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23 July 2024

To: the Independent Unitholders and the Trustee

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

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

Dear Sir or Madam,

(1) ISSUANCE OF SUBJECT 2024 MANAGER FEE UNITS; AND **(2) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Unitholders and the Trustee in relation to the issuance of the Subject 2024 Manager Fee Units and the Whitewash Waiver, details of which are set out in the "Letter from the Board" contained in the circular of Spring REIT dated 23 July 2024 (the "**Circular**"). Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Under the Trust Deed, the Manager (in its personal capacity) is entitled to receive Manager's Fees for its services, which include a Base Fee of 0.4% per annum of the amount of the Deposited Property and a Variable Fee of 3.0% per annum of net property income (before certain deductions), in the form of Units and/or cash. The Manager's Fees are payable by Spring REIT quarterly in arrears.

On 13 December 2023, the Manager announced (the “**December 2023 Announcement**”) its election to continue receiving 80% of the Base Fee for the year ending 31 December 2024 in the form of Units and receiving the remaining 20% of the Base Fee and its entire Variable Fee in the form of cash (the “**2024 Election**”).

It is anticipated that one of the further tranches of the 2024 Manager Fee Units (being the Subject 2024 Manager Fee Tranche) will result in a mandatory offer threshold under Rule 26 of the Takeovers Code being reached by the Manager Concert Group.

The Manager considers that continuing such longstanding policy of receiving a majority part of the Manager’s Fee in the form of Units, namely 80% of the Base Fee, is in the interests of Spring REIT’s unitholders, as the cash savings will increase the distributions paid to Unitholders, and accordingly, proposes to seek Unitholders’ approval for the issuance of the Subject 2024 Manager Fee Units and the Whitewash Waiver by way of the EGM Resolutions.

REGULATORY IMPLICATIONS

Takeovers Code and application for Whitewash Waiver

As at the Latest Practicable Date, the (i) the Manager Presumed Concert Group was collectively interested in 791,884,729 Units, representing approximately 54.61% of the total number of issued Units; and (ii) the Manager Concert Group (which includes members of the Manager Presumed Concert Group other than Huamao Property and parties acting in concert with Huamao Property) was collectively interested in 431,696,309 Units, representing approximately 29.77% of the total number of issued Units. Based on the Circular, assuming the actual number of 2024 Manager Fee Units to be issued at each Issue Date will be the Illustrative Tranche Units and there will be no other changes to the unitholding structure of Spring REIT between Issue Dates, the Manager expects the earliest date on which the aggregate unitholding of Manager Concert Group will exceed 30% of the total number of issued Units will be the 2Q24 Fees Issue Date, which will trigger the Manager’s obligation to make a mandatory general offer for all the issued Units and other securities (if any) of Spring REIT not already owned or agreed to be acquired by the Manager Concert Group under Rule 26 of the Takeovers Code, unless the Whitewash Waiver is approved by the Independent Unitholders and granted by the Executive.

Whether the aggregate unitholding of the Manager Concert Group will exceed 30% on the 2Q24 Fees Issue Date, or later on the 3Q24 Fees Issue Date or 4Q24 Fees Issue Date, will depend on the actual number of 2024 Manager Fee Units to be issued at each Issue Date, which may only be determined on such issue date having regard to the value of the Deposited Property, the Market Price and the HKD:RMB exchange rate applicable at the relevant time.

Accordingly, pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, the Manager (in its personal capacity) has applied to the Executive for the Whitewash Waiver from the obligation to make a general offer for all issued Units and other securities of Spring REIT (if any) not already owned or agreed to be acquired by the Manager Concert Group as a result of the Manager’s receipt of the tranche of 2024 Manager Fee Units that would cause the aggregate unitholding of Manager Concert Group to **first** exceed 30% at any given Issue Date (this tranche being the Subject 2024 Manager Fee Units). If the 30% threshold is not reached on the 2Q24 Fees Issue Date (or on the

3Q24 Fees Issue Date), the Whitewash Waiver will apply to the subsequent issuance of the 2024 Manager Fee Units on the next Issue Date, and the Manager will publish an announcement to update Unitholders of: (i) the latest unitholdings of the Manager Concert Group and the Manager Presumed Concert Group; and (ii) the illustrative effect of the issuance of the Subject 2024 Manager Fee Units on the unitholding structure of Spring REIT.

