SpringREIT

Spring Real Estate Investment Trust

春泉產業信託

(a Hong Kong collective investment scheme authorized 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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020 AND CLOSURE OF REGISTER OF UNITHOLDERS

ABOUT SPRING REIT

Spring Real Estate Investment Trust ("**Spring REIT**") is a real estate investment trust constituted by a trust deed entered into on 14 November 2013 as amended by the first supplemental deed dated 22 May 2015 (collectively, the "**Trust Deed**") between Spring Asset Management Limited and DB Trustees (Hong Kong) Limited, as trustee of Spring REIT (the "**Trustee**"). Units of Spring REIT (the "**Units**") were first listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 5 December 2013.

Spring REIT offers investors direct exposure to two premium office buildings strategically located in Beijing Central Business District ("**Beijing CBD**") through its ownership in China Central Place Office Tower 1 and 2 (and the relevant portion of the car park) (the "**CCP Property**"). Being the first Hong Kong REIT to make an acquisition in the United Kingdom, Spring REIT's core property portfolio is complimented by a portfolio of 84 separate commercial properties in the United Kingdom ("**UK Portfolio**") which are leased out on a triple-net basis.

ABOUT THE MANAGER

Spring REIT is managed by Spring Asset Management Limited (as manager of Spring REIT, the "**Manager**"), a company incorporated in Hong Kong for the sole purpose of managing Spring REIT. As at 31 December 2020, the Manager is 80.4% owned by Mercuria Investment Co., Limited ("**Mercuria**"), which is a private equity investment firm listed on the Tokyo Stock Exchange (Stock Code: 7190) with notable shareholders such as Development Bank of Japan, Itochu Corporation and Sumitomo Mitsui Trust Bank, Limited.

DISTRIBUTION

The board of directors (the "**Board**") of the Manager, for and on behalf of Spring REIT, has resolved to declare a final distribution for the period from 1 July 2020 to 31 December 2020 (the "**Reporting Period**", "**2H 2020**" or "**2020 Final Distribution Period**") of HK10.5 cents per Unit ("**2020 Final Distribution**") to unitholders of Spring REIT (the "**Unitholders**") whose names appear on the register of Unitholders on 19 April 2021 (the "**Record Date**"). However, this 2020 Final Distribution may be subject to adjustment in the event of any issuance of new Units between 24 March 2021 and 19 April 2021. Before any such adjustment and together with the interim distribution of HK9.5 cents per Unit, total distributions for the year ended 31 December 2020 ("**FY2020**", "**Reporting Year**") amounts to a total of HK20.0 cents per Unit (FY2019: HK18.9 cents per Unit), representing a payout ratio of 95%.

Based on the closing price of HK$2.70 per Unit as at 31 December 2020, the Reporting Year Distribution per Unit ("**DPU**") represents a distribution yield of 7.4%. For details of the distribution, please refer to the section headed "Consolidated Statement of Distributions" in the financial information.

The presentation currency of Spring REIT is Renminbi ("**RMB**") and all distributions will be paid in Hong Kong Dollars ("**HK$**"). The exchange rate adopted for the 2020 Final Distribution is HK$1 = RMB0.8705, which represents the average of month-end central parity rates in the 2020 Final Distribution Period (as announced by the People's Bank of China).

The Manager confirms that the 2020 Final Distribution is composed only of consolidated profit after tax, before transactions with unitholders and non-cash adjustments for the 2020 Final Distribution Period.

In accordance with the Trust Deed, the Manager's current policy is to distribute to Unitholders at least 90% of Total Distributable Income ("**TDI**") in each financial year. The Manager also has the discretion to direct that Spring REIT makes distributions over and above the minimum 90% of TDI for any financial year if and to the extent that Spring REIT, in the opinion of the Manager, has funds surplus to its business requirements.

The Record Date for the 2020 Final Distribution will be 19 April 2021. The register of Unitholders will be closed for the purpose of determining the identity of Unitholders from 16 April 2021 to 19 April 2021, both days inclusive, during which period no transfer of Units will be registered. The 2020 Final Distribution is expected to be payable on 29 April 2021 to Unitholders whose names appear on the register of Unitholders on the Record Date.

In order to qualify for the 2020 Final Distribution, all completed transfer forms in respect of transfer of Units (accompanied by the relevant Unit certificates) must be lodged for registration with Tricor Investor Services Limited, Spring REIT's unit registrar in Hong Kong, whose address is Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 15 April 2021.

CHAIRMAN STATEMENT

Dear Unitholders,

On behalf of the Board of the Manager, I am pleased to present the financial results of Spring REIT for the financial year ended 31 December 2020. The unprecedented and extreme events during the year, mainly associated with the COVID-19 pandemic and continued tensions between China and the US, severely impacted global economic stability. I am therefore pleased to report that Spring REIT, although inevitably affected by these events, has bucked the general market trend to deliver 15.7% growth in distributable income and 5.8% growth in DPU, amounting to RMB268.72 million and HK20.0 cents respectively. Our encouraging results in such a challenging year bear testimony to the value of our business model, the quality of our assets, and the strategic decisions we have made in the past.

Performance Review

In the face of the pandemic, Spring REIT's DPU for 2020 increased by 5.8% year-on-year ("**YoY**"), thanks to a steady performance by Spring REIT's Beijing asset, coupled with growth largely driven by careful financial management initiatives, a low interest environment and a stronger RMB.

In terms of Spring REIT's performance in its primary market in Beijing, key macro factors affecting that market in 2020 included the outbreak of COVID-19, economic slowdown, and the ongoing trade tensions between China and the US. The latter in particular led to multinational companies becoming more conservative and more cost-conscious in relation to their China strategy, as they were waiting for clearer signs of stability. This has affected their readiness to expand in Beijing, and in some cases even to remain in the city. Such caution, combined with an influx of new office supply in Beijing CBD during the year, weighed heavily on the city's office leasing market. As a result, the Beijing CBD office vacancy rate as of 31 December 2020 rose to 18.6%, while average rents in the district fell by more than 10% YoY.

