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

ANNOUNCEMENT

(1) MAJOR ACQUISITION RELATING TO THE PURCHASE OF A COMMERCIAL PROPERTY IN HUIZHOU, PRC AND ISSUANCE OF CONSIDERATION UNITS

(2) CONTINUING CONNECTED PARTY TRANSACTIONS

AND

(3) EXTRAORDINARY GENERAL MEETING AND CLOSURE OF REGISTER OF UNITHOLDERS

Financial Adviser to the Manager

DBS

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

SOMERLEY CAPITAL LIMITED

Acquisition of the Target Property

On 19 September 2018, the Purchaser, the Seller and the Trustee entered into the Share Purchase Deed, pursuant to which the Purchaser agreed to purchase, and the Seller agreed to sell, the Target Company Shares, representing the entire equity interest in the Target Company. The Target Company will (after the Reorganisation) indirectly hold the entire equity interest in the Project Company, which in turn is the registered legal owner of the land use rights and current ownership rights underlying the Target Property. Upon Completion, Spring REIT will (through its acquisition of the Target Group) hold the Target Property.

The Target Property comprises: (a) the entire seven-storey shopping mall (including two basement floors) known as "Huamao Place" (華貿天地); and (b) 677 underground and 44 above-ground carpark spaces located at No. 9, First Wenchang Road, Huicheng District, Huizhou, Guangdong Province, PRC. The Target Property is the retail component of a larger integrated development developed by Beijing Guohua Real Estate Co., Ltd. and known as "Huizhou Central Place" (惠州華貿中心), which also includes, among other things, three Grade-A office buildings, three residential buildings and a serviced apartment. Beijing Guohua Real Estate Co., Ltd. is the original developer of China Central Place and the owner of Office Tower 3 of China Central Place in Beijing, PRC (Spring REIT currently owns Office Tower 1 and Office Tower 2 of China Central Place).

The Target Property Price of RMB1,653,466,000, being the asset value of the Target Property agreed by the parties, has been arrived at on a willing buyer/seller and arm's length transaction basis after taking into account the quality and historic performance of the Target Property. The Target Property Price represents an approximate 18.5% discount to the Appraised Value (being RMB2,029.0 million) as at 30 June 2018 and, based on the information provided by the Seller, an annualised gross and net property yield of 9.4% and 7.5% based on the Target Property's revenue (being RMB77.696 million) and net property income (being RMB62.085 million) respectively for the six months ended 30 June 2018.

Consideration

The purchase consideration for the Acquisition shall be equal to the Target Property Price minus the amounts outstanding under the Existing ICBC Facility and Onshore Loan as at Completion, and subject to an adjustment to either: (a) add the amount of Adjusted NAV as at Completion (if it is a positive amount); or (b) subtract the absolute value of the amount of Adjusted NAV as at Completion (if it is a negative amount), in each case as set out in the Completion Statement.

The Manager intends to finance the Consideration in the following manner: (i) approximately HKD126.3 million, being the HKD equivalent of RMB110 million based on the Agreed Exchange Rate, shall be paid in cash drawn down from the New Facility; (ii) the remaining shall be financed by issuance of Consideration Units; and (iii) if the number of Consideration Units would exceed the Authorised Issue, the excess Consideration which would have been settled in the form of the Consideration Units shall instead be settled in the form of cash payable in HKD using internal resources. The Manager intends to finance the Offshore Amount and the Total Fees and Charges by the New Facility.

For illustrative purposes, based on the Illustrative Consideration (being RMB810.7 million), Issue Price and Agreed Exchange Rate, and taking into account that RMB110 million of the Consideration will be settled in cash, the number of Illustrative Consideration Units shall be 238,499,191. The Illustrative Consideration Units represent approximately: (a) 18.8% of the total number of Units as at the Latest Practicable Date; and (b) 15.8% of the total number of Units as at the Latest Practicable Date as enlarged by the issuance of the Illustrative Consideration Units.

As at the Latest Practicable Date, the Public Unitholders hold 684,487,000 Units, representing 53.9% of the total Units outstanding. Upon the issuance of the Illustrative Consideration Units at Completion, the Seller will hold 238,499,191 Units (representing 15.8% of the total Units outstanding at such time), while the Public Unitholders will hold 684,487,000 Units (representing 45.4% of the total Units at such time). For further details regarding the impact of the Acquisition on unitholdings in Spring REIT, please refer to the table in section F.2 in this announcement.

The issue of the Consideration Units will dilute the ownership interests of the existing Unitholders. Any sales in the public market of the Consideration Units after the Lock-up Period could adversely affect the prevailing market price for the Units.

The gearing ratio of Spring REIT will be presented in the Circular as its calculation is based on the unaudited pro forma financial information of the Enlarged Group, which will only be finalised on or about the date of the Circular. The gearing ratio of Spring REIT is expected to increase from 34.4% (as disclosed in its interim report for the six months ended 30 June 2018) by an amount to be stated in the Circular, but in any case, shall remain below the 45% limit permitted under the REIT Code.

Distribution after Completion

At Completion, the Seller will enter into the Distribution Deed with the Manager and the Trustee, pursuant to which the Seller agrees to irrevocably forego part of its distribution in respect of the Relevant Consideration Units. Specifically, the Seller shall forego, in respect of the Relevant Consideration Units only: (a) (in respect of distribution periods ending on a date prior to Completion) 100% of its distribution entitlement for such period; and (b) (in respect of the distribution period during which Completion occurred) the Relevant Percentage of its distribution entitlement for such period, with the "Relevant Percentage" being equal to the number of days between the start of the distribution period and Completion expressed as a percentage of the total number of days in the distribution period. Pursuant to the Distribution Deed, the Foregone Distribution will be additionally distributed to Unitholders.

Implications under the REIT Code and the Trust Deed

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries (including with the Trustee): (i) Deutsche Bank AG, as the holding company of the Trustee, is a connected person of Spring REIT pursuant to paragraph 8.1(g) of the REIT Code; (ii) Deutsche Bank AG is, through intermediary companies, one of the ultimate beneficial owners of the Seller with less than 20% attributable interest in the Seller, and it does not control or own the Seller such as to render the Seller an associated company of the Trustee or a connected person under paragraph 8.1 of the REIT Code; and (iii) save as aforesaid, the Seller and its ultimate beneficial owners are, as at the Latest Practicable Date, not connected persons of Spring REIT and are independent third parties.

The receipt of Consideration in the form of Consideration Units shall result in the Seller becoming a significant holder and connected person of Spring REIT from the date of Completion under paragraph 8.1(d) of the REIT Code. Huamao Property, which owns 87.0% of the shares in the Seller, will also become a connected person from the date of Completion. Furthermore, the Seller Lender, Property Manager (which is also the Huamao Place Guohua Lessee) and Building Manager, each being a subsidiary of Huamao Property and an associated company of the Seller, as well as the Beijing CCP Carpark Master Lessee, being an associate of a director of Huamao Property, will also become connected persons of Spring REIT from the date of Completion. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Property Manager (which is also the Huamao Place Guohua Lessee), Building Manager, Beijing CCP Carpark Master Lessee, Seller Lender and their ultimate beneficial owners (other than Deutsche Bank AG for the aforementioned reasons) are, as at the Latest Practicable Date, not connected persons of Spring REIT and are independent third parties.

As: (1) the net profit (after deducting all charges except taxation and excluding extraordinary items) attributable to the Project Company (inclusive of results of a subsidiary disposed of during the year) represents approximately 58.5% of the profit before taxation and transactions with the Unitholders; and (2) the HKD equivalent of the Target Property Price (being HKD1,897.8 million) represents approximately 45.9% of the total market capitalisation of Spring REIT (based on the average closing price of Spring REIT on the Hong Kong Stock Exchange for the five trading days immediately preceding the date of the Share Purchase Deed), the Acquisition and the transactions contemplated under the Share Purchase Deed (including but not limited to the issuance of Consideration Units and the Onshore Loan Transactions) collectively constitute a major transaction of Spring REIT under the Listing Rules (as if applicable to Spring REIT) and require Unitholders' approval by way of Ordinary Resolution under the REIT Code and the Trust Deed. Pursuant to paragraph 12.2 of the REIT Code and Clause 7.1.6(ii) of the Trust Deed, Unitholders' approval will also be specifically sought for the issuance of Consideration Units up to the Authorised Issue under the same Ordinary Resolution to approve the Acquisition and the transactions under the Share Purchase Deed.

As the Seller and Seller Lender will become connected persons of Spring REIT from the date of Completion, the Onshore Loan Transactions shall, from the date of Completion, constitute connected party transactions under paragraph 8.5 of the REIT Code. Although the total value of the Onshore Loan Transactions will be less than 5% of the latest audited net asset value of Spring REIT (as disclosed in its latest published audited accounts and as adjusted for the Acquisition after Completion) and accordingly will not require Unitholders' approval, the Manager, taking the view that the Onshore Loan Transactions and the Acquisition are linked to each other and part and parcel of a significant proposal, will voluntarily seek Unitholders' approval of the Onshore Loan Transactions under the same Ordinary Resolution to approve the Acquisition and the transactions under the Share Purchase Deed.

Guohua CCTs Waiver

Following Completion and the issuance of the Consideration Units, the Seller will become a significant holder and connected person of Spring REIT from the date of Completion under paragraph 8.1(d) of the REIT Code. Accordingly, a number of transactions with the Guohua Connected Persons Group in respect of Spring REIT's properties will constitute continuing connected party transactions of Spring REIT under paragraph 8.5 of the REIT Code, including: (a) the Property Management Agreement to be entered into with the Property Manager on Completion; (b) the Building Management Agreement to be entered into with the Building Manager on Completion (which also includes a term to master-lease the Target Property's carpark spaces to the Building Manager); (c) the Huamao Place Guohua Lease to be entered into with the Huamao Place Guohua Lessee on Completion; and (d) the Beijing CCP Carpark Master Lease entered into with the Beijing CCP Carpark Master Lessee.

The Manager will apply to the SFC for a waiver from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code for the three years ending 31 December 2021 in respect of the three categories of Guohua CCTs, subject to certain waiver terms and conditions as well as the Annual Caps as will be set out in the Circular and the Manager's application to the SFC. Subject to the approval of the SFC, the Guohua CCTs Waiver will be granted upon Completion provided Unitholders' approval for the Guohua CCTs Waiver and the Annual Caps is obtained at the EGM.

Circular

The Circular containing, among other things: (a) a letter from the Board to the Unitholders containing details of, among others, the Transaction Matters Requiring Approval; (b) a letter from the Independent Board Committee to Independent Unitholders in relation to the Onshore Loan Transactions, the Guohua CCTs Waiver and the Annual Caps; (c) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee, the Independent Unitholders and the Trustee in relation to the Onshore Loan Transactions, the Guohua CCTs Waiver and the Annual Caps; (d) the Accountant's Reports of the Target Company and the Project Company; (e) the Unaudited Pro Forma Financial Information of the Enlarged Group; (f) the Independent Property Valuer's Property Valuation Report; (g) the Market Consultant's Report; (h) the Property Valuation Reports in respect of the Existing Properties; and (i) the notice of the EGM, will be issued and despatched to the Unitholders on or before 28 September 2018.

Completion of the Acquisition is subject to and conditional upon satisfaction of certain conditions, which includes Unitholders' approval being obtained at the EGM for the Acquisition. Accordingly, the Acquisition may or may not complete. Unitholders, as well as any prospective investors of Spring REIT, are therefore advised to exercise caution when dealing in the Units.

A. THE ACQUISITION

1. Overview of the Acquisition

On 19 September 2018, the Purchaser, the Seller and the Trustee entered into the Share Purchase Deed, pursuant to which the Purchaser agreed to purchase, and the Seller agreed to sell, the Target Company Shares, representing the entire equity interest in the Target Company. The Target Company will (after the Reorganisation) indirectly hold the entire equity interest in the Project Company, which in turn is the registered legal owner of the land use rights and current ownership rights underlying the Target Property. Upon Completion, Spring REIT will (through its acquisition of the Target Group) hold the Target Property, being a shopping mall known as "Huamao Place" (華貿天地) located in Huizhou, Guangdong Province, PRC.

The purchase consideration for the Acquisition shall be equal to the Target Property Price minus the amounts outstanding under the Existing ICBC Facility and Onshore Loan as at Completion, and subject to an adjustment to either: (a) add the amount of Adjusted NAV as at Completion (if it is a positive amount); or (b) subtract the absolute value of the amount of Adjusted NAV as at Completion (if it is a negative amount), in each case as set out in the Completion Statement.

The Target Property Price of RMB1,653,466,000, being the asset value of the Target Property agreed by the parties, has been arrived at on a willing buyer/seller and arm's length transaction basis after taking into account the quality and historic performance of the Target Property. The Target Property Price represents an approximate 18.5% discount to the Appraised Value (being RMB2,029.0 million) as at 30 June 2018 and, based on the information provided by the Seller, an annualised gross and net property yield of 9.4% and 7.5% based on the Target Property's revenue (being RMB77.696 million) and net property income (being RMB62.085 million) respectively for the six months ended 30 June 2018.

The Purchaser shall settle the Consideration in the following manner: (a) approximately HKD126.3 million, being the HKD equivalent of RMB110 million based on the Agreed Exchange Rate, shall be paid in cash; and (b) the balance shall be settled by procuring Spring REIT to issue Consideration Units at the Issue Price, provided the total number of Consideration Units does not exceed the Authorised Issue. The Issue Price of HKD3.372 is equal to the average closing price of a Unit as quoted on the Hong Kong Stock Exchange for the last 10 trading days up to and excluding the Latest Practicable Date. Where the total number of Consideration Units to be issued under the Share Purchase Deed would exceed the Authorised Issue, the excess Consideration which would have been settled in the form of Consideration Units shall instead be settled in the form of cash payable in HKD.

As: (1) the net profit (after deducting all charges except taxation and excluding extraordinary items) attributable to the Project Company (inclusive of results of a subsidiary disposed of during the year) represents approximately 58.5% of the profit before taxation and transactions with the Unitholders; and (2) the HKD equivalent of the Target Property Price (being HKD1,897.8 million) represents approximately 45.9% of the total market capitalisation of Spring REIT (based on the average closing price of the Units on the Hong Kong Stock Exchange for the five trading days immediately preceding the date of the Share Purchase Deed), the Acquisition constitutes a major transaction of Spring REIT and therefore requires approval by the Unitholders of Spring REIT in accordance with the REIT Code and the Trust Deed.

On Completion, the Project Company shall enter into: (a) the Property Management Agreement with the Property Manager; (b) the Building Management Agreement with the Building Manager (which also includes a term to master-lease the Target Property's carpark spaces to the Building Manager); and (c) the Huamao Place Guohua Lease with the Huamao Place Guohua Lessee. As the counterparties to these agreements will, for reasons mentioned later in this announcement, become connected persons of Spring REIT from the date of Completion, the transactions thereunder shall from the date of Completion constitute continuing connected party transactions under paragraph 8.5 of the REIT Code. The Manager will apply to the SFC for the Guohua CCTs Waiver, being a waiver from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code in respect of the continuing connected party transactions with the Guohua Connected Persons Group. Subject to the approval of the SFC, the Guohua CCTs Waiver will be granted upon Completion provided Unitholders' approval for the Guohua CCTs Waiver and the Annual Caps is obtained at the EGM.

2. Key Information on the Target Property

2.1 Description

The Target Property comprises: (a) the entire seven-storey shopping mall (including two basement floors) known as "Huamao Place" (華貿天地); and (b) 677 underground and 44 above-ground carpark spaces located at No. 9, First Wenchang Road, Huicheng District, Huizhou, Guangdong Province, PRC. The Target Property is the retail component of a larger integrated development developed by Beijing Guohua Real Estate Co., Ltd. and known as "Huizhou Central Place" (惠州華貿中心), which also includes, among other things, three Grade-A office buildings, three residential buildings and a serviced apartment. Beijing Guohua Real Estate Co., Ltd. is the original developer of China Central Place and the owner of Office Tower 3 of China Central Place in Beijing, PRC (Spring REIT currently owns Office Tower 1 and Office Tower 2 of China Central Place).

Situated at the CBD of Huizhou, the Target Property is surrounded by major roads, the Huizhou People's Government complex and other public facilities and attractions, such as the Huizhou Convention & Exhibition Centre, the Huizhou Stadium, the Huizhou Museum and the Huizhou Science & Technology Museum. It is accessible by expressways and intercity railway to the rest of the Greater Bay Area. According to the Market Consultant's Report, the Yunshan Station of the intercity railway, which is planned to become the interchange station of Huizhou Metro Line 1 in 2025, is located within a 10-minutes' walk from the Target Property. The current tenants of the Target Property include, among others, international and local fashion retailers, jewellers, chain restaurants, personal care and cosmetic shops, a supermarket and a cinema.

Simplified charts showing the property holding structure of the Target Property as at the Latest Practicable Date and immediately after Completion are contained in sections A.3 and A.4 headed "Holding structure of the Target Property before Completion" and "Expected holding structure of the Target Property after Completion" in this announcement.

2.2 *Key information*

The table below sets out certain key information on the Target Property as at 31 July 2018, unless otherwise indicated.

Address	Huamao Place, No. 9, First Wenchang Road, Huicheng District, Huizhou, Guangdong Province, PRC
Month and year of completion	March 2011
Term of land use rights(1)	The period commencing on 1 February 2008 and ending on 1 February 2048
Operating term of Project Company	Long term(2)
Ownership certificates	Obtained on 29 August 2012
Gross floor area	144,925.1 sq.m.
Gross rentable area	105,464.0 sq.m.
Number of carpark spaces	677 underground and 44 above-ground carpark spaces
Number of Leases and Joint Operation Agreements	393

Average rent (RMB/sq.m./month) for the month of July 2018[3]	RMB116.9 (based on gross rented area)
Percentage of gross rented area of top 10 Occupants[4]	33.6%
Percentage of gross rental income from top 10 Occupants[4] for the month of July 2018	12.7%
Occupancy rate[5]	97.2%
Revenue for the six months ended 30 June 2018[6]	RMB77.696 million, representing an annualised gross property yield of 9.4% based on Target Property Price
Net Property Income for the six months ended 30 June 2018[7]	RMB62.085 million, representing an annualised net property yield of 7.5% based on Target Property Price
Appraised Value as at 30 June 2018	RMB2,029.0 million

Notes:

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

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

(3) Average rent per leased sq.m. is based on rental income (inclusive of value-added tax and operation management fees), exclusive of management fees and promotion fees.

(4) Top 10 Occupants by leased gross rented area.

(5) Occupancy rate calculated based on leased gross rentable area over total gross rentable area, which excludes the carpark spaces of the Target Property.

(6) Based on the information provided by the Seller.

(7) Calculated by deducting adjusted property operating expenses from total revenue based on information provided by the Seller. Total revenue consists of rental income (net of valued-added tax) and all income accruing or resulting from the operation of the Target Property. Adjusted property operating expenses are property operating expenses including tax expenses, utilities expenses, repair and maintenance expenses, and adjusted to further include without limitation advertising and promotion expenses and employee benefit expenses.

Based on information provided by the Seller, the following table contains certain financial information of the Project Company for the three years ended 31 December 2015, 31 December 2016 and 31 December 2017 in accordance with the International Financial Reporting Standards:

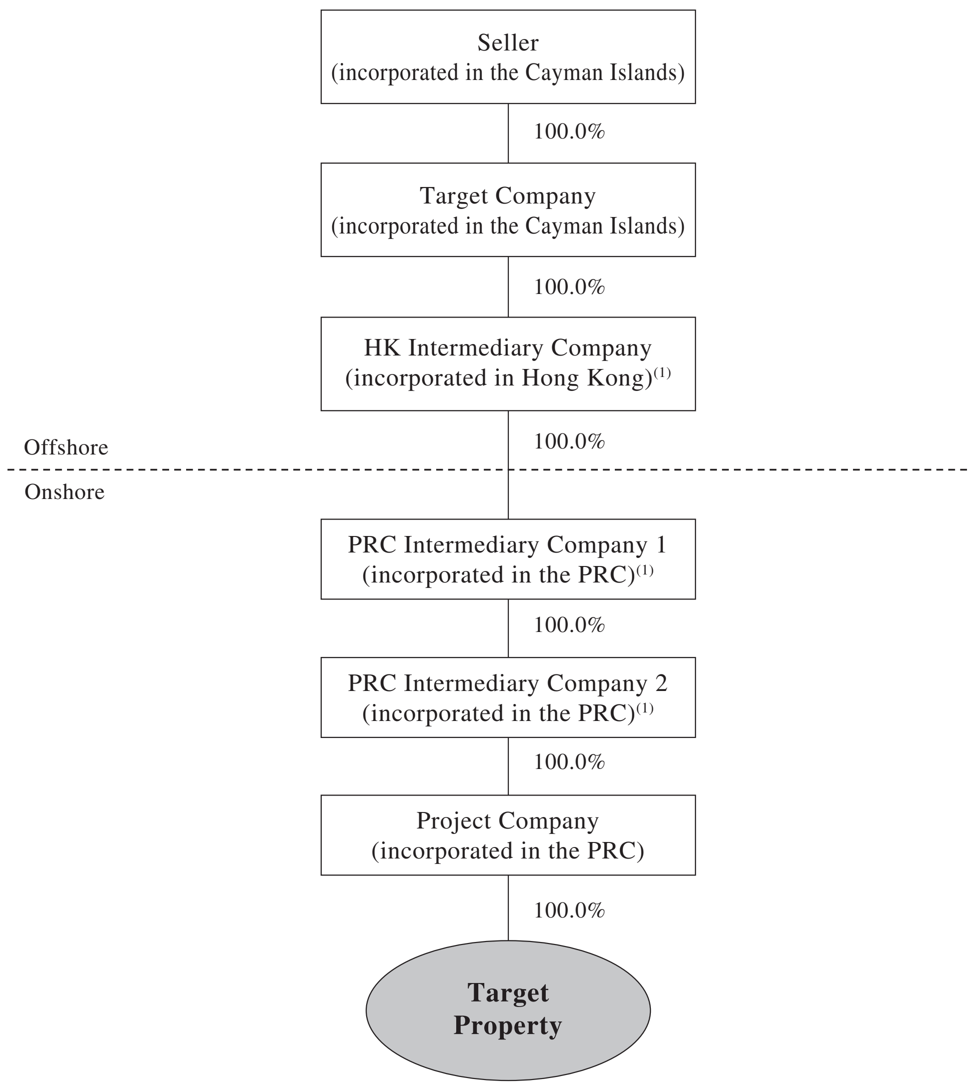
	For the year ended 31 December 2015 *(RMB'000)*	**For the year ended 31 December 2016** *(RMB'000)*	**For the year ended 31 December 2017** *(RMB'000)*
Revenue	123,146	131,723	149,842
Fair value gain of investment property	155,000	117,000	144,000
Profit before income tax	192,781	173,048	219,434
Profit and total comprehensive income	131,331	118,072	150,079

The Target Company has no profit or loss for the same period as it was incorporated in September 2018. No profit or loss is attributable to the HK Intermediary Company or the PRC Intermediary Companies as they will only be incorporated prior to Completion pursuant to the Reorganisation.

3. Holding structure of the Target Property before Completion

Prior to Completion and as a condition precedent under the Share Purchase Deed, the Seller will complete the restructuring of the Project Company's holding structure, so that the Target Company indirectly holds (through the chain of the HK Intermediary Company and the PRC Intermediary Companies) 100% of the legal and beneficial interest in the Project Company and the Target Property (the "**Reorganisation**"). The Project Company is the registered legal owner of the land use rights and building ownership rights underlying the Target Property.

The expected holding structure of the Target Property after the Reorganisation but immediately before Completion is as follows:



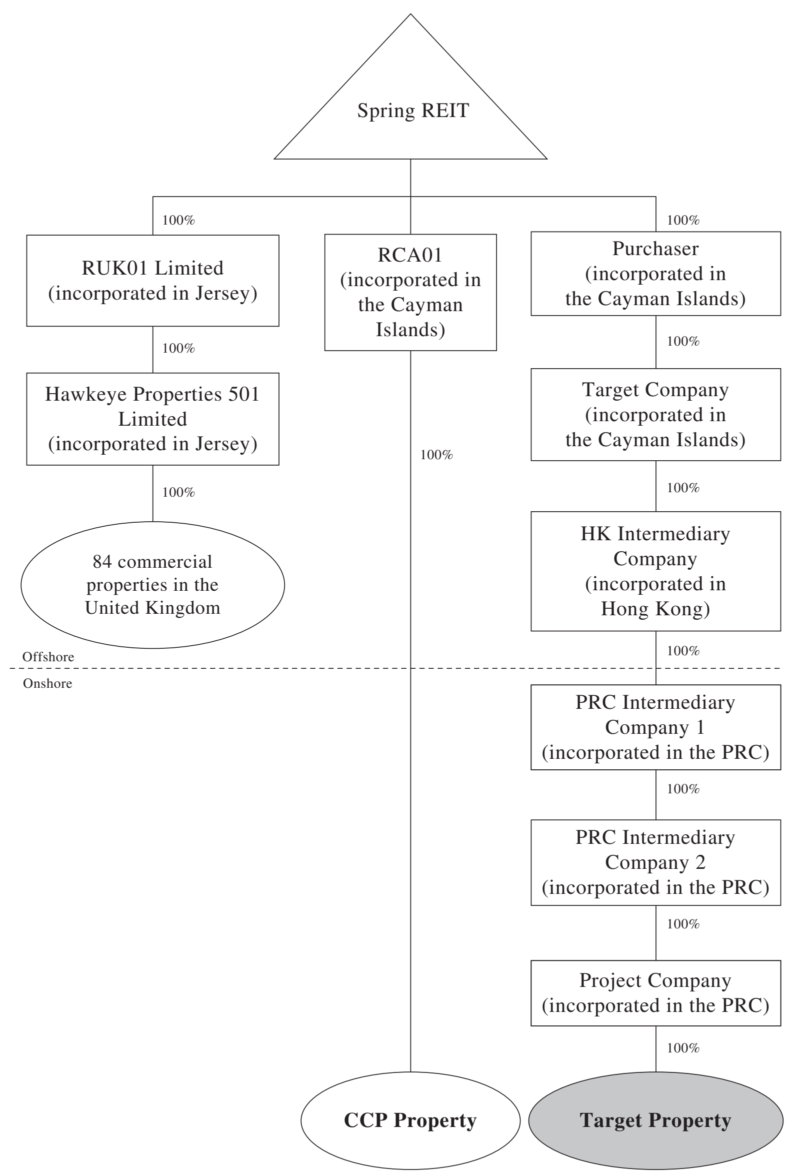
Note:

(1) The HK Intermediary Company and the PRC Intermediary Companies will be incorporated in their respective jurisdictions of incorporation pursuant to the Reorganisation.

To the best of the knowledge, information and belief of the Manager as at the Latest Practicable Date; (1) the Seller is an exempted limited liability company registered under the laws of the Cayman Islands and its principal business activity is investment holding; and (2) the Target Company, HK Intermediary Company, PRC Intermediary Companies and Project Company will, after the Reorganisation and immediately prior to Completion: (i) have the principal business activity of investment holding in the Target Property; (ii) not hold any other investment properties other than the Target Property or operate any other businesses; and (iii) not have any employees.

4. Expected holding structure of the Target Property after Completion

The expected holding structure of the Target Property immediately after Completion is as follows:



5. Share Purchase Deed

5.1 General

On 19 September 2018, the Purchaser, the Seller and the Trustee entered into the Share Purchase Deed, pursuant to which the Purchaser agreed to purchase, and the Seller agreed to sell, the Target Company Shares, representing the entire equity interest in the Target Company.

5.2 Consideration and payment terms for the Acquisition

The purchase consideration for the Acquisition shall be equal to the Target Property Price (being RMB1,653,466,000), minus the amounts outstanding under the Existing ICBC Facility and Onshore Loan as at Completion, and subject to an adjustment to either: (a) add the amount of Adjusted NAV as at Completion (if it is a positive amount); or (b) subtract the absolute value of the amount of Adjusted NAV as at Completion (if it is a negative amount), in each case as set out in the Completion Statement (the "**Consideration**").

The "**Adjusted NAV**" shall be equal to: (i) all assets of the Target Group (other than the Target Property); minus (ii) all liabilities of the Target Group (other than deferred tax liabilities and the aggregate outstanding amounts owed by the Project Company under the Existing ICBC Facility and the aggregate outstanding amounts owed by PRC Intermediary Company 2 under the Onshore Loan), in each case as at Completion as shown in the Completion Statement which shall be prepared and agreed or determined in accordance with the Share Purchase Deed.

Based on the information provided by the Seller and having regard to the proposed Reorganisation which shall be carried out prior to Completion, the Manager expects: (i) the total outstanding amounts under the Existing ICBC Facility and the Onshore Loan to be RMB777.5 million as at 30 June 2018; (ii) the Adjusted NAV to be approximately minus RMB65.3 million as at 30 June 2018; and (iii) based on (i) and (ii), the illustrative Consideration to be RMB810.7 million (the "**Illustrative Consideration**").

The Target Property Price of RMB1,653,466,000, being the asset value of the Target Property agreed by the parties, has been arrived at on a willing buyer/seller and arm's length transaction basis after taking into account the quality and historic performance of the Target Property. The Target Property Price represents an approximate 18.5% discount to the Appraised Value (being RMB2,029.0 million) as at 30 June 2018 and, based on the information provided by the Seller, an annualised gross and net property yield of 9.4% and 7.5% based on the Target Property's revenue (being RMB77.696 million) and net property income (being RMB62.085 million) respectively for the six months ended 30 June 2018.

Pursuant to the Share Purchase Deed, the Consideration shall be paid in the following manner:

(a) on the Completion Date, the Purchaser shall pay, or procure the payment of, an amount equal to:

i. the "**Initial Consideration**", being the sum of: (i) the Target Property Price; minus (ii) the amount outstanding under the Existing ICBC Facility and Onshore Loan as at Completion as set out in the Pro Forma Completion Statement; and plus/minus (iii) the Adjusted NAV as at Completion as set out in the Pro Forma Completion Statement;

ii. minus the Tax Holdback Amount, which is to be paid and released in the manner described in section A.5.3 headed "Tax Holdback Amount"; and

iii. minus an amount equal to 45% of the gross premium payable for the W&I Insurance, being approximately HKD2.0 million,

(such balance being the "**Net Initial Consideration**"),

by: (A) paying approximately HKD126.3 million, being the HKD equivalent of RMB110 million based on the Agreed Exchange Rate, in cash; and (B) paying the remaining amount of the Net Initial Consideration by way of the allotment and issue by Spring REIT to the Seller of Consideration Units at the Issue Price (being HKD3.372) (see section B.1 headed "Consideration Units" for further details);

(b) on the Completion Date, the Purchaser shall also procure the payment of the Tax Holdback Amount by way of the allotment and issue by Spring REIT to the Seller of Consideration Units (the "**Initial Holdback Consideration Units**") in the manner (and subject to the potential deferral) described in section A.5.3 below;

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

   i. the Adjusted NAV as set out in the Completion Statement minus the Adjusted NAV as set out in the Pro Forma Completion Statement; plus

   ii. the aggregate outstanding amounts owed under the Existing ICBC Facility and Onshore Loan (as set out in the Pro Forma Completion Statement) minus the aggregate outstanding amount owed under the Existing ICBC Facility and Onshore Loan (as set out in the Completion Statement),

   is:

      (A) a positive amount, the Purchaser shall pay such amount to the Seller in Consideration Units at the Issue Price by way of allotment and issue of the same by Spring REIT, although the Consideration Units ("**Uplift Holdback Consideration Units**") representing 11% of such amount (the "**True-up Holdback Amount**") shall be issued in the manner (and subject to the potential deferral) described in section A.5.3 below; or

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

   and such amount being paid shall be referred to as the "**True-up Payment**".

All amounts payable under the Share Purchase Deed shall be paid in HKD. For the purposes of determining the number of Consideration Units (issued at the Issue Price) to be issued in connection with any RMB amount to be paid, such RMB amount shall first be converted into HKD based on the Agreed Exchange Rate.

The Manager shall publish further announcement(s) regarding the Initial Consideration and True-up Payment, including the number of Consideration Units issued, as soon as practicable after such amounts have been determined.

5.3 *Tax Holdback Amount*

At Completion, the Purchaser shall procure the payment of the Tax Holdback Amount (representing approximately 12% of the Illustrative Consideration) by way of allotment and issue by Spring REIT to the Seller of such number of Consideration Units representing the Tax Holdback Amount and depositing with the Holdback Custodian Unit certificate(s) for the Initial Holdback Consideration Units, in accordance with the terms of the Share Purchase Deed and the Holdback Custodian Agreement if the Holdback Custodian Agreement has been entered into by then. If the Holdback Custodian Agreement has not been entered into by then, payment of the Tax Holdback Amount shall be deferred until: (i) the Holdback Custodian Agreement has been executed; (ii) the Seller provides cash or other security representing the Tax Holdback Amount at any time after Completion up to 10 business days before the record date for Spring REIT's 2019 interim distribution; or (iii) the Tax Holdback Amount is required to be paid to the Seller after it has proved that it has complied with certain obligations under the China Indirect Transfer Rules and paid the corresponding tax payable under the China Indirect Transfer Rules in connection with the Seller's sale of the Target Company Shares (the "**China Indirect Transfer Taxes**") (whichever is the earliest).

In the event that the True-up Payment is a positive amount, the Purchaser shall, within five business days after the determination of the Completion Statement, procure the payment of the True-up Holdback Amount and deposit with the Holdback Custodian the relevant Unit certificate(s) in accordance with the terms of the Share Purchase Deed and the Holdback Custodian Agreement if such agreement has been entered into by then (or if the Holdback Custodian Agreement has not been entered into by then, the payment of the True-up Holdback Amount shall be deferred in the same manner as the Tax Holdback Amount).

If the Holdback Custodian Agreement has been entered into by the time the True-up Payment is made, the Unit certificate(s) deposited with the Holdback Custodian pursuant to the Share Purchase Deed shall be held by the Holdback Custodian in escrow until the Seller proves that it has complied with certain obligations under the China Indirect Transfer Rules set out in the Share Purchase Deed and paid the China Indirect Transfer Taxes, in which case the Purchaser and the Seller shall jointly instruct the Holdback Custodian to release to the Seller all of the Consideration Units deposited with the Holdback Custodian in accordance with the Share Purchase Deed.

5.4 Conditions Precedent

Completion is subject to and conditional upon satisfaction of the following conditions (collectively, the "**Conditions**"):

(1) the resolutions approving the Acquisition and the consummation of transactions contemplated under the Share Purchase Deed having been passed by the Independent Unitholders at the EGM;

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

(3) the approval of the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Consideration Units having been granted and not revoked;

(4) there being no statute, regulation or court decision in the PRC which would prohibit or invalidate the Acquisition and all other related transactions contemplated under the Transaction Documents or the Onshore Loan Transactions at Completion;

(5) since the date of the equity transfer agreement (the "**Onshore ETA**") being entered into by PRC Intermediary Company 2 for the purchase of the Project Company as part of the Reorganisation (the "**Onshore ETA Date**"), there having been no material adverse change (as defined in the Share Purchase Deed) which, individually or in aggregate with any material adverse change(s) between the date of the Share Purchase Deed and the Onshore ETA Date has resulted or is reasonably expected to result in the Target Group and the Target Property suffering or sustaining an aggregate loss equal to 10% or more of the Target Property Price;

(6) there being no material breach of any warranties of the Seller under the Share Purchase Deed at Completion that has resulted or is reasonably expected to result in the Purchaser, the Target Group or the Target Property suffering or sustaining an aggregate loss equal to 10% or more of the Target Property Price;

(7) there being no material breach of any warranties of the Purchaser under the Share Purchase Deed at Completion that has resulted or is reasonably expected to result in the Seller suffering or sustaining an aggregate loss equal to 10% or more of the Target Property Price; and

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

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

5.5 Completion

Completion shall take place on the 10th business day after the satisfaction or waiver of all the Conditions, or such other date as may be agreed by the Purchaser and the Seller in writing. Subject to the Conditions being satisfied (or waived, as the case may be), the Manager expects Completion to take place around the first quarter of 2019. As soon as practicable following Completion, the Manager will issue an announcement to inform Unitholders that Completion has occurred.

5.6 Termination

In the event that: (a) Conditions (1) and (3) have not been fulfilled on or before 31 December 2018 or such later date notified by the Seller to the Purchaser in writing (provided that such date is no later than the Long Stop Date); (b) the Purchaser has notified the Seller before the execution of the Onshore ETA to terminate the Share Purchase Deed as a result of a material adverse change; or (c) any of the Conditions (excluding Conditions (1) and (3)) have not been fulfilled or waived prior to the Long Stop Date and the Purchaser and the Seller have not agreed in writing to extend the Long Stop Date, then the parties shall not be bound to proceed with the transactions contemplated by the Share Purchase Deed.

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

5.7 Warranties, Indemnities and W&I Insurance

The Share Purchase Deed contains customary warranties (including warranties relating to tax, title of the Target Property and compliance with all applicable laws and regulations by each member of the Target Group in conducting its business) to be made by the Seller in respect of, among others, the Target Group and the Target Property.

The maximum aggregate liability of the Seller shall not exceed 100% of the Target Property Price in respect of claims for any breaches of fundamental warranties and 20% of the Target Property Price in respect of claims for breaches of all other warranties save for warranties which are covered by the W&I Insurance. The maximum aggregate liability of the Seller in respect of claims relating to warranties covered by the W&I Insurance shall not exceed HK$18.9 million, being an amount equal to the retention under the W&I Insurance. The liability of the Seller is also subject to a minimum per claim threshold of RMB500,000. Amounts shall only be recoverable from the Seller if the aggregate amount recoverable in respect of all claims exceeds RMB8,250,000 and the Seller will be liable for the entire amount. The Share Purchase Deed also provides for a limitation period of two years after the Completion Date for all claims made under the Share Purchase Deed (other than those claims relating to tax warranties, in which case the limitation period is seven years from the Completion Date).

The Share Purchase Deed also contains several indemnities from the Seller, including but not limited to indemnities relating to: (i) any delay or failure to pay the China Indirect Transfer Taxes; (ii) the Reorganisation; (iii) the Joint Operation Agreements; and (iv) the matters summarised in sections A.6.1 to 6.2 below. The Seller's liabilities under these indemnities shall not be subject to the abovementioned limitations which are only applicable to warranties.

In addition, the Purchaser has purchased a warranty and indemnity insurance policy (the "**W&I Insurance**") with two insurance providers (the "**W&I Insurers**") carrying financial strength ratings of no less than A- by A.M. Best respectively on and with effect from the date of the Share Purchase Deed to further protect itself against claims relating to warranties and certain indemnities that are not recoverable under the Share Purchase Deed due to, for example, the Seller's limitation cap having been exceeded, but subject to certain exclusions as stated in the W&I Insurance (for instance, exclusions relating to deferred tax, recoverability of debts, structural defects, environment and contamination, anti-bribery and the specific indemnities). The maximum aggregate liability of the W&I Insurers will not exceed HK$378.8 million (representing approximately 20% of the HKD equivalent of the Target Property Price) and will be subject to a de minimis claim threshold of HK$1.89 million (being approximately 0.1% of the HKD equivalent of the Target Property Price). Amounts shall only be recoverable from the W&I Insurers if the aggregate amount recoverable in respect of all claims exceeds HK$18.9 million (which is the amount of retention under the W&I Insurance, being approximately 1.0% of the HKD equivalent of the Target Property Price), and the W&I Insurers will only be liable for claims over and above such threshold. Notice of any claim must be given to the W&I Insurers within seven years from Completion but in no event later than 18 December 2025 (for claims relating to title, authority and tax) or within two years from Completion (for other claims) but in no event later than 18 June 2021. The premium payable for the W&I Insurance is in line with market rates and will be shared between the Purchaser (as to 55%) and the Seller (as to 45%).

Taking into consideration: (1) the abovementioned warranty and indemnity coverage from the Seller (including the Seller's limitation cap, thresholds and period with respect to claims) which the Manager considers to be fair and reasonable, on normal commercial terms after arm's length negotiations and the best terms available to the Purchaser in the circumstances, and are in the interests of Spring REIT and the Unitholders as a whole; (2) the absence of any guarantee in respect of the Seller's obligations under the Share Purchase Deed; (3) the Lock-up Period being shorter than the limitation of liability period under the Share Purchase Deed; (4) the W&I Insurance and the terms thereof which the Manager considers to be fair and reasonable, on normal commercial terms (for policy of a similar size and nature) after arm's length negotiations and in the interests of Spring REIT and the Unitholders as a whole; (5) the satisfactory results of the Manager's due diligence review in respect of the Target Company, the Project Company and the Target Property; and (6) the Manager's PRC legal adviser's opinion set out in sections A.6, D.3 and D.4.2 below, the Manager is satisfied that the interests of Spring REIT and the Unitholders as a whole in respect of potential claims are adequately and sufficiently protected.

Investors should note that the Share Purchase Deed and W&I Insurance contain certain limitations of the amounts which can be claimed against the Seller and the W&I Insurers, respectively, and accordingly, the Purchaser may not be able to fully recover all claims against the Seller under the Share Purchase Deed. Furthermore, the Lock-up Period is for a period of nine months, which is shorter than the Share Purchase Deed limitation period of two years (for all claims made other than those claims relating to tax warranties) and seven years (for all claims relating to tax warranties). There can be no guarantee that the Seller will hold sufficient assets (such as the Consideration Units) after the Lock-up Period, which in turn may also affect the Purchaser's ability to bring claims against the Seller under the Share Purchase Deed.

5.8 Seller's tax obligations

As advised by the Manager's tax adviser: (i) the obligation to pay PRC Enterprise Income Tax under PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) for the Reorganisation should be borne by the Seller (or the relevant entity in connection with the Reorganisation); and (ii) the obligation to pay PRC Enterprise Income Tax under the China Indirect Transfer Rules for the Seller's sale of the Target Company Shares should be borne by the Seller with the Purchaser only having a withholding obligation.

The Manager understands from its tax adviser that in respect of both the Reorganisation and the Acquisition: (i) the Seller (or the relevant entity in connection with the Reorganisation) should first make its tax filing to the relevant PRC tax authority; and (ii) the relevant PRC tax authority should then assess the amount of tax payable.

Pursuant to the Share Purchase Deed, the Seller shall at its own expense cause its affiliated company to, as soon as possible and in any event no later than 30 days after the Completion Date, truly, accurately and completely report all relevant information on the sale of the Target Company Shares to the relevant PRC tax authority in accordance with the China Indirect Transfer Rules. The Seller shall: (a) promptly follow-up with and submit all further documents that may be requested by the relevant PRC tax authority in respect of such report; and (b) promptly keep the Purchaser informed of the foregoing.

To the extent that the Seller is determined by the relevant PRC tax authority to be required by the China Indirect Transfer Rules to pay taxes in connection with its sale of the Target Company Shares, the Seller shall: (a) within such period of time as required by the relevant PRC tax authority, cause such taxes to be paid; and (b) provide the Purchaser, as soon as reasonably practicable, with evidence that such taxes have been paid in the form of tax payment certificate(s) issued by the relevant PRC tax authority. The payment of the Tax Holdback Amount and the True-up Holdback Amount shall be made in the manner described in section A.5.3 headed "Tax Holdback Amount" above.

The Seller has provided an indemnity for any delay or failure to report and pay China Indirect Transfer Taxes or comply with other obligations under the China Indirect Transfer Rules stated in the Share Purchase Deed. Such indemnity will not be subject to the limitations of liability applicable to warranties, as set out in section A.5.7 headed "Warranties, Indemnities and W&I Insurance".

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

5.9 Arm's Length Terms

The Transaction Documents and the W&I Insurance have been entered into, or shall be entered into, by the parties thereto on normal commercial terms (including in respect of those terms relating to limitation of liability) following arm's length negotiations.

6. Due diligence review

The Manager has conducted, and is satisfied with the results of, due diligence in respect of the Target Company, the Project Company and the Target Property (including the Leases and Joint Operation Agreements), and no material irregularities or material non-compliance issues have been noted. Such due diligence has been carried out in accordance with the relevant provisions of the REIT Code and the Manager's compliance manual. The Manager's legal advisers will also conduct bring-down legal due diligence on the Target Group after the Reorganisation, and the Manager will obtain a legal opinion from the Manager's PRC legal adviser on whether the Reorganisation has been carried out and completed in accordance with the PRC laws and regulations (to the extent they are applicable) and that each of the PRC Intermediary Companies has been duly incorporated, before proceeding to Completion. In view of the foregoing, and having regard to the advice of its PRC legal adviser in section D.3 headed "Ownership", the Manager is of the view that Spring REIT will immediately upon Completion hold (through the Purchaser and the Target Group) good, marketable, legal and beneficial title in the Target Property.

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

6.1 Non-registration of Leases

As at 15 September 2018, there were 354 Leases at the Target Property, 39 of which had not been registered. The Project Company is using its best endeavours to ensure that such Leases will be registered before Completion. However, as the co-operation of the relevant Lessees and authorities is required to complete and perfect such registration, it is possible that, for reasons outside the Project Company's control, not all currently unregistered Leases will be registered before Completion. Following Completion, the Manager will use best endeavours to register such Leases as soon as practicable. The Manager expects that the currently unregistered Leases will be registered shortly after Completion.

As advised by the Manager's PRC legal adviser, Zhong Lun Law Firm, although it is a term in a few of the Leases that the Project Company shall at its own cost register the relevant Lease within 30 days of the date of such Lease, failing which the Lessee may be exempted from paying rent, property management charges and other fees under such Lease, no Lessees have enforced or indicated that they would enforce such right to withhold payment of rent, property management charges or other fees under the Leases as at the Latest Practicable Date. Further, according to the Administrative Measures for Leasing of Commodity Housing (商品房屋租賃管理辦法) promulgated by the Ministry of Housing and Urban-Rural Development of the PRC on 1 December 2010, a fine of RMB1,000 to RMB10,000 shall be imposed on the Project Company if the Project Company fails to rectify the situation within a prescribed time limit upon notification by the authority, although it is presently unclear whether such fine applies to each unregistered Lease on a per-lease basis. Assuming a separate fine applies to each unregistered Lease, the maximum aggregate amount of penalty payable by the Project Company in respect of such unregistered Leases if the Project Company fails to rectify the situation within the prescribed time limit is approximately RMB390,000.

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

6.2 Non-disclosure of Existing Property Mortgage to Lessees

As advised by the Manager's PRC legal adviser, Zhong Lun Law Firm, according to the judicial interpretation by the Supreme People's Court of PRC Guarantee Law (《中華人民共和國擔保法》), the mortgagor is required to give a written notification to lessees to inform the latter of the existence of a mortgage to which the leased property is subject, failing which the mortgagor shall bear any loss which the lessees suffer as a result of the mortgagee enforcing its rights over leased property that is subject to a mortgage. Based on the Manager's due diligence, the Project Company had not notified the Lessees under most of the Leases that the Target Property is subject to the Existing Property Mortgage. However, as advised by the Manager's PRC legal adviser, this issue cannot be remedied or mitigated by notifying the Lessees now but can only be rectified when the Project Company enters into new or renewed Leases in the future given the relevant PRC laws require such notification to be made before the entering into of a lease. Accordingly, the Project Company may be liable for any direct loss suffered by the Lessees should the mortgagee enforce its rights under the Existing Property Mortgage. Following Completion, the Manager will use best endeavours to instruct the Project Company to notify the relevant Lessee and new Lessee of the existence of the Existing Property Mortgage whenever a new or renewed Lease is entered into.

As advised by the Manager's PRC legal adviser, the failure to notify the Lessees under the Leases that the Target Property is subject to the Existing Property Mortgage would not affect the enforceability or legality of the Leases, and would not adversely affect the Project Company's legal title to the Target Property. In the event that the mortgagee enforces its rights under the Existing Property Mortgage, the Lessees may make a claim against the Project Company for any loss suffered as a result of the Leases not being enforceable against the mortgagee, but such loss would generally be limited to only direct loss, such as the loss of the residual value of fittings, the loss due to disruption of business and the cost for entering into new leases. Any loss or liability arising out of or in connection with the Project Company's failure to notify the Lessees of the Existing Property Mortgage would be covered under the indemnity provided by the Seller, and the Manager does not consider this issue to pose a material risk. The Manager considers such protection to be sufficient and that the interests of the Unitholders are adequately protected.

6.3 *Carparks for civil defence*

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

7. Fees and Charges

7.1 *General*

The estimated total fees and charges payable by Spring REIT in relation to the Acquisition (the "**Total Fees and Charges**") is approximately USD9.3 million and consists of the Acquisition Fee, the Other Acquisition Fees and Expenses and the Trustee's Additional Fee. Details of these fees and their amounts are set out in sections A.7.2 to A.7.4 below. The USD equivalent of the Target Property Price of RMB1,653,466,000 (being approximately USD241.4 million) plus the Total Fees and Charges (being approximately USD9.3 million) is approximately USD250.7 million.

7.2 *Acquisition Fee*

On Completion, the Manager will be entitled under the Trust Deed to receive an acquisition fee of RMB16,534,660, which is equal to 1% of the Target Property Price (the "**Acquisition Fee**"). The Acquisition Fee shall be paid to the Manager in the form of cash in USD based on the then prevailing exchange rate. The USD equivalent of the Acquisition Fee is approximately USD2.4 million.

7.3 *Other Acquisition Fees and Expenses*

Spring REIT incurred or is expected to incur other estimated fees and expenses in connection with the Acquisition (including advisory fees, professional fees, upfront fee of the New Facility, stamp duty and the 55% of the W&I Insurance premium borne by the Purchaser), the USD equivalent of which is anticipated to be approximately USD6.9 million ("**Other Acquisition Fees and Expenses**"). The Other Acquisition Fees and Expenses are one-off transaction expenses of a non-recurring nature in connection with the Acquisition.

7.4 *Trustee's Additional Fee*

Pursuant to the Trust Deed, the Trustee is entitled to charge additional fees for duties undertaken by the Trustee which are of an exceptional nature or otherwise outside the scope of the Trustee's normal duties in the ordinary course of normal day-to-day business operations of Spring REIT. The Trustee has agreed with the Manager that it will charge Spring REIT a one-time additional fee based on the time and costs incurred by it for duties undertaken by the Trustee in connection with the Acquisition, with such additional fee expected to be HKD110,000 (equivalent to approximately USD14,000) (the "**Trustee's Additional Fee**").

7.5 *Ongoing Fees*

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

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

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

B. FINANCING OF THE ACQUISITION

The Manager intends to finance the Consideration in the following manner: (i) approximately HKD126.3 million, being the HKD equivalent of RMB110 million based on the Agreed Exchange Rate, shall be paid in cash drawn down from the New Facility; (ii) the remaining shall be financed by issuance of Consideration Units; and (iii) if the number of Consideration Units would exceed the Authorised Issue, the excess Consideration which would have been settled in the form of the Consideration Units shall instead be settled in the form of cash payable in HKD using internal resources. The Manager also intends to finance the Offshore Amount and the Total Fees and Charges by the New Facility.

The intended financing structure is determined taking into consideration, among other things, Spring REIT's working capital sufficiency, optimal level of gearing after Completion, financing cost and the potential impact that the issuance of Consideration Units will have on existing Unitholders' ownership interests.

1. Consideration Units

The number of Consideration Units to be issued as part of the settlement of the Consideration shall be determined by reference to the Issue Price and subject to the Authorised Issue. The Issue Price of HKD3.372 is equal to the average closing price of a Unit as quoted on the Hong Kong Stock Exchange for the last 10 trading days up to and excluding the Latest Practicable Date. Where the number of Consideration Units to be issued under the Share Purchase Deed would exceed the Authorised Issue, the excess Consideration which would have been settled in the form of Consideration Units shall instead be settled in the form of cash payable in HKD.

For illustrative purposes, based on the Illustrative Consideration (being RMB810.7 million), Issue Price and Agreed Exchange Rate, and taking into account that RMB110 million of the Consideration will be settled in cash, the number of Consideration Units shall be 238,499,191 (the "**Illustrative Consideration Units**"). The Illustrative Consideration Units represent approximately: (a) 18.8% of the total number of Units as at the Latest Practicable Date; and (b) 15.8% of the total number of Units as at the Latest Practicable Date as enlarged by the issuance of the Illustrative Consideration Units.

Based on information provided by the Seller and having made all reasonable enquiries, the Manager does not expect the issuance of Consideration Units to trigger an obligation on the part of the Seller (and parties acting in concert with it) to make a mandatory general offer under Rule 26 of the Takeovers Code for all Units not already owned or agreed to be acquired by them at the time such Consideration Units are issued.

The Consideration Units will, upon issuance, rank *pari passu* in all respect with the Units then in issue, although the Seller has separately agreed under the Distribution Deed to waive part of the distributions in relation to the Consideration Units. Please see section E headed "Distribution after Completion" in this announcement for further details. An application will be made to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Consideration Units on the Main Board of the Hong Kong Stock Exchange.

The Purchaser and the Trustee have made customary warranties in respect of Consideration Units under the Share Purchase Deed.

The Seller undertakes and covenants under the Share Purchase Deed that it shall not for a period of nine months after the Completion Date (the "**Lock-up Period**"), among other things, dispose of any of the Consideration Units.

The issue of the Consideration Units will dilute the ownership interests of the existing Unitholders. Any sales in the public market of the Consideration Units after the Lock-up Period could adversely affect the prevailing market price for the Units. Nonetheless, based on the information provided by the Seller, the Manager expects the Acquisition to be DPU accretive on a pro forma basis for the six months ended 30 June 2018 for Spring REIT. Further information will be set out in the Unaudited Pro Forma Financial Information of the Enlarged Group to be contained in the Circular.

2. Facilities to be assumed and taken out by Spring REIT

2.1 General

At Completion, the Project Company will have entered into the following facilities, which will be assumed and continue to be owed by Spring REIT (through the Project Company) after Completion. The amounts outstanding under such facilities as at Completion will be deducted from the Target Property Price when determining the Consideration under the Share Purchase Deed.

In addition, the Manager intends to draw down on the New Facility at Completion to, among other things, finance the Offshore Amount to be paid by the Purchaser to the Seller under the Share Purchase Deed, in satisfaction of the Project Company's obligations under the Onshore Loan Agreement.

2.2 *Existing ICBC Facility*

Pursuant to a facility agreement dated 11 September 2012, which was entered into between the Project Company as borrower and ICBC Huizhou Branch as lender, and a commitment letter from the Project Company to ICBC Huizhou Branch dated 1 September 2012, ICBC Huizhou Branch agreed to provide the Project Company a loan facility of 15 years maturing in 2027 and bearing interest at the PBOC base lending rate times 105%, and the Project Company guaranteed to pay an annual arrangement fee to ICBC Huizhou Branch of 5% of the PBOC base lending rate times the year-end loan balance in the previous calendar year.

Subsequently the Project Company as borrower and ICBC Huizhou Branch as lender entered into a supplementary facility agreement dated 29 December 2015, and a commitment letter dated 18 December 2015 was issued by the Project Company to ICBC Huizhou Branch. Pursuant to the aforementioned, the interest of the ICBC facility was revised to the PBOC base lending rate and the Project Company guarantees to pay ICBC Huizhou Branch an additional annual arrangement fee of 5% of the PBOC base lending rate times the year-end loan balance in the previous calendar year.

As at the Latest Practicable Date, the amount outstanding under the Existing ICBC Facility is approximately RMB450 million.

The Existing ICBC Facility is secured by the Existing Property Mortgage over the Target Property, which was created by the Project Company in favour of ICBC Huizhou Branch. Repayment of the principal under the Existing ICBC Facility shall be made by instalments of RMB12.5 million each quarter. In addition, pursuant to the Existing ICBC Facility, if any principal, interest or other payment is due and payable but remains outstanding, the Project Company shall not make any form of distributions or dividend payments. The indebtedness under the Existing ICBC Facility is secured by guarantees given by five members of the Guohua Connected Persons Group. The Purchaser has undertaken to the Seller to procure that such guarantees are released and discharged as soon as practicable after Completion, and until such time, indemnify the Seller for any losses suffered in respect of the same.

2.3 Onshore Loan Transactions

As at the Latest Practicable Date, the Target Property is held under a PRC onshore structure which will be converted into the expected holding structure (through the Reorganisation) as set out in section A.3 headed "Holding structure of the Target Property before Completion" in this announcement.

As part of the Reorganisation, the Seller Lender and PRC Intermediary Company 2 will enter into a loan agreement (the "**Onshore Loan Agreement**") pursuant to which the Seller Lender as lender agrees to extend to PRC Intermediary Company 2 as borrower a RMB315.0 million loan (the "**Onshore Loan**"), which is intended to be drawn down on or prior to the date of Completion. The Onshore Loan will mature in three years but may be further extended to the date falling four years from the Completion Date (or such other date agreed in writing between parties thereto) where either PRC Intermediary Company 2 or the Seller Lender notifies the other party in writing no later than 30 business days prior to its expiry.

Subject to the Onshore Loan being drawn down on or before Completion, the Purchaser has agreed under the Share Purchase Deed to pay to the Seller at Completion a cash amount of approximately HKD361.6 million (being the HKD equivalent of the principal amount of the Onshore Loan based on the Agreed Exchange Rate (the "**Offshore Amount**")), which shall be returned concurrently with repayment of the Onshore Loan. No interest is payable in respect of both the Onshore Loan and the Offshore Amount.

The PRC legal adviser to the Manager, Zhong Lun Law Firm, has advised that the Onshore Loan Transactions, if entered into, comply with the applicable PRC laws and regulations. Upon completion of the Reorganisation, the Manager's PRC legal adviser will also render an opinion as to whether the Reorganisation has been carried out and completed in accordance with the PRC laws and regulations (to the extent they are applicable).

For the reasons stated in section H.3 headed "Connected Party Transactions in respect of the Onshore Loan Transactions" in this announcement, the Manager will voluntarily seek Unitholders' approval of the Onshore Loan Transaction under the same Ordinary Resolution to approve the Acquisition and the transactions under the Share Purchase Deed, notwithstanding that the total value of the Onshore Loan Transactions will be less than 5% of the latest audited net asset value of Spring REIT (as disclosed in its latest published audited accounts and as adjusted for the Acquisition after Completion). For the opinion of the Board (including the INEDs) in respect of the Onshore Loan Transactions, please refer to section I in this announcement. The views of the Independent Financial Adviser, the Independent Board Committee and the Trustee in respect of the same will be set out in the Circular.

2.4 New Facility

The Manager has entered into a commitment letter with an independent third party bank for the provision of a Hong Kong dollar denominated loan facility (the "**New Facility**"), on which the Manager intends to draw down to finance RMB110 million of the Consideration, the Offshore Amount and the Total Fees and Charges. Further details regarding the abovementioned commitment letter and the New Facility will be set out in the Circular.

3. Gearing Ratio

The gearing ratio of Spring REIT will be presented in the Circular as its calculation is based on the unaudited pro forma financial information of the Enlarged Group, which will only be finalised on or about the date of the Circular. The gearing ratio of Spring REIT is expected to increase from 34.4% (as disclosed in its interim report for the six months ended 30 June 2018) by an amount to be stated in the Circular but, in any case, shall remain below the 45% limit permitted under the REIT Code.

C. REASONS FOR AND BENEFITS OF THE ACQUISITION

1. Yield accretive acquisition

The Target Property Price represents an approximate 18.5% discount to the Appraised Value (being RMB2,029.0 million) as at 30 June 2018 and, based on the information provided by the Seller, an annualised gross and net property yield of 9.4% and 7.5% based on the Target Property's revenue (being RMB77.696 million) and net property income (being RMB62.085 million) respectively for the six months ended 30 June 2018. The annualised net property yield to net property yield of the Target Property based on the Target Property Price is higher than that of Spring REIT's existing portfolio.

Based on the information provided by the Seller, it is expected that, on a pro forma basis assuming the Target Property had been held and operated by Spring REIT for the six months ended 30 June 2018, the Acquisition would have been yield accretive and would have improved the earnings of Spring REIT and Distribution per Unit to Unitholders. Further details shall be disclosed in the Unaudited Pro Forma Financial Information of the Enlarged Group to be set out in the Circular. The acquisition of a yield accretive, quality income-producing property is in line with Spring REIT's investment strategy to invest in income-producing real estate and seek yield-accretive investment opportunities.

2. High quality asset

The Target Property is a high quality asset which has the following competitive strengths:

(a) *A regional market leader in the high-end retail space:* With a total gross floor area of 144,925.1 sq.m., the Target Property, "Huamao Place", is currently the second largest shopping mall in Huizhou in terms of area. The Target Property is a well-established local retail destination in Huizhou and a regional industry leader in introducing international apparel retailers, known for its handful of international high fashion brand names being exclusively its tenants in the city. Its leading apparel tenant portfolio alone distinguishes the Target Property from other mid-to-high end shopping malls in the city.

(b) *Prime location with strong catchment area:* The Target Property is located in Jiangbei, the CBD of Huizhou and is well positioned to attract potential customer groups including white-collar workers in Jiangbei and users and visitors of the surrounding public facilities. It also caters for the retail needs of office workers and residents of Huizhou Central Place, a 13.5 hectare mixed-use site also comprising of commercial and residential buildings, of which the Target Property is part. According to the Market Consultant's Report, accessibility to the Target Property will be further improved once the construction of Huizhou Metro Line 1, serving the CBD of Huizhou, is planned to be completed in 2025. Apart from accessibility within Huizhou, the entire Dongguan-Huizhou Intercity Railway line, which opened in December 2017, has reduced the travel time between the city centres of Huizhou and Dongguan to 1.5 hours, extending the Target Property's catchment coverage beyond Huizhou to its neighbouring municipalities.

(c) *High occupancy rate and rental with healthy growth potential:* The Target Property's occupancy rate has consistently achieved 92% or above every year since 2012. As at 31 July 2018, the Target Property enjoyed a high occupancy rate of 97.2%, exceeding Huizhou's average occupancy rate of 91.8% as at the end of June 2018. Based on the information contained in the Market Consultant's Report, the Target Property currently enjoys the highest rent in the city due to its leading position and reputation in Huizhou, and it is estimated to maintain an occupancy rate of approximately 96%-97% from 2018 to 2020, driven by Huizhou's rapidly developing retail market.

3. Diversification and enlargement of Spring REIT's property portfolio

Spring REIT's Existing Properties comprise two office buildings in the CBD of Beijing (being the CCP Property) and 84 commercial properties in the United Kingdom which are currently operating as car servicing centres. The Acquisition, which will enlarge the valuation of Spring REIT's property portfolio by approximately 21%, will be Spring REIT's first investment in a retail property asset in the PRC and its first investment in the Greater Bay Area. The Acquisition will diversify the locations and composition of Spring REIT's portfolio assets and reduce Spring REIT's exposure to concentration risk and other risks associated with its reliance on the income generated by the CCP Property or the performance of the Beijing office market.

4. Capture of strong growth potential of the Greater Bay Area and Huizhou

According to the Market Consultant's Report, the Greater Bay Area holds substantial potential with forecasts suggesting the GDP of the region will triple by 2030. As of 2017, the nominal GDP of the Greater Bay Area had reached over RMB10 trillion, accounting for 12.4% of the PRC's total GDP, despite accounting for less than 5% of the country's population. From 2013 to 2017, nominal GDP growth in the Greater Bay Area exhibited compounded annual growth rate of 8.7%, and achieved 11% year-on-year growth in 2017.

Huizhou has enjoyed steady economic growth over the past five years as well. Huizhou accounts for one fifth of the entire Pearl River Delta by land area, but only 9% of which has been developed, indicating its potential to absorb economic and real estate expansion from other key cities in the Greater Bay Area as the transportation infrastructure of the Greater Bay Area rapidly improves.

According to the Market Consultant's Report, Huizhou's annual retail sales is expected to exceed RMB180 billion by 2020, with an expected annual growth rate of 11% between 2016 and 2020, while the annual foreign direct investment (actual utilised) growth rate would reach 3% between 2016 and 2020. This will bring about positive demographic and economic changes to Huizhou, attracting skilled and professional workers from other Greater Bay Area cities and creating additional demand for retail developments.

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

D. INFORMATION ON THE TARGET PROPERTY

1. The Property

For key information concerning the Target Property, please refer to section A.2 above.

2. Property Valuation

Knight Frank Petty Limited, the current principal valuer of Spring REIT, has been appointed as the Independent Property Valuer to appraise the value of the Target Property for the purpose of the Acquisition. The Independent Property Valuer's Property Valuation Report will be set out in the Circular. The Appraised Value of the Target Property (as assessed by the Independent Property Valuer as at 30 June 2018) was RMB2,029.0 million. The Target Property Price represents an approximate 18.5% discount to the Appraised Value.

In arriving at the Appraised Value, the Independent Property Valuer has made use of the income approach with reference to market approach, where appropriate. The income approach values the capacity of the Target Property to generate monetary benefits of income and reversion, and converts estimated annual income expectancy into an indication of the present value of the Target Property either by dividing the income estimate by an appropriate yield rate or by multiplying the income estimate by an appropriate factor. Such approach is based on the premise that the income capability of an investment is a measure of value. Market approach values the Target Property by comparing it with similar properties previously sold and adjusting the property value to reflect items such as location, date of transaction, maintenance, accessibility and other relevant considerations.

As the Appraised Value only relates to the valuation of the Target Property, it does not take into account the financing and shareholding structure of the Target Property and is not equivalent to the value of the Target Group. Accordingly, the parties have agreed to adjust the Target Property Price in the manner described in section A.5.2 headed "Consideration and payment terms for the Acquisition" in this announcement.

3. Ownership

Spring REIT will not directly hold the Target Property. Instead, the Target Property will be held on trust for Spring REIT by the Trustee in accordance with the provisions of the Trust Deed. More specifically, the Trustee will, through the Purchaser, hold the Target Company. The Target Company will (after the Reorganisation) indirectly hold the entire equity interest in the Project Company, which is the registered legal owner of the land use rights and current ownership rights underlying the Target Property.

The PRC legal adviser of the Manager, Zhong Lun Law Firm, has advised that the Project Company has legally obtained the state-owned land use rights in respect of the Target Property and that it is the registered legal user of the land use rights and the registered legal owner of the building ownership rights underlying the Target Property. The Project Company has legal ownership of the Target Property and can legally own, use and deal with the Target Property in accordance with the relevant PRC laws. The PRC legal adviser of the Manager has also advised that the Project Company is the sole user of the land use rights and the sole owner of the building ownership rights underlying the Target Property and that such rights are free from encumbrances other than the Existing Property Mortgage, Leases and Joint Operation Agreements.

Based on the above, the PRC legal adviser of the Manager is of the view that the Project Company can legally own, occupy, transfer and lease out the Target Property in accordance with the relevant PRC laws free from encumbrances, subject to the conditions of the Existing Property Mortgage, Leases and Joint Operation Agreements. Based on the above advice of the PRC legal adviser, the Manager is of the view that the Project Company will have good, marketable, legal and beneficial title to the Target Property upon Completion.

According to the *Law of the People's Republic of China on Administration of Urban Real Estate* (中華人民共和國城市房地產管理法), if the land user intends to continue to use the land upon expiry of the use term (being 1 February 2048 in respect of the Target Property), such user shall file an application for a land use right extension at least one year prior to expiry of the use term. The approval shall ordinarily be granted except when the land needs to be expropriated for social public interest. If the land use right extension is approved, a new land use right grant contract shall be signed and the land premium shall be paid according to the relevant regulations. For the reasons above, the PRC legal adviser of the Manager has advised that a land user may extend the land use right in accordance with PRC laws and administrative regulations. However, there can be no assurance that a land use right extension can always be obtained.

The Manager's PRC legal adviser has advised that there is no legal impediment on the remittance of dividends on retained earnings of the Project Company out of the PRC to the HK Intermediary Company, provided that such remittance is made and tax-levied in accordance with the procedures set out under the relevant PRC laws and regulations, including but not limited to laws those on foreign investment, tax and foreign exchange, and that such remittance is not made in breach of the terms of the Existing ICBC Facility and the Existing Property Mortgage. However, there is no assurance that new PRC regulations restricting RMB remittance into or out of the PRC will not be promulgated in the future.

4. Leases and Joint Operation Agreements

4.1 Leases

The Leases entered into for the Target Property are generally for terms ranging from one to five years, depending on factors such as the expiry and lessee profile of the Target Property. Most Leases have fixed terms, but in some Leases the Lessees and the Project Company as landlord have agreed on an optional term for renewal apart from the fixed term, in which case, the rental increase shall be re-determined through negotiation between both parties in accordance with the market conditions for commercial retail premises.

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

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

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

4.2 Joint Operation Agreements

General

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

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

Joint Operation Agreements are less common than Leases at the Target Property. As at 31 July 2018, the area of the premises at the Target Property subject to Joint Operation Agreements represents approximately 9% of the total gross rented area of the Target Property and, based on the information provided by the Seller, the income derived from the Joint Operation Agreements accounted for approximately 14% of the Project Company's total revenue for the six months ended 30 June 2018.

The PRC legal adviser to the Manager has advised that the Joint Operation Agreements are legal and enforceable under PRC laws and regulations. Having regard to the abovementioned economics and below-mentioned terms and potential liabilities of the Joint Operation Agreements, the Manager considers that the Joint Operation Agreements are consistent with the Manager's investment strategy, comply with the Trust Deed and the REIT Code and are in the best interests of the Unitholders.

Allocation of key responsibilities and potential liabilities

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

(a) the Project Company's key responsibilities include: (1) delivering the premises to the Operators; (2) arranging events in the Target Property's common areas; (3) collecting the gross income from the premises and paying part of the same (as specified in the Joint Operation Agreements) to the Operators; and (4) issuing tax invoices in its own name to end customers; and

(b) the Operator's key responsibilities include: (1) using the premises as agreed and starting the business after the Project Company's requirements have been satisfied (including but not limited to the Operator obtaining proper permits/licenses, staff, goods, facilities and cashier); (2) deciding the prices for goods, returning or changing the goods, keeping inventory; (3) maintaining cleanliness and ensuring property and personal safety on the premise; (4) purchasing erection all risk insurance and public liability insurance for the premises; and (5) reporting income to the Project Company.

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

Based on advice from the PRC legal advisors to the Manager, according to *Article 53 of the General Principles of Civil Law*, if a joint operation agreement between institutions specifies that each party shall conduct business independently (as is the case in relation to the Joint Operation Agreements), it shall stipulate the rights and obligations of each party, and each party shall bear civil liability separately in accordance with the joint operation agreement. Further, the Project Company is not a party to the contracts entered into in respect of the operation of the premises (e.g. employment contracts, supply contracts) as these are entered into between the Operator (in its own name) and third parties. Accordingly, the Project Company shall not be liable for the responsibilities of the Operator under the Joint Operation Agreement, even where the Operator seeks to avoid liability (e.g. salary, costs of goods) with such third parties, although it may be liable for how the Operator operates the premises in the limited circumstance described below.

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

Given the brand reputation of the Operators and the nature of their businesses, the Manager considers the risk of product liability or quality control claims or administrative penalties, as well as the risk of the Operators not being able to indemnify the Project Company, to be low. Having regard to: (i) the income historically derived from the Joint Operation Agreements as a percentage of the Project Company's total revenue; (ii) the area of the premises subject to the Joint Operation Agreements as compared to the gross rented area of the Target Property; (iii) the nature of the business conducted by majority of the Operators; (iv) the abovementioned indemnities from the Operators and other recourse available to the Project Company; and (v) the abovementioned indemnity from the Seller and its holding of the Consideration Units during the Lock-up Period, the Manager does not consider the Joint Operation Agreements to pose a material risk to Spring REIT and is of the view that the interests of Unitholders are adequately protected against the abovementioned potential liabilities.

Notwithstanding the above, the Manager shall use its best endeavours to change the Joint Operation Agreements to leases at the end of their term and limit the number of Joint Operation Agreements to exceptional situations where it is impracticable to enter into leases with key reputable Operators. No Joint Operation Agreement shall be entered into unless: (i) the Operator is a reputable operator; (ii) satisfactory indemnities (including security deposit) are provided; and (iii) the entering into of the Joint Operation Agreement is in the best interest of Spring REIT. Further, the Manager shall at all times ensure that the area of the premises at the Target Property subject to Joint Operation Agreements represents less than 10% of the total gross rented area of the Target Property. Although it is not open to the Project Company to unilaterally terminate the subsisting Joint Operation

Agreements without risking a breach of contract, except in certain limited circumstances described below, the Manager shall use its best endeavours to reduce the number of Joint Operation Agreements over time.

Other terms of the Joint Operation Agreements

The Joint Operation Agreements are generally for terms ranging from four months to four years. At the time of entering into a Joint Operation Agreement, most of the Operators are required to pay a non-interest bearing security deposit ranging in amounts up to approximately RMB300,000.

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

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

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

Joint Operation Agreement upon the occurrence of certain events, such as repeated delays in providing sales reports despite notice and false reporting on sales performance.

5. Management of the Target Property

Following Completion, the Manager will have the general power of management over the Target Property and its primary objective is to manage the Target Property solely for the benefit of the Unitholders. The Manager will be responsible for working with and supervising the Property Manager and the Building Manager in respect of the day-to-day management of the Target Property. On Completion, the Project Company will enter into the Property Management Agreement with Huizhou Huamao Operations Management Co., Ltd.* as Property Manager and the Building Management Agreement with Huizhou Huamao Property Management Co., Ltd.* as Building Manager for provision of management services in respect of the Target Property. The Target Property has historically been managed by the property and building management staff of Huamao Group (華貿集團). Huamao Group has extensive experience in the commercial and retail real estate sector in the PRC. It is the developer of China Central Place, a prime mixed-use development complex in the CBD of Beijing comprising office, hotel, retail and residential components. Huamao Group manages certain retail portions of the China Central Place complex and is a joint owner of SKP Beijing, one of the largest department stores by sales in the PRC which is also located within the China Central Place complex. The Property Manager and Building Manager are part of Huamao Group and are managing the Target Property as at the Latest Practicable Date. The Manager understands the key management staff of the Property Manager and Building Manager are selected from the team that has historically been managing the Target Property and, hence, have extensive experience in providing the relevant services in respect of the Target Property. This will ensure smooth transition and continuity of management services after Completion.

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

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the Property Manager and the Building Manager is not a connected person of Spring REIT as at the Latest Practicable Date, but will become a connected person of Spring REIT on and from the date of Completion for the reasons described in section A.1 headed "Overview of the Acquisition" in this announcement.

5.1 Property Management Agreement

At Completion, the Project Company and the Property Manager will enter into the Property Management Agreement pursuant to which the Property Manager (being the property management company of the Seller) agrees to provide property management services in respect of the Target Property for a term of three years commencing from the Completion Date. Subject to the parties' agreement, the term of the Property Management Agreement can be extended for an additional three years.

Under the Property Management Agreement, the Property Manager will be entitled to receive from the Project Company:

(a) in respect of each year during the three-year term, an amount equal to: (i) the Property Manager's salary expenses; and (ii) general and administrative expenses (including promotion and advertising expenses) of the Project Company incurred and paid by the Property Manager, with such amount reimbursable for the general and administrative expenses incurred and paid by the Property Manager capped at 4% of the annual revenue of the Project Company (which refers to the revenue generated by the Target Property but excludes, among other things, the revenue generated by the carpark spaces); and

(b) subject to the parties' agreement to extend the term referred to above, in respect of each year during the extended term, an amount equal to: (i) the Property Manager's salary expenses; (ii) the Project Company's general and administrative expenses (including promotion and advertising expenses), with such amount reimbursable for the general and administrative expenses incurred and paid by the Property Manager capped at 4% of the annual revenue of the Project Company (which refers to the revenue generated by the Target Property but excludes, among other things, the revenue generated by the carpark spaces); and (iii) a fee equivalent to 3% of the annual revenue of the Project Company (which refers to the revenue generated by the Target Property but excludes, among other things, the revenue generated by the carpark spaces, which shall be settled on a monthly basis and subject to an annual adjustment based on the annual audit of the Project Company).

The services to be provided by the Property Manager under the Property Management Agreement include, among other things, leasing management services, property management advisory services, marketing advisory services, operational management services and asset enhancement initiatives ("**AEI**").

Pursuant to the Property Management Agreement, the Property Manager is subject to ongoing supervision by the Manager. The Property Manager is required to provide a property management budget report on an annual basis within the required time for approval by the Project Company, in relation to, among others, leasing, marketing and AEI strategies. Further, the Property Manager is required to provide the Project Company with a monthly management report, which should contain, among other things, a summary of the Leases and the Joint Operation Agreements, budgets, operating and management conditions of the Target Property, updates in relation to marketing initiates and AEI plans, and other information as required by the Project Company. On an ad-hoc basis, the Property Manager is obliged to provide updates on the management of the Target Property as and when requested by the Project Company. The Property Manager may not enter into leases and service agreements without first seeking the approval of the Project Company.

5.2 Building Management Agreement

On Completion, the Project Company and the Building Manager will enter into the Building Management Agreement pursuant to which the Building Manager agrees to provide building management services in respect of the Target Property (including the carpark spaces) for a term of three years, which is renewable by the parties' agreement, commencing from the date of the Building Management Agreement, all carpark spaces of the Target Property will also be master-leased to the Building Manager for the same period for RMB1,000 per year.

Under the Building Management Agreement, the Building Manager shall collect building management fees from the Lessees (or Operators, as the case may be) at the rate specified in the Leases (or Joint Operation Agreements, as the case may be) and deposit such fees into an account jointly maintained by the Project Company and the Building Manager. The building management fees will be borne and paid entirely by the Lessees (or Operators, as the case may be). Utilities charges incurred for the common areas of the Target Property will be funded from such account and, for operational purposes, be firstly paid from such account to the Project Company, which will in turn pay the utilities providers. The Building Manager will be entitled to be paid from such account a commission of RMB1 per sq.m. per month with reference to the gross floor area of the Target Property.

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

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

6. Competition

According to the Market Consultant's Report, upcoming supply in mid-to-high end retail developments in Huizhou will be limited. There is only one confirmed project, Rongcan Huizhou Centre (榮燦惠州中心), which will be ready for occupancy in the latter half of 2018.

Rongcan Huizhou Centre has a total gross floor area of approximately 30,000 sq.m. and neighbours the Target Property. It is similar to the Target Property in terms of its positioning as well as the quality of its residential and office components. Nevertheless, the retail component of Rongcan Huizhou Centre will only be approximately one-fifth of the size of the Target Property and, according to the view expressed in the Market Consultant's Report, would not have a material adverse impact on the market performance of the Target Property, but rather would strengthen the area as a retail destination hub, attracting more patronage to the area. According to the Market Consultant's Report, given the Target Property's scale, quality and reputation, the Target Property will remain a leading retail destination in the mid-to-high end retail market of Jiangbei.

Currently in Jiangbei, where the Target Property is located, there are two other mid-to-high end shopping malls, namely Kaisa Plaza (惠州佳兆業廣場) which entered into the market in three phases between 2013 and 2015, and Xinhua Cultural Plaza (惠州新華廣場) which entered into the market in 2017. As a pioneer in the mid-to-high end retail market, the Target Property was the first among the aforementioned three projects to open in 2011 and has remained an established brand name in Huizhou.

According to the Market Consultant's Report, out of the existing mid to high-end shopping malls in Huizhou, Kaisa Plaza (惠州佳兆業廣場) and Ganghui Mall (港惠購物中心) are the key competitors of the Target Property due to their scale and reputation as shopping destinations in Huizhou. Although Xinhua Cultural Plaza is also located in Jiangbei, it is not considered a key competitor to the Target Property, given that its trade mix focuses solely on cultural products, such as a 24/7 book store and stationery boutique, and that it caters to a different target customer group.

Although Kaisa Plaza may compete with the Target Property, according to the Market Consultant's Report, Kaisa Plaza is still at a stage of maturing and its overall international brand offering and design quality are not as high-end as those of the Target Property. Kaisa Plaza's average rent has also been lower than both the Target Property's and the city's average rent since Kaisa Plaza's opening in 2013.

The Target Property is the second largest mid-to-high end shopping mall in Huizhou in terms of gross floor area, behind only Ganghui Mall. Ganghui Mall is located in Henan'an, which is a submarket different from that of the Target Property. The Target Property is home to more international retail brands and, according to the Market Consultant's Report, has a better design and layout.

E. DISTRIBUTION AFTER COMPLETION

At Completion, the Seller will enter into the Distribution Deed with the Manager and the Trustee, pursuant to which the Seller agrees to irrevocably forego part of its distribution in respect of the "**Relevant Consideration Units**", being the Consideration Units issued as payment of the Initial Consideration (including the Tax Holdback Amount).

Specifically, the Seller shall forego, in respect of the Relevant Consideration Units only:

(a) (in respect of distribution periods ending on a date prior to Completion) 100% of its distribution entitlement for such period; and

(b) (in respect of the distribution period during which Completion occurred) the Relevant Percentage of its distribution entitlement for such period, with the "Relevant Percentage" being equal to the number of days between the start of the distribution period and Completion expressed as a percentage of the total number of days in the distribution period,

with such amount in any distribution period being the "**Foregone Distribution**".

Pursuant to the Distribution Deed, the Foregone Distribution will be additionally distributed to Unitholders (in the same distribution period that the Seller forewent such amount) based on the following formula:

A = (B/C) x D

where:

(i) "**A**" is the amount of the additional distribution for the Unitholder;

(ii) "**B**" is the Foregone Distribution;

(iii) "**C**" is the aggregate number of Units as at the close of business on the relevant record date, less the number of Relevant Consideration Units; and

(iv) "**D**" is the number of Units registered in the name of the relevant Unitholder as at the close of business on the relevant record date, less (where the relevant Unitholder is the Seller) the number of Relevant Consideration Units.

For the avoidance of doubt, the Seller shall not forego any distribution entitlement in respect of the Consideration Units to be issued as payment of the True-up Payment (if any), nor will any Foregone Distribution need to be refunded to the Seller where the Purchaser is required to make a True-up Payment to the Seller.

F. FINANCIAL EFFECTS OF THE ACQUISITION

1. Pro forma DPU, NAV and capitalisation of Spring REIT

The Circular contains information as to the impact of the Acquisition on the unitholdings in Spring REIT and the pro forma financial effects of the Acquisition on Spring REIT. In particular, it will contain information relating to:

(a) the pro forma financial effects of the Acquisition on the DPU for the six months ended 30 June 2018, as if the Acquisition was completed on 1 January 2018 and Spring REIT had held and operated the Target Property through to 30 June 2018;

(b) the pro forma financial effects of the Acquisition on the NAV attributable to Unitholders per Unit as at 30 June 2018, as if the Acquisition was completed on 30 June 2018; and

(c) the capitalisation of Spring REIT as at 30 June 2018 based on the Unaudited Pro Forma Financial Information of the Enlarged Group to be set out in the Circular, as if Spring REIT had completed the Acquisition on 30 June 2018.

Please refer to the Circular for the bases and assumptions used for the calculations, which will comply with the requirements of the REIT Code.

2. Impact of the Acquisition on the unitholdings in Spring REIT

The following tables set forth information with respect to interests held by Connected Persons and Public Unitholders: (a) as at the Latest Practicable Date; and (b) upon the issuance of the Consideration Units assuming the Illustrative Consideration Units are issued and no additional Units are issued post-Completion.

	As at the Latest Practicable Date		Upon issuance of Illustrative Consideration Units		
	Number of Units	% Unitholding	Newly issued Units	Total number of Units	% Unitholding
Connected Persons					
Significant Unitholders	521,285,000	41.1%	–	521,285,000	34.6%
RCA Fund/RCAC	345,204,000	27.2%	–	345,204,000	22.9%
PAG Holdings Limited	176,081,000	13.9%	–	176,081,000	11.7%
Manager Group	60,890,532	4.8%	–	60,890,532	4.0%
Directors	2,310,000	0.2%	–	2,310,000	0.2%
Toshihiro Toyoshima	700,000	0.1%	–	700,000	0.0%
Nobumasa Saeki	400,000	0.0%	–	400,000	0.0%
Hideya Ishino	49,000	0.0%	–	49,000	0.0%
Simon Murray	396,000	0.0%	–	396,000	0.0%
Qiu Liping	396,000	0.0%	–	396,000	0.0%
Lam Yiu Kin	369,000	0.0%	–	369,000	0.0%
Subtotal	584,485,532	46.1%	–	584,485,532	38.8%
Public Unitholders					
Seller[(1)]	–	0.0%	238,499,191	238,499,191	15.8%
Other Public Unitholders	684,487,000	53.9%	–	684,487,000	45.4%
Subtotal	684,487,000	53.9%	238,499,191	922,986,191	61.2%
Total	1,268,972,532	100.0%	238,499,191	1,507,471,723	100.0%

Note:

(1) The receipt of Consideration in the form of Consideration Units shall result in the Seller becoming a significant holder and connected person of Spring REIT from the date of Completion under paragraph 8.1(d) of the REIT Code. Please refer to section B.1 in this announcement for further details.

G. GUOHUA CCTS WAIVER

1. Guohua CCTs

Following Completion and the issuance of the Consideration Units, the Seller will become a significant holder and connected person of Spring REIT from the date of Completion under paragraph 8.1(d) of the REIT Code. Accordingly, a number of transactions with the Guohua Connected Persons Group in respect of Spring REIT's properties (the "**Guohua CCTs**") will constitute continuing connected party transactions of Spring REIT under paragraph 8.5 of the REIT Code.

To the best of the knowledge, information and belief of the Manager, having made all reasonable enquiries as at the Latest Practicable Date, other than the Beijing CCP Carpark Master Lease, there are no subsisting transactions with the Guohua Connected Persons Group as at the Latest Practicable Date which will, following Completion and the issuance of Consideration Units, become a connected party transaction of Spring REIT under paragraph 8.5 of the REIT Code.

2. Guohua CCTs Waiver

The Manager will apply to the SFC for a waiver (the "**Guohua CCTs Waiver**") from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code for the three years ending 31 December 2021 in respect of the following categories of Guohua CCTs, subject to certain waiver terms and conditions as well as the annual value of the Guohua CCTs not exceeding the respective annual caps (the "**Annual Caps**"), as will be set out in the Circular.

2.1 Leasing transactions

As part of Spring REIT's ordinary and usual course of business, Spring REIT may, from time to time, assume, enter into or renew lease agreements with the Guohua Connected Persons Group in respect of Spring REIT's properties (such transactions being the "**Connected Leasing Transactions**"), including: (i) the Huamao Place Guohua Lease with the Property Manager (being the Huamao Place Guohua Lessee) in respect of an area equal to approximately 0.6% of the gross rentable area of the Target Property which will be entered into on Completion; (ii) the master lease in respect of the Target Property's carpark spaces with the Building Manager under the Building Management Agreement; and (iii) the subsisting Beijing CCP

Carpark Master Lease. Other than the Beijing CCP Carpark Master Lease, no Connected Leasing Transactions were subsisting from 1 January 2015 to the Latest Practicable Date.

The key terms of the abovementioned Connected Leasing Transactions are as follows:

(A) Huamao Place Guohua Lease

The Huamao Place Guohua Lease will commence on the day after Completion for a three-year term. The annual rent under the Huamao Place Guohua Lease is RMB105,660 (including value-added tax) and is payable annually in advance before the start of the relevant year. The Huamao Place Guohua Lessee has an option to renew the Huamao Place Guohua Lease by serving a three-months' prior written notice, in which case the parties must enter into a renewal lease at least three months prior to the original lease's expiry, with the key terms thereof, such as lease term and rent, agreed and determined by reference to what are at the then prevailing market levels.

The Huamao Place Guohua Lease covers an area equal to approximately 0.6% of the gross rentable area of the Target Property, which will be utilised by the Property Manager (as the Huamao Place Guohua Lessee) as office space in which the Property Manager will carry out its services in respect of the Target Property pursuant to the Property Management Agreement.

(B) Master lease in respect of Target Property's carpark spaces

Under the Building Management Agreement, the Target Property's carpark spaces, comprising 677 underground and 44 above-ground carpark spaces which have not been generating any profits for the Project Company in the past few years, shall be master-leased to the Building Manager at an annual rent of RMB1,000 for the term of three years commencing from the date of the Building Management Agreement. The Building Manager will be entitled to the revenue derived from the operation of those carpark spaces but will also bear the expenses related to the same.

(C) Beijing CCP Carpark Master Lease

Under the Beijing CCP Carpark Master Lease, approximately 600 underground carpark spaces located at the CCP Property have been master-leased to the Beijing CCP Carpark Master Lessee at an annual rent of approximately RMB3.4 million (net of value-added tax) for one year commencing from 1 January 2018. The Beijing CCP Carpark Master Lease will be automatically renewed and extended for an additional year on the same terms or new terms mutually agreed by both parties unless Beijing Hua-re Real Estate Consultancy Co. Ltd. (as agent of RCA01) as lessor serves a notice to inform the Beijing CCP Carpark Master Lessee that it wishes not to renew the Beijing CCP Carpark Master Lease.

2.2 Property management arrangements

Property management arrangements include any transactions in the nature of property management, tenancy services and other operation arrangement in respect of Spring REIT's properties assumed, entered into or renewed between Spring REIT and the Guohua Connected Persons Group (such transactions being the "**Connected PM Transactions**"), including the Property Management Agreement to be entered into at Completion. For further details of the Property Management Agreement, please refer to section D.5.1 headed "Property Management Agreement" in this announcement.

No Connected PM Transactions in respect of the Existing Properties were subsisting from 1 January 2015 to the Latest Practicable Date.

2.3 Building management arrangements

Building management arrangements include any transactions in the nature of building and common area management in respect of Spring REIT's properties assumed, entered into or renewed between Spring REIT and the Guohua Connected Persons Group, including the building management arrangements under the Building Management Agreement to be entered into at Completion. For further details of the Building Management Agreement, please refer to section D.5.2 headed "Building Management Agreement" in this announcement.

The parent company of the Beijing CCP Carpark Master Lessee, Beijing CCP & Savills Property Services Management Co., Ltd. (北京華貿第一太平物業管理有限公司), is the building manager for the CCP Property. However, given that the building management agreement in respect of the CCP Property was entered into by the parent company as building manager with Beijing Hua-re Real Estate Consultancy Co. Ltd. as property manager rather than with Spring REIT or RCA01, the building management agreement in respect of the CCP Property does not constitute a continuing connected party transaction under paragraph 8.5 of the REIT Code.

3. Opinions in respect of Guohua CCTs Waiver and Annual Caps

Further details regarding the Guohua CCTs Waiver, as well as the opinions of the Board, the Independent Financial Adviser, the Independent Board Committee and the Trustee in relation to, among other things, the Guohua CCTs Waiver, will be set out in the Circular.

H. IMPLICATIONS UNDER THE REIT CODE AND THE TRUST DEED

1. Independence of counterparties

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries (including with the Trustee): (i) Deutsche Bank AG, as the holding company of the Trustee, is a connected person of Spring REIT pursuant to paragraph 8.1(g) of the REIT Code; (ii) Deutsche Bank AG is, through intermediary companies, one of the ultimate beneficial owners of the Seller with less than 20% attributable interest in the Seller, and it does not control or own the Seller such as to render the Seller an associated company of the Trustee or a connected person under paragraph 8.1 of the REIT Code; and (iii) save as aforesaid, the Seller and its ultimate beneficial owners are, as at the Latest Practicable Date, not connected persons of Spring REIT and are independent third parties.

The receipt of Consideration in the form of Consideration Units shall result in the Seller becoming a significant holder and connected person of Spring REIT from the date of Completion under paragraph 8.1(d) of the REIT Code. Huamao Property, which owns 87.0% of the shares in the Seller, will also become a connected person from the date of Completion. Furthermore, the Seller Lender, Property Manager (which is also the Huamao Place Guohua Lessee) and Building Manager, each being a subsidiary of Huamao Property and an associated company of the Seller, as well as the Beijing CCP Carpark Master Lessee, being an associate of a director of Huamao Property, will also become connected persons of Spring REIT from the date of Completion. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Property Manager (which is also the Huamao Place Guohua Lessee), Building Manager, Beijing CCP Carpark Master Lessee, Seller Lender and their ultimate beneficial owners (other than Deutsche Bank AG for the aforementioned reasons) are, as at the Latest Practicable Date, not connected persons of Spring REIT and are independent third parties.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the W&I Insurers, the lender bank under the New Facility and the Occupants (other than the Huamao Place Guohua Lessee and the Building Manager as lessee of the Target Property's carpark spaces) are, as at the Latest Practicable Date, not connected persons of Spring REIT and are independent third parties.

2. Major transaction

As: (1) the net profit (after deducting all charges except taxation and excluding extraordinary items) attributable to the Project Company (inclusive of results of a subsidiary disposed of during the year) represents approximately 58.5% of the profit before taxation and transactions with the Unitholders; and (2) the HKD equivalent of the Target Property Price (being HKD1,897.8 million) represents approximately 45.9% of the total market capitalisation of Spring REIT (based on the average closing price of Spring REIT on the Hong Kong Stock Exchange for the five trading days immediately preceding the date of the Share Purchase Deed), the Acquisition and the transactions contemplated under the Share Purchase Deed (including but not limited to the issuance of Consideration Units and the Onshore Loan Transactions) collectively constitute a major transaction of Spring REIT under the Listing Rules (as if applicable to Spring REIT) and require Unitholders' approval by way of Ordinary Resolution under the REIT Code and the Trust Deed.

Pursuant to paragraph 12.2 of the REIT Code and Clause 7.1.6(ii) of the Trust Deed, Unitholders' approval by way of Ordinary Resolution is required where new securities are not offered to the Unitholders on a pro rata basis unless such new Units are issued pursuant to the General Mandate. As the Consideration Units are not intended to be issued pursuant to the General Mandate, Unitholders' approval will also be specifically sought for the issuance of Consideration Units up to the Authorised Issue, under the same Ordinary Resolution to approve the Acquisition and the transactions under the Share Purchase Deed.

3. Connected party transactions in respect of the Onshore Loan Transactions

As the Seller and Seller Lender will become connected persons of Spring REIT from the date of Completion, the Onshore Loan Transactions shall, from the date of Completion, constitute connected party transactions under paragraph 8.5 of the REIT Code. Although the total value of the Onshore Loan Transactions will be less than 5% of the latest audited net asset value of Spring REIT (as disclosed in its latest published audited accounts and as adjusted for the Acquisition after Completion) and accordingly will not require Unitholders' approval, the Manager, taking the view that the Onshore Loan Transactions and the Acquisition are linked to each other and part and parcel of a significant proposal, will voluntarily seek Unitholders' approval of the Onshore Loan Transactions under the same Ordinary Resolution to approve the Acquisition and the transactions under the Share Purchase Deed.

4. Continuing connected party transactions

On Completion, the Project Company shall enter into: (a) the Property Management Agreement with the Property Manager; (b) the Building Management Agreement with the Building Manager (which also includes a term to master-lease the Target Property's carpark spaces to the Building Manager); and (c) the Huamao Place Guohua Lease with the Huamao Place Guohua Lessee. As the counterparties to the abovementioned transactions (as members of the Guohua Connected Persons Group) will become connected persons of Spring REIT from the date of Completion, the transactions thereunder shall constitute continuing connected party transactions under paragraph 8.5 of the REIT Code.

The Manager will apply for the Guohua CCTs Waiver, being a waiver from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code in respect of continuing connected party transactions with the Guohua Connected Persons Group (which would include the Property Management Agreement, the Building Management Agreement and the Huamao Place Guohua Lease, as well as the subsisting Beijing CCP Carpark Master Lease).

5. EGM Resolutions

The Manager takes the view that the Acquisition, the issuance of the Consideration Units and the Onshore Loan Transactions are linked to each other and part and parcel of a significant proposal, as the issuance of the Consideration Units and the Onshore Loan Transactions only arise from the consummation of the Acquisition and would not be required but for the entering into of the agreements underlying the Acquisition. Accordingly, the Acquisition, the issuance of Consideration Units and the Onshore Loan Transactions will be proposed under the same Ordinary Resolution.

Please refer to the EGM Notice to be published by the Manager to set out the proposed Ordinary Resolutions in relation to, among other things, the Acquisition and the transactions contemplated under the Share Purchase Deed (including but not limited to the issuance of Consideration Units and the Onshore Loan Transactions).

6. Submissions made to the SFC in respect of paragraph 7.5(d) of the REIT Code

Paragraph 7.5(d) of the REIT Code provides that the scheme shall have no more than two layers of SPVs through which real estate is held. As indicated in the note to paragraph 7.5(d) of the REIT Code, the SFC has the discretion to allow a scheme to have additional layer(s) of SPVs if justified by the particular circumstances.

As set out in section A.4 headed "Expected holding structure of the Target Property after Completion" in this announcement, the holding structure of the Target Property after Reorganisation and immediately before Completion involves six layers of SPVs, and upon Completion, Spring REIT will hold the Target Property through six layers of SPVs.

For the purpose of facilitating future group reorganisation and disposal of property interests through intermediate holding companies (for example, to achieve savings in transaction costs), the Manager has made a submission to the SFC for the use of no more than six layers of SPVs in relation to the holding of Spring REIT's interest in the Target Property, subject to the condition that there will be no change to the maximum number of six layers of SPVs used by Spring REIT without further approval of the SFC.

7. Purchaser has discretion

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

I. OPINION OF THE BOARD

Having regard to the reasons for, terms of, and factors and other information taken into consideration in relation to the proposed Acquisition as described in this Circular, the Board (including the INEDs) considers that the Acquisition and the transactions contemplated under the Share Purchase Deed (including but not limited to the issuance of Consideration Units and the Onshore Loan Transactions) are: (i) in the ordinary and usual course of business of Spring REIT and consistent with the investment objectives and strategy of Spring REIT; and (ii) have been entered into on terms which are normal commercial terms at arm's length and are fair and reasonable so far as Spring REIT, the Independent Unitholders and the Unitholders are concerned, and in the interests of Spring REIT, the Independent Unitholders and the Unitholders as a whole.

The respective opinions of the Independent Board Committee, the Independent Financial Adviser and the Trustee with regard to certain matters covered under this announcement will be set out in the Circular.

J. OTHERS

1. Circular

The Circular containing, among other things: (a) a letter from the Board to the Unitholders containing details of, among others, the Transaction Matters Requiring Approval; (b) a letter from the Independent Board Committee to Independent Unitholders in relation to the Onshore Loan Transactions, the Guohua CCTs Waiver and the Annual Caps; (c) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee, the Independent Unitholders and the Trustee in relation to the Onshore Loan Transactions, the Guohua CCTs Waiver and the Annual Caps; (d) the Accountant's Reports of the Target Company and the Project Company; (e) the Unaudited Pro Forma Financial Information of the Enlarged Group; (f) the Independent Property Valuer's Property Valuation Report; (g) the Market Consultant's Report; (h) the Property Valuation Reports in respect of the Existing Properties; and (i) the notice of the EGM, will be issued and despatched to the Unitholders on or before 28 September 2018.

2. Closure of register of Unitholders

In order to determine which Unitholders will qualify to attend and vote at the EGM, the Register of Unitholders will be closed for the period to be specified in the Circular during which no transfers of Units will be effected. For those Unitholders who are not already on the Register of Unitholders, in order to qualify to attend and vote at the EGM, all Unit certificates accompanied by 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 not later than the date and time to be specified in the Circular.

3. Indicative timetable

Please see below an indicative timetable showing the key dates of the relevant events. An updated timetable will be set out in the Circular.

Event	Date & Time
Date of issuance of the Circular	On or before 28 September 2018
Latest date and time for lodging transfers of Units to participate and vote in the EGM	two Business Days prior to the EGM Record Date
Book closure period (both days inclusive) to determine the eligibility of Unitholders to participate and vote in the EGM	To be specified in the Circular
Latest date and time for lodging proxy forms for the EGM	two Business Days prior to the EGM Record Date
EGM Record Date	Same date as the date of EGM
Date of the EGM	On or before 31 October 2018 (the exact date and time to be specified in the Circular)
Completion of the Acquisition (if the approvals sought at the EGM are obtained)	The 10th business day after the satisfaction (or, where permitted, waiver) of all the Conditions, which are expected to be fulfilled or waived before the Long Stop Date

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

4. Responsibility statements of the Manager and the Directors

The Manager and the Directors, collectively and individually, accept full responsibility for the accuracy of the information contained in this announcement 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 announcement misleading.

Completion of the Acquisition is subject to and conditional upon satisfaction of the Conditions (as set out in section A.5.4 headed "Conditions Precedent" in this announcement), which includes Unitholders' approval being obtained for the Acquisition, and accordingly, may or may not complete. Unitholders, as well as any prospective investors of Spring REIT, are advised to exercise caution when dealing in the Units.

K. DEFINITIONS

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

"Accountant's Reports"	the reports to be issued by the Reporting Accountants regarding the Target Company and the Project Company, respectively, the text of which will be set out in the Circular
"Acquisition"	the proposed acquisition by the Purchaser from the Seller of the Target Company Shares pursuant to the Share Purchase Deed
"Acquisition Fee"	the acquisition fee that the Manager is entitled to, as more particularly described in section A.7.2 headed "Acquisition Fee" in this announcement
"Adjusted NAV"	has the same meaning ascribed to it in section A.5.2 headed "Consideration and payment terms for the Acquisition" in this announcement
"AEI"	has the same meaning ascribed to it in section D.5.1 headed "Property Management Agreement" in this announcement

"Agreed Exchange Rate"	HKD1.00 to RMB0.87124, being the RMB/HKD central parity rate as announced by the China Foreign Exchange Trade System, as authorised by the People's Bank of China, on 10 September 2018
"Annual Caps"	has the same meaning ascribed to it in section G.2 headed "Guohua CCTs Waiver" in this announcement
"Appraised Value"	the value of the Target Property as at 30 June 2018 as appraised by the Independent Property Valuer, being RMB2,029.0 million
"associated company(ies)"	has the meaning ascribed to this term in the REIT Code
"Authorised Issue"	279,173,957 Units, being 22.0% of the number of Units in existence as at the Latest Practicable Date and 22.2% of the number of Units outstanding as at 31 December 2017
"Beijing CCP Carpark Master Lease"	the master lease dated 31 December 2017 entered into between Beijing Hua-re Real Estate Consultancy Co. Ltd. (as agent of RCA01) as lessor and the Beijing CCP Carpark Master Lessee as lessee in respect of the underground carparks of the CCP Property
"Beijing CCP Carpark Master Lessee"	Beijing CCP & Savills Property Services Management Co., Ltd., First Branch (北京華貿第一太平物業管理有限公司第一分公司), being a branch company of Beijing CCP & Savills Property Services Management Co., Ltd. (北京華貿第一太平物業管理有限公司) and a member of the Guohua Connected Persons Group
"Board"	the board of Directors
"Building Consultant"	Knight Frank Petty Limited

"Building Management Agreement"	the building management agreement to be entered into between the Project Company and the Building Manager at Completion, as more particularly described in section D.5.2 headed "Building Management Agreement" in this announcement
"Building Manager"	Huizhou Huamao Property Management Co., Ltd.* (惠州市華貿物業管理有限公司), being a member of the Guohua Connected Persons Group
"Business Day"	any day (excluding Saturdays, Sundays, public holidays and days on which a tropical cyclone warning no.8 or above or a "black" rainstorm warning signal is hoisted in Hong Kong at any time between the hours of 9.00 a.m. and 5.00 p.m.) on which licensed banks are open for general business in Hong Kong
"CBD"	central business district
"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 carpark spaces located in the underground levels of the two office buildings, which is wholly-owned by Spring REIT

"China Indirect Transfer Rules"	the tax notices issued by the PRC State Administration of Taxation, in respect of offshore indirect transfers of property of an "establishment or place" situated in PRC resident enterprises and any other property directly held by a non-resident enterprise and whose transfer results in enterprise income tax liability for the non-resident enterprise in accordance with the provisions of the Enterprise Income Tax Law of the PRC, including without limitation, the notice titled "State Administration of Taxation's Bulletin on Several Issues of Enterprise Income Tax on Income Arising from Indirect Transfers of Property by Non-resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (State Administration of Taxation Bulletin [2015] No. 7 (國家稅務總局公告2015年第7號))", as may be amended or supplemented from time to time, and including any similar or replacement law, and including any applicable laws in the PRC
"China Indirect Transfer Taxes"	has the same meaning ascribed to it in section A.5.3 headed "Tax Holdback Amount" in this announcement
"Circular"	the circular to be despatched by the Manager to the Unitholders containing, among other things: (a) a letter from the Board to the Unitholders containing details of, among others, the Transaction Matters Requiring Approval; (b) a letter from the Independent Board Committee to Independent Unitholders in relation to the Onshore Loan Transactions, the Guohua CCTs Waiver and the Annual Caps; (c) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee, the Independent Unitholders and the Trustee in relation to the Onshore Loan Transactions, the Guohua CCTs Waiver and the Annual Caps; (d) the Accountant's Reports of the Target Company and the Project Company; (e) the Unaudited Pro Forma Financial Information of the Enlarged Group; (f) the Independent Property Valuer's Property Valuation Report; (g) the Market Consultant's Report; (h) the Property Valuation Reports in respect of the Existing Properties; and (i) the notice of the EGM

"Completion"	completion of the Acquisition pursuant to the Share Purchase Deed
"Completion Accounts"	the audited consolidated financial statements of the Target Group as at Completion
"Completion Date"	the date on which Completion takes place, as more particularly described in section A.5.5 headed "Completion" in this announcement
"Completion Statement"	the completion statement to be prepared after Completion in accordance with the Share Purchase Deed and based on the Completion Accounts
"Conditions"	the conditions precedent to Completion, as more particularly described in section A.5.4 headed "Conditions Precedent" in this announcement
"Connected Leasing Transactions"	has the same meaning ascribed to it in section G.2.1 headed "Leasing transactions" in this announcement
"connected person(s)"	has the meaning ascribed to this term in the REIT Code
"Connected PM Transactions"	has the same meaning ascribed to it in section G.2.2 headed "Property management arrangements" in this announcement
"Consideration"	has the same meaning ascribed to it in section A.5.2 headed "Consideration and payment terms for the Acquisition" in this announcement
"Consideration Units"	the new Units proposed to be issued by Spring REIT to the Seller pursuant to the Share Purchase Deed
"Deposited Property"	all the assets of Spring REIT, including the Existing Properties currently held in Spring REIT's portfolio and, from and after Completion, the Target Property
"Directors"	the directors of the Manager

"Distribution Deed"	the deed to be entered into between the Seller, the Manager and the Trustee at Completion pursuant to which the Seller will forego part of its distribution in respect of the Relevant Consideration Units, as more particularly described in section E headed "Distribution after Completion" in this announcement
"DPU"	distribution per Unit
"EGM"	the extraordinary general meeting of Unitholders to be convened by and referred to in the EGM Notice
"EGM Notice"	the notice to be included in the Circular in respect of the EGM to consider and, if thought fit, approve the Transaction Matters Requiring Approval
"EGM Record Date"	the date of the EGM, being the date by reference to which the eligibility of the Unitholders to participate in the EGM will be determined
"EGM Resolutions"	the Ordinary Resolutions to be passed at the EGM, as will be set out in the EGM Notice and explained in the Circular
"Enlarged Group"	collectively, Spring REIT and the Target Group
"Existing ICBC Facility"	the loan granted to the Project Company pursuant to a facility agreement dated 11 September 2012, two commitment letter dated 1 September 2012 and 18 December 2015 and a supplementary facility agreement dated 29 December 2015 between the Project Company (as borrower) and ICBC Huizhou Branch (as lender) with an outstanding amount of RMB450 million as at the Latest Practicable Date
"Existing Properties"	the properties currently held by Spring REIT, being: (i) the CCP Property; and (ii) 84 commercial properties in the United Kingdom

"Existing Property Mortgage"	the mortgage over the Target Property created by the Project Company in favour of ICBC Huizhou Branch, to secure the Existing ICBC Facility
"Foregone Distribution"	has the same meaning ascribed to it in section E headed "Distribution after Completion" in this announcement
"General Mandate"	the authority conferred upon the Manager under paragraph 12.2 of the REIT Code and Clause 7.1.6(ii) of the Trust Deed pursuant to which Units may be issued in any financial year otherwise than on a pro rata basis to all existing Unitholders, without the approval of the Unitholders, if the total number of new Units issued (after making certain adjustments) does not increase the number of Units that were outstanding at the end of the previous financial year by more than 20% (or such other percentage of outstanding Units as may, from time to time, be prescribed by the SFC)
"Guohua CCTs"	has the same meaning ascribed to it in section G.1 headed "Guohua CCTs" in this announcement
"Guohua CCTs Waiver"	has the same meaning ascribed to it in section G.2 headed "Guohua CCTs Waiver" in this announcement
"Guohua Connected Persons Group"	any person who, after Completion, would be connected to the Seller as described in paragraphs 8.1(e), (f) or (g) of the REIT Code. Such persons include: (i) any director, senior executive or officer of the Seller; (ii) any associate (as defined in the REIT Code) of the Seller or of any director, senior executive or officer of the Seller; and (iii) any controlling entity, holding company, subsidiary or associated company of the Seller
"HK Intermediary Company"	a company to be incorporated under the laws of Hong Kong which will, upon completion of the Reorganisation, be wholly-owned by the Target Company and wholly-own PRC Intermediary Company 1
"HK$, HKD or Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong

"Holdback Consideration Units"	collectively, the Initial Holdback Consideration Units and the Uplift Holdback Consideration Units
"Holdback Custodian"	the custodian under the Holdback Custodian Agreement as agreed by the Purchaser and the Seller in writing
"Holdback Custodian Agreement"	an agreement in respect of, among others, the Holdback Consideration Units, which the Purchaser and the Seller should use all reasonable endeavours to agree on an agreed form and enter into with the Holdback Custodian on or before Completion
"Hong Kong"	The Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Huamao Place Guohua Lease"	the Lease to be entered into between Spring REIT (as lessor) and the Huamao Place Guohua Lessee (as lessee) at Completion which, from the date of Completion as a result of the issuance of Consideration Units to the Seller, will become a connected party transaction of Spring REIT
"Huamao Place Guohua Lessee"	the Property Manager, being the lessee under the Huamao Place Guohua Lease
"Huamao Property"	Huamao Property Holdings Ltd., which owns 9.8% of the shares in the Manager and 87.0% of the shares in the Seller
"ICBC Huizhou Branch"	Industrial and Commercial Bank of China Limited, Huizhou Fuli International Centre Branch
"Illustrative Consideration"	has the same meaning ascribed to it in section A.5.2 headed "Consideration and payment terms for the Acquisition" in this announcement
"Illustrative Consideration Units"	has the same meaning ascribed to it in section B.1 headed "Consideration Units" in this announcement

"Independent Board Committee"	the independent committee established by the Board of the Manager to advise the Independent Unitholders on the Onshore Loan Transactions, the Guohua CCTs Waiver and the Annual Caps, comprising Mr. Simon Murray, Mr. Qiu Liping and Mr. Lam Yiu Kin, being all of the independent non-executive Directors of the Manager
"Independent Financial Adviser"	Somerley Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee, the Independent Unitholders and the Trustee on the Onshore Loan Transactions, the Guohua CCTs Waiver and the Annual Caps
"Independent Property Valuer"	Knight Frank Petty Limited, the current principal valuer of Spring REIT
"Independent Property Valuer's Property Valuation Report"	the valuation report dated 19 September 2018 issued by the Independent Property Valuer in respect of the Target Property, the text of which shall be set out in the Circular
"independent third party(ies)"	party(ies) which are not connected persons of Spring REIT
"Independent Unitholders"	Unitholders other than those who have a material interest in the relevant resolutions, within the meaning of paragraph 8.11 of the REIT Code, and who are entitled to vote at the EGM
"INED(s)"	independent non-executive Director(s)
"Initial Consideration"	has the same meaning ascribed to it in section A.5.2 headed "Consideration and payment terms for the Acquisition" in this announcement
"Initial Holdback Consideration Units"	has the same meaning ascribed to it in section A.5.2 headed "Consideration and payment terms for the Acquisition" in this announcement

"Issue Price"	HKD3.372
"Joint Operation Agreements"	the joint operation agreements (聯營合同) entered into between the Project Company and the Operators for certain premises within the Target Property
"Latest Practicable Date"	12 September 2018, being the latest practicable date prior to the issue of this announcement for the purpose of ascertaining certain information contained in the Circular
"Leases"	the leases entered into between the Project Company and the lessees of the Target Property
"Lessees"	the lessees under the Leases
"Listing Rules"	The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Lock-up Period"	has the same meaning ascribed to it in section B.1 headed "Consideration Units" in this announcement
"Long Stop Date"	31 March 2019, or such later date as agreed by the Purchaser and the Seller in writing
"Manager"	Spring Asset Management Limited (in its capacity as the manager of Spring REIT), a company incorporated under the laws of Hong Kong
"Manager Group"	collectively, the Manager and its holding company, Mercuria Investment Co., Limited
"Market Consultant"	Cushman & Wakefield
"Market Consultant's Report"	the letter dated 19 September 2018 from the Market Consultant, the full text of which is set out in the Appendix hereto
"NAV"	net asset value

"Net Initial Consideration"	has the same meaning ascribed to it in section A.5.2 headed "Consideration and payment terms for the Acquisition" in this announcement
"New Facility"	has the same meaning ascribed to it in section B.2.4 headed "New Facility" in this announcement
"Occupants"	collectively, the Lessees and the Operators
"Offshore Amount"	has the same meaning ascribed to it in section B.2.3 headed "Onshore Loan Transactions" in this announcement
"Onshore ETA"	has the same meaning ascribed to it in section A.5.4 headed "Conditions Precedent" in this announcement
"Onshore ETA Date"	has the same meaning ascribed to it in section A.5.4 headed "Conditions Precedent" in this announcement
"Onshore Loan"	has the same meaning ascribed to it in section B.2.3 headed "Onshore Loan Transactions" in this announcement
"Onshore Loan Agreement"	has the same meaning ascribed to it in section B.2.3 headed "Onshore Loan Transactions" in this announcement
"Onshore Loan Transactions"	the entering into of the Onshore Loan (which will be assumed by Spring REIT at Completion) and payment of the Offshore Amount thereunder
"Operators"	has the same meaning ascribed to it in section D.4.2 headed "Joint Operation Agreements" in this announcement
"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 the Units in issue
"Other Acquisition Fees and Expenses"	has the same meaning ascribed to it in section A.7.3 headed "Other Acquisition Fees and Expenses" in this announcement

"PBOC"	the People's Bank of China
"PRC"	The People's Republic of China but excluding, for the purposes of the Circular, Hong Kong, Taiwan and the Macau Special Administrative Region
"PRC Intermediary Companies"	collectively, PRC Intermediary Company 1 and PRC Intermediary Company 2
"PRC Intermediary Company 1"	a company to be incorporated under the laws of the PRC which will, upon completion of the Reorganisation, be wholly-owned by the HK Intermediary Company and wholly-own PRC Intermediary Company 2
"PRC Intermediary Company 2"	a company to be incorporated under the laws of the PRC which will, upon completion of the Reorganisation, be wholly-owned by PRC Intermediary Company 1 and wholly-own the Project Company
"Pro Forma Completion Statement"	the pro forma completion statement of the Target Group to be prepared after Completion in accordance with the Share Purchase Deed and based on the pro forma consolidated financial statements of the Target Group
"Project Company"	Huizhou Runxin Shopping Mall Development Co., Ltd.* (惠州市潤鑫商城發展有限公司), a company incorporated in PRC and the registered legal owner of the Target Property
"Property Management Agreement"	the property management agreement to be entered into between the Project Company and the Property Manager at Completion, as more particularly described in section D.5.1 headed "Property Management Agreement" in this announcement
"Property Manager"	Huizhou Huamao Operations Management Co., Ltd.* (惠州華貿商業管理有限公司), being a member of the Guohua Connected Persons Group

"Public Unitholders"	Unitholders other than: (i) significant holders of Spring REIT, which would, upon issuance of the Consideration Units, include the Seller; (ii) the Manager Group; and (iii) the Directors
"Purchaser"	RHZ01 Limited, an exempted company incorporated in the Cayman Islands and a SPV of Spring REIT that will directly hold the Target Company Shares
"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
"Relevant Consideration Units"	has the same meaning ascribed to it in section E headed "Distribution after Completion" in this announcement
"Relevant Percentage"	has the same meaning ascribed to it in section E headed "Distribution after Completion" in this announcement
"Reorganisation"	has the same meaning ascribed to it in section A.3 headed "Holding structure of the Target Property before Completion" in this announcement
"Reporting Accountants"	PricewaterhouseCoopers
"RMB"	Renminbi, the official currency of the PRC
"Seller"	Huamao Focus Limited, a company incorporated in the Cayman Islands
"Seller Lender"	Huizhou Huamao Xingye Real Estate Development Co., Ltd.* (惠州市華貿興業房地產開發有限公司), a company incorporated in the PRC
"SFC"	the Securities and Futures Commission of Hong Kong

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Purchase Deed"	the deed for the sale and purchase of all the issued shares in the capital of the Target Company dated 19 September 2018 entered into between the Purchaser, the Seller and the Trustee
"significant holder"	has the meaning ascribed to this term in the REIT Code
"Spring REIT"	Spring Real Estate Investment Trust (春泉產業信託), a Hong Kong collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO
"SPV(s)"	special purpose vehicle(s)
"sq.m."	square metre
"Target Company"	Blue Chrysalis Ltd, an exempted company with limited liability incorporated under the laws of the Cayman Islands which will, upon completion of the Reorganisation, wholly-own the HK Intermediary Company and be the indirect owner of the Project Company
"Target Company Shares"	all of the issued shares of the Target Company, to which the entire amount of share capital of the Target Company is attributable
"Target Group"	collectively: (1) the Target Company; (2) the HK Intermediary Company; (3) the PRC Intermediary Companies; and (4) the Project Company
"Target Property"	the property known as Huamao Place (華貿天地) located at No. 9, First Wenchang Road, Huicheng District, Huizhou, Guangdong Province, PRC
"Target Property Price"	the sum of RMB1,653,466,000, which represents the asset value of the Target Property agreed by the Seller and the Purchaser

"Tax Holdback Amount"	RMB95,827,000
"Total Fees and Charges"	the estimated total fees and charges payable by Spring REIT in relation to the Acquisition as more particularly described in section A.7 headed "Fees and Charges" in this announcement
"Transaction Documents"	collectively: (1) the Share Purchase Deed (details of which are set out in section A.5 headed "Share Purchase Deed" in this announcement); and (2) all other agreements that are to be executed or issued pursuant to the Share Purchase Deed
"Transaction Matters Requiring Approval"	the matters which require the approval of the Unitholders at the EGM being: (i) the Acquisition and the transactions contemplated under the Share Purchase Deed (including but not limited to the issuance of Consideration Units and the Onshore Loan Transactions); and (ii) the Guohua CCTs Waiver and the Annual Caps
"True-up Holdback Amount"	has the same meaning ascribed to it in section A.5.2 headed "Consideration and payment terms for the Acquisition" in this announcement
"True-up Payment"	has the same meaning ascribed to it in section A.5.2 headed "Consideration and payment terms for the Acquisition" in this announcement
"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, in its capacity as trustee of Spring REIT
"Trustee's Additional Fee"	has the same meaning ascribed to it in section A.7.4 headed "Trustee's Additional Fee" in this announcement
"Unit"	one undivided unit in Spring REIT

"Unit Registrar"	Computershare Hong Kong Investor Services Limited, in its capacity as the Hong Kong unit registrar of Spring REIT
"United Kingdom"	the United Kingdom of Great Britain and Northern Ireland
"Unitholder(s)"	any person registered as holding a Unit on the register of Unitholders of Spring REIT
"Uplift Holdback Consideration Units"	has the same meaning ascribed to it in section A.5.2 headed "Consideration and payment terms for the Acquisition" in this announcement
"US$, USD or US dollars"	United States dollars, the lawful currency of the United States of America
"W&I Insurance"	has the same meaning ascribed to it in section A.5.7 headed "Warranties, Indemnities and W&I Insurance" in this announcement
"W&I Insurers"	has the same meaning ascribed to it in section A.5.7 headed "Warranties, Indemnities and W&I Insurance" in this announcement
"%"	per cent or percentage

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

Hong Kong, 19 September 2018

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

The following is the reproduction of the text of a letter received from Cushman & Wakefield, the Market Consultant, for the purpose of inclusion in this Announcement.

CUSHMAN & WAKEFIELD
戴德梁行

19 September 2018

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

DB Trustee (Hong Kong) Limited
52/F, International Commerce Centre
1 Austin Road West
Kowloon,
Hong Kong

Dear Sir,

As requested we have prepared a Huizhou mid to high-end retail market research to be included in the circular to Unitholders relating to the proposed acquisition by Spring Asset Management Limited of a retail property in Huizhou.

1.0 GREATER BAY AREA OVERVIEW

- **Greater Bay Area – a mega city cluster with key economic influence in the world**

The Greater Bay Area (GBA) is a recent undertaking of the PRC Central Government which aims to enhance the interconnectedness of PRC's special administrative regions – Hong Kong and Macau, with the 9 key cities in the Pearl River Delta (PRD), including Guangzhou, Shenzhen, Huizhou, Zhuhai, Foshan, Dongguan, Zhongshan, Jiangmen, and Zhaoqing. The city cluster in the GBA has a permanent population of 69.6 million, with a land area of 56,500 sq. km, and RMB10 trillion in Gross Domestic Product (GDP) as of the end of 2017.

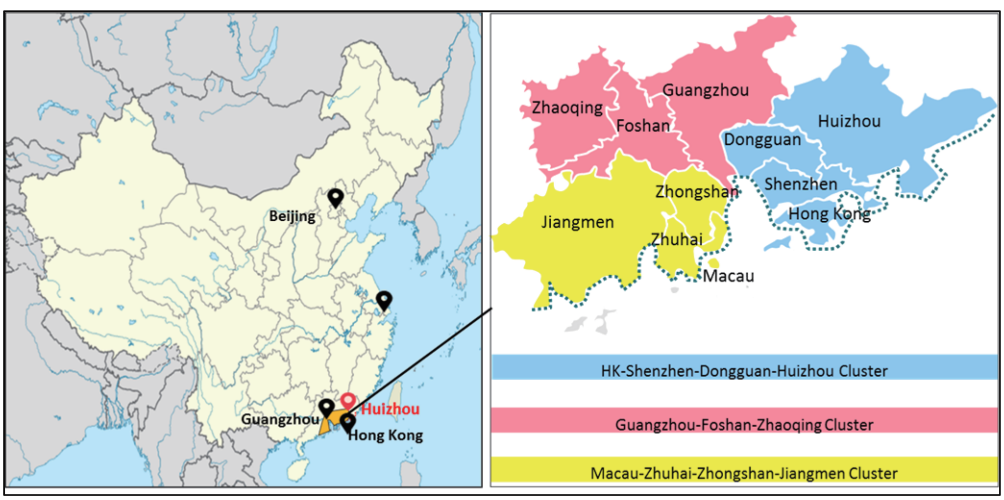
The concept behind the GBA is to establish a mega city cluster in PRC that would have an economic status and significance similar to that of other Bay Areas in the world, such as San Francisco Bay Area, Greater Tokyo Area, and the New York Metropolitan Tri-State Area. The GBA concept was first introduced in the "Action Plan on the PRC-proposed Belt and Road Initiative"《推動共建絲綢之路經濟帶和21世紀海上絲綢之路的願景與行動》, co-published by PRC's National Development and Reform Commission (NDRC), Ministry of Commerce, and Ministry of Foreign Affairs in 2015. Since then, the GBA has been consistently referred to in political conferences both at the state and provincial levels. At the recently held 2018 National People's Congress, Premier Li Keqiang emphasised the distinctive roles that each city in the GBA would take on.

According to the "Framework for Development and Reform Planning for Pearl River Delta Region 2008－2020", published by the NDRC in 2008, the notion of "one bay, 3 regions" was long established. "One bay" refers to the GBA, while 3 regions refer to respectively the Hong Kong-Shenzhen-Dongguan-Huizhou cluster, the Macau-Zhuhai-Zhongshan-Jiangmen cluster, and the Guangzhou-Foshan-Zhaoqing cluster.

- **Inland cities such as Huizhou will experience positive economic transformation ahead**

To be successful in its implementation, necessary major infrastructure investments have been planned or are underway to enable efficient physical movement of trade and talent among key cities in the GBA. The overall principle of the GBA is to further develop high value-added industries, such as finance and technology, that have already flourished in tier-1 cities in the GBA, such as Guangzhou and Shenzhen. Inland cities such as Huizhou, would experience positive transformation based on the closer ties and enhanced interconnectivity amongst key member cities in the GBA. Based on their unique characteristics, cities in the GBA are assigned different roles, with local governments allocating resources accordingly.

Figure 1.0.1 Location of Greater Bay Area in PRC and its Composition



Source: Cushman & Wakefield, June 2018

1.1 Economic Influence of the GBA within the PRC

In this section, Cushman will provide an overview of the development and outlook of the GBA's economy in order to give a better understanding of the investment environment in the region.

Table 1.1.1 Key Social and Economic Indicators for GBA

	2013	2014	2015	2016	2017	CAGR *(%)*
Nominal Gross Domestic Product (GDP) *(RMB trillion)*	7.33	7.9	8.45	9.24	10.24	8.7%
Per Capita GDP – PRD *(RMB)*	93,548	100,448	107,011	114,281	123,257	7.1%
Per Capita GDP – Hong Kong *(HKD)*	297,860	312,609	328,924	339,490	360,220	4.9%
Per Capita GDP – Macau *(MOP)*	692,458	710,895	564,635	560,913	622,803	–2.6%
Population *(million)*	65.0	65.53	66.71	67.11	69.57	1.7%
Disposable Income per capita – PRD *(RMB)*	33,090	37,064	40,285	43,967	44,143	7.5%
Disposable Income per capita – Hong Kong *(HKD)*	303,504	319,056	335,010	348,022	375,201	5.4%
Annual Retail Sales – PRD *(RMB billion)*	1,863.1	2,065.6	2,265.1	2,504.9	2,731.8	10.0%
Annual Retail Sales – Hong Kong *(HKD billion)*	494.5	493.2	475.2	436.6	446.1	–2.5%
Annual Retail Sales – Macau *(MOP billion)*	66.8	68.0	61.5	57.5	61.3	–2.1%
Tourist Arrivals *(million)*	263.56	295.77	309.04	323.71	448.26	14.2%

Source: Statistics Bureau of respective PRC cities in PRD, Census and Statistics Department of Hong Kong, Statistics and Census Bureau of Macau

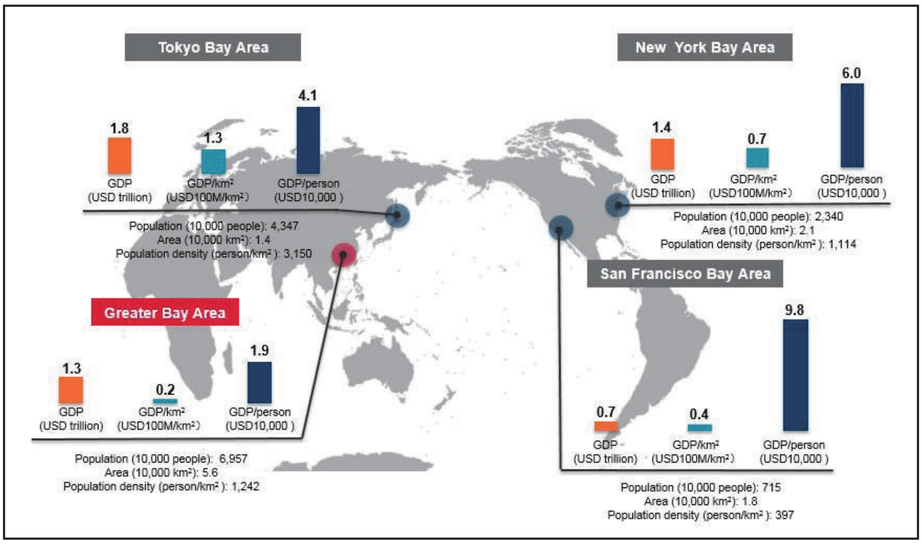
- **The GBA holds substantial potential with forecasts suggesting the GDP of the region will triple by 2030, securing its economic status in the world**

As of 2017, the nominal GDP of the GBA had reached over RMB10 trillion, an equivalent of USD1.59 trillion, accounting for 12.4% of the PRC's GDP, despite accounting for less than 5% of the PRC's population and less than 1% of its total land area. Over the past 5 years, from 2013 to 2017, the nominal GDP compound annual growth rate in the GBA is 8.7%, driven by rapid development in the high-technology and advanced manufacturing sectors.

The GBA holds substantial potential. The Centre for International Economic Exchanges, a Beijing-based think tank, estimates by 2030, GBA will produce a total of USD 4.6 trillion in GDP, nearly tripling 2017's GDP value, transforming the area into one of the leading city clusters of its kind in the world. Such estimates are reinforced by ongoing and planned transportation and infrastructure expansion schemes, based on clearly defined positioning of each member city within the GBA. It is expected that all GBA cities will move up the value chain, and their economic potential will be further released.

The area's pace of growth reflects the promising prospects of this future world-class city cluster. Already ranked third in terms of GDP (Figure 2.1.3 refers), the GBA clearly has the potential to overtake Tokyo Bay Area in the medium to long term future.

Figure 1.1.2 Profile Comparison of GBA with other Bay Areas in the World as of 2017



Source: Cushman & Wakefield, June 2018

1.2 Role and Positioning of GBA

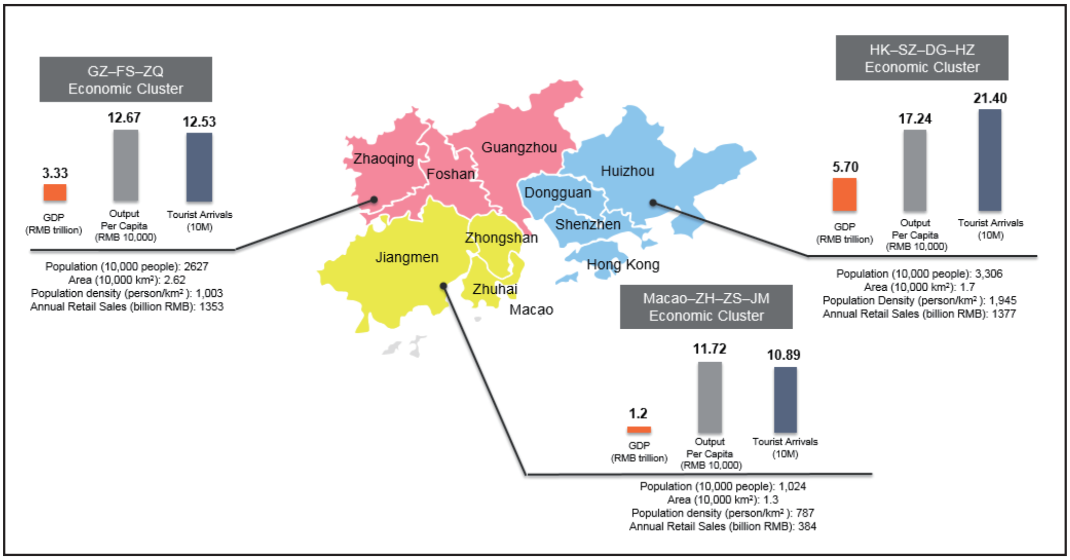
- **Industry transformation to create synergies and stimulate development**

Being positioned as a global innovation hub, the PRC Government aims to stimulate high value-added activities in services and manufacturing, particularly those related to the technology sector in the GBA.

Within the GBA, it is expected that the three biggest cities, namely Hong Kong, Guangzhou and Shenzhen, will play a key role in the success of the GBA. Hong Kong, the most internationalised city and the main financial hub in the GBA, will continue to utilise its expertise in financial and professional services especially in the area of attracting international capital. Meanwhile, Shenzhen, a southern metropolis, is likely to remain as the technology leader in the region whilst Guangzhou is expected to continue its role as a technology manufacturing hub.

The GBA could be generally divided into 3 major city clusters, namely the Guangzhou-Foshan-Zhaoqing cluster, the Hong Kong-Shenzhen-Dongguan-Huizhou cluster, and the Macao-Zhuhai-Zhongshan-Jiangmen cluster. Each cluster will have their own role and function, together to create synergies and stimulate development in the entire GBA.

Figure 1.2.1 Economic Performance Comparison for Key Clusters in Greater Bay Area



Source: Cushman & Wakefield, June 2018

1.2.1 Hong Kong-Shenzhen-Dongguan-Huizhou (HK-SZ-DG-HZ) Economic Cluster

Topping the other two clusters in GDP, GDP output per capita and tourist arrivals, HK-SZ-DG-HZ cluster also has the highest population – tripling that of Macao-Zhuhai-Zhongshan-Jiangmen. High demand for land, coupled with the highest annual retail sales in the GBA as a result of a robust tourism industry reflect bright prospects in the economic cluster's real estate market.

The future development of HK-SZ-DG-HZ cluster relies on the further integration of Shenzhen-Hong Kong, with them together becoming the GBA's leading innovation center. The technology, finance, logistics, and real estate industries in Shenzhen and Hong Kong provide a solid foundation from which the entire HK-SZ-DG-HZ cluster's promising economic fundamentals stem. It is expected that Dongguan and Huizhou would leverage on the respective strengths of Hong Kong and Shenzhen, and with the closer integration and cooperation within the HK-SZ-DG-HZ cluster, these two cities will see a step up in Research & Development (R&D) as well as production in the technology field.

Table 1.2.2 Future Roles of the HK-SZ-DG-HZ Economic Cluster

Hong Kong	International financial centre, international trade port and logistics centre. Existing higher education system and scientific research resources to play a supportive R&D role.
Shenzhen	A dual function of being the innovation centre for technology industries as well as a financial centre.
Dongguan	Formerly known as the world's factory, Dongguan's manufacturing background is set to benefit from the expanding railway network and act as the industrial backbone of the GBA along with Huizhou.

Huizhou	Huizhou is identified in the city's 13th Five Year Plan as a suitable candidate for accommodating Shenzhen's overflow of both industrial resources as well as population in the foreseeable future.

Source: Cushman & Wakefield, June 2018

- **Room for future growth in Huizhou with further integration with Hong Kong and Shenzhen**

Adjacent to Shenzhen, Huizhou has a land area of 11,300 sq. km, accounting for one fifth of the entire PRD, only 9% of which has been developed, indicating its underlying growth potential to accommodate development spill over from Shenzhen, given the amount of land reserve available.

Hong Kong is the biggest source of FDI in Huizhou, as of 2017, Hong Kong remained to be Huizhou's biggest export market, while foreign direct investment contracts reached USD1.68 billion from countries including the U.S, Germany, Korea, Singapore and Japan.

In addition to its existing key industries, which include petrochemicals, electronic communications, and manufacturing, Huizhou's local administration has also announced its future emphasis on developing the tourism industry, which will drive the retail and hotel markets of the city.

1.2.2 Guangzhou-Foshan-Zhaoqing (GZ-FS-ZQ) Economic Cluster

Led by Guangzhou city – the capital of Guangdong province, the GZ-FS-ZQ economic cluster has the biggest land area and second largest population. Its economic performance is ranked second across all indicators including GDP per capita, disposable income per capital, and tourist arrivals. As the political centre of the GBA, most value-added industries and business activities are concentrated in Guangzhou. Foshan and Zhaoqing largely take on supporting roles in developing secondary and primary industries, as well as tourism.

Table 1.2.3 Future Roles of the GZ-FS-ZQ Economic Cluster

Guangzhou	Political & cultural centre of the Greater Bay Area; High-end service industries; Advanced manufacturing; Aviation hub; Trade hub; R&D.
Foshan	Traditional manufacturing; Private economy; Equipment manufacturing.
Zhaoqing	Manufacturing to be upgraded; Expanding industries with relatively low value added i.e. resorts & tourism, agriculture.

Source: Cushman & Wakefield, June 2018

1.2.3 Macau-Zhuhai-Zhongshan-Jiangmin (Macao-ZH-ZM-JM) Economic Cluster

Cities in the GBA's western corridor such as Zhuhai has been gaining development momentum in recent years, which will foster growth in other less developed cities in the west such as Zhongshan and Jiangmen. While Zhongshan and Jiangmen take on manufacturing industries and secondary roles in the fields of finance and technology to support the new economy in tier-1 cities, Zhuhai is a key player in the Macau-ZH-ZM-JM cluster in developing a new economy model of its own, with a focus on e-commerce combined with logistics. Macau's unique positioning is underlined by its gaming and tourism industry. Its tourist arrivals in 2017 (32.6 million) accounted for 30% of the entire Macau-ZH-ZM-JM economic cluster tourist arrivals (108.9 million).

Table 1.2.4 Future Roles of the Macao-ZH-ZM-JM Economic Cluster

Macau	Core city on the GBA's west bank. Gaming and tourism as primary industry; an exchange platform with Portuguese speaking countries.
Zhuhai	New & high technology and tourism. To also take on an increasingly large emphasis on logistics in conjunction with e-commerce.
Zhongshan	Advanced manufacturing base; shift of traditional manufacturing to high & new technology.
Jiangmen	Equipment manufacturing; overseas Chinese cultural tourism.

Source: Cushman & Wakefield, June 2018

1.3 Major Policies in GBA

In the PRC's 2018 Annual Government Work Report, the planning of the GBA is prioritised as a regional strategy, signifying the Communist Party of China's (CCP) attention to its development. Below summarises the relevant policies promoting the development of GBA in the coming years.

1.3.1 National Policies

- *13th Five Year Plan*

Bilateral development schemes between the two special administrative regions (Hong Kong/Macau) and the rest of PRC play a vital role in reinforcing the PRC's emphasis on the promoting of outbound investment in the context of the Belt and Road Initiative. The GBA initiative will act as a catalyst in merging the PRC's coastal cities, in order to allow a global platform for trade, finance, and technological innovation. The physical aspects of the GBA development are equally as significant. Flow of people and trade will become more efficient and travel time within GBA will be greatly reduced when infrastructure schemes (illustrated in Section 2.4) are fully rolled out.

- *13th National People's Congress in Guangdong Province*

The 25th of January 2018 marked the opening of the 13th National People's Congress in Guangdong Province. Ma Xingrui, the Governor of Guangdong, announced a total of 18 measures to be set in motion by the state to shorten travel time between the administrative regions (Hong Kong/Macau) and the rest of PRC. Such measures include the "co-location" joint checkpoint scheme the Hong Kong SAR Government has been attempting to push forward in order to complement the soon-to-open high speed rail connecting Guangzhou, Shenzhen, and Hong Kong.

Ultimately, the Regional Government of Guangdong aims to achieve a 1-hour travel/living circle between all major GBA cities. These major transportation infrastructure works and policies, if and when implemented, shall make possible the relocation of people from tier 1 cities to tier 2 cities, thereby alleviating the increasing housing demand in cities like Hong Kong and Shenzhen.

Mr. Ma also concluded the provincial government's active involvement in the Belt and Road Initiative over the past five years, including the new rail routes between PRC and Europe and between PRC and Central Asia. Guangdong's export to countries connected to these new rail routes saw an average growth of 8% per annum from 2013–2017.

1.3.2 Free Trade Zones in GBA

As of June 2017, a total of 28 key Free Trade Zones (FTZs) have been set up within the GBA to accommodate future economic growth. Eight of these FTZs are located in the Shenzhen, Dongguan and Huizhou cities, as set out below.

Tale 1.3.2.1 FTZs in Shenzhen-Dongguan-Huizhou

GBA City	Level	Name	Size *(sq. km)*	Positioning	Specialization
Shenzhen	National	Qian Hai Free Trade Zone	28.2	A key central business district in the GBA	A combination of professional services, information technology and logistics
Shenzhen	National	Futian Free Trade Zone	1.35	An area for high-tech and modern logistics business, supported by communal features	High-tech, logistics, import-export
Shenzhen	National	Shatoujiao Free Trade Zone	0.2	One of the first, although smallest in size, free trade zones	Jewellery; electronics; smart toys production

GBA City	Level	Name	Size (sq. km)	Positioning	Specialization
Shenzhen	National	Shenzhen Export processing zone	3	Tax-free logistics zone	Processing and logistics; exhibition; maintenance; distribution
Shenzhen	National	Yantian Free Trade Zone	2.17	Modern logistics hub	Tax-free storage; processing and value-adding; distribution and global purchasing; maintenance and tests
Dongguan	National	Songshan Lake Hi-Tech Industry Development Zone	75	A showcase of Dongguan's scientific research	High-tech; education; biotechnology; new energy and materials; financial services
Huizhou	National	Huizhou Daya Bay Economic & Technological Development Zone	293	A national petro-chemistry base	Petro-chemistry; information technology; equipment manufacturing i.e. automobile; high-tech and innovation industries
Huizhou	Provincial	Pan-Daya Bay New Zone	2,168	A bay side economic zone with an aim to utilize water-resources	Petro-chemistry; information technology; new energy; LED; Tourism; high-end manufacturing; agriculture

1.4 Major Infrastructure Development in the GBA

- **Building connectivity through improved transport links**

The success of the GBA depends heavily on the going development of transport infrastructures which allow integration and cooperation among the GBA cities. Below summarises the key infrastructure developments underway and planned.

1.4.1 Expressway Network

The operating mileage of expressway networks in the GBA will increase 57% from 5,600km in 2016 to 8,800 in 2020. Major projects include Hong Kong-Zhuhai-Macau Bridge (HZMB), Humen Erqiao, Shenzhen-Zhongshan Bridge, as well as the G0422 Wuhan-Shenzhen Expressway and S14 Shantou-Shenshan expressway.

- Hong Kong-Zhuhai-Macau Bridge (HZMB)

HZMB is a 42 km long, HKD120 billion project linking Hong Kong with 2 western cities in GBA, namely Macau and Zhuhai. The construction of HZMB has been completed and is awaiting the completion of Hong Kong's Boundary Crossing Facilities. Its operation will greatly reduce the driving time to 45 minutes from 4 hours between Hong Kong International Airport and Zhuhai. Trade volume between Hong Kong and other western inland cities such as Zhongshan and Jiangmen is expected to rise. Meanwhile, better accessibility and higher convenience between these cities will facilitate increased passenger traffic, from which the tourism industry will benefit.

- Humen Erqiao (虎門二橋)

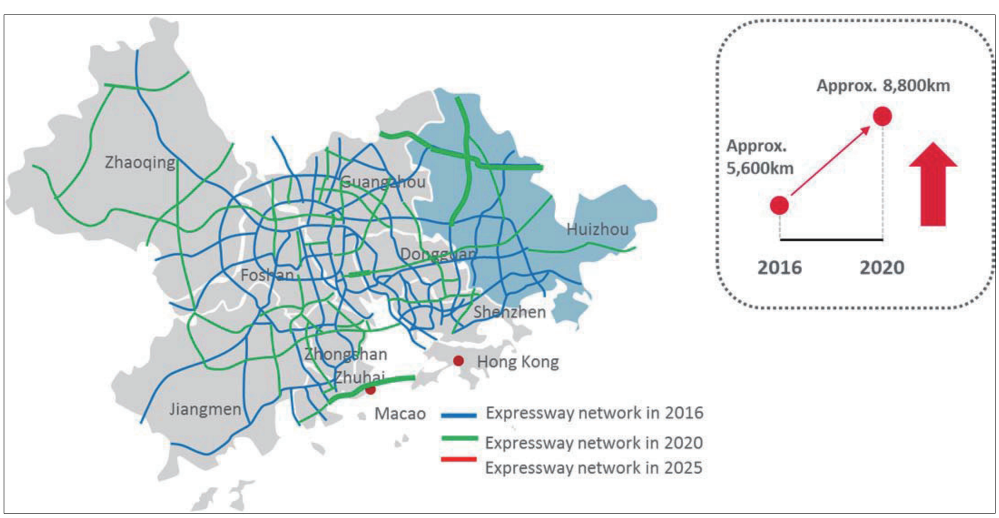
A bridge that is set to be in operation by mid-2019, connecting Dongguan to Nansha District, Guangzhou. Once in operation, driving from Dongguan, a traditional manufacturing hub to Nansha, a regional port, will only take approximately 10 minutes.

- Shenzhen-Zhongshan Bridge

The 24-km long bridge and tunnel will reduce travel time between Shenzhen and Zhongshan to 30 minutes from 3 hours.

By 2020, Huizhou will be integrated into the 860-km long Shantou-Zhanjiang expressway network which penetrates across western and eastern Guangdong province. The undertaking seeks to connect the coast of Guangdong to its inland via Huizhou. In addition to the existing expressway network that connects Huizhou to major cities like Guangzhou and Shenzhen, the continuously expanding expressway network will improve access from even non-GBA cities in Guangdong to Huizhou in under 2 hours.

Figure 1.4.1 Expressway Networks in the GBA by 2025



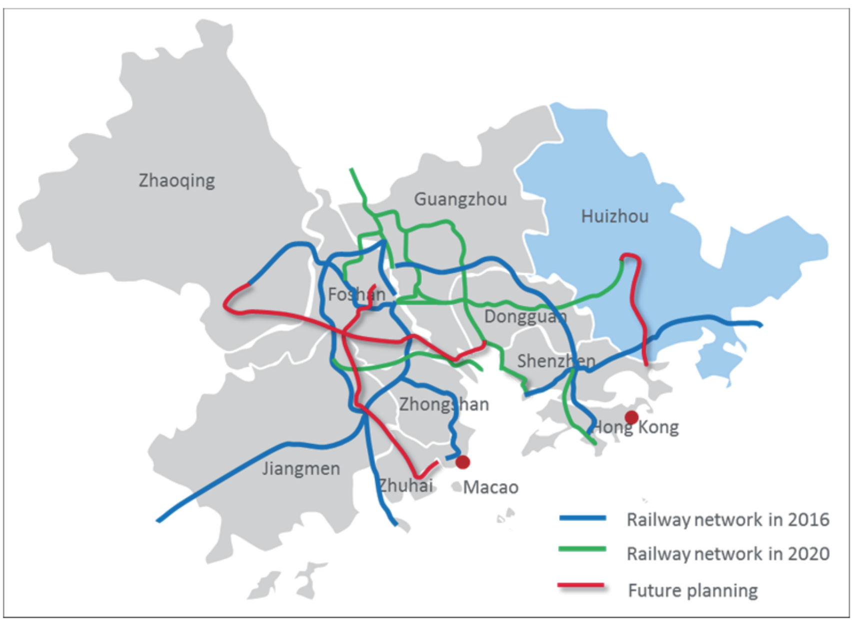
Source: *"13th Five-Year" Planning for the Development of Integrated Transport Systems in the Guangdong Province, Cushman & Wakefield*

1.4.2 Rail Transportation

According to Cushman's research, there will be an approximately 37% increase in intercity railway operating mileage in the GBA from 3,200 km in 2016 to 4,400 km in 2020. One of the key rail sections in the GBA is the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong section) which is a 26-km rail link integrating Hong Kong into the PRC's 16,000 km long national railway network. Ultimately, travelling between Hong Kong and Guangzhou via high speed rail will be under 50 minutes from approximately 80 minutes, reflecting promising future business prospects as well as the mobility of workforce.

By 2020, Huicheng, the core urban district of Huizhou will be integrated into the intercity railway network in GBA to cities including Dongguan and Guangzhou.

Figure 1.4.2 Major Intercity Railway Networks in GBA by 2020

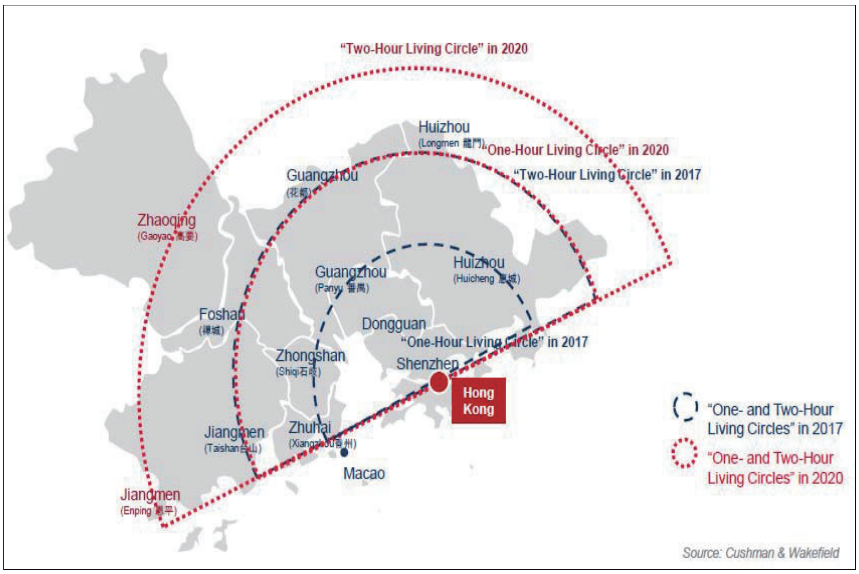


Source: "13th Five-Year" Planning for the Development of Integrated Transport Systems in the Guangdong Province, Cushman & Wakefield

1.4.3 Reduced living circle in GBA

Based on the above infrastructure developments discussed, a one and two hour living radius from Hong Kong covering the entire area of Huizhou will become possible by 2020.

Figure 1.4.3 Hong Kong's "One- & Two-Hour Living Circles" within the GBA in 2017 and 2020



2.0 HUIZHOU CITY OVERVIEW

2.1 City Characteristics and Development

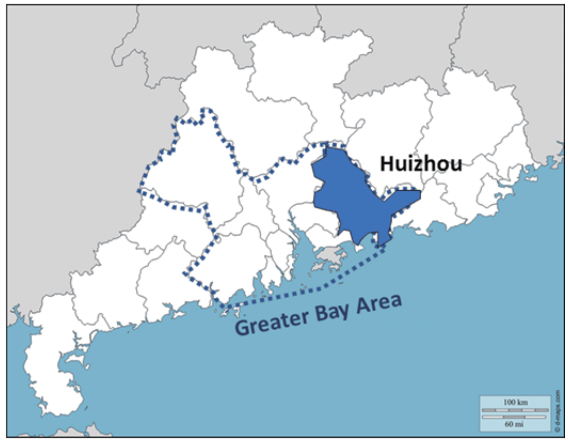
- **A rising city in eastern GBA**

Huizhou has a total land area of 11,346 sq. km and a permanent population of 4.78 million as of 2017. The city's export-oriented economy is underpinned by its high-quality workforce, efficient public services and an increasingly convenient transport network.

- **Geographical advantages of Huizhou**

With a 281.4 km long coastline in the south, Huizhou borders Guangzhou, Shenzhen and Dongguan in the west, Shaoguan in the north, and Heyuan and Shanwei in the east. Huizhou acts as the junction connecting eastern and northern sections of Guangdong Province. The HK-SZ-DG-HZ economic cluster is a defined component of the GBA, offering Huizhou unprecedented opportunities to attract investment and industrial overspill from tier one cities like Shenzhen within the GBA.

Figure 2.1.1 Location of Huizhou Municipality in Greater Bay Area and Guangdong Province



Source: Cushman & Wakefield, June 2018

2.2 Economic and Demographic Profile of Huizhou City

Table 2.2.1 Key Social and Economic Indicators of Huizhou City

	2013	2014	2015	2016	2017	CAGR (%)
Nominal Gross Domestic Product (GDP) *(Billion RMB)*	270.5	300.0	314.0	341.2	383.0	9.1%
Real GDP Growth *(%)*	13.8	10.0	9.0	8.2	7.6	N/A
Per Capita GDP *(RMB)*	57,716	63,657	66,231	71,605	80,200	8.6%
Population *(million)*	4.7	4.727	4.756	4.775	4.777	0.4%
Disposable Income of Urban Residents per capita *(RMB)*	24,293	27,300	30,057	33,213	36,608	10.8%
Annual Retail Sales *(Billion RMB)*	85.8	96.9	107.1	122.8	136.3	12.3%
Tourist Arrival *(million)*	35.5	39.7	40.8	47.1	53.9	11.0%

Source: Huizhou Statistical Yearbook 2017, Huizhou Statistics Information Network

Huizhou has enjoyed steady economic growth over the past 5 years. The city has a strong foundation of manufacturing, with electronics and petrochemical engineering being its pillar industrial sectors, and secondary industry accounting for 54.8% of Huizhou's total GDP in 2017, followed by the tertiary sector (40.7%), and the primary sector (4.5%). Major industrial enterprises located in Huizhou include TCL Corporation (headquartered in Huizhou), Huizhou Foryou General Electronics, LG Electronics, and Siemens.

Retail prospects in Huizhou are robust and have been underpinned by the steady and continuous growth of both disposable income of urban residents per capita and tourist arrival. Since 2013, the city has recorded a 9.7% compound annual retail sales growth, more than 5 percent higher than that of Shenzhen.

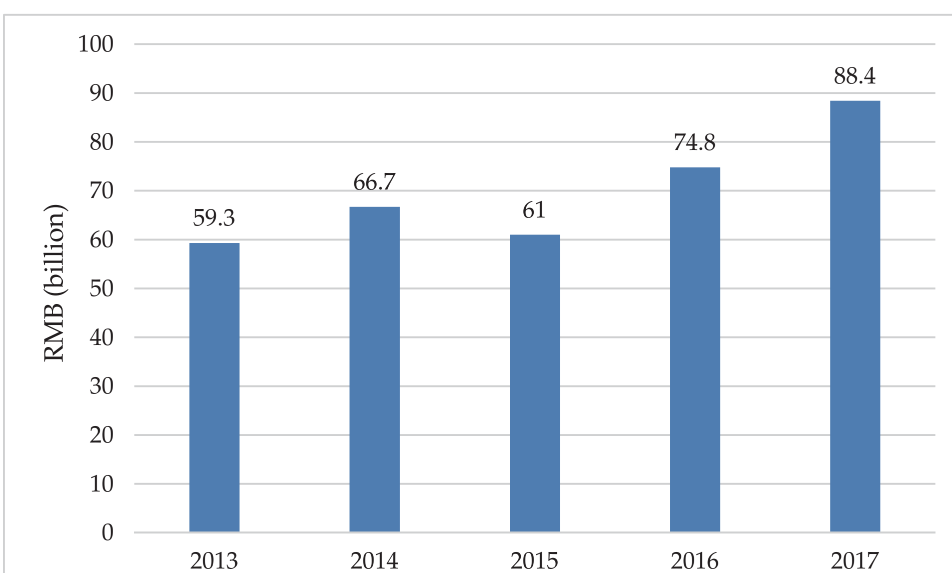
- **Huizhou to absorb economic and real estate expansion from other key cities in the GBA**

A growing high-value added secondary sector as well as tertiary sector will attract higher income groups to the city which will drive new real estate developments and generate additional retail demand. As shown in section 2, the economic cluster of which Huizhou is a part has the highest population density in the GBA. The year 2020 will be a milestone in the development history of GBA's transportation network. Connectivity between Huizhou and other parts of the GBA will be significantly enhanced, as new railways and expressways begin to operate. Huizhou's retail market is likely to benefit from a new wave of migration when inhabitants of Shenzhen and Hong Kong are further attracted by the much cheaper housing prices in Huizhou.

2.3 Real Estate Market in Huizhou

Investment into real estate in Huizhou has picked up at a faster rate since 2015, after the announcement of the GBA scheme.

Figure 2.1.3 Huizhou Investment in Real Estate (2013–2017)



Source: Huizhou Statistics Information Network, June 2018

2.4 Major Policies in Huizhou City

- ***13th Five-year Plan of National Economic and Social Development of Huizhou Municipality***

As announced by Huizhou Municipal Government in May 2016, the major goals in the city's 13th Five-year Plan on economic and social development include the following:

- Annual economic growth rate of 9.5% between 2016 and 2020, with annual GDP to exceed RMB500 billion by 2020;

- Annual GDP per capita growth rate of 8.5% between 2016 and 2020, and GDP per capita to exceed RMB100,000 by 2020. Shenzhen's GDP per capita as of the end of 2017, according to Shenzhen Bureau of Statistics, is RMB183,100;

- Contribution of tertiary sector to total GDP to exceed 50% by 2020, with further growth in the advanced manufacturing and high-tech sectors;

- Enhanced infrastructural and institutional integration with Shenzhen; and

- To take on the spill over of jobs in the financial sector from Shenzhen and Hong Kong, including financial outsourcing, fintech and training, with the output of financial sector to exceed RMB20 billion by 2020.

- ***The 13th Five-year Plan of Trade Development and Economic Cooperation of Huizhou Municipality***

As announced by Bureau of Commerce of Huizhou Municipality in May 2016, the major goals in the city's 13th Five-year Plan on trade development and economic cooperation include the following:

- Annual retail sales to exceed RMB180 billion by 2020, with an annual growth rate of 11% between 2016 and 2020;

- Annual FDI (actual utilised) growth rate of 3% between 2016 and 2020; and

- Over 7 investment projects by Fortune 500 companies or major multinational corporations by 2020.

The above policies will bring about positive demographic and economic changes to Huizhou, by attracting skilled and professional workers from other GBA cities and creating additional demand for residential and retail developments.

2.5 City Planning, Development Plan and Positioning

According to the city's latest master plan – Master Plan of Huizhou Municipality (2006–2020) (hereafter the "**Master Plan**"), Huizhou's administration aims to position Huizhou as a strong industrial city achieving economic, social and ecological sustainability; and a tourist destination with an attractive environment and cultural charms. In the context of the GBA scheme, Huizhou is to become a logistics hub linking coastal and inland areas of Guangdong Province as well as a centre of petrochemical industry and light industries.

- **The Spatial Strategy of the Master Plan**

Huizhou has a hierarchical urban settlement network consisting of primary and secondary urban centres and numerous major settlements (townships). According to the Master Plan, the positioning of the three primary urban centres are as follows:

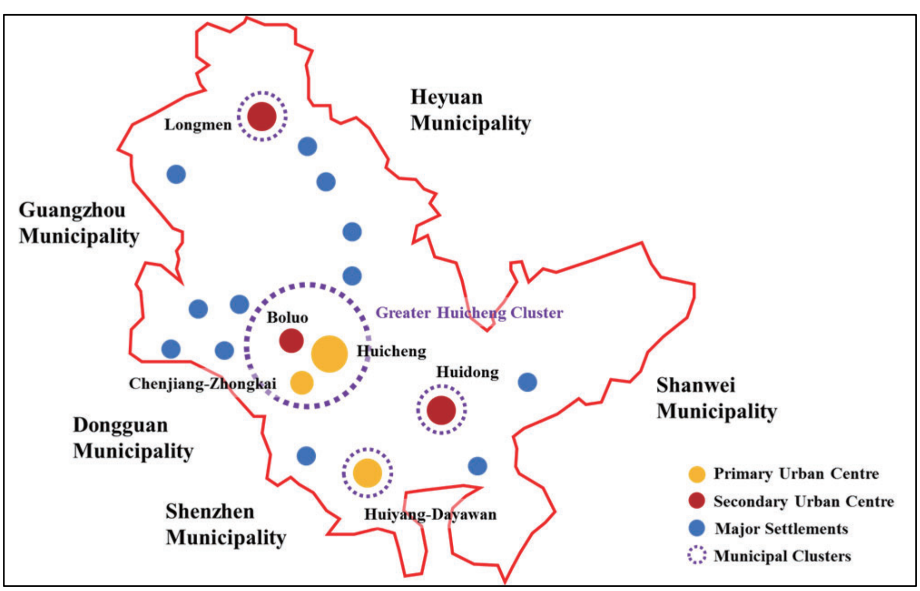
Huicheng: a regional centre in GBA, the political, economic and cultural centre of Huizhou Municipality, a notable historical city and centre of tourism in Guangdong Province, a base of the electronics industry and an export center of national importance.

Chenjiang-Zhongkai: a high-tech industrial development zone specialising in electronics, electrical engineering and biomedicine, providing an important land reserve area for long-term urban development.

Huiyang-Dayawan: a regional subcentre in Huizhou, the economic, cultural and trade centre of Huiyang district, a seaport and petrochemical base of national importance.

The "Greater Huicheng Cluster" will include the primary urban centres of Huicheng and Chenjiang-Zhongkai, and the secondary urban centre of Boluo, envisioning future spatial agglomeration of this cluster.

Fig. 2.5.1 Urban Settlement Network of Huizhou Municipality Municipal clusters



Source: Bureau of Housing, Urban and Rural Planning and Construction of Huizhou Municipality (June 2012)

Fig. 2.5.2 Population Distribution of Huizhou's Urban Centres

Status	Name	Population	% of Huizhou's Population
Primary Urban Centres	Huicheng	1.2 million	25.1%
	Huiyang-Dayawan	811,900	16.9%
	Chenjiang-Zhongkai	452,000	9.4%
Secondary Urban Centres*	Boluo	583,000	12.2%
(Counties affiliated to	Huidong	577,900	12.1%
Huizhou Municipality)	Longmen	140,500	2.9%

Source: Local government websites of individual district or county-level township (2017)

Huicheng, the primary urban centre in the city, where the subject property is located, consists of 25.1% (1.2 million) of the municipality's total population, has the highest population among all primary and secondary urban centres in the city, followed by Huiyang-Dayawan (16.9%, 811,900) and Boluo (12.2%, 583,000). Given the high concentration of the city's population in Huicheng, the urban centre provides excellent catchment coverage and business opportunities for large-scale and representative retail projects, such as the subject property.

- **Huicheng is the centre of key economic and real estate activities in Huizhou**

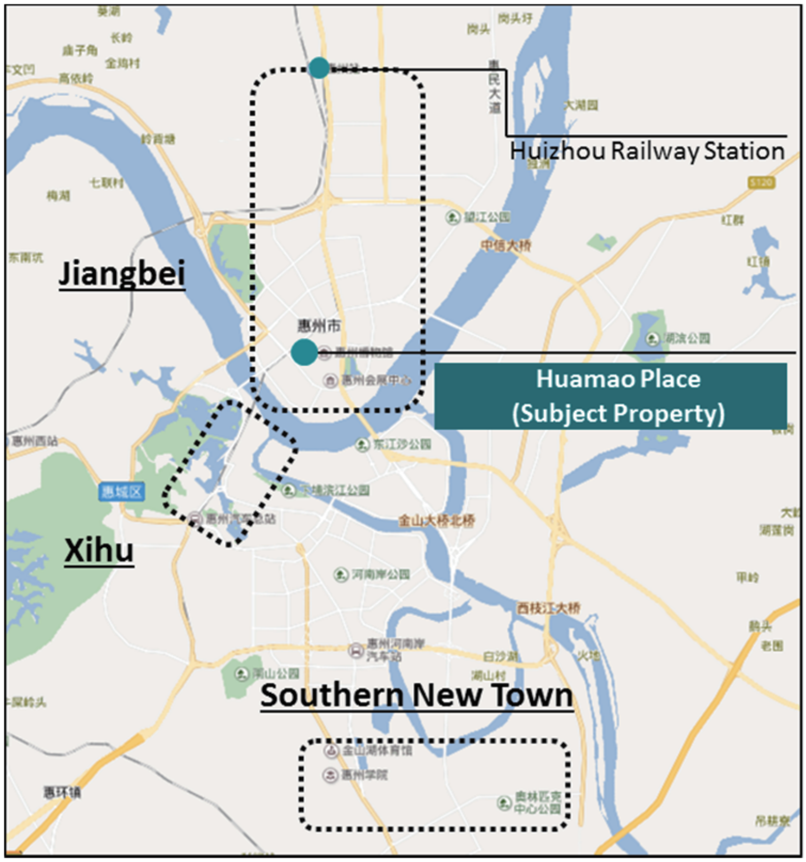
While confirming the primary status of Huicheng in the urban settlement network of the municipality, the Master Plan also offers guidance on the development of certain key urban areas of Huicheng, as follows:

Jiangbei: the municipal centre of administration, MICE (meeting, incentives, conference and exhibition) and culture. In the southern part of Huicheng, new MICE and cultural infrastructure will be developed around the present municipal government complex and Sport Centre (which are located immediately north of the subject property), while logistics and business services will further develop around Huizhou Railway Station in northern Huicheng.

Xihu: the historic core of the city and a municipal centre of tourism, with historical conservation and urban regeneration as key development tasks.

Southern New Town: the emerging centre of higher education and high-tech industries and a critical area of ecological preservation.

Fig. 2.5.3 Key Urban Areas of Huicheng



Source: Cushman & Wakefield (March 2018), based on Bureau of Housing, Urban and Rural Planning and Construction of Huizhou Municipality (June 2012)

2.6 Major Infrastructure Developments

Huizhou's real estate market will greatly benefit from sustained investment and improvement in infrastructure. The expanding transport network within the GBA will connect Huizhou to its neighbouring cities, including Shenzhen, Dongguan and Guangzhou, significantly reducing temporal distance between Huizhou and the rest of the GBA.

Transportation infrastructure will increase accessibility within Huicheng, increasing land and real estate value in key locations such as the CBD in Jiangbei.

2.6.1 Metro System

According to the Urban Rail Network Plan of Huizhou Municipality《惠州市城市軌道交通規劃》, known metro plans include:

- The near-term metro network plan: a 134.7-km network planned to be completed by 2025, including Lines 1 and 2 and the Huizhou sections of Shenzhen Metro Lines 14 and 16.

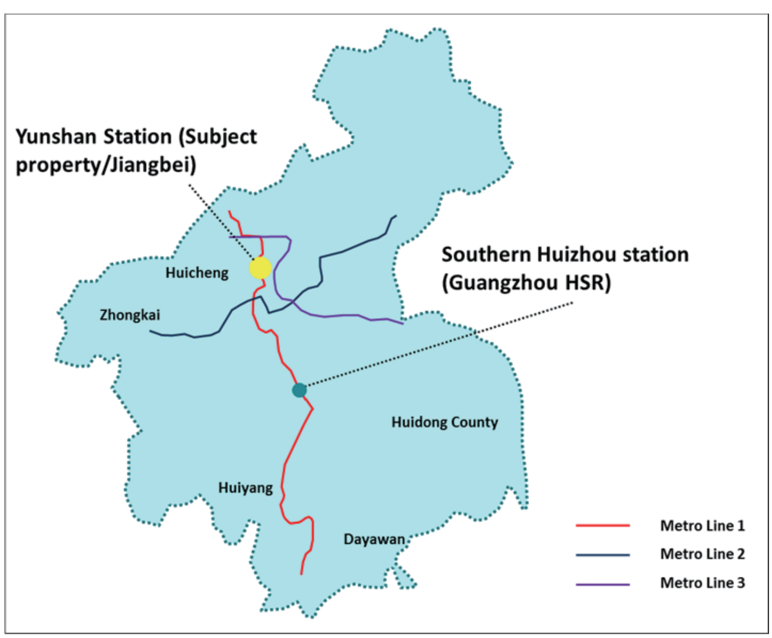
- The long-term metro network plan: a 171.7-km network planned to be completed by 2035.

- The visionary metro network plan: the metro network in Huizhou is planned to reach 319.58 km, with interchanges with metro systems of Guangzhou, Dongguan and Shenzhen.

Such metro network plans are subject to formal approval by the National Development and Reform Commission prior to construction.

The subject property would be served by Yushan Station of Line 1, which is planned to interchange with the Dongguan-Huizhou Intercity Railway. Yushan Station of Dongguan-Huizhou Intercity Railway is currently in use, which is around 10-minute walking distance from the subject property, in the north east. Construction of Huizhou Metro Line 1 is expected to begin within 2018, according to Huizhou Municipal Government.

Figure 2.6.1 Proposed Huizhou Metro network by 2035



Source: Bureau of Housing, Urban and Rural Planning and Construction of Huizhou Municipality, Cushman & Wakefield (June 2018)

Table 2.6.2 Future Metro Coverage in Huizhou

Huizhou Metro	Length	Districts covered
Line 1	70 km	Northern (HSR station)-Southern Huizhou (Huiyang-Dayawan)
Line 2	47.7 km	Western Huicheng-Eastern Huicheng
Line 3	37 km	Jiangbei-Huizhou Airport Sections of Shenzhen Metro lines in Huizhou
Line 14	11 km	Shenzhen Futian Exhibition Centre to Huizhou
Line 16	6 km	Shenzhen to Huizhou
Total	171.7 km	–

Source: Urban intercity rail network planning in Huizhou (惠州市城市軌道交通綫網規劃)

2.6.2 Intercity Railway

- **Three major intercity railway lines within PRD and Guangdong Province**

Huizhou will become more directly connected with other key cities in the GBA through upcoming intercity railway connections, namely Guangzhou-Huizhou, Dongguan-Huizhou and Shenzhen-Huizhou lines.

The Dongguan-Huizhou Intercity Railway was opened in December 2017, and reduces the travel time between the city centres of Huizhou and Dongguan to 1.5 hours. General accessibility to the subject property has been enhanced by Yunshan Station of the Dongguan-Huizhou Intercity Railway, which is planned to interchange with Huizhou Metro Line 1. The subject property is also 6km south of Huizhou North Station of Ganzhou-Shenzhen Highspeed Railway, which is scheduled to open in 2020 and will link to Shenzhen North Station.

Figure 2.6.3 Intercity railway connections of Huizhou and neighbouring municipalities

Source: Bureau of Housing, Urban and Rural Planning and Construction of Huizhou Municipality, Cushman & Wakefield (January 2018)

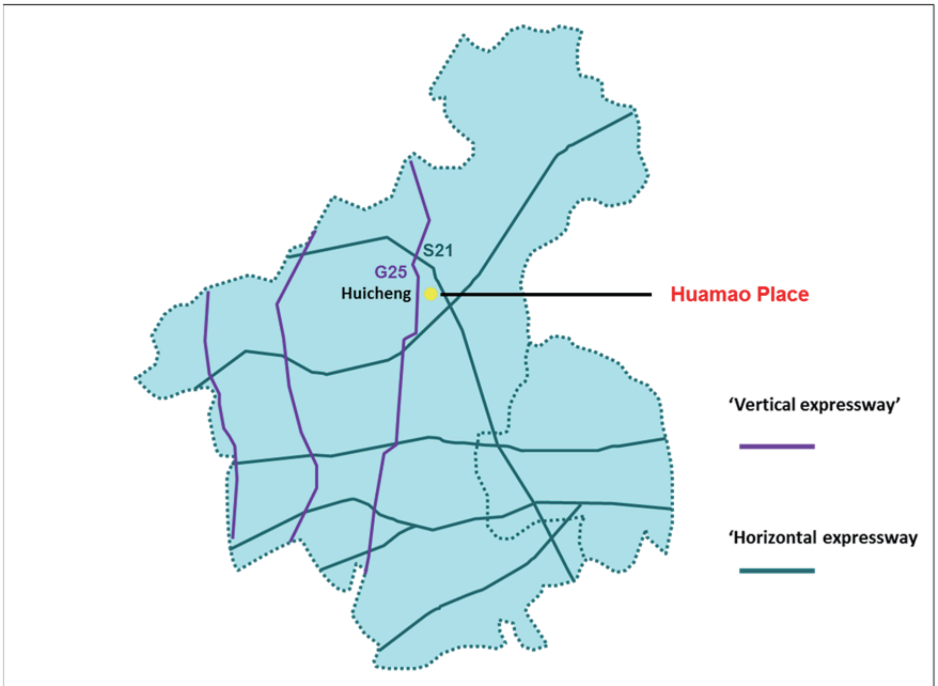
2.6.3 Expressway Network

- **557.12 km of new expressway to be completed by 2020**

Expressway network in the GBA is continually expanding as a result of the provincial government's endeavour in strengthening the infrastructural foundation of this national level undertaking. By 2020, Huizhou will be part of an expressway network that, in addition to its existing connection to tier 1 cities like Guangzhou and Shenzhen, stretches from Guangdong's central inland Qingyuan to its eastern coast Shantou.

The two closest expressways to the subject property in use are G25 and S21, enhancing the accessibility of the CBD with the relatively remote areas of the municipality (e.g. Huiyang and Huidong) as well as neighbouring municipalities. The subject property has benefited from this enhanced accessibility as residents from outside Huicheng, including those from adjoining municipalities, could visit the subject property on a regular basis and in a convenient manner.

Figure 2.6.4 Huizhou's expressway network by 2020



Source: Bureau of Transport of Huizhou Municipality, Cushman & Wakefield (January 2018)

3.0 HUIZHOU MID TO HIGH-END RETAIL MARKET

3.1 Market Overview

Mid- to high-end retail developments are concentrated in Huicheng district, the main urban area of Huizhou. Huizhou's mid- to high-end retail market emerged in the early 2000s and is still at a developing stage. There is only one mid- to high-end shopping mall in Huizhou City that is located outside Huicheng, namely Wanda Plaza in Dayawan. Being located in Dayawan, its location is remote from Huicheng district. Therefore, this report will adopt Huicheng district's mid- to high-end retail market as being representative to the retail segment of Huizhou city.

There are currently three major retail precincts in Huicheng. Huizhou's closer integration with Shenzhen, Dongguan and Hong Kong as a result of the GBA scheme will help expand its retail market's customer base, driving future growth.

3.2 Development History of Huizhou's Mid- to High-end Retail Market

2000–2005: Market emergence

- Private investors first entered Huizhou's retail market in 2000, ending the monopoly of state-owned-enterprises. A representative retail project in this development period is Liri Mall (a department store) in Xihu district, Huicheng, opened in 2001.

2006–2014: Diversification of Retail Locations

- Huicheng district's role as Huizhou's business and retail centre was acknowledged in the Urban Retail Network Plan of Huizhou Municipality, released in 2005.

- Three distinctive retail precincts, namely Jiangbei, Henan'an, and Dongping within Huicheng district began to take shape, with the rise of notable mid- to high-end retail projects.

- Majority of existing mid- to high-end retail projects were opened in this period, such as the subject property, Kaisa Plaza and Ganghui Mall.

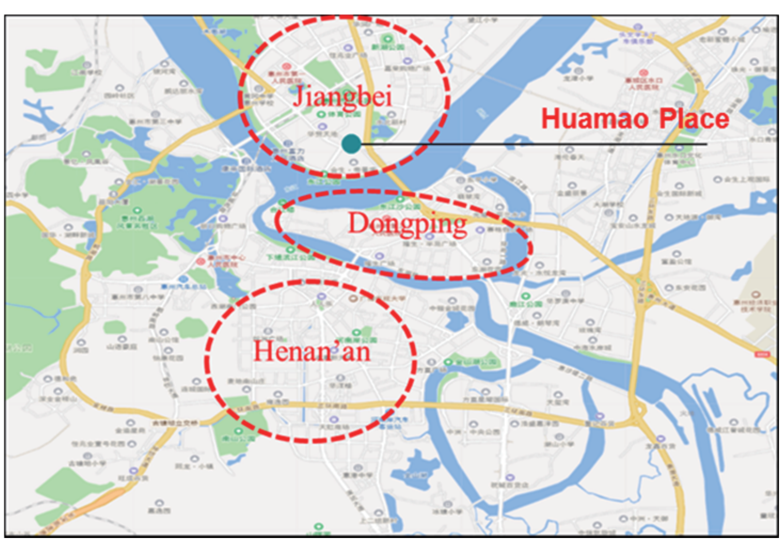
2015–present: Period of adjustment

- Intensified competition among mid- to high-end end retail projects due to limited entry of new retail brands to the market.

- The rise in new mid- to high-end retail projects led to closure of several low to mid-end shopping centres in 2014 and 2015, indicating shoppers in Huizhou became more sophisticated in terms of shopping mode and quality.

- It is expected that more high-end and large scale (above 100,000 sq. m. in GFA) destination shopping malls will enter Huizhou's mid- to high-end retail market, upgrading the overall retail environment in the city, and facilitating the diversification of brand offerings in the market.

Figure 3.2.1 Location Distribution of Major Retail Districts in Huicheng



Source: Cushman & Wakefield, June 2018

3.3 Characteristics of Major Retail Areas in Huicheng

- **Jiangbei**

Jiangbei, located to the north of Huicheng district, is a developed area in Huizhou, and is the central business district (CBD), administrative centre, and city-level retail area. Jiangbei has a population of 54,000 residents, which accounts for 8.6% of Huicheng's entire urban population as of 2016. The subject property, Huamao Place (approx. GFA 150,000 sq. m.), Kaisa Plaza (GFA 120,000 sq. m.) and Xinhua Plaza (GFA 31,188 sq. m.), opened in 2011, 2013 and 2017 respectively, are the three existing mid to high-end shopping malls in Jiangbei. Notable anchor tenants of these malls include: H&M, Cinemas IMAX, Le Super (supermarket), OSGH Cinemas, Sundan (household appliance retailer), Suning (household appliance retailer) and Zara.

The subject property is a popular destination shopping centre due to its quality of development and availability of international brands, such as Massimo Dutti, the luxury brand of Zara. The catchment coverage of Huamao Place extends beyond Huizhou to the neighbouring non-GBA municipalities.

- **Henan'an**

A traditional residential district, Henan'an covers a population of 100,000 residents within a 1 km radius, and is home to a relatively high concentration of retail facilities, offering diverse retail options, such as shopping mall, department stores and retail street. This retail precinct is considered to have a city-level influence, due to Henan'an's large local customer base, the diversity of shopping choices and presence of top-tier retail brands, such as Lukfook Jewellery and Chow Tai Fook Jewellery etc.

As at end of June 2018, there was only one mid to high-end retail project in Henan'an, namely Ganghui Mall, opened in 2008, with a relatively large GFA of 280,000 sq. m., with anchor tenants including Good Feeling Fitness Club, Menggongchang Cafe, Walmart and Wanda Cinema. The shopping mall's primary catchment areas covers Maidi Road, Maidi East Road and Yanda Avenue, which are all major commercial streets in the city.

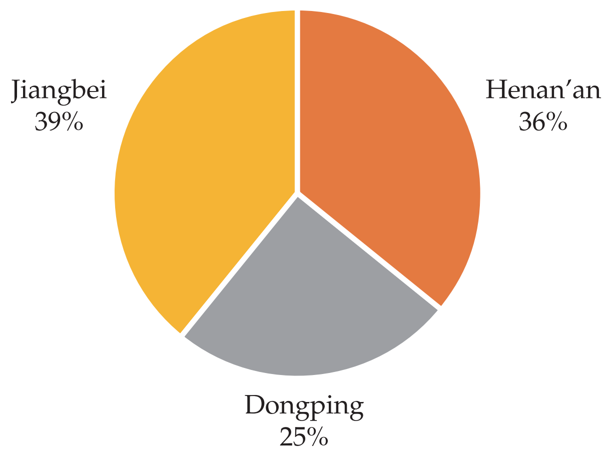
- **Dongping**

Another traditional residential district in the city's urban area, Dongping has over 2 million sq. m. of housing stock and nearly 300,000 local residents, offering a substantial catchment/base. Notable mid- to high-end retail projects include: Aeon Shopping Centre (GFA 105,000 sq. m., opened in 2008) and Longsun Square (GFA 94,500 sq. m., opened in 2016) with anchor tenants including China Film Cinema, Globalfocus Supermarket, and Uniqlo.

3.4 Huizhou's Mid to High-End Retail Stock

As mentioned in earlier sections, the city's retail market is still at a developing stage. Mid to high-end retail stock reached 780,688 sq. m. at end of June 2018, with Jiangbei supplying the largest quantity of mid-to-high-end retail stock (39%), followed by Henan'an (36%).

Figure 3.4.1 Stock Distribution of Mid-to-high-end Retail Development in Huizhou



Source: Cushman & Wakefield, June 2018

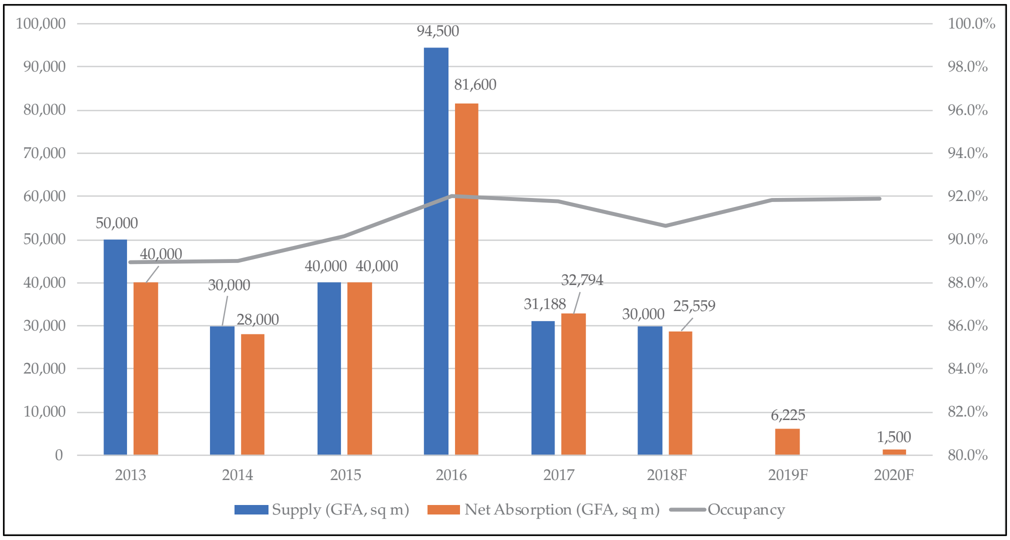
3.5 Huizhou's Mid- to High-End Retail Supply, Demand and Occupancy

- **Huizhou's retail developments enjoy a relatively high occupancy rate**

Three mid- to high-end retail projects entered the market between 2013 and 2017 (Kaisa Plaza in 2013; Longsun Mall in 2016 and Xinhua Plaza in 2017), supplying a total GFA of 245,688 sq. m., with the majority of this new supply (61.5%) coming from Jiangbei retail precinct (Kaisa Plaza and Xinhua Cultural Plaza).

With limited new supply in the overall mid- to high-end retail market, the city enjoys an average occupancy rate between 89%–92% over the past few years, registering 91.8% at the end of June 2018.

Figure 3.5.1 Supply, Absorption and Occupancy Rate of mid- to high-end retail in Huizhou, 2013–2020



N.B. Kaisa Plaza entered the market in three phases, from 2013 to 2015.
Source: Cushman & Wakefield June 2018

- **Limited upcoming supply in mid- to high-end retail developments in Huizhou**

In terms of future supply of mid- to high-end retail developments, Rongcan Huizhou Centre will be the only confirmed project ready for occupancy in later half of 2018, with a total GFA of approx. 30,000 sq. m. and located in Jiangbei retail precinct. There are also plans to expand the eastern section of the Ganghui Mall, with an additional GFA of 140,000 but no time table is available yet for this expansion. It is expected that this extension will enter the market beyond 2020.

In addition to the above, Wanda Group, a leading real estate developer in China, will launch its first retail project in Huicheng with construction targeted to commence in April 2018. Wanda Plaza will be located in Jinshanhu district, a new residential area located to the south of the city centre, adjacent to Henan'an retail precinct.

Figure 3.5.3 Future mid- to high-end Retail Supply by Retail Area by 2020

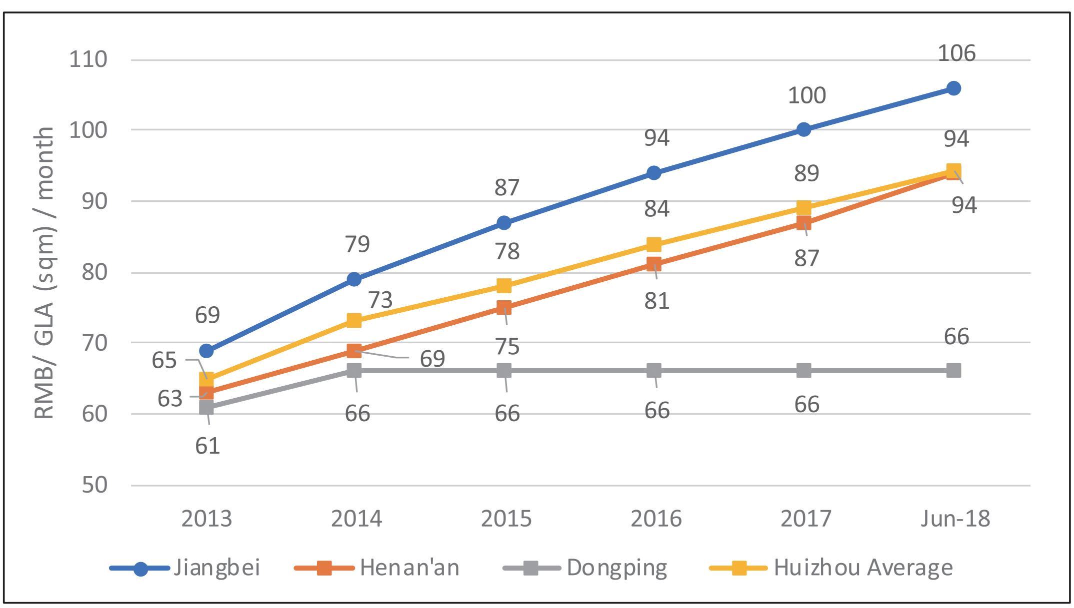
Location	Project Name	GFA (sq. m.)	Status
Jiangbei district	Rongcan Huizhou Centre	30,000	Expected to open within 2018
Henan'an district	Ganghui Mall (Eastern Area)	140,000	Under planning
Jinshanhu district	Wanda Plaza	300,000	Construction to begin in April 2018

Source: Cushman & Wakefield, June 2018

3.6 Huizhou's Mid- to High-End Retail Rental Analysis

Average mid to high-end retail rent in Huizhou reached RMB94.4/sq. m. (GLA)/month by end of June 2018, with a CAGR of 8.1% from 2013 to 2017. Jiangbei, the precinct in which the subject property is located, enjoys the highest average rent out of the three major retail district, with rent reaching RMB106/sq. m. (GLA)/month by end of June 2018.

Figure 3.6.1 Huizhou's mid- to high-end retail rent, 2013–June 2018



Source: Cushman & Wakefield, June 2018

- **Rental level is anticipated to remain a positive growth trend**

It is anticipated that average rent of mid to high-end retail projects in Huizhou will maintain a positive growth trend, above 6% per annum in the coming few years on the back of limited supply and positive economic outlook of Huizhou driven by the GBA initiative.

Retail rental forecast in 2018, 2019, 2020, and 2021 is anticipated to reach RMB94.3/sq. m. (GLA)/month, RMB100.0/sq. m. (GLA)/month, RMB106.2/sq. m. (GLA)/month, and RMB113.1 (GLA)/month respectively.

Figure 3.6.3 Huizhou's mid- to high-end retail rent forecast

	2018F	**2019F**	**2020F**	**2021F**
Rent *(RMB/sq. m. (GLA)/month)*	94.3	100.0	106.2	113.1
Annual Growth Rate *(%)*	6%	6.25%	6.5%	6.5%

Source: Cushman & Wakefield, June 2018

3.7 Market Yield of Huizhou's Mid- to High-End Retail Properties

There have been no comparable enbloc shopping mall transactions in Huizhou city in the past. Based on market expectation and the market performance of mid to high-end retail properties in Huizhou, the gross market yield has remained in the range of 6-8% over the past few years.

3.8 Huizhou's Mid- to High-End Retail Market Outlook

Shopping mall is becoming the popular choice in terms of shopping format in tier 2 and tier 3 cities, providing diverse choices and convenience in shopping, dining and leisure under one roof.

Disposable income of urban residents per capita in Huizhou has grown at a CAGR of 11% between 2013 and 2017, and driven by this rise in disposable income, consumption pattern and demand have also gradually changed. Shopping malls with large areas in fashion and jewellery trade types can no longer satisfy the retail demand of Huizhou residents, who are also looking for a healthier lifestyle and more diversified experience. Experience-based sector, i.e. dining, leisure and entertainment and children's activities, has increasingly become the essential tenant type that can help boost the popularity of the shopping mall.

Consumption decisions are also increasingly influenced by the experience in a shopping mall, rather than merely the products offered, thus an appropriate tenant mix which creates a welcoming environment is essential if a shopping mall operator wishes to enhance its competitiveness in the market.

Accordingly, trade mix of mid to high-end retail developments in Huizhou is becoming more diversified. The proportion of food and beverage (F&B) within the shopping mall environment, in particular, is gradually rising. In addition, to meet the increasing demand for experience-based services and to offset the impact of e-commerce on shopping habits, shopping malls in Huizhou will look into offering experience-based elements to sustain footfall, including children's entertainment, sporting, family activities as well as personalised services. Local mall operators are also demonstrating keen interest in international fashion retailers as well as trendy online brands, which will bring more diversity in retail brands, leading to a better overall retail environment.

Regular review and renewal of tenant mix is a key strategy to maintain competitiveness in the retail market. The subject property, for example, regularly modifies its trade mix. In 2017, the subject property introduced several tenants offering children-related services, most notable Yuyuto, an indoor Teddy Bear Theme Park, together with several trendy dining brands. In the first two quarters of 2018, the subject property has brought in over 30 new brands, including apparel, catering, children's wear and entertainment, while tenants with the 20% lowest sales per unit area have been replaced. A series of trendy retail and fast fashion tenants have entered the renovated space on L2, most notably OCE, a Nordic style retailer and counterpart of Muji. Some popular chain restaurants available in Shenzhen and Guangzhou, such as Tai'er Sauerkarut Fish (太二酸菜魚) and Chunmeili Brine Goose (春梅裏鹵鵝), have been introduced in the subject property in the first half of 2018. The changes in tenant profile demonstrate the subject property's effort to both meet customers' increasing preference for experience-based services, as well as to upgrade fashion and retail brands in the local market.

As the market matures, the differentiation in positioning and tenant profile will be some of the keys to sustain attractiveness of existing retail projects. Traditional pursuit of sheer physical occupancy and across-the-board trade mix proves to be obsolete in the increasingly competitive local retail market.

4.0 Mid- to High-End Retail Market in Jiangbei Submarket

This section will provide a district level analysis of the mid- to high-end retail market in the Jiangbei submarket, where the subject property is located, including commentary on mid- to high-end retail in this submarket.

4.1 Market Overview

As mentioned earlier in section 4, approximately 39% of existing mid- to high-end retail stock in Huizhou, including the subject property, is located in the Jiangbei retail precinct, supplying a total GFA of approximately 301,188 sq. m. The subject property has the largest scale in terms of GFA in this submarket, at 150,000 sq. m., followed by Kaisa Plaza at 120,000 sq. m. and Xinhua Cultural Plaza at 31,188 sq. m.

As Huizhou's CBD, Jiangbei is the heart of the city, where high-end residential developments, Grade-A office buildings, the local government as well as a variety of public facilities are located. A substantial population of residents and office workers underpin the affluence of Jiangbei's retail market.

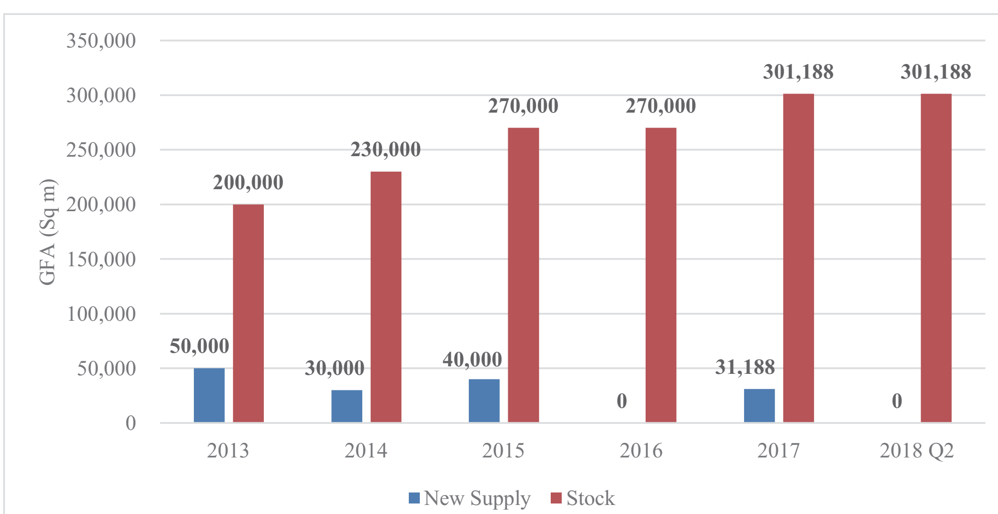
In addition to the existing high-spending local customer group, a secondary catchment may well emerge as a result of future completion of infrastructural developments. According to Huizhou City Master Plan 2016-2035《惠州市城市總體規劃(2016–2035)》and Urban Rail Network Plan of Huizhou Municipality《惠州市城市軌道交通綫網規劃》, Yunshan station is planned to be the interchange station between Huizhou's metro line 1 and the city's intercity rail to Dongguan. This station is located in Jiangbei, integrating the district into the 1–2 hour travel cycle in the GBA. Customers from other cities will be able to access Jiangbei more easily as travel time shortens.

4.2 Mid- to High-end Retail Supply, Demand and Occupancy

As a pioneer in the mid- to high-end retail market, Huamao Place opened in 2011 and has remained a city-level shopping destination and an established brand name in Huizhou.

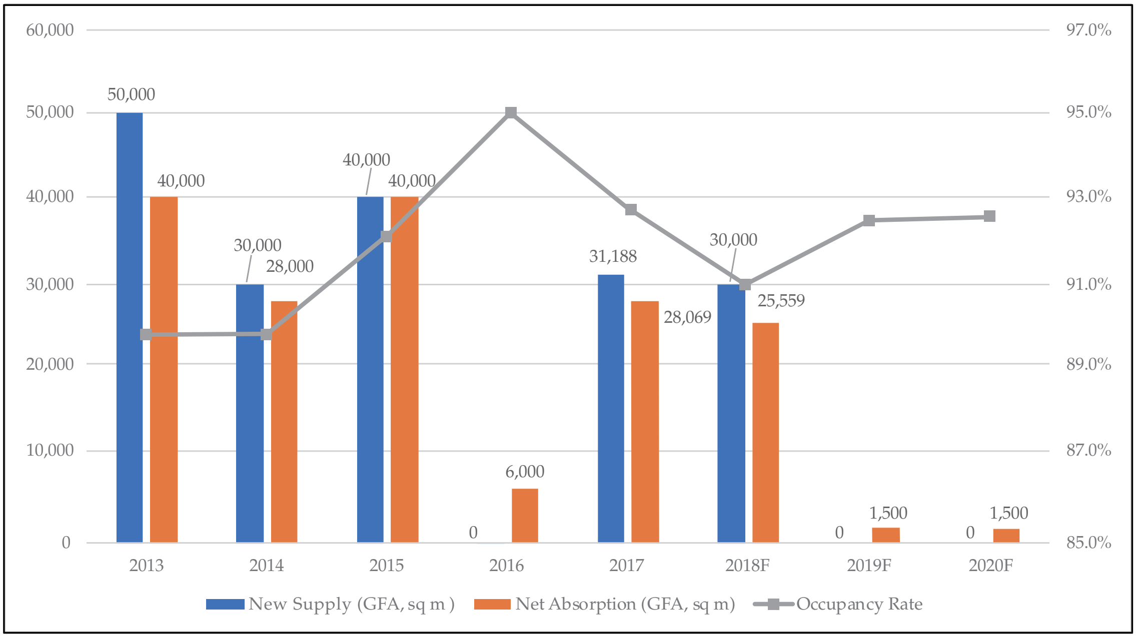
2 mid- to high-end shopping malls entered Jiangbei retail precinct since 2013, including Kaisa Plaza (which entered in 3 separates phases from 2013 to 2015) and Xinhua Cultural Plaza in 2017.

Figure 4.2.1 Mid- to high-end Retail Supply in Jiangbei Submarket



Source: Cushman & Wakefield, June 2018

Figure 4.2.2 Mid- to high-end Retail Supply, Absorption and Occupancy, Jiangbei Submarket



Source: Cushman & Wakefield, June 2018

Occupancy has remained high with a general upward trend in recent years. Huamao Place and Kaisa Plaza both achieved an above the submarket's average occupancy rate of 92.80% in 2017.

Rongcan Huizhou Centre will open in 2018 and it is anticipated that Jiangbei's average occupancy rate will remain at around 91.13% in 2018, taking into consideration the time required for a new development to mature. Without any other new developments beyond 2018, occupancy rate of Jiangbei submarket shall resume an upward trend from 2019.

Given the scale, quality and reputation of Huamao Place, it will remain a leading retail destination in the mid- to high-end retail market of Jiangbei submarket.

Table 4.2.3 Future Mid- to high-end Retail Supply in Jiangbei Submarket

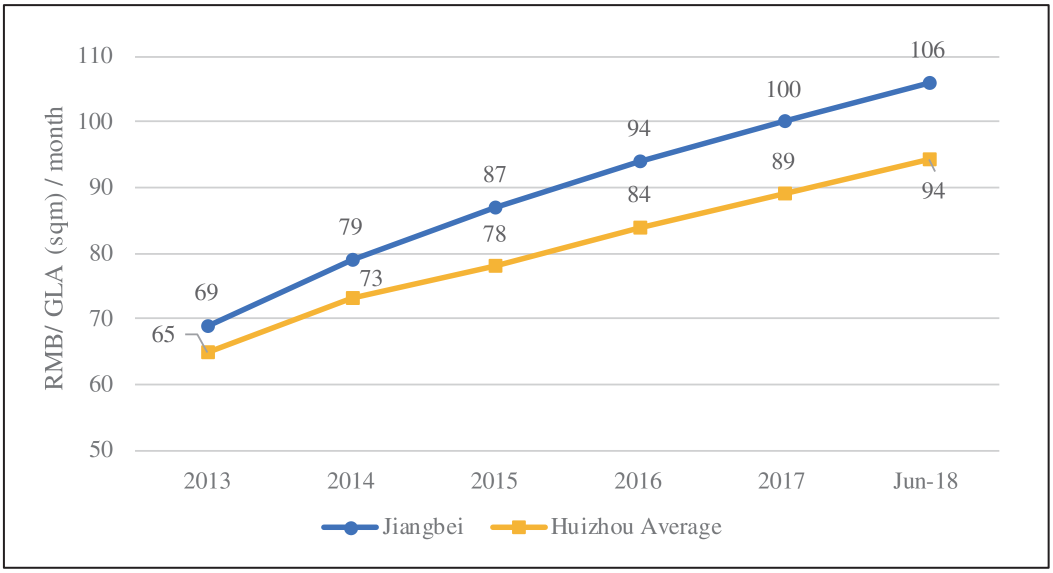
Project	Precinct	Market Entry	GFA *(sq. m.)*
Rongcan Huizhou Centre	Jiangbei	2018	30,000

Source: Cushman & Wakefield, June 2018

4.3 Mid- to high-end Rental Analysis in Jiangbei Submarket

Mid- to high-end retail rental in this Jiangbei has been increasing since 2013, reaching its new 5-year high at RMB106/sq. m. (GLA)/month by June 2018.

Figure 4.3.1 Average Mid- to high-end Retail Rental, Jiangbei Submarket



Source: Cushman & Wakefield, June 2018

Figure 4.3.2 Rental Forecast of Mid- to high-end Retail in Jiangbei Submarket

	2018F	2019F	2020F	2021F
Rent *(RMB/sq. m. (GLA)/month)*	108.0	116.6	125.1	134.5
Annual Growth Rate *(%)*	8%	7.3%	7.5%	7.5%

Source: Cushman & Wakefield, June 2018

Rental growth is projected to be in line with the overall Huizhou retail market, and Jiangbei's level of rent will continue to be the highest of all submarkets (precincts). Having considered all key factors, including future supply, future market trends, domestic and global economic movements, etc., it is anticipated that rents in Jiangbei submarket will continue to grow, reaching RMB108.0/sq. m. (GLA)/month, RMB116.6/sq. m. (GLA)/month, RMB125.1/sq. m. (GLA)/month and RMB134.5/sq. m. (GLA)/month in 2018, 2019, 2020 and 2021 respectively.

5.0 SUBJECT PROPERTY AND SITE SUMMARY

5.1 Subject Property Overview

The subject property – Huamao Place is the retail component of Huizhou Central Place, a 13.5 hectare mixed-use site comprises three Grade-A office buildings; three residential buildings; a serviced apartment; and a shopping mall. The mixed-use development is located to the north of the river that demarcates the northern and southern sections of the city, in the heart of Huizhou's central business district – Jiangbei area.

The competitiveness of Huamao Place as a high-end shopping centre is underpinned by its prime geographical location. In particular, the subject property is surrounded by a variety of public facilities including the city's stadium, exhibition centre, and two museums. Altogether, these landmark buildings form the southern periphery of Jiangbei, the political and business hub of the city in which the municipal government complex is centred.

The primary catchment area of the subject property covers the entire Jiangbei area, the city's administrative and business core, with a population approaching 400,000. Nevertheless, the secondary catchment area of the subject property is not limited to only Huicheng (total population of 1.2 million), but a far wider area extending beyond Huizhou. This is driven by a limited provision of high quality shopping mall outside Huicheng. The membership profile of the subject property (as discussed by the management team in the interview) indicate that there are regular customers from neighbouring municipalities such as Shanwei, where the local retail market is far less developed compared to Huizhou.

The shopping centre is driver-friendly, providing over 900 parking lots, 700 of which underground, and 200 at grade, shared with the office uses above. General accessibility to the subject property, however, is somewhat currently limited.

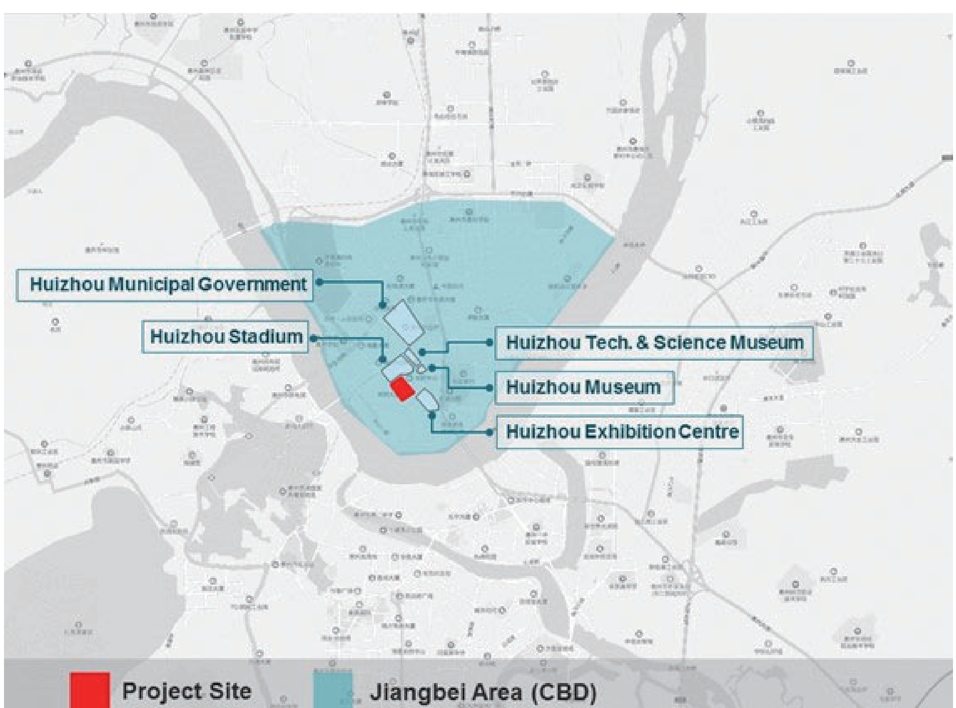
Apart from accessibility within Huizhou, the entire Dongguan-Huizhou Intercity Railway line was opened in December 2017, which greatly reduces the travel time between the city centres of Huizhou and Dongguan to 1.5 hours. The CBD will be directly served by both the planned metro and intercity railway infrastructures, greatly improving the subject property's accessibility not only within Huizhou, but with the rest of Greater Bay Area. Yunshan Station of the Intercity Railway is located within 10 minutes walking distance (approximately 900m) from the subject property, and will become the interchange station with the proposed Huizhou Metro Line 1, which is planned to be completed in 2025.

With a total GFA of 144,925 sq. m, the subject property is currently also the second largest shopping mall in Huizhou in terms of gross floor area. The mall has 5 levels, excluding underground parking lots level), each with a specific theme and trade mix. Level 1 targets high-spending customers with a large cluster of jewellery retailers and the mall's exclusive western apparel brand tenants including the likes of Hugo Boss, Guess, Armani Exchange, and GIVENCHY. L2 to L4 are home to mid-end domestic and international brands covering from men/women's fashion to children's wear, electronics, household products as well as an indoor playground, with some space on L2 renovated and reopened in June 2018. L5 finds a cinema operated by Golden Harvest. Casual dining restaurants with average spending of RMB100–200/head are largely concentrated on levels L4 and L5. Elements of F&B are found throughout all floors in the form of cafes, juice bars, and lower-end fast-casual restaurants. Cafes are primarily found in the outdoor area of B1 and L1; fast-casual restaurants in the indoor area of B1. The general trade mix of the shopping mall as in June 2018 is: 35% apparel, 31% catering, 15% children-related services, 8% entertainment and 11% others.

Positioning itself as a high-end retail destination, the subject property aims to satisfy the relatively more sophisticated consumer needs for internationally renowned high fashion products. Huamao Place is currently a regional industry leader in introducing international apparel retailers with exclusive high fashion tenants. The subject property in general is spacious with a modern decorative style. Its general F&B tenants and non-exclusive retailer tenants, however, are not similar to other malls of comparable scale in Huizhou.

As the most prominent high-end shopping destination in Huizhou, according to Huamao Place's management team, the subject property has achieved an average daily customer flow of 38,000 on weekdays and 45,000 on weekends as in June 2018, and the annual customer flow reached 12 million in 2017. The accumulative number of members has reached 145,000 since opening, which include members from adjacent municipalities in eastern Guangdong Province.

Figure 5.1 Location Plan of the Subject Property



Source: Cushman & Wakefield, June 2018

5.2 SWOT Analysis of Subject Property

- **Strengths**

Huamao Place has established itself as a local retail destination, for those living and working in the immediate vicinity as well as from the rest of the city, known for its modern interior design with a handful of international high fashion brand names being exclusively their tenants in the city. Its leading apparel tenant portfolio alone distinguishes the subject property from all other mid- to high-end shopping malls in the city. As a tier 2 city in the PRC, most shopping malls in Huizhou share a strikingly repetitive trade mix, layout, as well as tenant portfolio to cater for mass market discretionary spending. The defined positioning of Huamao Place as a high-end retail destination has earned the asset a distinctive reputation. Hence a leverage over its competitors, given the existing gap for luxurious retail space in the Huizhou market. Moreover, the subject property's membership scheme is a well-established engagement program which encourages customer spending and repeat visitation. Its membership programme includes discount offers, gift rewards, redeemed parking fees, and in-mall credits, etc.

Moreover, Huamao Place enjoys a prime location. Overall, Jiangbei is the CBD in Huizhou, wherein public facilities, high-rise office buildings, and the municipal government headquarters are located. The subject property is well positioned to target potential customer groups including white-collar workers in Jiangbei and users/visitors of the surrounding public faculties as well as catering for the retail needs of office workers and residents of Huizhou Central Place, which is a mix-use development itself. Positioned more closely as a retail destination rather than a mass-consumption-oriented community shopping centre, Huamao Place has 907 parking lots in total, a sufficient supply for the higher-spending customers who are likely to travel by car.

- **Weaknesses**

Given Huizhou's high-end retail market is yet to mature, apart from the exclusive portfolio of western high fashion retailers that contributes to the mall's overall branding, the majority of trade-mix is largely identical to that of Huamao Place's rivalling shopping malls. Competition with other rivalling shopping malls in the non-discretionary segments of the mall, such as F&B is still strong.

Although the mall is approximately 10 minutes away from the government building, travelling by foot is not optimal, accessibility to the mall is limited by the lack of pedestrian connectivity, e.g. footbridge/sky corridor or underground tunnel passage, within the district.

- **Opportunities**

In the foreseeable future, GBA cities will become more seamlessly interconnected as HSR network expands, providing a solution to the rising housing costs in Shenzhen. With housing expenses in Shenzhen steadily exceeding the affordability of many white collars, their relocation to Huizhou will become possible once travel time between the two cities is reduced to around 30 minutes. The subject property is currently the only retail destination which can be expected to suit the taste of this newly emerged middle-class in Huizhou.

In addition to the changes to local demographics through the movement of people, spending patterns of the existing population will also undergo a structural transformation in the near future as Huizhou's economy benefits from the development of the GBA.

The problem of repetitive tenants and trade mix can be solved over time, as new brands and operators shall be introduced to the market gradually along with Huizhou's demographic changes. Already highly reputable with a leading tenant portfolio, further upgrades of anchor tenants such as fast fashion brands similar to Uniqlo, should be achievable for the subject property in the future, according to new needs in the retail market.

- **Threats**

Given the highly identical real estate development model widely adopted by developers in Huizhou, mix-used complexes similar to Huizhou Central Place are widespread throughout Jiangbei. The strengths of the subject project, tenant portfolio and decoration included, can easily be emulated by competitors. For instance, a new mix-used development neighbouring the subject property will open this year. This development – Rongcan Huizhou Centre is highly similar to Huamao Place, in terms of its positioning as well as the quality of the residential and office components. Nevertheless, the retail component of the new mixed use development will only be one-fifth of the size of the subject property and would not trigger a material adverse impact on the market performance subject property. Rather, it would strengthen the area as a retail destination hub, attracting more patronage to the area.

On the other hand, methods such as tenant portfolio transformation and building refurbishment are effective gap-closers which rival mid- to high-end malls could employ to reinvent themselves. An example of comparable scale is an asset of Kaisa Group in Jianbei – Kaisa Plaza. Sitting north of the subject property, this mid- to high-end mall of 120,000 sq. m. in GFA enjoys the infrastructure of the CBD as well as the residential and office components which are part of its mix-used development similar to Huizhou Central Place.

5.3 Market Outlook of Subject Property

The regular review of tenant profile and upgrading of the mall's facilities have maintained the subject property's leading position and excellent reputation in Huizhou, as reflected in its average rent rates, which is the highest in Huizhou. Considering the historic rental growth trends, future supply in Jiangbei submarket and the tenant upgrade plans provided by the current management team, it is expected that rental growth of the subject property could achieve a range of 8%–9% annually from 2018 to 2021, exceeding the average annual rental growth rate in Jiangbei submarket in the same period of time (Fig. 4.3.2 refers).

In terms of occupancy, it is noted that the average occupancy rate of the subject property has always remained above 92% since 2012. The management team's plan to provide extended retail experience to customer by attracting various new tenants in the trades of apparel, bookstore, cosmetics, jewellery and luxury watch etc. will help maintain the long-term competitiveness of the subject property. In addition, Huizhou's retail market is at a rapid developing stage, with more new brands expected to enter the market, who will look for destination malls such as the subject property. Therefore, it is expected that the subject property's tenant portfolio will continue to be renewed on a regular basis, with the average occupancy rate staying around 96%–97% from 2018 to 2020.

6.0 COMPETITOR ANALYSIS

Out of the existing mid- to high-end shopping malls in Huizhou, it is considered that Kaisa Plaza and Ganghui Mall are the key competitors to the subject property, based on the scale of the mall and their reputation as a shopping destination in Huizhou. Despite also located in Jiangbei, Xinhua Plaza – a development newly opened in 2017, is a destination-mall focusing solely on cultural products, such as a 24/7 book store and stationery boutique. With an inherently different target customer group, Xinhua Plaza is therefore not considered a key competitor.

This section provides a review of the key competitors in the market, summarised by a competitive analysis of the subject property against these competitors.

6.1 Overview of Competitive Projects

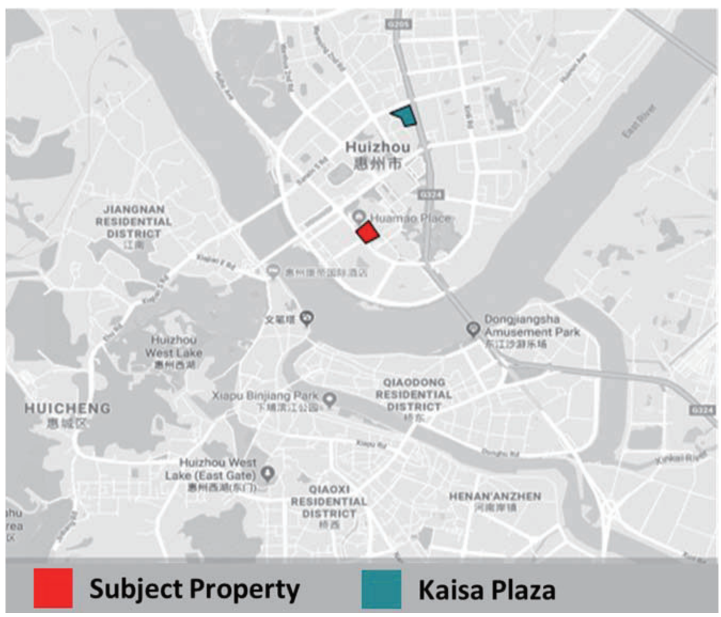
6.1.1 Kaisa Plaza

– Developer: Kaisa Group

– Opening year: Dec 2013

– GFA: 120,000 sq. m.

– Positioning: mid- to high-end (mid-end leaning)



Kaisa Plaza is located in Jiangbei, north of the subject property and the municipal government. Similarly supported by a Grade-A office building of its own and sandwiched between a series of residential blocks, including those above itself, Kaisa Plaza is home to mostly domestic brands. Although the shopping centre's layout is largely similar to Huamao Place, mirroring features include low- to mid-end F&B throughout the mall; a cinema on the top floor; low- to mid-end apparel, household products, and accessories retailers throughout the mid-levels; its overall international brand offering and design quality are not as high-end as the subject property. H&M is a notable anchor tenant on the ground floor, completing the mall's trade mix as the component of western fast fashion brand. Its rival – Zara plays a similar role at Huamao Place.

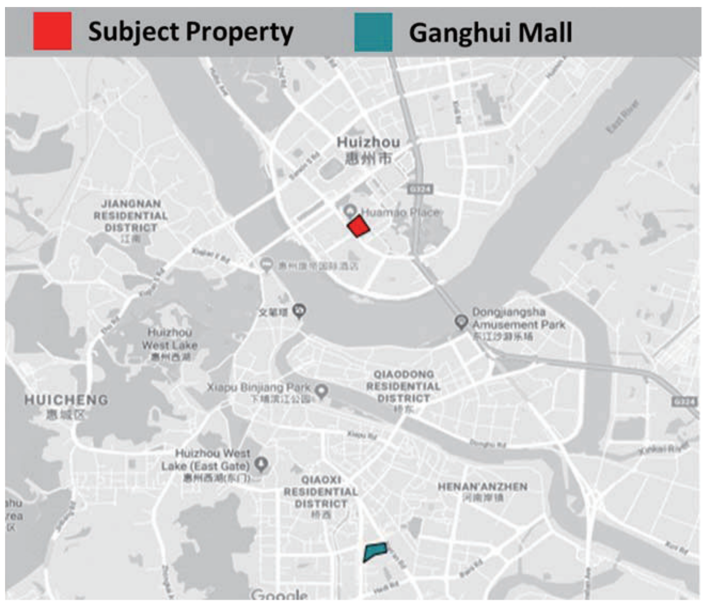
6.1.2 Ganghui Mall

– Developer: Huizhou Yingfu Property (惠州市盈富置業有限公司)

– Opening year: Jan 2007

– GFA: 280,000 sq. m. (completed in 2 phases)

– Positioning: mid- to high-end (mid-end leaning)



An established retail destination in the city, Ganghui mall is the largest local shopping centre south of the river with plans to further expand its 400,000-sq. m. retail space by adding a South wing and East wing. The gigantic mall fills its retail space with tenants commonly found in other shopping malls including western sports equipment retailers such as Fila, Nike, and Adidas, and a variety of domestic brands covering areas from apparel to electronics to household goods. The generally mid-end retailers, combined with a low- to mid-end restaurants and delis sustain a stable level of patronage from around the city. As part of yet another mixed-use development, on top of the mall is a series of residential buildings. In conjunction with the population of the overall traditional neighbourhood wherein Ganghui Mall is located, a substantial group of local customers for whom the mall provides retail services with is already in place. All things considered, Ganghui Mall is generally a highly popular shopping mall for Huizhou's mid-spending consumers, and also a consumption-oriented in an already populous neighbourhood of Henan'an. However, its mid-end leaning positioning contrasts strongly with the subject property, which is more of a destination retail center.

6.1 Competitive Strengths of Huamao Place against Competitive Projects

Below sets out the key factors substantiating the subject property's leading positioning in Huizhou's retail market:

- The subject property is one of the three mid- to high-end shopping malls in Huizhou that were fully opened before 2014; with over 4 years in operation in the market; and with a stabilised rent.

Mid- to high-end Shopping Mall	Year of Completion	GFA *(sq. m.)*
Ganghui Mall	2008	280,000
Aeon Shopping Mall	2008	105,000
Huamao Place	2011	144,925

- By end of June 2018, there is only one mid- to high-end shopping mall in Huizhou with rental higher than the city's average (RMB94.4/sq. m. (GLA)/month), namely Huamao Place (RMB115/sq. m. (GLA)/month), which also enjoys the highest rent in the City.

- The subject property is the second largest mid- to high-end shopping mall in Huizhou in terms of gross floor area. However, it is home to the greatest number of international retail brands and has competitive advantage over Ganghui Mall in having a relatively high quality of design and layout.

- In terms of GFA, Kaisa Plaza (120,000 sq. m.) is the only mid- to high-end shopping mall in Jiangbei comparably to the subject property (150,000 sq. m.). However, it is still at a stage of maturing and its overall international brand offering and design quality are not as high-end as the subject property. Since its opening in 2013, the average rent of Kaisa Plaza has been below both the city's and Jiangbei's average. In contrast, using the same standards, the average rent of subject property has been above average since 2013.

Appendix 1

Glossary

This glossary of technical terms contains terms used in the Market Research Report. As such, these terms and their meanings may not always correspond to the standard industry meaning or usage of these terms.

Average Rent

The average rent of the mid- to high-end shopping malls per gross lettable area (GLA) in square meters and per month, measured in RMB/sq. m/month, including VAT but excluding other fees such as management fee; promotion fee.

Fixed Asset Investment (FAI)

The volume of activities in construction and purchases of fixed assets in a country or city and related fees, expressed in monetary terms during the reference period. Total investment in fixed assets includes, by type of ownership, the investment by State-owned units, collective-owned units, joint ownership units, share-holding units, private units, individuals as well as investments by entrepreneurs from Hong Kong, Macao and Taiwan, foreign investors and others.

Foreign Direct Investment (FDI)

Foreign direct investment is the investment of foreign assets into a country or city distinct from the investor's country of origin.

Gross Domestic Product (GDP)

A basic measure of a country's overall economic output, i.e. the total market value of all final goods and services produced in a country at market prices in a given year.

Gross Floor Area (GFA)

The area contained within the external walls of the building measured at each floor level.

Gross Lettable Area (GLA)

The floor space contained within a tenancy at each floor level.

Hua Mao Place

Referred to as "subject property" in this report.

Mid- to high-end Retail

Single ownership shopping centres (excluding standalone department stores) with GFA above 20,000 sq. m., which are located in established retail precincts and with presence of international retail brands.

Net Absorption

The change in the total of occupied floorspace over a specified period of time, either positive or negative.

Net Supply

Total marketed floor space which is ready for occupation in a given year. Ready for occupation means practical completion, where either the building has been issued with an occupancy permit, where required, or where only fit-out is lacking.

Occupancy

Floorspace that is occupied – i.e. not available for rent or sales in the market.

Per capita GDP

An approximation of the value of goods and services produced per person in the country.

Stock

Total floor space, i.e. both occupied and vacant for a particular property sector.

Limitation of this report

This report contains forward-looking statements, bearing the views, expectations, projections or predictions of Cushman & Wakefield Limited (the "**Consultant**") for the future. The Consultant hereby emphasizes that all projections and statements, except statements relating to historical facts, shall be considered as indicative assessments of the possibilities, rather than fully determined assessments. The process of projections involves assumptions on a large number of variables, which can easily be subject to changing circumstances. The Consultant would like to ask you to note that any changes in the variables may have a significant impact on the results of the projections.

Therefore, the Consultant cannot guarantee that the projections contained in this report will be fulfilled, or that projections and forward-looking statements will be proved to be correct. Thus, you should not rely too much on those statements. The Consultant has no obligation to publicly update or revise any forward-looking statements contained in this report as a result of any new data, future events or otherwise, except as required by law. All forward-looking statements contained in this report are subject to this warning statement.

This report is prepared by the Consultant for reference only. Although the Consultant has written the report in a reasonable and prudent manner, the facts described in the report may change, and such data does not constitute a contract or part thereof. Interested parties shall not rely on any statements concerning the facts and shall verify the accuracy in other ways. This report does not express or imply any declarations, warranty or covenants, or guarantee accuracy, reasonability or integrity of the data.

While preparing the report, the Consultant relied on data and statistical models from a third party to draw a forward-looking statement. Please be well noted that we would like to make it clear that the documents and data from third parties have not been independently verified. This report is only relevant to the matters that referred in the report. For any matters not mentioned in this report, there are not any suggestions or inferences.

Yours sincerely,
Cushman & Wakefield Limited