The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval of the Whitewash Waiver by at least 75% of the votes cast by the Independent Unitholders present and voting (either in person or by proxy) by way of a poll at the EGM and the approval of the issuance of the Subject 2024 Manager Fee Units by more than 50% of the votes cast by the Independent Unitholders present and voting (either in person or by proxy) by way of a poll at the EGM.

If the Whitewash Waiver is not granted by the Executive, or if the Whitewash Waiver or the issuance of the Subject 2024 Manager Fee Units are not approved by the Independent Unitholders, Spring REIT will not issue the Subject 2024 Manager Fee Units, and in accordance with Clause 11.1.1.4 of the Trust Deed, future payments of the Manager's Fee will be settled in cash in order not to exceed any thresholds for triggering a mandatory offer under the Takeovers Code.

REIT Code and Trust Deed

As the Subject 2024 Manager Fee Tranche will result in a mandatory offer threshold under the Takeovers Code being reached by the Manager Concert Group, under Clause 11.1.1.4 of the Trust Deed, the excess part of the Subject 2024 Manager Fee Tranche is required to be paid in the form of cash instead of Manager Fee Units.

However, as the Manager considers that the cash savings achieved from paying the Manager's Fees in the form of Manager Fee Units to be crucial to maintaining stable distributions to Unitholders, in order for Spring REIT to issue the Subject 2024 Manager Fee Units Tranche in full, the Manager will rely on 12.2 of the REIT Code and Clause 7.1.7 of the Trust Deed as the basis for issuing the Subject 2024 Manager Fee Units Tranche to the Manager. 12.2 of the REIT Code and Clause 7.1.7 of the Trust Deed provide, among other things, that any issue of Units to a connected person (which includes the Manager under 8.1(a) of the REIT Code) on a non-pro rata basis will require specific prior approval of Unitholders by ordinary resolution at a general meeting. Accordingly, pursuant to 12.2 of the REIT Code and Clause 7.1.7 of the Trust Deed, the Manager will seek the Independent Unitholders' approval by way of an ordinary resolution for a specific approval to issue the Subject 2024 Manager Fee Units. If the EGM Resolutions are passed, the Subject 2024 Manager Fee Units will be issued pursuant to the specific approval granted by Independent Unitholders thereunder pursuant to Clause 7.1.7 of the Trust Deed rather than the 2024 Election pursuant to Clause 11.1.1 of the Trust Deed. The Units issued as a result of such approval shall be included in the calculation of 20% threshold for all other purposes under 12.2 of the REIT Code.

Notwithstanding the above, as the issuance of the 2024 Manager Fee Units (including the Subject 2024 Manager Fee Units) is for payment of the Manager's services as contemplated under the Trust Deed, pursuant to 8.7E of the REIT Code, such issuance does not constitute a connected party transaction under Chapter 8 of the REIT Code.

As required by the Takeovers Code, the REIT Code and the Trust Deed: (i) the Manager (in its personal capacity); and (ii) the other members of the Manager Presumed Concert Group will abstain from voting on the EGM Resolutions for approving the issuance of the Subject 2024 Manager Fee Units and the Whitewash Waiver.

As at the Latest Practicable Date, the Manager Presumed Concert Group beneficially held 791,884,729 Units, representing approximately 54.61% of the total number of issued Units. As at the Latest Practicable Date, the Manager was of the view that, save for the persons described in the foregoing paragraph, no Unitholder is required to abstain from voting on the EGM Resolutions approving the issuance of the Subject 2024 Manager Fee Units and the Whitewash Waiver.

INDEPENDENT FINANCIAL ADVISER

According to the “Letter from the Board” of the Circular, as the Subject 2024 Manager Fee Units will be issued to the Manager, who will receive these Units in its personal capacity, all of the Directors (including the INEDs) are considered to have a direct or indirect interest in the issuance of the Subject 2024 Manager Fee Units and the Whitewash Waiver. Accordingly, pursuant Rule 2.8 of the Takeovers Code, it is not possible to form an independent committee of the Board, and we had been appointed as the Independent Financial Adviser to represent the interests of and to advise the Independent Unitholders.

As the Independent Financial Adviser to the Independent Unitholders and the Trustee, our role is to give an independent opinion to the Independent Unitholders and the Trustee as to whether the issuance of the Subject 2024 Manager Fee Units and the Whitewash Waiver are, or are not, fair and reasonable, in the interests of the Independent Unitholders and as to voting on the EGM Resolutions.

We (i) are not associated or connected, financially or otherwise, with Spring REIT or the Manager, their respective controlling Unitholders/shareholders or any parties acting, or presumed to be acting, in concert with any of them; and (ii) save that we were previously engaged as the independent financial adviser in relation to Spring REIT’s (a) major and connected transactions in relation to the acquisition and joint venture relating to a commercial property in Huizhou, the PRC, and the continuing connected transactions related thereto; and (b) connected transaction involving certain off-market unit buy-back, details of which are set out in Spring REIT’s circulars dated 3 May 2022 and 27 May 2023 respectively, we have not acted as the financial adviser or independent financial adviser in relation to any transaction of Spring REIT or the Manager, their respective controlling Unitholders/shareholders or any parties acting in concert with any of them in the two years immediately preceding the date of the Circular. Given that (i) remuneration for our engagement to opine on the issuance of the Subject 2024 Manager Fee Units and the Whitewash Waiver is at market level and not conditional upon the outcome of the EGM Resolutions; (ii) no arrangement exists whereby we shall receive any fees or benefits from Spring REIT (other than our said remuneration) or the Manager, their respective controlling Unitholders/shareholders or any parties acting in concert with any of them; and (iii) our engagement is on normal commercial terms, we are independent of Spring REIT or the Manager, their respective controlling Unitholders/shareholders or any parties acting in concert with any of them and we can act as the Independent Financial Adviser to the Independent Unitholders and the Trustee in respect of the issuance of the Subject 2024 Manager Fee Units and the Whitewash Waiver.

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, among others, (i) the December 2023 Announcement; (ii) the annual reports of Spring REIT for the years ended 31 December 2023, 2022 and 2021 respectively (the “**2023 Annual Report**”, “**2022 Annual Report**” and “**2021 Annual Report**”); and (iii) any other information set out in the Circular.

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Directors and management of the Manager. We have assumed that all the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete in all material aspects at the time they were made and continued to be so up to the Latest Practicable Date. The Manager and the Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular having been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. The Manager and the Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. BACKGROUND INFORMATION OF SPRING REIT

1.1 Principal business of Spring REIT

Spring REIT was listed on the Hong Kong Stock Exchange in 2013 and is a real estate investment trust which owns and invests in income-producing real estate primarily in Mainland China, while seeking yield-accretive investment opportunities globally.

The key objectives of the Manager for Spring REIT are to provide Unitholders with stable distributions and the potential for sustainable long-term growth in distributions and to enhance the value of its real estate assets. Spring REIT's current portfolio comprises:

- (i) all office floors of Office Tower 1 and Office Tower 2 of China Central Place (which are located in Beijing, the PRC);
- (ii) a 68% interest in Huamao Place, being a seven-storey shopping mall located in Huizhou, Greater Bay Area (which was acquired by Spring REIT on 28 September 2022); and
- (iii) a portfolio of 84 commercial properties in the United Kingdom (the "UK Portfolio"), which is leased to Kwik-Fit (GB) Limited, a leading car servicing provider in the United Kingdom with over 600 centres nationwide.

1.2 Financial information of Spring REIT

Set out below is a table summarising certain key items of the profit and loss accounts and balance sheet of Spring REIT as extracted from the 2023 Annual Report, the 2022 Annual Report and the 2021 Annual Report.

	For the year ended 31 December ("FY")		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)
Revenue	528,446	577,851	732,448
Net property income	396,373	440,428	543,262
Total distributable income	297,687	292,606	252,139
Number of Units outstanding ('000)	1,472,384	1,484,931	1,440,497 ^(Note)
DPU (HK cents)	22.0	21.2	19.0
Distribution payout ratio	90.0%	92.5%	97.5%
	As at 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)
Total assets	9,884,003	12,930,993	12,785,525
- Investment properties	9,307,096	12,082,952	12,039,343
- Restricted bank balances	320,223	366,840	326,532
- Cash and cash equivalent	156,047	202,434	222,893
Total liabilities	(3,212,350)	(5,424,985)	(5,683,711)
- Interest-bearing borrowings	(2,960,830)	(4,857,346)	(5,054,490)
NAV attributable to the Unitholders	6,671,653	6,558,843	6,130,664

Note: Total number of Units outstanding decreased as compared to that of FY2022 mainly due to Spring REIT having conducted an off-market unit buy-back in FY2023. For details, please refer to Spring REIT's circular dated 27 May 2023.

Between FY2021 and FY2023, Spring REIT had been faced with challenging operating conditions in face of the COVID-19 pandemic, geopolitical tensions and a distressed real estate sector in the PRC. Spring REIT's revenue and net property income were, however, on an increasing trend due to the abovementioned acquisition of Huamao Place in September 2022.

Due mainly to the increase in cash interest expenses between FY2021 and FY2023 resulting from increased borrowings as mentioned below, as well as rising interest rates, total distributable income of Spring REIT decreased despite the increase in net property income. Consequently, despite a higher payout ratio, DPU had decreased.

Between 31 December 2021 and 31 December 2023, Spring REIT's investment properties had increased mainly due to the addition of Huamao Place to its portfolio. Total liabilities which were principally made up of interest-bearing borrowings increased in tandem as the acquisition of Huamao Place was mainly financed by debt.

Valuation of Spring REIT's investment properties

Reference is also made to the Valuation Report in respect of the Existing Properties in Appendix 2 to the Circular prepared by Knight Frank Petty Limited, the Independent Property Valuer. We note that Knight Frank Petty Limited is the current principal valuer of Spring REIT. Based on our review of the Valuation Report, we noted that the valuation methodologies, principal bases and assumptions adopted in valuing the Existing Properties, being the CCP Property, the UK Portfolio and a 68% in Huamao Place, are largely consistent with those adopted by Knight Frank Petty Limited in valuing these properties as disclosed in the 2023 Annual Report. We are of the view that (i) the valuation approaches are commonly adopted and in line with the market practice; and (ii) the valuation methodologies, principal bases and assumptions adopted by the Independent Property Valuer are appropriate. We also note that the value of the Existing Properties as at 30 April 2024 (being approximately HK\$13,268.4 million according to the Valuation Report) would not be materially different from the value of these properties as at 31 December 2023 (being approximately RMB12,039.3 million (equivalent to approximately HK\$13,182.2 million, based on the exchange rate of HK\$1.00 to RMB0.9133 as stated in the "Definitions" of the Circular)).

Conclusion

Overall, we observed that Spring REIT's financial performance had remained largely stable, with some increase in debt service burden due to its higher level of borrowings and rising interest rates.

2. The Subject 2024 Manager Fee Units and the Whitewash Waiver

2.1 Background

As detailed in the paragraph headed “II. Part Payment of Manager’s Fees by way of Units” in the “Letter from the Board” of the Circular, the Manager (in its personal capacity) is entitled to receive Manager’s Fees for its services under the Trust Deed, which include a Base Fee of 0.4% per annum of the amount of the Deposited Property and a Variable Fee of 3.0% per annum of net property income (before certain deductions), in the form of Units and/or cash. The Manager’s Fees are payable by Spring REIT quarterly in arrears.

Pursuant to the Trust Deed, the Manager shall make an election for the payment of the Base Fee and the Variable Fee in the form of Units and/or cash, which is irrevocable, on or before 15 January of each year.

According to the December 2023 Announcement, the Manager made the 2024 Election on 13 December 2023. In this regard, we note that the 2024 Election is largely consistent with the Manager’s past and current practices since Spring REIT’s listing in 2013 as further discussed in the paragraph headed “5. Rationale and other considerations for the issuance of the Subject 2024 Manager Fee Units” below.

2.2 The 2024 Manager Fee Units

The 2024 Manager Fee Units represent the Manager Fee Units expected to be issued by Spring REIT to the Manager to settle 80% of the Base Fee payable to the Manager for the year ending 31 December 2024. Having considered that (i) the 2024 Manager Fee Units are being determined in accordance with the 2024 Election as mentioned above; and (ii) the practice to receive a portion of the manager fee in the form of REIT units, as well as the manager fee structure under the 2024 Election, are in line with industry practice as further discussed in the paragraph headed “5. Rationale and other considerations for the issuance of the Subject 2024 Manager Fee Units” below, we are of the view that the terms in determining the number of the 2024 Manager Fee Units are fair and reasonable.

According to the “Letter from the Board” of the Circular, the first tranche of the 2024 Manager Fee Units were issued on 30 April 2024, and the rest of the 2024 Manager Fee Units are expected to be issued in three further tranches in August 2024, October 2024 and March 2025 following the end of the preceding financial quarter.

As at the Latest Practicable Date, (i) the Manager Presumed Concert Group was collectively interested in 791,884,729 Units, representing approximately 54.61% of the total number of issued Units; and (ii) the Manager Concert Group (which includes members of the Manager Presumed Concert Group other than Huamao Property and parties acting in concert with Huamao Property) was collectively interested in 431,696,309 Units, representing approximately 29.77% of the total number of issued Units. It is anticipated that the issuance of one of the further tranches of the 2024 Manager Fee Units (being the Subject 2024 Manager Fee Tranche) will result in a mandatory offer threshold under Rule 26 of the Takeovers Code being reached by the Manager Concert Group. Based on the illustration set out in the table headed “(i)

Scenario 1 — Illustrative Tranche Units” in the paragraph headed “III. Effect on the Unitholding structure of Spring REIT” in the “Letter from the Board” of the Circular, the Subject 2024 Manager Fee Tranche pertains to the 2024 Manager Fee Units to be issued in respect of the fees payable to the Manager for the second quarter of 2024, on the 2Q24 Fees Issue Date in August 2024.

The Manager, having considered that the cash savings resulting from the continued implementation of its longstanding policy to receive the majority of the Manager’s Fees (i.e. 80% of the Base Fee) in the form of Units will increase the distributions paid to Unitholders and is therefore in the interests of Spring REIT’s unitholders, proposes to seek Unitholders’ approval for the issuance of the Subject 2024 Manager Fee Units and the Whitewash Waiver by way of the EGM Resolutions.

Where the number of Units issued under the Subject 2024 Manager Fee Units Tranche would exceed the Maximum Subject 2024 Manager Fee Units (being 6,469,200 Units, as determined by applying a buffer of 20% to the Illustrative Tranche Units to cater for changes in property and capital market conditions), the excess Units will not be issued and the amount of Base Fee corresponding to these excess Units will instead be settled in cash. In this regard, we note that in accordance with the Trust Deed, the number of Manager Fee Units to be issued to settle the Manager’s Fee is determined by dividing the relevant amount of the Manager’s Fees to be settled in the form of Units by the Market Price. Therefore, the corresponding actual number of Manager Fee Units will be subject to fluctuations of the Unit closing price. In assessing the fairness and reasonableness of the 20% buffer applied in arriving at the Maximum Subject 2024 Manager Fee Units, we have considered historical fluctuations of the Unit closing prices during the period commencing from 19 July 2023 to the Last Trading Day (the “**Review Period**”). We consider a period of one year is adequate and representative for illustrating the recent price movements of the Units which reflects (i) market and investors’ reactions towards the latest development of Spring REIT; and (ii) prevailing market sentiment. We note that during the Review Period, the lowest and highest closing prices of the Units were HK\$1.77 and HK\$2.29 per Unit recorded on 26 March 2024 and 3 January 2024 respectively, which implies a fluctuation of approximately 29.4%. The 20% buffer applied is within the aforesaid range of fluctuation of Unit closing price during the Review Period. On this basis, we are of the view that applying such buffer in arriving at the Maximum Subject 2024 Manager Fee Units is fair and reasonable.

It should be noted that if the EGM Resolutions are not passed or the Whitewash Waiver is not granted by the Executive, Spring REIT will not issue the Subject 2024 Manager Fee Units, and in accordance with Clause 11.1.1.4 of the Trust Deed, future payments of the Manager’s Fee will be settled in cash in order not to exceed any thresholds for triggering a mandatory offer under the Takeovers Code.

3. Financial effects of the issuance of the Subject 2024 Manager Fee Units

The matter that requires consideration by the Independent Unitholders is whether or not to approve the issuance of the Subject 2024 Manager Fee Units by Spring REIT, as well as the Whitewash Waiver that is the pre-requisite for such issuance. As mentioned above, in the case where the approval from Unitholders cannot be obtained, Spring REIT will settle future payments of the Manager’s Fee in cash and the working capital of the Group will reduce by the same amount.

From the Independent Unitholders' perspective, the **pros** of allowing Spring REIT to issue the Subject 2024 Manager Fee Units is that Spring REIT can retain more cash for distribution to the Unitholders, while the **cons** of approving the same is that there will be unitholding dilution effect.

To quantitatively demonstrate such impacts, the Manager has prepared illustrations showing the effects on DPU and NAV per Unit assuming all the 2023 Manager Fee Units were instead paid in cash. In such hypothetical scenario, the additional cash outlay would have amounted to approximately RMB38.6 million; while the total number of Units in issue would have been reduced by 20,327,684 units. We consider the illustrations using 2023 actual figures to be reasonable and appropriate as the Manager also elected to receive 80% of the Base Fee in the form of Units and receiving its entire Variable Fee in cash for the year ended 31 December 2023, which is the same as the 2024 Election.

3.1 DPU

According to the paragraph headed "IV. Illustrative financial effects of the issuance of the Subject 2024 Manager Fee Units" in the "Letter from the Board" of the Circular, assuming all the 2023 Manager Fee Units were instead paid in cash, the DPU for the year ended 31 December 2023 will decrease by approximately 14.7% from HK19.0 cents to HK16.2 cents.

It therefore can be shown that settling certain Manager's Fees through the issuance of Units instead of cash enhances the immediate DPU to Unitholders. The dilution effect on subsequent DPUs as a result of issuance of the Manager Fee Units will be gradual.

3.2 NAV attributable to Unitholders per Unit

According to the paragraph headed "IV. Illustrative financial effects of the issuance of the Subject 2024 Manager Fee Units" in the "Letter from the Board" of the Circular, assuming all the 2023 Manager Fee Units were instead paid in cash, the NAV attributable to Unitholders per Unit as at 31 December 2023 would have been marginally higher by approximately 0.79% at HK\$4.72 compared with HK\$4.68.

Notwithstanding that the issuance of Units to settle a portion of the Manager's Fees may have a negative impact on the NAV attributable to Unitholders per Unit (due to the current Market Price, which will be used as reference to determine the issue price of the Manager Fee Units, being at below NAV per Unit), we are of the view that on balance, immediate DPU would generally be of greater emphasis by Independent Unitholders given their yield seeking nature when investing in REITs. The immediate DPU reflects the returns that Unitholders can actually receive in cash from their investment in Spring REIT. We are therefore of the view that the issuance of the Subject 2024 Manager Fee Units will likely have a positive financial effect on the way Spring REIT is valued and perceived by investors and the market.

4. Effect on the unitholding structure of Spring REIT

As mentioned in the paragraph headed "3. Financial effects of the issuance of the Subject 2024 Manager Fee Units" above, the cons of approving the issuance of the Subject 2024 Manager Fee Units is that there will be unitholding dilution effect.

In this regard, the Manager has set out the illustrative unitholding structure of Spring REIT as at (a) the Latest Practicable Date; and (b) each Issue Date assuming the Illustrative Tranche Units will be issued, under the table headed “(i) Scenario 1 — Illustrative Tranche Units” in the paragraph headed “III. Effect on the unitholding structure of Spring REIT” in the “Letter from the Board” of the Circular. Based on the illustration, it is noted that the unitholding of Independent Unitholders will be gradually diluted from approximately 33.70% as at the Latest Practicable Date, to approximately 33.58%, 33.45% and 33.33% upon the issuance of 2024 Manager Fee Units for 2Q24 Manager’s Fees, 3Q24 Manager’s Fees and 4Q24 Manager’s Fees respectively. The total number of issued Units will also be enlarged from 1,450,217,368 as at the Latest Practicable Date, to 1,455,608,368, 1,460,999,368 and 1,466,390,368 as at the 2Q24 Fees Issue Date, 3Q24 Fees Issue Date and 4Q24 Fees Issue Date respectively.

We have considered the dilution effect on unitholding over the period due to the issuance of the Subject 2024 Manager Fee Units alongside the positive impact of preservation of cash that can be deployed for immediate distribution to Unitholders. We note that the issuance of 2024 Manager Fee Units would result in unitholding dilution for Independent Unitholders from approximately 33.70% as at the Latest Practicable Date to approximately 33.33% as at the 4Q24 Fees Issue Date. In terms of magnitude, this represents about 1.1% reduction. Meanwhile as elaborated in the paragraph headed “3. Financial effects of the issuance of the Subject 2024 Manager Fee Units” above, assuming all the 2023 Manager Fee Units were instead paid in cash, the immediate effect on DPU would be a reduction of approximately 14.7%. In other words, if the Manager were to receive cash instead of 2023 Manager Fee Units, Independent Unitholders would have received 14.7% less in immediate cash distribution, as opposed to the marginal dilution effect if the Manager opt to receive Units instead of cash. Therefore, on balance, such practice of receiving a portion of the Manager’s Fee in the form of Units provides higher immediate cash returns to Unitholders.

5. Rationale and other considerations for the issuance of the Subject 2024 Manager Fee Units

Our analysis in relation to the rationale and other considerations for the issuance of the Subject 2024 Manager Fee Units are as follows.

5.1 Continuation of current practice

Pursuant to the Trust Deed, the Manager is entitled to make an election for the payment of the Base Fee and the Variable Fee entirely in the form of cash, entirely in the form of Units or partly in cash and partly in Units annually by notice in writing to the Trustee and announcement to the Unitholders. Such elections, which are irrevocable, must be made on or before 15 January of each year.

As stated in the “Letter from the Board” of the Circular, for every year since the listing of Spring REIT in 2013, other than in 2013 and 2014, and from 2017 to 2019, the Manager had elected for the Base Fee to be paid in the form of cash (as to 20%) and in the form of Units (as to 80%) and the Variable Fee to be paid entirely in the form of cash. In 2013 and 2014, the Manager elected to receive 80% of its Base Fee and Variable Fee in the form of Units and 20% of its Base Fee and Variable Fee in the form of cash. From 2017 to 2019, the Manager elected to receive all of its Base Fee in the form of Units and all of its Variable Fee in the form of cash.

For the year ending 31 December 2024, the Manager had made the 2024 Election on 13 December 2023 where, among others, it will continue to receive 80% of the Base Fee for the year ending 31 December 2024 in the form of Units. The Whitewash Waiver therefore allows Spring REIT to continue this current practice and to issue the Subject 2024 Manager Fee Units.

5.2 In line with industry practice of other REITs listed on the Stock Exchange

We have conducted a general review of manager fee structures of the nine other externally-managed REITs which are listed on the Stock Exchange and noted that the managers of seven of these other REITs had elected to receive certain portion of their fees in the form of REIT units in their past and current financial years (i.e. the years of 2023 and 2024). Set out below are further details of the manager fee structures in terms of the portion of fees received in the form of REIT units/cash of those seven other REITs during the aforesaid period, based on publicly available information. We are of the view that such information in the recent two years reflect the prevailing industry practice in this regard.

Name of REIT	Stock code	Manager fee structures
Hui Xian Real Estate Investment Trust	87001	2023 Base fee and variable fee: 70% in REIT units, 30% in cash 2024 Base fee and variable fee: 50% in REIT units, 50% in cash
Sunlight Real Estate Investment Trust	435	2023 and 2024 Base fee and variable fee: 50% in REIT units, 50% in cash
Prosperity Real Estate Investment Trust	808	2023 and 2024 Base fee and variable fee in respect of initial properties: 100% in REIT units Base fee and variable fee in respect of additional properties: 80% in REIT units, 20% in cash
Fortune Real Estate Investment Trust	778	2023 and 2024 Base fee: 80% in REIT units, 20% in cash Performance fee: 100% in cash
Champion Real Estate Investment Trust	2778	2023 and 2024 Manager's fee: 50% in REIT units, 50% in cash
Yuexiu Real Estate Investment Trust	405	2023 and 2024 Manager's fee: 100% in REIT units
SF Real Estate Investment Trust	2191	2023 and 2024 Manager's fee: 100% in REIT units