Although our CCP Property in Beijing did not exhibit growth in the challenging environment, it nonetheless remained resilient in a rather lacklustre market. Its performance bore witness to the fact that high quality buildings like our CCP Property hold a strong edge in Beijing's highly competitive leasing market. While leasing activities in the broader market came to a standstill due to the outbreak of COVID-19 in the first half of the year, we saw a gradual rebound in the second half. In the meantime, passing rent declined marginally throughout the year, despite recording a positive rental reversion in our CCP Property. As for occupancy rate, it declined to 90% in the second half of 2020 from 93% in the first half of 2020, reflecting a highly competitive market impacted by the downsizing and departure of a large number of small and medium-sized enterprises ("**SMEs**") from Beijing CBD throughout the year, according to Jones Lang LaSalle ("**JLL**").

In a year when new leasing activities were grinded to a standstill, we focused heavily on initiatives to retain existing quality tenants. Incentives were offered for expiring tenants to renew their leases, and leasing terms were particularly flexible in accommodating tenants' needs by helping them to adjust their new requirement for space. Much attention was also paid to ensuring the CCP Property was consistently spotlessly clean and hygienic, and at no point were any cases of COVID-19 reported in or associated with the building. This was a valuable reassurance for tenants at a difficult time. Other actions, such as the distribution of shopping coupons, were undertaken to generate goodwill with our tenants and emphasise the added value of doing business from the CCP Property.

Spring REIT's UK Portfolio, comprising 84 properties all occupied by the vehicle servicing company Kwik Fit (GB) Limited ("**Kwik Fit**"), continued to operate steadily throughout the year. Kwik Fit's operations were designated by the UK Government as one of the essential services allowed to continue operating throughout the COVID-19 lockdowns in that country. Towards the end of 2020, an agreement to dispose of a small parcel of unused land adjacent to one of the Kwik Fit sites, in Stirling in Scotland, was entered into with a local developer. While the transaction was financially insignificant, if it comes to completion, the buyer's plan to redevelop the site and bring in a well-known coffee drive-through operation should enhance the customer experience at the Kwik Fit shop next door, benefitting both the tenant and Spring REIT.

While the core real estate business at Spring REIT was affected by a soft macroeconomic environment, we took advantage of two macro factors in the year to enhance Spring REIT's balance sheet. One was the lower funding costs, as interest rates continued to decline. The other was China's success at controlling COVID-19, which led to a quicker recovery for the country than most of the rest of the world, with the side-effect of a stronger RMB.

Throughout the second half of 2020, Spring REIT continued to enjoy the fruits of the highly efficient capital structure put in place during the 2019 refinancing exercise and the subsequent bond conversion in February 2020. Interest rates on Spring REIT's loans have been kept well under control, with overall debt levels being lowered further as a result of the bond conversion. During the year, the Manager took advantage of low interest rates to fix the interest cost of 74.4% of all Spring REIT's US$ floating rate exposure by entering into several interest rate swaps, helping ensure good financial stability. Its gearing ratio percentage stood in the low 30s, at a very manageable level. Further, the strengthening of the RMB helped to reduce both Spring REIT's GBP and US$ debt exposure and hence its gearing ratio. The stronger currency directly benefitted Spring REIT because our operations are denominated in RMB, while our loans and interest expenses are USD-denominated and our DPU is paid in HKD. Overall, its strong and stable balance sheet has been instrumental in enabling Spring REIT to weather the various storms of 2020, and preparing it to face any potential volatility ahead.

At the annual general meeting held in May 2020, Spring REIT obtained a general mandate from the Unitholders to conduct unit repurchasing. Since then, we have been consistently buying back units in a move that will bring longer-term benefits to existing Unitholders. Following the outbreak of COVID-19 and a general decline in the stock market in early 2020, Spring REIT's Unit price has recovered strongly, ending the year at a level much closer to its pre-COVID price. In 2021, we intend to extend the buyback mandate in order to retain the flexibility to repurchase the units as and when the opportunity arises.

The Manager has shown its commitment in the field of Environmental, Social and Governance ("**ESG**") through the establishment of a dedicated ESG taskforce. The taskforce will be responsible for monitoring ESG-related performances as well as setting certain prescribed ESG targets to be applied to properties and management companies associated with Spring REIT. This commitment to enhancing environmental standards was also seen in the accreditation achieved by the CCP Property in Beijing; it was awarded a 'Platinum' LEED rating on its certification in March 2020, the highest level. The high environmental quality of the CCP Property is good for tenants and adds a strong competitive edge to its positioning in the leasing market, especially among global tenants who are placing increasing emphasis on ESG commitments of the landlords.

An important step forward during the year was the conversion of the convertible bonds held by an investment consortium led by Sino-Ocean Group Holding Limited ("**Sino Ocean Group**") in February 2020. This has resulted in Sino Ocean Group now holding a significant stake in Spring REIT. Sino Ocean Group has a wide involvement in and an extensive business network across the property sector in Mainland China and beyond. Its stake in Spring REIT therefore represents a vote of confidence in the prospects of Spring REIT and potentially a route to new, high quality investment opportunities. The restrictions brought about by COVID-19 have reduced our ability to pursue these opportunities actively during the year, but we are looking forward to the future as restrictions are eased. In mid-2020, Sino Ocean Group further strengthened its strategic relationship with Spring REIT by investing in a 9.8% stake in the Manager, a move which accentuates that Sino Ocean Group's belief in and commitment to Spring REIT and represents a significant and exciting step forward for us.

Just before the close of 2020, Huamao Property Holdings Limited ("**Huamao Property**") increased its interest in Units to more than 12%, making it a substantial Unitholder. Through it, Spring REIT is in a position to forge closer ties with Huamao Property which, through its subsidiary Beijing Guohua, owns a significant portion of the mixed-use development China Central Place in which Spring REIT's CCP Property is situated. We welcome Huamao Property's investment in Spring REIT and expect to see continued synergies for the entire China Central Place community, including office tenants, shoppers, retailers, residents, hotel operators and guests.

Outlook

Although 2020 brought considerable pressure to bear on the Beijing property market, the local government's handling of the pandemic there has meant that by year end, there is a sense that the worst is over and there is light at the end of the tunnel. Other factors are giving rise to a cautious optimism too. With the flood of new office supply in Beijing CBD that has appeared on the market in recent years almost over, limited new supply projected as land available for future development dries up. Further, statistics show that the Chinese economy is currently on a fast-track to recovery by comparison with the rest of the world, especially for the technology sector, which is likely to lead to rising office demand. While the trend is for domestic rather than international growth, Spring REIT is confident that the strong domestic information technology and financial sectors have the ability to take up much of the previous foreign demand. For Spring REIT, most of the major leases due to expire in the first half of 2021 have been secured for renewal. It will take time for the Beijing market to absorb the new office supply, which in the near team is expected to weigh on the rental levels and occupancy rates across the market. The Manager will remain vigilant over Spring REIT's leasing operation for the upcoming year.

Another development for Spring REIT is the recent relaxation by the Securities and Futures Commission ("**SFC**") on certain investment restrictions previously in place under the Code of Real Estate Investment Trusts ("**REIT Code**"). Among other changes, the revised rules now allow higher borrowing limits as well as relaxed thresholds for a REIT's investment in minority-owned properties. For a relatively small REIT such as Spring REIT, these changes will bring more opportunities for investment in the future, giving us greater scope to acquire properties or part shares in properties. Spring REIT is currently actively looking to take advantage of them by seeking commercial properties for investment, especially now that more property companies are starting to deleverage by disposing surplus properties.

As we emerge from a difficult year and look ahead to 2021, a number of positive signs suggest that Spring REIT's core CCP Property in Beijing is in a strong position to be at the forefront of recovery. We expect it to deliver acceptable returns throughout the year, with additional steady returns being provided by the UK Portfolio. Our enhanced strategic relationship with Sino Ocean Group is paving the way for potential high-quality investment opportunities arising in the year ahead, and Spring REIT will be focused on ensuring any new acquisitions live up to the standards of quality and reliability of its existing assets.

The past year has been one in which Spring REIT and the Manager have benefitted immensely from the support and advice of many. I would like to extend our warm welcome to both Sino Ocean Group and Huamao Property to become significant Unitholders of Spring REIT and we thank them for their trust placed in the management team. I would also like to thank the sponsor, my fellow directors, the management team and each individual staff member. Thanks too to our Unitholders, who have supported strategic decisions and given the green light to new initiatives. The entire team has worked well together, with the shared goal of enhancing the value of our portfolio in ways that will deliver steady long-term distributions to Unitholders.

MANAGEMENT DISCUSSION AND ANALYSIS

CCP Property Operation Review

Beijing office market overview

The Beijing CBD is home to tenants from a wide range of industries, including many from the finance and insurance, professional services, and manufacturing industries. It holds the largest amount of Grade-A office stock in Beijing, amounting to 2.59 million sqm as at the end of 2020, and accounting for 25.5% of the city's total Grade-A office space of 10.18 million sqm.

The effects of the economic downturn continued to depress new leasing demand in the second half of 2020. However, there was a rebound in net absorption due to rising relocation demand from companies looking to take advantage of the more favourable leasing environment, combined with the fact that a sizable amount of self-use space was reserved by building owners in new completions. Domestic companies continued to be a steady source of demand, with the finance and information technology industries being the main contributors. On the supply side, several projects continued to push back their completion dates, helping to mitigate supply pressure to an extent. Nonetheless, during the second half, one project was completed in the Beijing CBD core area. Soft demand environment increased pressure on landlords in the area, many have been compelled to offer aggressive rental concessions or to become more flexible in their leasing terms.

COVID-19 has intensified polarisation in the Beijing CBD, with high-quality projects standing out from the rest of the market. We are proud to report that the CCP Property has maintained stable rental and above-market occupancy rates over the year, bucking the general market trend. The quality of our tenant portfolio and of the building itself have been critical in weathering the many headwinds in 2020, and quality will remain one of our biggest assets.

Beijing Office Market Vacancy and Rental Rates in 2020

		Occupancy Rate[1]	YoY change	Average Rental Rate[2] (RMB/sqm/ month)	YoY change
CBD	Grade A	81.4%	-2.1 ppts	359	(10.4%)
	Premium Grade A	80.8%	-3.5 ppts	404	(11.4%)

1. Data is as at 31 December 2020.

2. YoY changes in average rental rate are on a chain-linked basis, to facilitate like-for-like comparison.

Source: JLL Research

A total of seven major office projects in Beijing are scheduled for completion in 2021. Most of these were originally due to be completed in 2020, but were delayed due to the uncertainties and disruption arising from COVID-19. The majority of these new projects are situated in the emerging area of Lize, while two projects are in the Beijing CBD area. As these come onto the market in the year ahead, owners of existing buildings in these areas may face some leasing challenges. After 2021, however, as new completions fill up and the supply surge comes to an end, supply pressure will hopefully alleviate and the market revert to its long-term uptrend.

Throughout the year we have been highly focused on retaining our current tenants, in particular by being accommodating in leasing negotiations. As a result, we have successfully secured renewals with most of our major tenants. Special efforts were also made to provide our tenants and visitors with a better, safer working environment, and at no point were any COVID-19 cases reported in the building. Encouragingly, we have seen an uptick in leasing enquiries since late last year. This, alongside positive economic data from China, give reasons to be optimistic about a smooth recovery in the economy and in the office market.

CCP Property Operation Performance

(in RMB millions) For the Year Ended 31 December	2020	2019	Change
Revenues			
– Rental income	**474.78**	484.10	(1.9%)
– Car park income	**4.86**	3.67	32.4%
– Other income (note i)	**14.00**	17.76	(21.2%)
	493.64	505.53	(2.4%)
Property Operating Expenses			
– Property management fee	**(10.76)**	(10.98)	(2.0%)
– Property taxes (note ii)	**(59.87)**	(58.58)	2.2%
– Withholding tax (note iii)	**(49.83)**	(50.33)	(1.0%)
– Other taxes (note iv)	**(5.99)**	(6.16)	(2.8%)
– Leasing Commission	**(1.90)**	(5.45)	(65.1%)
– Other expenses (note v)	**(6.75)**	(7.60)	(11.2%)
	(135.10)	(139.10)	(2.9%)
Net Property Income	**358.54**	366.43	(2.2%)

Notes:

i Other income mainly represents compensation paid by tenants for early termination of lease.

ii Property taxes represent real estate tax and land use tax.

iii Withholding tax in the People's Republic of China is calculated based on rental revenues at a rate of 10%.

iv Other taxes represent urban construction and maintenance tax, education surcharge and stamp duty.

v Other expenses mainly represent reinstatement cost.

For the full year of 2020, the CCP Property reported a 2.4% decrease in revenue YoY, with rental income generated from the office space decreasing by 1.9% YoY.

Property operating expenses are mainly comprised of tax expenses, namely property taxes, withholding tax and other taxes. Tax expenses in aggregate accounted for 85.6% of the total property operating expenses. The property management fee, payable at 2.0% of total revenue, accounted for 8.0% of the total property operating expenses.

A 2.9% YoY decrease in property operating expenses was recorded, mainly because of a decrease in leasing commission due to the subdued leasing environment.

As a result, net property income fell by 2.2% which was roughly in line with the decrease in revenue.

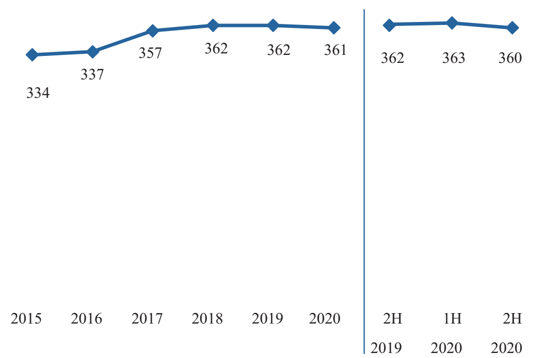
Rental Income

In 2H 2020, both passing rent and occupancy rate at the CCP Property declined, in sync with the wider market. Despite this, and encouragingly, these metrics continued to compare favourably with wider Beijing trends. The CCP Property registered an average occupancy of 89.5% in 2H 2020, and a total area of 27,360 sqm was leased out and renewed during the Reporting Year. Retention rate stood at 48% for the full year. Of the newly leased area, 42% was attributable to new lettings, with the remainder being renewals. Average passing rent (net of Value-Added Tax ("**VAT**")) stood at RMB360 per sqm for 2H 2020. Average rental reversion was 2.1% in the first half and 0.1% in the second half of 2020, resulting in a full year reversion of 0.7%. (FY2019: 2.1%).

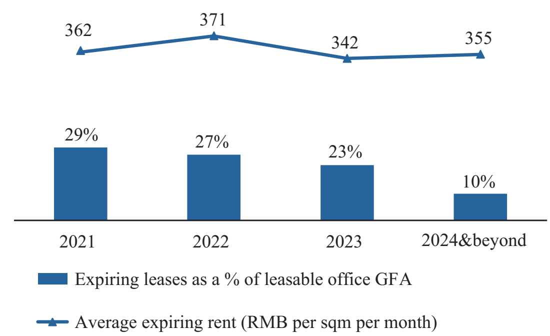
We have paid close attention to rental arrears and as of 31 December 2020, the outstanding amount was RMB1.01 million, representing 2.5% of our total rental income receivable in December 2020. While 54% of the rental arrears as of end of December have been recovered within 30 days, we will remain diligent in monitoring the situation going forward.

For the Six Months Ended	31-Dec-2020	Change	30-June-2020	Change	31-Dec-2019
Average Monthly Passing Rent (RMB/sqm)[1]	**360**	(0.8%)	363	0.3%	362
Average Occupancy[2]	**89.5%**	-3.9 ppts	93.4%	-0.8 ppts	94.2%

Passing Rents
(RMB per sqm per month)



Expiry Profile by GFA



1. Average monthly passing rent is presented net of business tax and VAT (where applicable) and is an average of the month-end figures throughout the specified period.

2. Occupancy rate is an average of the month-end figures throughout the specified period.

As at 31 December 2020, the weighted average lease expiry in terms of GFA was 610 days for the CCP Property. Leases expiring in the years ending 31 December 2021 and 31 December 2022 accounted for 29.3% and 27.4% of the total leasable GFA respectively, and the average unit rents for the expiring leases were RMB362 per sqm and RMB371 per sqm respectively.

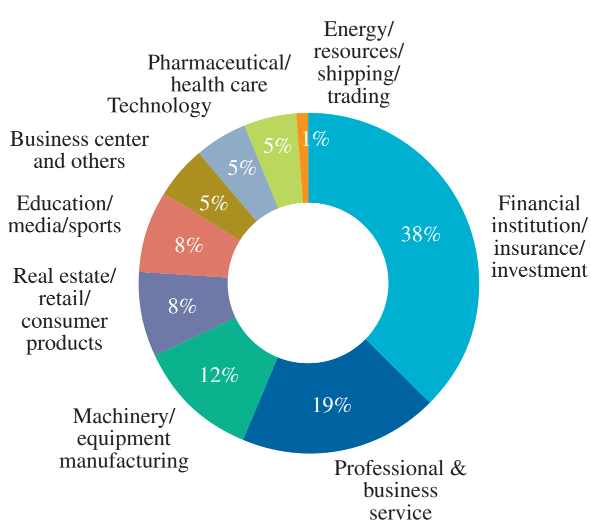
Tenancy base

The CCP Property had a total of 177 tenancies as at 31 December 2020. The top five tenants in terms of GFA accounted for 19.8% of the total revenue for the Reporting Year, and occupied 23.8% of total leased GFA as at 31 December 2020. Details of the top five tenants in terms of GFA are set out in the table below.

Tenants	Portion of total leased GFA
Epson	6.2%
Condé Nast	4.4%
Zhong De Securities	4.4%
Deutsche Bank	4.4%
Xinyuan	4.4%
Total	23.8%

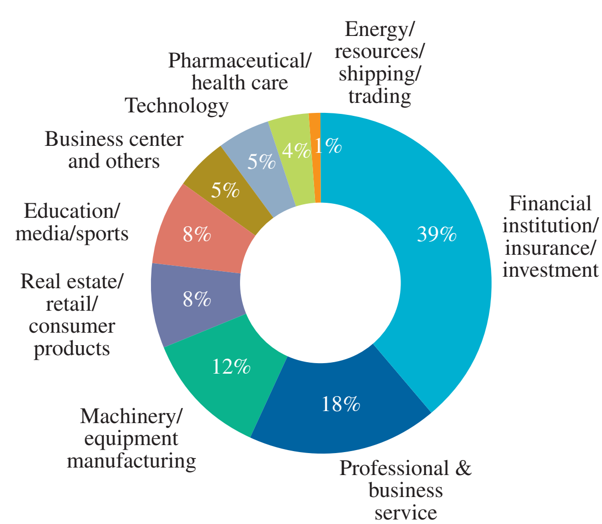
Tenants by Industry

As % of leased office GFA
(As of 31 December 2020)



Tenants by Industry

As % of monthly revenue
(For the month of December 2020)



Top 5 Real Estate Agents and Contractors for the Reporting Year

Real estate agents and contractors	Nature of services	Value of contract/ commission paid *RMB*	Relevant percentage
Beijing Hua-re Real Estate Consultancy Co. Ltd.[1]	Property Management	10,756,002	85.0%
深圳市道遠商業不動產諮詢有限公司	Leasing Agency	377,709	3.0%
北京戴德梁行諮詢有限公司	Leasing Agency	321,300	2.5%
北京高力國際物業服務有限公司	Leasing Agency	284,745	2.3%
中房天下(北京)房地產經紀有限公司	Leasing Agency	262,370	2.0%
TOTAL		12,002,126	94.8%

1 Beijing Hua-re Real Estate Consultancy Co. Ltd is 40% owned by Mercuria, which also holds a 80.4% shareholding in the Manager.

UK Portfolio Operation Review

Spring REIT completed its acquisition of the UK Portfolio in July 2017. Each of the UK Portfolio's 84 properties is under a long-term lease with the tenant Kwik Fit, a leading car servicing operator in the United Kingdom, with all but one of the leases expiring in March 2032. Currently, the UK Portfolio has an occupancy rate of 100%, with an annual contract rental income of approximately GBP4.55 million. Spring REIT enjoys substantial pass through of rental income as the leases are "full repairing and insuring" in nature, under which the tenant pays all real estate taxes, building insurance, and maintenance (the triple "**nets**") on the properties in addition to any normal fees that are specified under the agreement (e.g. rent, utilities, etc.).

Financial Results Highlights

For the Year Ended 31 December	2020	2019	Change
(in RMB millions unless otherwise specified)			
Revenue	**533.17**	546.59	(2.5%)
Property operating expenses	**(135.69)**	(139.77)	(2.9%)
Net property income	**397.48**	406.82	(2.3%)
Net property income margin	**74.6%**	74.4%	+0.2 ppt
G&A expenses	**(72.07)**	(67.35)	7.0%
Cash interest expenses	**(95.78)**	(151.93)	(37.0%)
(Loss)/profit after taxation	**(189.92)**	223.06	(185.1%)
Total distributable income	**268.72**	232.29	15.7%

Units Information	2020	2019	Change
DPU *(HK cents)*	**20.0**	18.9	5.8%
Payout ratio	**95%**	100%	-5.0 ppts
Net asset value per Unit *(HK$)*	**5.23**	5.61	(6.8%)
Number of Units outstanding	**1,460,872,865**	1,285,813,315	13.6%

As at 31 December	2020	2019	Change
Property valuation	**9,202.90**	9,873.27	(6.8%)
Total assets	**9,712.87**	10,429.37	(6.9%)
Total borrowings	**3,024.23**	3,704.84	(18.4%)
Net asset value	**6,432.90**	6,447.78	(0.2%)
Gearing ratio	**31.1%**	35.5%	-4.4 ppts

Financial Performance

Spring REIT's revenue for the Reporting Year was RMB533.17 million, 2.5% lower than that in 2019. After taking into account property operating expenses, net property income amounted to RMB397.48 million, representing a 2.3% decrease YoY and a net property income margin of 74.6% (FY2019: 74.4%).

General and administrative expenses amounted to RMB72.07 million. Meanwhile, a total finance income on interest-bearing borrowings of RMB66.77 million (FY2019: finance costs on interest-bearing borrowings of RMB192.42 million) was registered, which consisted of a non-cash foreign exchange gain of RMB172.13 million (FY2019: non-cash foreign exchange loss of RMB39.68 million) when US dollar bank borrowings were converted to RMB in the financial statements. Cash interest expenses amounted to RMB95.78 million, decreased by 37.0% as compared to RMB151.93 million in 2019. This was due to lower USD and GBP LIBOR rates, further amplified by the appreciation of the RMB.

Taking into account the decrease in the fair value of the CCP Property and the UK Portfolio of RMB672.68 million (FY2019: increase in fair value of RMB70.77 million), loss after taxation for the Reporting Year was RMB189.92 million (FY2019: profit after taxation of RMB223.06 million).

Spring REIT's total distributable income for the Reporting Period was RMB268.72 million, representing an increase of 15.7% YoY. Among other adjustments, the reported amount excludes the foreign exchange gain, gain on conversion of convertible bonds and the decrease in the fair value of the CCP Property and the UK Portfolio, which are non-cash in nature.

Financial Position

Spring REIT's principal valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**" or the "**Principal Valuer**"), performed the valuation of the Spring REIT portfolio as at 31 December 2020. The CCP Property was appraised at RMB8,553 million as at 31 December 2020, representing a 6.8% decrease in value compared to its valuation as at 31 December 2019. The valuation of the CCP Property was arrived at using the income capitalization approach, and cross-checked by the direct comparison approach. The decrease in valuation was attributable mainly to a decrease in the base rent. The capitalization rate/reversionary yield was 5.0% (30 June 2020: 5.0%; 31 December 2019: 5.0%).

The UK Portfolio was appraised at GBP72.9 million (equivalent to RMB649.90 million) as at 31 December 2020, representing a 3.7% decrease in GBP terms and a 7.1% decrease in RMB terms compared to its valuation as at 31 December 2019. The valuation of the UK Portfolio was arrived at using the income approach. The reversionary yield ranged from 4.6% to 8.5% (31 December 2019: 4.1% to 8.0%).

As at 31 December 2020, Spring REIT had in place aggregate debt facilities of approximately RMB3,024.23 million, comprising:

1. A secured term loan facility of US$403.00 million and an uncommitted undrawn term loan facility of US$80.00 million, totalling US$483.00 million (the "**CCP Facilities**"), which bears an interest rate of 3-month US dollar LIBOR plus 1.55% per annum and will expire in December 2024.

2. A facility of GBP50.00 million (equivalent to approximately RMB445.94 million) (the "**UK Facility**") extended by Sumitomo Mitsui Banking Corporation ("**SMBC**") and put in place on 26 January 2018. The UK facility bears an interest rate of 3-month GBP LIBOR plus 2.20% per annum and will expire in January 2022.

As at 31 December 2020, the gearing ratio, i.e. total borrowings to gross asset value, was 31.1%, compared with 35.5% at 31 December 2019.

In 2020, Spring REIT entered into multiple interest rate swaps ("**IRS**") contracts, with a weighted average swap rate of 0.52% per annum with maturity in December 2024, in tandem with the date of loan maturity of the CCP Facilities. The aggregate notional amount of these IRS contracts is US$300 million, representing 74.4% of the US$ loans of Spring REIT.

Spring REIT's investment properties, rent receivables, restricted bank balances, ordinary shares of RCA01, and Hawkeye Properties 501 were pledged to secure the loan facilities where applicable. Throughout the Reporting Year, Spring REIT, RCA01, RUK01 Limited, Hawkeye Properties 501 and Spring Treasury Limited have in all material respects complied with the terms and provisions of the finance and security documents.

The unrestricted cash of Spring REIT (together with its special purpose vehicles, the "**Group**") amounted to RMB154.44 million as at 31 December 2020, compared with RMB124.99 million as at 31 December 2019. The Group also had total undrawn bank loan facilities of US$80.00 million. With these financial resources, Spring REIT has sufficient liquid assets to satisfy its working capital and operating requirements. The cash is generally placed as short-term deposits, mostly denominated in US$. The Group's liquidity and financing requirements are reviewed regularly.

As at 31 December 2020, the gross asset value of the Group was RMB9,712.87 million, representing an decrease of 6.9% YoY.

Net Assets Attributable to Unitholders

As at 31 December 2020, net assets attributable to Unitholders stood at RMB6,432.90 million.

The net asset value per Unit as at 31 December 2020 was HK$5.23 (30 June 2020: HK$4.94; 31 December 2019: HK$5.61). This represented a 93.7% premium to the closing price of the Units of HK$2.7 as at 31 December 2020, the last trading day in the Reporting Year.

Capital Commitments

As at 31 December 2020, the Group had no significant capital commitments.

Employees

Spring REIT is managed by the Manager and did not directly employ any staff during the Reporting Year.

CORPORATE GOVERNANCE

With the objective of establishing and maintaining high standards of corporate governance, certain policies and procedures have been put in place to promote the operation of Spring REIT in a transparent manner and with built-in checks and balances. The corporate governance policies of Spring REIT have been adopted with due regard to the requirements under Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), with necessary changes, as if those rules were applicable to real estate investment trusts in Hong Kong.

The Manager was established for the sole purpose of managing Spring REIT. The Manager is committed to maintaining good corporate governance practices and procedures. The current corporate governance principles emphasize on accountability to all stakeholders, resolution of conflict of interest issues, transparency in reporting, and compliance with relevant procedures and guidelines. The Manager has adopted a compliance manual (the "**Compliance Manual**") for use in relation to the management and operation of Spring REIT, which sets out the key processes, systems and measures, and certain corporate governance policies and procedures to be applied for compliance with all applicable legislation and regulations. The Board plays a central supportive and supervisory role in the corporate governance duties. It regularly reviews the Compliance Manual and other policies and procedures on corporate governance and on legal and regulatory compliance, approving changes to governance policies in light of the latest statutory regime and international best practices and reviewing corporate governance disclosures.

During the Reporting Year, both the Manager and Spring REIT have in material terms complied with the provisions of the Compliance Manual including the corporate governance policy set out in Schedule 5 of the Compliance Manual, the Trust Deed, the REIT Code and applicable provisions of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") and the Listing Rules.

Authorization Structure

Spring REIT is a collective investment scheme constituted as a unit trust and authorized by the SFC under section 104 of the SFO and regulated by the SFC pursuant to the applicable provisions of the SFO, the REIT Code and the Listing Rules. The Manager has been authorized by the SFC under section 116 of the SFO to conduct the regulated activities of asset management. As at the date of this announcement, Mr. Leung Kwok Hoe, Kevin (Executive Director and Chief Executive Officer of the Manager), Mr. Nobumasa Saeki (Executive Director of the Manager), Mr. Chung Wai Fai, Michael (Alternate Director of the Manager) and Ms. Alice Yu (Chief Compliance Officer of the Manager) are the responsible officers of the Manager (the "**RO**") pursuant to the requirements under section 125 of the SFO and Paragraph 5.4 of the REIT Code. The ROs have completed the Continuous Professional Training as required by the SFO for the Reporting Year. Mr. Leung Kwok Hoe, Kevin, Executive Director and Chief Executive Officer of the Manager, was approved by the SFC as an approved person of the Manager pursuant to sections 104(2) and 105(2) of the SFO.

DB Trustees (Hong Kong) Limited is registered as a trust company under section 77 of the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong). The Trustee is qualified to act as a trustee for collective investment schemes authorized under the SFO pursuant to the REIT Code.

New Issue of Units

During the Reporting Year, an aggregate of 176,274,550 new Units were issued which comprised of the followings:

(a) a total of 15,648,521 new Units were issued to the Manager as payment of part of the Manager's fees. Please refer to the announcements dated 17 April 2020, 29 April 2020, 6 August 2020 and 30 October 2020 for more details; and

(b) 160,626,029 new Units were issued pursuant to the conversion of the HK$585,000,000 1.75% guaranteed convertible bonds. Details of issuing of convertible bonds and conversion of such convertible bonds were set out in the announcements dated 25 November 2019, 27 November 2019 and 12 February 2020.

During the Reporting Year, the Manager (on behalf of Spring REIT) bought back a total of 1,215,000 Units on the Stock Exchange and all the Units bought back were cancelled prior to the financial year end. Please refer to the section headed "Purchase, Sale or Redemption of Units" for details.

The total number of Units in issue as at 31 December 2020 was 1,460,872,865 Units.

Purchase, Sale or Redemption of Units

During the Reporting Year, the Manager (on behalf of Spring REIT) bought back a total of 1,215,000 Units on the Stock Exchange at an aggregate consideration (excluding expenses) of approximately HK$3.3 million. Further details are set out as follows:

Month	Number of Units bought back	Purchase price per Unit		Approximate aggregate consideration (excluding expenses)
		Highest	Lowest	
		HK$	*HK$*	*HK$'000*
2020				
August	81,000	2.6200	2.4500	209
September	386,000	2.6500	2.4800	996
October	73,000	2.6600	2.5975	194
November	407,000	2.9150	2.5933	1,132
December	268,000	2.9121	2.8200	778

All the Units bought back were cancelled prior to the financial year end. Unit buy-backs by the Manager during the Reporting Year were carried out pursuant to the general mandate to buy back Units granted by the Unitholders that was in force in the relevant time, and were made in the interest of Spring REIT and the Unitholders as a whole. The average cost (excluding expenses) of the Units bought back was approximately HK$2.71 per Unit.

Save as disclosed above, there was no purchase, sale or redemption of the Units by Spring REIT or any of the special purpose vehicles that are owned and controlled by Spring REIT during the Reporting Year.

Public Float of the Units

Based on information that is publicly available and within the knowledge of the Directors, Spring REIT maintained a public float of not less than 25% of the issued and outstanding Units as of 31 December 2020.

Review of Annual Results

The consolidated annual results of Spring REIT for the Reporting Year have been reviewed by the Audit Committee and the Disclosures Committee of the Manager in accordance with their respective terms of reference.

Scope of work of the auditor

The figures set out in this announcement in respect of our Group's results for the year ended 31 December 2020 have been agreed by our Group's auditor, PricewaterhouseCoopers, to the amounts set out in our Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong/International Standards on Auditing, Hong Kong/International Standards on Review Engagements or Hong Kong/International Standards on Assurance Engagements, and consequently, no assurance has been expressed by PricewaterhouseCoopers on this announcement.

Issuance of the Annual Report

The annual report of Spring REIT for the year ended 31 December 2020 will be published on the websites of the Hong Kong Exchanges and Clearing Limited, at www.hkexnews.hk, and Spring REIT, at www.springreit.com, and will be sent to Unitholders on or before 30 April 2021.

Annual General Meeting

The 2021 annual general meeting of Spring REIT will be held on or around 27 May 2021, notice of which will be published and given to Unitholders in due course.

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

Hong Kong, 23 March 2021

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

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

		Year ended 31 December	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
Revenues	*5*	**533,171**	546,592
Property operating expenses	*6*	**(135,691)**	(139,772)
Net property income		**397,480**	406,820
General and administrative expenses	*7*	**(72,073)**	(67,349)
Fair value (loss)/gain of investment properties	*13*	**(672,678)**	70,767
Fair value (loss)/gain of right-of-use assets	*14*	**(664)**	138
Other gains/(losses), net	*8*	**90,729**	3,657
Operating (loss)/profit		**(257,206)**	414,033
Finance income		**3,168**	3,582
Finance income/(costs) on interest-bearing borrowings	*9*	**66,774**	(192,417)
(Loss)/profit before taxation and transactions with Unitholders		**(187,264)**	225,198
Income tax expense	*10*	**(2,660)**	(2,136)
(Loss)/profit for the year, before transactions with Unitholders *(note i)*		**(189,924)**	223,062
Distributions paid to Unitholders:			
– 2018 final distribution		**–**	(78,635)
– 2019 interim distribution		**–**	(116,757)
– 2019 final distribution *(note ii)*		**(117,685)**	–
– 2020 interim distribution *(note ii)*		**(121,415)**	–
		(429,024)	27,670

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Represented by:		
Change in net assets attributable to Unitholders, excluding issuance of new units and units bought back for cancellation	**(500,920)**	39,606
Amount arising from exchange reserve movements regarding translations of financial statements	**71,896**	(11,936)
	(429,024)	27,670

Notes:

(i) (Loss)/earnings per unit, based upon (loss)/profit for the year, before transactions with Unitholders and the weighted average number of units in issue, is set out in note 12.

(ii) 2020 interim distribution and 2019 final distribution of RMB121,415,000 and RMB117,685,000 respectively were paid during the year ended 31 December 2020. Total distribution for the year ended 31 December 2020 is presented in the consolidated statement of distributions.

The notes on pages 34 to 67 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Before transactions with Unitholders RMB'000	Transactions with Unitholders (note i) RMB'000	After transactions with Unitholders RMB'000
For the year ended 31 December 2020				
Loss for the year		**(189,924)**	**261,820**	**71,896**
Other comprehensive income:				
Items that may be reclassified to consolidated income statement				
Exchange losses on translation of financial statements		**(1,842)**	**–**	**(1,842)**
Items that may not be reclassified to consolidated income statement				
Exchange losses on translation of financial statements of Spring REIT		**(70,054)**	**–**	**(70,054)**
Total comprehensive income for the year	*ii*	**(261,820)**	**261,820**	**–**
For the year ended 31 December 2019				
Profit for the year		223,062	(234,998)	(11,936)
Other comprehensive income:				
Items that may be reclassified to consolidated income statement				
Exchange gains on translation of financial statements		1,421	–	1,421
Items that may not be reclassified to consolidated income statement				
Exchange gains on translation of financial statements of Spring REIT		10,515	–	10,515
Total comprehensive income for the year	*ii*	234,998	(234,998)	–

Notes:

(i) Transactions with Unitholders comprise the distributions paid to Unitholders of RMB239,100,000 (2019: RMB195,392,000), and change in net assets attributable to Unitholders excluding issuance of new units, which is a decrease of RMB500,920,000 (2019: an increase of RMB39,606,000).

(ii) In accordance with the Trust Deed, Spring REIT is required to distribute not less than 90% of total distributable income to Unitholders for each financial year. Accordingly, the units contain contractual obligations of Spring REIT to pay cash distributions. The Unitholders' funds are therefore classified as a financial liability rather than equity in accordance with International Accounting Standard 32: Financial Instruments: Presentation. Consistent with Unitholders' funds being classified as a financial liability, the distributions to Unitholders and change in net assets attributable to Unitholders, excluding issuance of new units and units bought back for cancellation, are part of finance costs which are recognised in the consolidated income statement. Accordingly, the total comprehensive income, after transactions with Unitholders is zero.

The notes on pages 34 to 67 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF DISTRIBUTIONS

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019
	RMB'000	*RMB'000*
(Loss)/profit for the year, before transactions with Unitholders	**(189,924)**	223,062
Adjustments:		
– Fair value loss/(gain) of investment properties	**672,678**	(70,767)
– Fair value loss/(gain) of right-of-use assets	**664**	(138)
– Gain on conversion of convertible bonds	**(56,699)**	–
– Change in fair values of derivative components of convertible bonds	**–**	(5,500)
– Net fair value losses of derivative financial instruments	**13,993**	3,737
– Manager's fee expenses in units in lieu of cash	**32,302**	41,455
– Amortisation of transaction costs for host liability components of convertible bonds and bank borrowings	**15,864**	2,820
– Unrealised foreign exchange (gains)/losses	**(220,154)**	37,622
Distributable income for the year *(note i)*	**268,724**	232,291
Total distributions of the year *(note ii)*	**255,288**	232,291
Represented by:		
Interim distribution, paid *(note iii)*	**121,415**	116,757
Final distribution, to be paid *(note iv)*	**133,873**	115,534
Total distributions of the year *(note ii)*	**255,288**	232,291
Percentage of total distribution over distributable income for the year	**95%**	100%
Distributions per unit to Unitholders		
– Interim distribution per unit, paid *(note iii)*	**HK9.5 cents**	HK10.0 cents
– Final distribution per unit, to be paid *(note iv)*	**HK10.5 cents**	HK8.9 cents
Distribution per unit for the year *(note v)*	**HK20.0 cents**	HK18.9 cents

The notes on pages 34 to 67 are an integral part of these consolidated financial statements.

Notes:

(i) Under the terms of the Trust Deed, the distributable income represents the (loss)/profit for the year before transactions with Unitholders, adjusted to eliminate the effects of certain non-cash transactions which have been recorded in the consolidated income statement for the year.

(ii) In accordance with the terms of the Trust Deed, Spring REIT is required to distribute to Unitholders not less than 90% of its total distributable income for each financial year. The Manager also has the discretion to make distributions over and above the minimum 90% of Spring REIT's total distributable income if and to the extent Spring REIT has funds surplus to meet its business requirements.

(iii) The interim distribution per unit for the six months ended 30 June 2020 was calculated based on the interim distribution of RMB121,415,000 for the period and 1,458,152,291 units in issue. The interim distribution was paid to Unitholders on 18 September 2020.

(iv) Subsequent to the year ended 31 December 2020 up to the date of declaration of the distribution, the Manager (on behalf of Spring REIT) bought back a total of 145,000 units on the Stock Exchange and all the units bought back were cancelled prior to the date of declaration of the distribution. Accordingly, the final distribution per unit of HK10.5 cents for the year ended 31 December 2020 is calculated based on the final distribution to be paid to Unitholders of RMB133,873,000 for the second half of the financial year and 1,460,727,865 units in issue as at 23 March 2021, being the date of declaration of the final distribution, rounded to the nearest HK0.1 cents.

The final distribution for the year ended 31 December 2020 is expected to be paid to Unitholders on 29 April 2021. Such final distributions per unit, however, may be subject to adjustment upon the issuance of new units between 23 March 2021 (being the date of the declaration of the final distribution) and 19 April 2021 (the "**Record Date**"), if any.

The final distribution per unit of HK8.9 cents for the year ended 31 December 2019 was calculated based on the final distribution paid to the Unitholders of RMB115,534,000 for the second half of the financial year and 1,446,439,344 units in issue as at 17 April 2020, being the record date of 2019 Final Distribution, rounded to the nearest HK0.1 cent. The final distribution for the year ended 31 December 2019 was paid to Unitholders on 29 April 2020.

(v) All distributions to Unitholders are determined and paid in Hong Kong dollar.

The notes on pages 34 to 67 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Notes	As at 31 December 2020 RMB'000	2019 RMB'000
Assets			
Investment properties	*13*	**9,202,902**	9,873,265
Right-of-use assets	*14*	**15,073**	16,304
Restricted bank balances	*17*	**313,924**	382,115
Trade and other receivables	*16*	**26,531**	32,693
Cash and cash equivalents	*17*	**154,435**	124,992
Total assets		**9,712,865**	10,429,369
Liabilities, excluding net assets attributable to Unitholders			
Interest-bearing borrowings	*19*	**3,024,232**	3,199,602
Convertible bonds	*20*	**–**	505,239
Derivative financial instruments	*15*	**16,550**	4,102
Lease liabilities	*14*	**11,504**	12,072
Rental deposits	*18*	**147,980**	155,410
Trade and other payables	*18*	**77,033**	102,998
Income tax payable		**2,669**	2,171
Total liabilities, excluding net assets attributable to Unitholders		**3,279,968**	3,981,594
Net assets attributable to Unitholders		**6,432,897**	6,447,775
Units in issue *('000)*	*21*	**1,460,873**	1,285,813
Net asset value per unit attributable to Unitholders			
In RMB		**4.40**	5.01
In HK$		**5.23**	5.61

For and on behalf of the Board of Directors of
Spring Asset Management Limited, as the Manager

Leung Kwok Hoe, Kevin	**Nobumasa Saeki**
Executive Director	*Executive Director*

The notes on pages 34 to 67 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Reserves *(note)* *RMB'000*	Net assets attributable to Unitholders *RMB'000*
As at 1 January 2020	**–**	**6,447,775**
Loss for the year and before transactions with Unitholders	**–**	**(189,924)**
Exchange losses on translation of financial statements	**(71,896)**	**–**
Amount arising from exchange reserve movements	**71,896**	**(71,896)**
Distributions paid to Unitholders:		
– 2019 final distribution	**–**	**(117,685)**
– 2020 interim distribution	**–**	**(121,415)**
Change in net assets attributable to Unitholders for the year ended 31 December 2020, excluding issuance of new units and units bought back for cancellation	**–**	**(500,920)**
Issuance of units *(note 21)*	**–**	**488,877**
Units bought back for cancellation *(note 21)*	**–**	**(2,835)**
	–	**486,042**
As at 31 December 2020	**–**	**6,432,897**

Note: Reserves include exchange reserve, arising from translation of financial statements and retained earnings, representing amount set aside to offset exchange reserve movements.

The notes on pages 34 to 67 are an integral part of these consolidated financial statements.

	Reserves *(note)* *RMB'000*	Net assets attributable to Unitholders *RMB'000*
As at 1 January 2019	–	6,366,978
Profit for the year and before transactions with Unitholders	–	223,062
Exchange gains on translation of financial statements	11,936	–
Amount arising from exchange reserve movements	(11,936)	11,936
Distributions paid to Unitholders:		
– 2018 final distribution	–	(78,635)
– 2019 interim distribution	–	(116,757)
Change in net assets attributable to Unitholders for the year ended 31 December 2019, excluding issuance of new units	–	39,606
Issuance of units *(note 21)*	–	41,191
As at 31 December 2019	–	6,447,775

Note: Reserves include exchange reserve, arising from translation of financial statements and retained earnings, representing amount set aside to offset exchange reserve movements.

The notes on pages 34 to 67 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Spring Real Estate Investment Trust ("**Spring REIT**") is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). Spring REIT was established on 25 November 2013 and its units are listed on the main board of The Stock Exchange of Hong Kong Limited (the "**HKSE**") on 5 December 2013. Spring REIT is governed by the Trust Deed entered into between Spring Asset Management Limited (the "**Manager**") and DB Trustees (Hong Kong) