the requisite amount of Unitholders, approval from the SFC will be sought and consequential amendments to Clause 10.1 of the Trust Deed will need to be made.

In addition, if Resolution 2 is passed, Unitholders should be aware that a considerable amount of time and cost will be required to internalise the REIT management function. If Resolution 2 is passed, the Trustee will likely need to engage experts (including legal counsel) to effect the various steps to internalise the REIT management function. The fees, costs and expenses of such experts will be reimbursed out of the Deposited Property in accordance with the terms of the Trust Deed. An estimate of time and costs involved in this exercise is not available.

In addition, if Resolution 2 is not passed an external manager will need to be appointed. There is no estimate available of the time it would take to identify an external management company and there can be no assurance that such successor manager will agree to the same terms of engagement as the Manager. An estimate of costs involved in this exercise is not available.

## LETTER FROM THE BOARD

The Trustee notes the Manager's approach in Paragraph 4 of this Circular regarding the Third Request and Fourth Request. The Trustee has no objection to the Third Request and the Fourth Request to be tabled and considered at a future extraordinary general meeting of Unitholders if Resolution 2 is approved.

Each Unitholder shall be solely responsible for making its own independent appraisal of each of the proposed resolutions including the merits and risks involved. Each Unitholder should carefully consider the risks and uncertainties described in this Circular and other information contained herein before making a decision to vote in favour of or against the proposed resolutions. The Trustee makes no representations as to the views of the PAG Unitholders in respect of the removal of the Manager and the internalisation of the REIT management function as set out in the Request Letter. The Trustee is not making any representation to the Unitholders whether to vote in favour or against Resolution 1 and Resolution 2.

### 6. EXTRAORDINARY GENERAL MEETING

The EGM will be held at Room 2401-2, Admiralty Centre I, 18 Harcourt Road, Hong Kong on Friday, 10 November 2017 at 4:00 p.m. for the purpose of considering and, if thought fit, passing with or without modifications, the Ordinary Resolutions set out in the EGM Notice, which is set out on pages N-1 to N-2 of this Circular.

For the purpose of determining eligibility of Unitholders to attend and vote at the meeting, the Register will be closed from 7 November 2017 to 10 November 2017, both days inclusive, during which period no transfers of Units will be effected. In order to qualify to attend and vote at the EGM, all transfers of Units accompanied by the relevant Unit certificates and the duly completed transfer forms must be lodged with the Unit Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, 6 November 2017.

If you are a Unitholder on the Register on Friday, 10 November 2017 (being the date fixed for the purposes of determining Unitholders' entitlement to vote at the EGM), you can attend and vote at the EGM. You will find enclosed with this Circular a form of proxy for use for the purpose of the EGM.

Please complete, sign and date the enclosed form of proxy, whether or not you plan to attend the EGM in person, in accordance with the instructions printed on the form of proxy, and return it to the Unit Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. The form of proxy should be completed and returned as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

## LETTER FROM THE BOARD

### 7. FURTHER ANNOUNCEMENTS

Further announcements disclosing the poll results of the EGM and, if Resolution 1 is approved, further details regarding matters relating to the removal of the Manager (including the internalisation of the REIT management function or the appointment of a new external REIT manager (as the case may be if Resolution 2 is not approved)) will be made by Spring REIT in accordance with all applicable requirements of the REIT Code as and when appropriate.

### 8. RESPONSIBILITY STATEMENT

The Manager and the Directors, collectively and individually, accept full responsibility for the accuracy of the information given in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this Circular misleading.

Yours faithfully,

By Order of the Board

**SPRING ASSET MANAGEMENT LIMITED**

(as manager of Spring Real Estate Investment Trust)

**Mr. Toshihiro Toyoshima**

*Chairman of the Manager*

## LETTER FROM THE PAG UNITHOLDERS

*The full text of the Request Letter, which was received in English, is reproduced below. If there is any inconsistency between the English version of the Request Letter and its Chinese translation, the English version shall prevail.*

### BY COURIER

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

Dear Sirs,

### NOTICE OF REQUISITION TO CONVENE AN EXTRAORDINARY GENERAL MEETING

We, BT Cayman Ltd. and Spirit Cayman Ltd, are Unitholders of Spring Real Estate Investment Trust (“**Spring REIT**”) collectively holding 157,150,000 units as of the date hereof. BT Cayman Ltd. and Spirit Cayman Ltd are investment vehicles managed by PAG Real Estate, the real estate investment strategy of PAG, one of Asia’s largest independent alternative asset management firms.

As substantial Unitholders of Spring REIT, we have been deeply disappointed with the persistent unit price underperformance, which we feel in part results from the lack of a clear strategy for Spring REIT articulated and executed by Spring Asset Management Limited (the “**Manager**”). In view of Spring REIT’s high quality asset portfolio, consisting of two prime office properties in the Beijing CBD (the “**Beijing Properties**”), we believe there is substantial room for improvement in order to narrow the performance gap with comparable REITs.

The governance structure in place for Spring REIT is also a significant concern. Unlike shareholders of a corporation, who have the ability to appoint or remove the corporation’s directors, the Unitholders of Spring REIT do not have the ability to appoint or remove the Directors of the Manager. The Manager is a separate corporate entity with separate shareholders who can control the appointment of the Directors without any input from the Unitholders. This means that **the Directors are not directly accountable to Unitholders** and ultimately serve at the pleasure of Mercuria Investment Co., Ltd. (“**Mercuria Investment**”), which holds 90.2% of the Manager’s shares. **We have seen no evidence of the Directors acting independently of Mercuria Investment.** To make matters worse, the Board has delegated virtually all management responsibility to the Advisory Committee, which does not include any independent Directors. The Unitholders’ only practical remedy is to remove the Manager because, as we have experienced, the Directors are unwilling to engage in any substantive discussions with Unitholders.



## LETTER FROM THE PAG UNITHOLDERS

We believe an internalized management model, combined with improvements in corporate governance and transparency, are critical to fully capturing the performance potential of Spring REIT for the benefit of all Unitholders.

Accordingly, we recommend the removal of the Manager, the creation of a new management company under Spring REIT's trustee to establish an internalized management model with Spring REIT's current management staff, and an independent review of Spring REIT's strategy, performance and governance.

Our primary concerns and observations include the following:

### 1. Continued and Material Unit Price and Financial Underperformance

- a. Spring REIT's units are currently trading at a **substantial discount** to net asset value ("NAV") of 43.6%<sup>1</sup> while comparable REITs are trading at an average discount to NAV of 3.7%<sup>2</sup>.
- b. Spring REIT's unit price has underperformed since its initial public offering in 2013, and is 83% below its relevant benchmark<sup>3</sup> – **It is the second worst performing REIT amongst constituents of the Hang Seng REIT Index over the same time period.**
- c. In the last six months, the Manager's decision to pursue the acquisition of 84 commercial properties in the UK (the "UK Acquisition"), combined with the placement of units to fund the UK acquisition, has resulted in a 10.5% implied decline<sup>4</sup> in distributions per unit ("DPU").
- d. Since 1H 2016, Spring REIT's DPU has fallen by 26.9%<sup>5</sup> despite an increase in the distribution payout ratio from 92% to 100% over the same period.

<sup>1</sup> Based on Spring REIT's closing unit price of HK\$3.31 as at 25 August 2017 and net asset value per unit of HK\$5.87 as at 30 June 2017.

<sup>2</sup> We regard Spring REIT's comparable REITs as real estate investment trusts with property portfolios that consist of premium grade office buildings in Tier 1 cities in China, which include (i) Link REIT (premium to NAV of 2.0% based on closing unit price of HK\$63.70 as at 25 August 2017 and net asset value per unit of HK\$62.47 as at 31 March 2017) and (ii) Yuexiu REIT (discount to NAV of 9.3% based on closing unit price of HK\$5.05 as at 25 August 2017 and net asset value per unit of RMB4.83 as at 30 June 2017, converted to HK\$5.57 using the central parity rate of HK\$1:RMB0.86792, as announced by the People's Bank of China, on 30 June 2017).

<sup>3</sup> The Hang Seng REIT Index, consisting of nine REITs listed on the Hong Kong Stock Exchange, is the key benchmark that tracks the performance of REITs in Hong Kong. Performance measured by total return inclusive of gross dividends from 4 December 2013 to 25 August 2017 where Spring REIT recorded total return of 11.50% and the Hang Seng REIT Index recorded total return of 67.36% (Source: Bloomberg).

<sup>4</sup> Based on pro forma analysis of the DPU for the year ended 31 December 2016, with the placement of 114,884,000 units and the UK Acquisition. Calculation details and assumptions are set out in the Appendix to this Notice of Requisition.

<sup>5</sup> Based on DPU of HK\$13.0 cents for the six months period ended 30 June 2016 and DPU of HK\$9.5 cents for the six months period ended 30 June 2017.

## LETTER FROM THE PAG UNITHOLDERS

### 2. Questionable Governance, Alignment of Interests and Decision Making Practices

- a. The UK Acquisition involved a related party, Itochu Corporation (“**Itochu**”), in a market where the Manager has **no relevant track record or active presence**.
- b. The sale by Itochu of shares in Mercuria Investment prior to the Extraordinary General Meeting of Spring REIT’s Unitholders in May 2017 (the “**EGM**”), at a time when Itochu, Mercuria Investment and the Manager knew that the UK Acquisition was controversial, undermined the integrity of the EGM by enabling the Manager and its allies to push through the UK Acquisition.
- c. The selective placement of units, at a discount of 45.4% to NAV<sup>6</sup>, denied other Unitholders the opportunity to avoid significant dilution of their voting and economic interests in Spring REIT.
- d. Mercuria Investment has benefitted from excessive Manager’s fees paid by Spring REIT, allowing Mercuria Investment to achieve tremendous share price growth of 212% since its IPO in October 2016<sup>7</sup>, while Spring REIT’s unit price has decreased by 1.2% during the same period<sup>8</sup>, thereby **underperforming market**.
- e. There is no independent director representation on the Manager’s Board Advisory Committee. All of the members of the committee are executives of the Manager or Mercuria Investment and three of the four members of the committee have more invested in Mercuria Investment than they have invested in Spring REIT.

<sup>6</sup> Based on subscription price of HK\$3.25 per unit and NAV per unit of HK\$5.95 as at 31 December 2016, as disclosed in Spring REIT’s announcement dated 13 April 2017.

<sup>7</sup> Based on Mercuria Investment’s closing share price of JPY1,507 on 25 August 2017 and IPO share price of JPY483 (original IPO price of JPY1,450 per share adjusted by 1 for 3 stock split completed in December 2016).

<sup>8</sup> Based on Spring REIT’s closing unit price of HK\$3.31 on 25 August 2017 and HK\$3.35 on 14 October 2016 (the last trading day before date of Mercuria Investment’s IPO, 17 October 2016).

## LETTER FROM THE PAG UNITHOLDERS

### 3. Lack of Clear Strategy and Coherent Business Plan

- a. The Manager has consistently failed to articulate a coherent strategy to address the persistent underperformance of Spring REIT.
- b. The Manager has expanded the investment scope of Spring REIT, in terms of geography and types of investments, without clearly articulating how the broader scope would be matched with adequate operational and financial resources and capabilities.
- c. The Manager has failed to manage the Beijing Properties prudently, resulting in a three percentage points drop in occupancy since the beginning of 2016<sup>9</sup>, while the overall CBD submarket<sup>10</sup> experienced only a 0.97 percentage points drop in occupancy during the same period<sup>11</sup>.

To address the above issues and concerns, we request that you convene an extraordinary general meeting of Spring REIT's Unitholders within two months of the date hereof to vote on the following resolutions:

#### ORDINARY RESOLUTIONS

1. "THAT Spring Asset Management Limited be removed as the manager of Spring REIT as soon as practicable after this resolution is passed."
2. "THAT, conditional upon the passing of Resolution 1 and subject to the approval of the Securities and Futures Commission, the Trustee be directed to:
  - (i) effect the internalization of the REIT management function by incorporating a subsidiary, to be wholly owned by the Trustee, to act as the manager of Spring REIT (the "**Management Subsidiary**"); and
  - (ii) retain Spring REIT's existing management staff to maintain management continuity and, if resolution 4 is passed and subject to the result of the strategic and governance review, to hire and appoint qualified candidates, with a strong track record of direct real estate management experience, as the directors and staff of the Management Subsidiary in accordance with applicable requirements of the Securities and Futures Commission."

<sup>9</sup> Based on the Beijing Properties' average occupancy rate of 97% for the three months ended 31 March 2016 and 94% for the three months ended 30 June 2017, as disclosed in Spring REIT's unaudited operating statistics for the corresponding periods.

<sup>10</sup> Beijing CBD submarket, where the Beijing Properties are located, based on categorization by CBRE Global Research.

<sup>11</sup> Based on Beijing CBD submarket's vacancy rate of 4.60% (equivalent to occupancy rate of 95.40%) as at 31 March 2016 and vacancy rate of 5.57% (equivalent to occupancy rate of 94.43%) as at 30 June 2017 (Source: CBRE Global Research).

## LETTER FROM THE PAG UNITHOLDERS

3. “THAT the Board of Directors of any manager of Spring REIT (a) appoint Mr. Broderick Storie as a non-executive director (for an initial three-year term, subject to re-election as set forth below) to increase the industry expertise on the Board of Directors and (b) adopt the following corporate governance principles:
- (i) at each annual general meeting, one-third of the Directors shall retire but shall be eligible for re-election by the affirmative vote of a majority of the Unitholders present in person or by proxy at such meeting; and
  - (ii) the Board of Directors will appoint an appropriately experienced and qualified individual, who is independent of the manager of Spring REIT if Resolution 2 is not passed, to act as the Chair of the Board of Directors.”
4. “THAT independent experts shall be appointed to review the strategy, performance and governance of Spring REIT (the “**Review**”). A committee of three members shall be formed to oversee and receive the results of the Review (the “**Strategic and Governance Review Committee**”). The Strategic and Governance Review Committee shall consist of Mr. Broderick Storie, as chair of the committee, and two independent non-executive directors. The Review shall include the following elements:
- (i) **Financial Performance:** The experts shall (a) evaluate Spring REIT’s operational and asset performance against appropriate benchmarks and develop models for future performance, with in depth analysis of asset management, asset enhancement, operating and overhead costs, and capital management (e.g., financing and hedging); and (b) provide recommendations on operational actions and initiatives to enhance financial performance.
  - (ii) **Strategy:** The experts shall take the following steps to analyze strategic options for Spring REIT:
    - Understand the strategic drivers of current and potential performance;
    - Test the current strategy and strategic initiatives;
    - Identify, develop and agree a set of strategic options; and
    - Evaluate and pose recommendations regarding the best strategic options to enhance value to Unitholders.
  - (iii) **Governance:** The experts appointed to conduct the Review should have the diagnostic tools to assess the performance of management, the Board of Directors and systems with reference to the governance standards required by the Hong Kong Code on Real Estate Investment Trusts, the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of

## LETTER FROM THE PAG UNITHOLDERS

Hong Kong Limited, and the Trust Deed constituting Spring REIT. The experts' primary objective will be to ensure that Spring REIT's management structure is grounded in market-leading corporate governance practices, with Directors and managers who are directly accountable to Unitholders. The experts will report their recommendations to the Strategic and Governance Review Committee, which will then report the results of the Review to the Board of Directors."

We have provided a more detailed description of the proposed Review, including a proposed timetable and experts, in the Appendix to this Notice of Requisition.

We propose these resolutions both as significant Unitholders in Spring REIT and as investment professionals with an established investment track record of over 20 years and a commitment to operating in accordance with best-in-class governance standards. Specifically, PAG Real Estate has:

- 140+ professionals dedicated to direct real estate investment in the region;
- A proven track record, with US\$25 billion invested in Asia since 1997;
- Senior executives with an average of 20+ years of real estate investing experience; and
- An established institutional alternatives platform with best-in-class fiduciary standards.

We are confident that we can make a constructive assessment of the current issues surrounding Spring REIT and provide solutions in the best interests of all Unitholders. More importantly, we can do so **without the inherent conflicts associated with the current Manager.**

As experienced investment professionals, we can provide the leadership necessary to carry out these resolutions, including the removal and replacement of the Manager and to enhance the governance of Spring REIT through internalization of management and restructuring the composition of the Board of Directors.

Should you require any further information, please contact either Mr. Broderick Storie (via email: [bstorie@pagasia.com](mailto:bstorie@pagasia.com) or phone: +852 3719 3335) or Mr. Tim Morrison (via email: [tmorrison@pagasia.com](mailto:tmorrison@pagasia.com) or phone: +852 3719 3375).

A copy of this requisition notice will be sent to The Stock Exchange of Hong Kong Limited and the Securities and Futures Commission for their reference. BT Cayman Ltd. and Spirit Cayman Ltd reserve the right to send a copy of this requisition notice to other parties, as appropriate. Spring REIT is hereby reminded to ensure compliance with the Code on Real Estate Investment Trusts and make a timely announcement of this requisition notice.

LETTER FROM THE PAG UNITHOLDERS

Yours faithfully

For and on behalf of  
BT Cayman Ltd.

---

Name: Broderick Storie  
Position: Authorized Signatory

For and on behalf of  
BT Cayman Ltd.

---

Name: Yuki Mochizuki  
Position: Director

For and on behalf of  
Spirit Cayman Ltd

---

Name: Broderick Storie  
Position: Authorized Signatory

For and on behalf of  
Spirit Cayman Ltd

---

Name: Yuki Mochizuki  
Position: Director

# LETTER FROM THE PAG UNITHOLDERS

## RATIONALE FOR AND DETAILS OF OUR PROPOSED RESOLUTIONS

The operating and financial performance and corporate governance of Spring REIT have left us with no alternative but to requisition a meeting of Unitholders. In doing so, we acknowledge the sensitivity of the proposed resolutions and have developed a comprehensive plan that is consistent with the strategic objectives of Spring REIT and is intended to deliver financial outperformance for all investors. Further, whilst we believe that change is warranted, we are also of the view that a comprehensive plan can only be properly executed with the full cooperation of the directors of Spring REIT. Thus, if the proposed resolutions are supported, our proposed director nominee will seek to work constructively with the other directors and with the shared objective of delivering superior long-term Unitholder value creation.

### 1. RATIONALE FOR REMOVAL OF MANAGER (RESOLUTION 1)

We set out below our assessment of various developments involving Spring REIT and the performance of the Manager, which in our opinion raise serious concerns regarding the Manager's judgment and ability to manage Spring REIT.

#### Underperforming Unit Price

We have analyzed the performance of Spring REIT's unit price relative to the performance of comparable real estate investment trust securities listed on the Hong Kong Stock Exchange. We note that Spring REIT's unit price represents an abnormally steep discount to NAV and has underperformed its peers. Specifically:

- **Discount to NAV:** Spring REIT's unit price is trading at a much steeper discount to NAV when compared to peers<sup>12</sup> listed on the Hong Kong Stock Exchange. Spring REIT's current unit price discount to NAV is approximately 43.6%<sup>13</sup>. In comparison, the current unit price discount to NAV of Yuexiu Real Estate Investment Trust (405.HK; "Yuexiu REIT") is approximately 3.7%<sup>14</sup>, while the current unit price premium to NAV of Link Real Estate Investment Trust (823.HK; "Link REIT") is approximately 2.0%<sup>15</sup>.

<sup>12</sup> We regard Spring REIT's peers as real estate investment trusts with property portfolios that consist of premium grade office buildings located in Tier 1 cities in China.

<sup>13</sup> Based on Spring REIT's closing unit price of HK\$3.31 on 25 August 2017 and net asset value per unit of HK\$5.87 as at 30 June 2017.

<sup>14</sup> Based on Yuexiu REIT's closing unit price of HK\$5.05 on 25 August 2017 and net asset value per unit of RMB4.83 as at 30 June 2017, converted to HK\$5.57 using the central parity rate of HK\$1:RMB0.86792, as announced by the People's Bank of China, on 30 June 2017.

<sup>15</sup> Based on Link REIT's closing unit price of HK\$63.70 on 25 August 2017 and net asset value per unit of HK\$62.47 as at 31 March 2017.

## LETTER FROM THE PAG UNITHOLDERS

- **Unit price performance:** Spring REIT’s unit price has underperformed the unit price of Spring REIT’s peers listed on the Hong Kong Stock Exchange and the Hang Seng REIT Index. Spring REIT’s recorded year-to-date (“YTD”; from 1 January 2017 to 25 August 2017) unit price growth of a mere 2.8%<sup>16</sup>. In comparison, Yuexiu REIT and Link REIT recorded YTD unit price growth of approximately 23.5%<sup>17</sup> and 26.4%<sup>18</sup>. The Hang Seng REIT Index, which is the key benchmark index that tracks the performance of REITs in Hong Kong, recorded YTD increase of 16.8% in its index value<sup>19</sup>.
- **Total return performance:** Since its initial public offering (“IPO”) in December 2013, Spring REIT’s total return was 11.50%<sup>20</sup>. This implies that if an investor bought HK\$10,000 worth of Spring REIT units at the time of IPO, his/her investment would have increased to HK\$11,150 on 25 August 2017. In comparison, an investor would have enjoyed higher returns if he/she invested into other Hong Kong REITs. Since Spring REIT’s IPO in December 2013, the Hang Seng REIT Index recorded a total return of 67.36% (investment payout of HK\$16,736), while Yuexiu REIT and Link REIT recorded total returns of 69.53% (investment payout of HK\$16,953) and 92.05% (investment payout of HK\$19,205), respectively.

<sup>16</sup> Based on Spring REIT’s closing unit price of HK\$3.31 on 25 August 2017 and HK\$3.22 on 30 December 2016 (being the last trading day in 2016).

<sup>17</sup> Based on Yuexiu REIT’s closing unit price of HK\$5.05 on 25 August 2017 and HK\$4.09 on 30 December 2016.

<sup>18</sup> Based on Link REIT’s closing unit price of HK\$63.70 on 25 August 2017 and HK\$50.40 on 30 December 2016.

<sup>19</sup> Based on the Hang Seng REIT Index’s closing index value of 7,226 on 25 August 2017 and 6,187 on 30 December 2016.

<sup>20</sup> Source: Bloomberg (as at 25 August 2017); inclusive of gross dividends received; Bloomberg function: “CUMULATIVE\_TOT\_RETURN\_GROSS\_DVDS”.



## LETTER FROM THE PAG UNITHOLDERS

### Questionable Transactions in 2017: UK Acquisition and Dilutive Placement

#### *Reckless acquisition of commercial properties in the United Kingdom*

On 25 May 2017, the Manager held an Extraordinary General Meeting (“EGM”) of Spring REIT to seek Unitholder approval of the proposed acquisition (the “UK Acquisition”) of 84 commercial properties in the United Kingdom (the “UK Properties”). We continue to believe that the UK Acquisition is not in the best interests of the Unitholders for the following reasons:

- The UK Acquisition represents a radical departure in scope and in its relation to Spring REIT’s current capabilities and the nature of its existing portfolio, which consists of two premium office buildings located in one of the most important business districts of Beijing.
- The terms of the UK Acquisition do not reflect the macroeconomic risks in the UK resulting from the potential adverse impact of Brexit.
- The terms of the UK Acquisition do not adequately address potential volatility in the exchange rate between GBP and USD, the reporting currency of Spring REIT.
- The Manager lacks experience in the UK property market and lacks appropriate personnel and resources to manage the UK Properties.

#### *Itochu selling down of its stake in Mercuria Investment prior to the EGM*

On 2 May 2017, Itochu Corporation (“Itochu”) sold 480,000 shares (the “Itochu Selldown”) of Mercuria Investment Co., Ltd., (“Mercuria Investment”), the controlling shareholder of the Manager. As a result, Itochu was technically no longer considered a “connected person” with respect to Spring REIT, and the Lease CCTs (as defined in Spring REIT’s announcement dated 17 March 2017) no longer constituted “continuing connected party transactions.”

The Itochu Selldown was not announced until 17 May, more than two weeks after the fact. More importantly, the announcement was made just six business days before the EGM at which the Lease CCTs would be considered, and only one business day before the record date. The impact of this development was undeniably material to the EGM, as the percentage of Spring REIT units held by “connected parties” and therefore excluded from voting on the proposals declined from 36.5% to 5.9%. We question whether the selldown, and the delay in its announcement, were planned to affect the results of the EGM vote.

## LETTER FROM THE PAG UNITHOLDERS

In the announcement, the Manager further stated that the Itochu Selldown was “conducted for genuine commercial reasons” which were never explained in detail by Itochu, Mercuria Investment or the Manager. Based on the Shareholding Change Report (變更報告書) filed by Itochu on 8 May 2017 with the Tokyo Stock Exchange, the Itochu Selldown was completed off market at a price of JPY1,294.548 per share. This represents a discount of 8.6% to the closing price of JPY1,417 on 1 May 2017 (the last trading day prior to the day of the Itochu Selldown). As experienced investment professionals, we question whether a sale of securities at such a significant discount to market price would constitute a genuine commercial rationale for any securities investor.

### *Dilutive unit placement at substantial discount to NAV*

In April 2017, the Manager placed 114,884,000 of Spring REIT’s units to China Orient Stable Value Fund Limited (the “**Placement**”). The subscription price was HK\$3.25 per unit, equaling the closing price of the units on 13 April 2017, the date when the subscription agreement was entered into, and represented a substantial discount of approximately 45.4% to Spring REIT’s FY2016 reported net asset value (“NAV”) of HK\$5.95 per unit.

The Placement was highly dilutive and the discount to NAV deviated materially from market comparables. For instance, on 14 March 2017, Yuexiu Property Company Limited (123.HK) completed a secondary placement of 128,092,901 units of Yuexiu Real Estate Investment Trust (405.HK; “**Yuexiu REIT**”) at HK\$4.34 per unit, which represented a discount of approximately 16.2% to Yuexiu REIT’s FY2016 reported NAV (HK\$5.18 per unit).

According to Spring REIT’s announcement dated 13 April 2017, one of the Manager’s reasons for the Placement was to enhance Spring REIT’s balance sheet by applying the proceeds towards partial early repayment of Spring REIT’s US\$480 million term loan facility (the “**Facility**”). This exercise would not have been necessary if the Manager had not pursued the UK Acquisition in the first place.

- As at 31 December 2016, Spring REIT’s gearing ratio was 34.8%, which was well below the 45% limit under the Hong Kong REIT Code.
- As at 30 June 2017, Spring REIT’s gearing ratio dropped to 31.4% following the Placement and the application of a portion of the gross proceeds towards partial repayment of amounts drawn under the Facility.

## LETTER FROM THE PAG UNITHOLDERS

- Because Spring REIT completed the UK Acquisition on 14 July 2017, two weeks after the end of the first half of its financial reporting year, the additional leverage associated with the UK Acquisition was not factored in Spring REIT's 1H 2017 interim results. Based on information provided by the Manager in Spring REIT's announcements dated 17 March 2017 and 14 July 2017, we have calculated<sup>21</sup> that the terms of the UK Acquisition, on a stand-alone basis, imply a gearing ratio of 99.4%<sup>22</sup>. This reflects the additional debt associated with the UK Acquisition, which consists of (i) a loan from Abbey National Treasury Services plc, which is part of Banco Santander, of GBP36.09 million and (ii) a new facility of GBP37.0 million, compared to the purchase price of the UK Properties of GBP73.50 million.
- On a pro forma basis, the UK Acquisition would have increased Spring REIT's 1H 2017 gearing ratio from 31.4% to approximately 35.6%, exceeding Spring REIT's gearing ratio of 34.8% as at 31 December 2016<sup>23</sup> and materially exceeding the reported gearing of 31.4% as at 30 June 2017.

In view of the foregoing, we believe that the Manager pursued the Placement for the purpose of off-setting the increase in Spring REIT's gearing level resulting from the highly levered UK Acquisition. We do not find the Manager's argument that it engaged in the Placement to pay down the debt of the Facility to be plausible.

### Suboptimal Performance of the Beijing Properties

Based on the Manager's disclosure and market statistics, the occupancy of Office Tower 1 and Office Tower 2 of China Central Place (the "**Beijing Properties**") has underperformed the market during the last twelve months. According to the quarterly unaudited operating statistics disclosed by the Manager, the occupancy rate of the Beijing Properties has deteriorated since Q1 2016. As at 30 June 2017, the average occupancy rate was 94%, which represented a three percentage point drop from a rate of 97% as at 31 March 2016. According to CBRE Global Research, the occupancy rate of the overall Beijing Central Business District ("**CBD**") submarket, where the Beijing Properties are located, experienced only a 0.97 percentage point decline during the same period (Q2 2017: 94.43% (vacancy: 5.57%); Q1 2016: 95.40% (vacancy: 4.60%)).

<sup>21</sup> Note: Spring REIT's announcements omitted calculations and analysis of this kind, which we regard as material omissions from the announcements.

<sup>22</sup> Based on the "Capital Commitments and the UK Acquisition" section in Spring REIT's 2017 interim results announcement dated 23 August 2017. Existing loan of GBP36.09 million (USD45.83 million), new facility of GBP37.00 million (USD46.99 million assuming the same exchange rate in the existing loan) and price for the UK portfolio of GBP73.50 million (USD93.35 million).

<sup>23</sup> Note: Spring REIT's 2017 interim results announcement omitted calculations and analysis of this kind, which we regard as material omissions from the announcements.

## LETTER FROM THE PAG UNITHOLDERS

In our view, one of the reasons for the decline in the Beijing Properties' leasing performance is the Manager's failure to upgrade the Beijing Properties. Public facilities, including the lobby, common areas, washrooms and elevators, have started to wear out and are in substandard condition when compared to other International Grade A office buildings in Beijing, including the nearby China World Trade Center. In our view, as knowledgeable and experienced participants in the Beijing property market, it is important for the Manager to upgrade the Beijing Properties in order to maintain their competitiveness. This is especially crucial in view of anticipated competition from the expansion of supply in what is known as the "Core CBD Expansion Site" in Beijing (located approximately 1.7 km from the Beijing Properties), which is expected to add a total planned GFA of 2.7 million square meters of office space, coming available for lease progressively from 2018 onwards.<sup>24</sup>

### **Ineffective Currency Hedging Strategies**

Since December 2015, as a result of USD to RMB fluctuations, the Manager has entered into currency hedging instruments to hedge the currency mismatch between its underlying income in RMB and its debt obligations in relation to its US\$480 million Facility. Details of the hedging instruments are as follows:

Entry Date	Instrument	Principal	Strike/ Forward Rate	Tenor	Maturity Date	USD:RMB at Maturity <sup>25</sup>	Fair Value Losses Recognized <sup>26</sup>
17 Dec 2015	Option	US\$480 million	US\$1 to RMB7.50	1 year	19 Dec 2016	US\$1 to RMB6.9312	(US\$7.117 million) <sup>27</sup>
14 Dec 2016	Forward contract	US\$120 million	US\$1 to RMB7.0293	3 months	15 Mar 2017 <sup>28</sup>	US\$1 to RMB6.9115	(US\$8.082 million) <sup>29</sup>
15 Dec 2016	Forward contract	US\$120 million	US\$1 to RMB7.0495	3 months	16 Mar 2017 <sup>30</sup>	US\$1 to RMB6.8862	

<sup>24</sup> Source: Jones Lang LaSalle Real Estate Intelligence Service.

<sup>25</sup> Based on the USD:RMB median exchange rate as published by The People's Bank of China on the respective maturity date of each instrument.

<sup>26</sup> Net fair value losses on derivative financial instruments at fair value through profit or loss recognized on Spring REIT's financial statements.

<sup>27</sup> Based on disclosure in Note 13(i) to the Consolidated Financial Statements in Spring REIT's 2016 Annual Report.

<sup>28</sup> Estimated maturity date.

<sup>29</sup> Based on disclosure in Note 9 to the Condensed Consolidated Interim Financial Information (net fair value losses on derivative financial instruments at fair value through profit or loss) in Spring REIT's Interim Results Announcement for the six months ended 30 June 2017.

<sup>30</sup> Estimated maturity date based on disclosed tenor.

## LETTER FROM THE PAG UNITHOLDERS

All of the above currency hedging instruments were out of the money (strike/forward rates being above the actual exchange rates) at maturity and resulted in losses. While we understand that these hedging instruments were entered into to hedge against the potential depreciation of the RMB, we question whether these strategies were appropriate. For example, the tenor of the hedging instruments ranged from three months to one year, which did not match the tenor or any repayment event of the Facility. In addition, the Manager spent US\$7.104 million in December 2015 to acquire the currency hedging option with a one-year tenor, which equated to 1.5% of the principal amount of the Facility. For the forward contracts acquired in December 2016, the fair value losses recognized in the 1H 2017 interim financial statements equated to 1.7% of the principal amount of the Facility.

In order to mitigate risks arising from currency mismatch and fluctuations, an alternative solution would have been to restructure or replace the Facility with bank borrowings denominated in RMB. This would have provided Spring REIT with a natural hedge. For example, Yuexiu REIT has replaced a portion of its foreign currency borrowings with RMB-denominated borrowings to mitigate against currency risks. Based on our understanding, we believe that several reputable banks would be willing to offer RMB-denominated financing to Spring REIT in connection with the operation and renovation of the Beijing Properties because of the quality of the Beijing Properties.

### **Manager's Lack of Accountability**

According to the 2016 Annual Report for Spring REIT, "the corporate governance policies of Spring REIT have been adopted with due regard to the requirements under Appendix 14 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited...as if those rules were applicable to the real estate investment trusts in Hong Kong." Pursuant to Code Provision A.2.8 under Appendix 14, "the chairman should ensure that appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the board as a whole".

On several occasions, we have attempted to engage with the directors of the Manager to establish a dialogue on how to improve the performance of Spring REIT. At no time have the directors provided constructive responses to our inquiries and suggestions. Below is a summary of our recent attempts to engage with the Manager:

<b>Date</b>	<b>Event</b>
22 March 2017 (Ignored)	Mr. Broderick Storie attended a meeting of the board of directors of the Manager at which the directors discussed Spring REIT's 2016 annual results. Although Mr. Storie raised many significant topics at the meeting, none was addressed in any substantive way by the directors.

## LETTER FROM THE PAG UNITHOLDERS

Date	Event
18 April 2017 (Denied)	We sent a notice of requisition to the Manager in response to the proposed UK Acquisition. Our requests in the requisition were all denied.
May 2017 (Ignored)	<p>We sent a letter to the Independent Non-executive Directors (“INEDs”) of the Manager expressing our grave concern about the Itochu Selldown, reiterating our view that the UK Acquisition was not in the best interests of the Unitholders, and calling upon the INEDs to withdraw their support for the UK Acquisition.</p> <p>On 23 May 2017, the Manager, on behalf of the INEDs, sent us a response that addressed only the narrow question of the timing of the announcement of the Itochu Selldown.</p>

We believe that the Manager’s refusal to engage with a significant Unitholder in any substantive way over the past several months is unacceptable for a listed REIT in Hong Kong and inconsistent with acceptable corporate governance practices.

As the Securities and Futures Commission reminded the market as recently as May in its guidance note on directors’ duties in the context of valuations in corporate transactions: directors are the guardians of a listed company’s assets and should ensure acquisition targets are properly considered and investigated. In particular, directors of a listed company are under duties to act in good faith in the interests of the company; to exercise due and reasonable care, skill and diligence in their discharge of their duties; to exercise independent judgment; to exercise their powers for proper purposes; to avoid actual or potential conflicts of duty and interest; and not to make secret profits.

If the INEDs cannot respond to reasonable inquiries from Unitholders, we consider it to be inappropriate that they continue as agents for our investment interests and, accordingly, it is our opinion that the Manager is not fit to be the manager of Spring REIT.

## LETTER FROM THE PAG UNITHOLDERS

### 2. ADDITIONAL RATIONALE FOR REMOVAL OF MANAGER (RESOLUTION 1) AND RATIONALE FOR INTERNALIZATION OF REIT MANAGEMENT (RESOLUTION 2)

#### Expensive Manager's Fees

Currently, Spring REIT pays the Manager fees consisting of (i) a base fee equal to 0.4% per annum of the value of deposited property and (ii) a variable fee equal to 3.0% per annum of net property income. For the year ended 31 December 2016, the Manager received total fees of US\$7,258,000. We believe these fees are excessive relative to market comparables and unjustified in view of the Manager's poor performance.

We have compared the Manager's fee structure with the management fee structures for Yuexiu REIT (405.HK) and Hui Xian REIT (87001.HK), two comparable REITs listed on the Hong Kong Stock Exchange with a geographic focus on mainland China. Of the three REITs, Spring REIT has the highest base fee at 0.4% per annum of the value of the deposited property. In terms of absolute fee levels, as each REIT has a different portfolio size, we have calculated the management fee per square meter of properties under management as a basis of comparison<sup>31</sup>. Based on the actual fees collected by the REITs' managers for the year ended 31 December 2016, Spring REIT paid its Manager fees equal to approximately US\$60.4 per square meter per year, which was approximately 57.3% and 122.0% higher than the fees paid Yuexiu REIT and Hui Xian REIT, respectively, to their REIT managers.

<sup>31</sup> Manager's fees per square meter of properties under management is not standard industry measurement. However, for the purpose of comparison, we have adopted this metric to compare Spring REIT's Manager's fees with comparable REITs.

## LETTER FROM THE PAG UNITHOLDERS

REIT	Manager's Fee Structure	FY2016 Manager's Fee	Properties under Management <sup>32</sup>	Manager's Fee per Square Meter
Spring REIT (1426.HK)	- <b>Base:</b> 0.4% p.a. of GAV - <b>Variable:</b> 3.0% p.a. of NPI	US\$7.258 million	120,245 sqm	US\$60.4 per sqm per year
Yuexiu REIT (405.HK)	- <b>Base:</b> 0.3% p.a. of GAV - <b>Variable:</b> 3.0% p.a. of NPI	RMB129.907 million (US\$18.727 million) <sup>33</sup>	487,324 sqm	US\$38.4 per sqm per year
Hui Xian REIT (87001.HK)	- <b>Base:</b> 0.3% p.a. of GAV - <b>Variable:</b> 3.0% p.a. of NPI (2.0% to REIT Manager and 1.0% to Property Manager)	RMB164 million (US\$23.641 million)	869,053sqm <sup>34</sup>	US\$27.2 per sqm per year

Furthermore, the Securities Report (有価証券報告書) for the year ended 31 December 2016 filed with the Tokyo Stock Exchange/Japan Exchange Group by Mercuria Investment revealed the Manager's net profit and net profit margin to be alarmingly high when compared to the financial benefits delivered to Unitholders:

	<b>Spring Asset Management Limited (JPY'000)</b>	<b>Mercuria Investment – Consolidated (JPY'000)</b>
<b>For the year ended 31 December 2016</b>		
Operating Revenue (営業収益)	906,969	2,520,649
Net Profit (当期純利益)	564,956	–
Net Profit attributable to Shareholders (親会社株主に帰属する当期純利益)	–	854,416
<i>Net Profit Margin (Calculated by Net Profit or Net Profit attributable to Shareholders/Operating Revenue)</i>	<u>62.3%</u>	<u>33.9%</u>

<sup>32</sup> Excluding car parking spaces, as at 31 December 2016.

<sup>33</sup> Based on median exchange rate of US\$1 to RMB6.937 as announced by the People's Bank of China as at 30 December 2016.

<sup>34</sup> Excluding belowground areas of Beijing and Chongqing properties, which are used as car parking spaces.



## LETTER FROM THE PAG UNITHOLDERS

Based on the disclosed information, the net profit margin of the Manager was 62.3%, surpassing Mercuria Investment's overall net profit margin at 33.9%. Moreover, the operating revenue generated from the Manager represented approximately 36.0% of Mercuria Investment's total operating revenue for the year ended 31 December 2016. The management of Spring REIT is clearly a lucrative and important revenue driver for Mercuria Investment.

### **Misalignment of Interests between Spring REIT Unitholders, the Manager and Mercuria Investment**

With the Manager's fee income from Spring REIT as a strong recurring income stream, Mercuria Investment has been able to achieve strong share price appreciation since its IPO on the Tokyo Stock Exchange on 17 October 2016. Since listing in October 2016, Mercuria Investment's share price increased by approximately 211.8% from its IPO price of JPY483 per share<sup>35</sup> to JPY1,507 per share on 25 August 2017. During the same period, Spring REIT's unit price decreased by 1.2%<sup>36</sup>. We find this grossly disproportionate allocation of the economic benefits of Spring REIT in favor of the Manager, and at the expense of Unitholders, to be outrageous.

To provide perspective, we considered on a pro forma basis the results for the year ended 31 December 2016 if Spring REIT had operated with an internalized management structure, in which Spring REIT would have paid the direct costs of management services itself instead of paying fees to the Manager. In this case, assuming that the difference between the Manager's operating revenue and net profit represents the Manager's only direct costs in performing its management services, Spring REIT would have enjoyed a cost savings of JPY564.956 million (approximately US\$4.8 million) for the year<sup>37</sup>. We believe this pro forma calculation, while summary in nature, is indicative of the Manager's excessive fees because we see no other value provided by the Manager.

<sup>35</sup> Based on original IPO price of JPY1,450 per share, adjusted by 1 for 3 stock split completed in December 2016.

<sup>36</sup> Based on Spring REIT's closing unit price of HK\$3.31 on 25 August 2017 and HK\$3.35 on 14 October 2016 (the last trading day before date of Mercuria Investment's IPO, 17 October 2016).

<sup>37</sup> Based on Spring Asset Management Limited's FY2016 net profit of JPY564.956 million, as disclosed in Mercuria Investment's FY2016 annual report. Exchange rate of US\$1 to JPY116.96 as at 30 December 2016.

## LETTER FROM THE PAG UNITHOLDERS

### Potential Cost Savings and Dividend per Unit (“DPU”) Accretion

If Spring REIT is to adopt an internal management model, we believe it will achieve substantial cost savings because the Manager has reaped unjustifiably high net profit margins on the fees it has collected. Below is a summary of how the cost structure will change if Spring REIT adopts an internal management model:

<b>External Management Model (Current)</b>	<b>Internal Management Model (Proposed)</b>
<ul style="list-style-type: none"><li>– Spring REIT pays base and variable management fees to the Manager based on gross asset value and net property income</li></ul>	<ul style="list-style-type: none"><li>– Spring REIT sets up an asset management company to manage day-to-day operations <i>(subject to approval and waiver from the SFC – Previously granted to Link REIT subject to certain conditions)</i></li></ul>
<ul style="list-style-type: none"><li>– Manager bears the direct operating costs</li></ul>	<ul style="list-style-type: none"><li>– The asset management company hires staff in accordance with the Hong Kong SFC’s licensing requirements</li></ul>
<ul style="list-style-type: none"><li>– The difference between the management fees collected and the direct operating costs incurred is the Manager’s net profit</li></ul>	<ul style="list-style-type: none"><li>– Spring REIT bears the direct operating costs, including but not limited to salary, rent, operating expenses and overhead</li></ul>

## LETTER FROM THE PAG UNITHOLDERS

### Pro Forma DPU Analysis – Actual Case

As the combined impact on DPU of recent events (i.e., the Placement and the UK Acquisition) has not yet been disclosed by the Manager or reflected in Spring REIT's financial statements to date, we have conducted a pro forma analysis on Spring REIT's FY2016 actual DPU to estimate the potential cost savings from the internalization of REIT management.<sup>38</sup>

#### Key Assumptions:

1. Actual events taken place (the Placement and the UK Acquisition).
2. Internalization of REIT management.

	FY2016 Actual	Post Placement	Post UK Acquisition	Internalization of REIT Management
DPU (HKD cents)	23.0	20.9	20.6	20.8
Accretion/(Dilution)	-	(9.1%)	(1.4%)	1.0%
		<i>vs. FY2016 actual</i>	<i>vs. Post Placement</i>	<i>vs. Post UK Acquisition</i>
Cumulative Accretion/(Dilution) from FY2016 Actual DPU	-	(9.1%)	(10.5%)	(9.6%)

#### Observations:

- The Placement resulted in a DPU dilution of approximately 9.1%.
- The UK Acquisition is projected to result in a further DPU dilution of approximately 1.4%.
- Assuming the internal REIT management structure is adopted post the actual events, DPU will increase by HK\$0.2 cents or 1.0%.

<sup>38</sup> Assumptions include:

- **Internalization of REIT management:** (i) REIT Manager's net profit margin from management fees: 62.3% (based on Mercuria Investment's filings); and (ii) distribution ratio: 93% of total distributable income (consistent with actual).
- **UK Acquisition:** (i) NPI margin of the UK Properties: 80%; (ii) transaction expenses: US\$2.7 million (according to disclosure and assumed to be expensed in Year 1); and (iii) financing cost: London Interbank Offered Rate plus 2.15% per annum (based on Spring REIT's UK Acquisition completion announcement).
- **Share buyback:** (i) share buyback price: HK\$3.25 per unit (same as the price for the Placement).

## LETTER FROM THE PAG UNITHOLDERS

### Pro Forma DPU Analysis – Alternative Scenario

As stated earlier, we believe the UK Acquisition was not beneficial to Unitholders and the Placement would not have been necessary if the UK Acquisition had not occurred. To demonstrate how capital could have been deployed more effectively to benefit Unitholders, we have analyzed a scenario in which we assumed that the leverage used in the UK Acquisition was deployed in a unit buy-back plan.

#### Key Assumptions:

1. The Placement and the UK Acquisition were assumed not to have occurred.
2. Additional leverage assumed for the UK Acquisition (together with the Placement, gearing ratio of 35.6%<sup>39</sup> or approximately US\$11.8 million) would have been deployed for a unit buy-back plan.
3. Internalization of REIT management.

	FY2016 Actual	Post Units Buy-back (US\$ 11.8 million)	Internalization of REIT Management
DPU (HKD cents)	23.0	23.6	23.8
Accretion/(Dilution)	-	2.6%	0.8%
		<i>vs. FY2016 actual</i>	<i>vs. Post Share Buyback</i>
Accretion/(Dilution) from FY2016 Actual DPU	-	-	3.5%

  

	FY2016 Actual	Post Units Buy-back (US\$ 11.8 million)	Internalization of REIT Management
Cumulative Accretion/ (Dilution) vs. Placement and UK Acquisition	-	14.6%	15.5%

#### Observations:

- A unit buy-back plan would have resulted in a 2.6% DPU accretion from Spring REIT's actual DPU in FY2016.
- Internalization of REIT management would have further resulted in a 3.5% DPU accretion from the actual level in FY2016, which would have been 15.5% higher than the DPU after incorporating effects of the Placement and the UK Acquisition.

<sup>39</sup> Based on pro forma analysis of Spring REIT's gearing ratio as at 30 June 2017 with the UK Acquisition.

## LETTER FROM THE PAG UNITHOLDERS

### SUMMARY OF OUR RATIONALE

Based on our observations above, we are of the view that the Manager has not delivered satisfactory results to Unitholders. A number of the Manager's actions have also raised serious questions about the Manager's judgment and ability to manage Spring REIT. We believe that the immediate removal of the Manager and transition to an internalized management model are necessary to protect the interests of the Unitholders.

### 3. RATIONALE FOR REFORMING THE BOARD OF DIRECTORS (RESOLUTION 3)

#### Reform of the Board of Directors

Our proposal to reform the Board of Directors is summarized as follows:

- **Improve Corporate Governance:** To make Directors directly accountable to Unitholders by requiring them to stand for re-election by the affirmative vote of the Unitholders every three years.
- **Eliminate Conflicts of Interests:** To require the Chair of the Board of Directors to be independent of any external manager of Spring REIT.
- **Enhance Professionalism and Capability of Management:** To identify individuals with relevant experience in the fields of property and REIT management to serve as independent members of the Board of Directors. With guidance and oversight by experienced professionals, the management team will be able to formulate a clear and executable strategy and business plan that are appropriate for Spring REIT, and will benefit all Unitholders in the long-run.

#### Appointment of Mr. Broderick Storie as a Non-executive Director of the Manager of Spring REIT

Because of the critical importance of having independent-minded Directors with experience in the fields of property and REIT management, we propose the nomination of Mr. Broderick Storie as a non-executive Director of any manager of Spring REIT. We also propose to nominate Mr. Storie as chair of a committee that would oversee a review of the strategy, performance and governance of Spring REIT with the goal of assessing options to enhance Unitholders' value.

With 19 years of experience in the real estate private equity sector across Asia and Europe, Mr. Storie will be able to provide independent strategic guidance and advice to any manager of Spring REIT, and to assist with the transition to market-leading governance practices.

## LETTER FROM THE PAG UNITHOLDERS

### *Biography of Mr. Storie:*

Mr. Storie is a Partner and Managing Director of PAG Real Estate.

PAG Real Estate manages a series of real estate opportunity and core plus funds investing in properties in Japan, China and throughout Asia-Pacific. It has invested over US\$25 billion across over 6,500 properties across the region.

Prior to joining PAG, Mr. Storie was Chief Risk & Investment Officer for Europe and Asia and a member of the Global Management Committee at Prudential Real Estate Investors (“PREI”) which had in excess of US\$55 billion under management. Mr. Storie started his career in Australia at Gresham Partners and subsequently joined Babcock & Brown, becoming Head of Real Estate for Asia (ex-Japan).

Mr. Storie has a Bachelor of Business double major in finance and accounting from the University of Technology (QLD), Australia.

#### 4. DETAILS OF THE PROPOSED STRATEGY, PERFORMANCE AND GOVERNANCE REVIEW AND ITS RATIONALE (RESOLUTION 4)

##### Details of the Review

##### *I. Scope*

Independent experts would be appointed to review the strategy, performance and governance of Spring REIT (the “**Review**”). The Review would include the following elements:

1. **Financial Performance:** The experts would (a) evaluate Spring REIT’s operational and asset performance against appropriate benchmarks and develop models for future performance, with in depth analysis of asset management, asset enhancement, operating and overhead costs, and capital management (e.g., financing and hedging); and (b) provide recommendations on operational actions and initiatives to enhance financial performance.
2. **Strategy:** The experts would take the following steps to analyze strategic options for Spring REIT:
  - a. Understand the strategic drivers of current and potential performance;
  - b. Test the current strategy and strategic initiatives;
  - c. Identify, develop and agree a set of strategic options; and
  - d. Evaluate and pose recommendations regarding the best strategic options to enhance value to Unitholders.

## LETTER FROM THE PAG UNITHOLDERS

3. **Governance:** The experts appointed to conduct the Review should have the diagnostic tools to assess the performance of management, the Board of Directors and systems with reference to the governance standards required by the Hong Kong Code on Real Estate Investment Trusts, the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and the Trust Deed constituting Spring REIT. The experts' primary objective would be to ensure that Spring REIT's management structure is grounded in market-leading corporate governance practices, with Directors and managers who are directly accountable to Unitholders. The experts would report their recommendations to the Strategic and Governance Review Committee (as defined below), which would then report the results of the Review to the Board of Directors.

### II. Governance of the Review: Formation of Strategic and Governance Review Committee

A committee of three members would be formed to oversee and receive the results of the Review (the "**Strategic and Governance Review Committee**"). The Strategic and Governance Review Committee would consist of Mr. Broderick Storie, as chair of the committee, and two independent non-executive directors to ensure proper governance and independent assessment of Spring REIT's condition and future options.

### III. Strategic and Governance Review Committee

There are several highly qualified independent experts with relevant experience and abilities to serve on the Strategic and Governance Review Committee. The table below includes potential experts, which are subject to due diligence on independence from the Manager and relevant stakeholders of the Review.

Type	Potential Experts (in alphabetical order)
Independent Financial Advisors	<ul style="list-style-type: none"><li>– Bank of America Merrill Lynch</li><li>– Credit Suisse</li><li>– Goldman Sachs</li><li>– HSBC</li><li>– J.P. Morgan</li><li>– Morgan Stanley</li><li>– Standard Chartered Bank</li><li>– UBS</li></ul>
Management Consultants	<ul style="list-style-type: none"><li>– Accenture</li><li>– McKinsey &amp; Company</li><li>– The Boston Consulting Group</li></ul>

## LETTER FROM THE PAG UNITHOLDERS

### IV. Indicative Timeline

The Review is expected to be completed 15 weeks after the passing of Resolution 4 and would include the following phases:

1. Set up Strategic and Governance Review Committee and work with key stakeholders to finalize the scope of the Review (2-3 weeks from the passing of Resolution 4)
2. Appoint independent experts (Week 5)
3. Interim review by experts with the Strategic and Governance Review Committee (Week 8)
4. Experts participate in workshop with Strategic and Governance Review Committee to discuss preliminary findings and recommendations (Week 12)
5. Experts to issue final report for the Review (Week 14)
6. Decisions and Recommendations of Strategic and Governance Review Committee to Board of Directors (Week 15)

### Further Support for the Review

In view of the sub-standard financial and managerial performance of Spring REIT, an independent expert review of how to improve returns to unitholders is a prudent and logical course of action. Numerous REITs and property companies have recently conducted reviews that have coincided with improved financial performance (see below table). Note all the entities listed below performed at better discounts to NAV than Spring REIT before and after the respective reviews.



## LETTER FROM THE PAG UNITHOLDERS

### *Strategic Reviews Undertaken by Asia's Largest REITs and Property Companies*

REIT/Company	Announcement Date	Review Scope	Appointed Independent Advisor(s)	Current Status	Share Price Performance <sup>40</sup>
Link REIT (823.HK)	26 July 2017	Optimize Link REIT's asset portfolio and maximize value for unitholders	HSBC and UBS (Financial) Cushman & Wakefield (Real Estate)	In progress	+4%  (2% premium to NAV)
Sabana Shari'ah Compliant Industrial REIT (MIGU.SI)	2 February 2017	(a) Reviewing various options to improve the performance of Sabana REIT  (b) Sourcing and considering the proposals from potential strategic partners, and shortlisting partners who can enhance Sabana REIT's performance	Morgan Stanley (Financial)	In progress – In discussion with potential strategic partner (e-Shang Redwood; as at 7 August 2017)	+27%  (14% discount to NAV)
Global Logistic Properties (MCO.SI)	1 December 2016	Review of options available for its business in line with its commitment to enhance shareholder value	J.P. Morgan (Financial) Allen & Gledhill LLP (Legal)	Announced proposed privatization (14 July 2017) – At offer price that represents 25% premium to last traded price	+60%  (26% premium to NAV)

<sup>40</sup> Share price performance from date of strategic review announcement to date of major events (for Link REIT, from date of strategic review announcement to closing unit price on 25 August 2017).



## 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 (“EGM”) of unitholders (the “Unitholders”) of Spring Real Estate Investment Trust (“Spring REIT”) will be held at Room 2401-2, Admiralty Centre I, 18 Harcourt Road, Hong Kong on Friday, 10 November 2017 at 4:00 p.m. for the purpose of considering and, if thought fit, passing with or without modifications, the resolutions below.

Words and expressions that are not expressly defined in this notice of EGM shall bear the same meaning as that defined in the unitholder circular dated 25 October 2017 (the “Circular”).

#### ORDINARY RESOLUTION

1. “**THAT** Spring Asset Management Limited to be removed as the manager of Spring REIT as soon as practicable after this resolution is passed.”
2. “**THAT**, conditional upon the passing of Resolution 1 and subject to the approval of the Securities and Futures, Commission, the Trustee be directed to:
  - (i) effect the internalization of the REIT management function by incorporating a subsidiary, to be wholly owned by the Trustee, to act as the manager of Spring REIT (the “**Management Subsidiary**”); and
  - (ii) retain Spring REIT’s existing management staff to maintain management continuity and, subject to the result of the strategic and governance review, to hire and appoint qualified candidates, with a strong track record of direct real estate management experience, as the directors and staff of the Management Subsidiary in accordance with applicable requirements of the Securities and Futures Commission.”

By Order of the Board  
**SPRING ASSET MANAGEMENT LIMITED**  
(as manager of Spring Real Estate Investment Trust)  
**Mr. Toshihiro Toyoshima**  
*Chairman of the Manager*

Hong Kong, 25 October 2017

## NOTICE OF EGM

*Registered Office of the Manager:*  
Room 2801, 28/F, Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

*Notes:*

1. A Unitholder entitled to attend and vote at the EGM is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a Unitholder. A Unitholder who is the holder of two or more Units may appoint no more than two proxies to represent him to attend and vote on his behalf. In case of a recognised clearing house (or its nominees(s) and in each case, being a corporation), it may authorise such persons as it thinks fit to act as its representatives at the meeting and vote in its stead.
2. A form of proxy for use in connection with the EGM is enclosed with this Circular. To be valid, the form of proxy, and (if required by the Board) the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited at the unit registrar of Spring REIT in Hong Kong, Computershare Hong Kong Investor Services Limited (the “**Unit Registrar**”) at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.
3. In the case of joint Unitholders, the vote of the Unitholder who is first-named on the register of Unitholders, whether tendered in person or by proxy, shall be acceptable to the exclusion of the votes of the other joint Unitholders and for this purpose seniority shall be determined by the order in which the names stand in the register of Unitholders.
4. For the purpose of determining eligibility of Unitholders to attend and vote at the EGM, the register of Unitholders will be closed from Tuesday, 7 November 2017 to Friday, 10 November 2017, both days inclusive, during which period no transfer of units will be effected. In order to qualify to attend and vote at the EGM (or at any adjournment thereof), all transfers of Units accompanied by the relevant unit certificates and the duly completed transfer forms must be lodged with the Unit Registrar no later than 4:30 p.m. on Monday, 6 November 2017.
5. Completion and delivery of the form of proxy will not preclude a Unitholder from attending and voting in person at the EGM or any adjournment thereof should such Unitholder so wishes, and in such event, the instrument appointing a proxy shall be deemed revoked.
6. The votes at the meeting will be taken by way of poll.
7. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.
8. As at the date of this notice, the executive Directors are Mr. Nobumasa Saeki and Mr. Leung Kwok Hoe, Kevin; the non-executive Directors are Mr. Toshihiro Toyoshima and Mr. Hideya Ishino; and the independent non-executive Directors are Mr. Simon Murray, Mr. Liping Qiu and Mr. Lam Yiu Kin.