Based on the table above, we note that the manager fee structure varies among different REITs. In general, the portion of manager fee received and to be received in the form of REIT unit ranges from 50% to 100%. We also note that the manager fee structure of Fortune Real Estate Investment Trust (stock code: 778) is the same as that under the 2024 Election. Having considered that (i) the managers of seven out of nine other externally-managed REITs which are listed on the Stock Exchange have elected to receive certain portion of their fees in the form of REIT units; and (ii) in terms of the portion to be received in the form of REIT units, the 2024 Election is generally in line with the manager fee structures of two-thirds of the other externally-managed REITs, we are of the view that it is common and general market practice that managers of REITs listed on the Stock Exchange receive a portion of their fees in the form of REIT units, and the manager fee structure under the 2024 Election is in line with industry practice. The Whitewash Waiver is to facilitate Spring REIT's ability to issue the Subject 2024 Manager Fee Units and the continued implementation of this form of remuneration structure in line with industry practice.

5.3 No change in single largest Unitholder group

The Manager Concert Group currently holds 29.77% interests in the Units and is the single largest Unitholder group of Spring REIT. If the issuance of the Subject 2024 Manager Fee Units and Whitewash Waiver are approved, an implication will be that in future, the Manager Concert Group will be able to increase its Unitholding by no more than 2% from its lowest collective percentage holding in each 12-month period without triggering the obligation to make a mandatory general offer under Rule 26 of the Takeovers Code.

In this respect, we note that the Manager Concert Group is already Spring REIT's single largest Unitholder group and the issuance of the Subject 2024 Manager Fee Units and Whitewash Waiver will not therefore result in a material change in Spring REIT's unitholding structure, such as the introduction of a new controlling Unitholder. Spring REIT's business operations are also not expected to experience any material change.

5.4 Higher immediate DPU

As illustrated in the paragraph headed "3. Financial effects of the issuance of the Subject 2024 Manager Fee Units" above, settling certain Manager's Fees through the issuance of Units instead of cash will result in higher immediate DPU to Unitholders. Therefore, the Whitewash Waiver and the issuance of the Subject 2024 Manager Fee Units will have a positive impact on cash returns of Unitholders and will also likely have a positive impact on the way Spring REIT is valued and perceived by investors and the market.

Overall, we concur with the Manager's view that the issuance of the Subject 2024 Manager Fee Units, and accordingly, the Whitewash Waiver (being the pre-requisite for Spring REIT to proceed with such issuance of Units), are fair and reasonable and in the interests of the Independent Unitholders.

RECOMMENDATION

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

- (i) the 2024 Manager Fee Units are being determined in accordance with the 2024 Election, which is in line with industry practice;
- (ii) the 20% buffer applied in deriving the Maximum Subject 2024 Manager Fee Units that aims to cater for potential changes in the Unit closing price, is within the range of fluctuation of Unit closing price during the Review Period;
- (iii) the issuance of the Subject 2024 Manager Fee Units and Whitewash Waiver would allow Spring REIT to continue its longstanding practice of receiving a portion of the Manager's Fee in the form of Units;
- (iv) despite that the issuance of the Subject 2024 Manager Fee Units would result in unitholding dilution, the positive impact would be the preservation of cash which enhances cash distribution. On balance, such practice provides higher immediate cash returns to Unitholders when compared with settling the entire Manager's Fees in cash under alternative circumstance; and
- (v) the fact that the Manager Concert Group is already Spring REIT's single largest Unitholder group and the issuance of the Subject 2024 Manager Fee Units and Whitewash Waiver will not result in a material change in the unitholding structure (such as the introduction of a new controlling Unitholder) and business operations of Spring REIT,

we are of the view that the issuance of the Subject 2024 Manager Fee Units and the Whitewash Waiver are fair and reasonable and in the interests of the Independent Unitholders. Accordingly, we advise the Independent Unitholders to vote in favour of the EGM Resolutions.

Yours faithfully,
For and on behalf of
Altus Capital Limited



Chang Sean Pey
Responsible Officer

Mr. Chang Sean Pey ("Mr. Chang") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and permitted to undertake work as a sponsor. He is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Mr. Chang has over 25 years of experience in banking, corporate finance advisory and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.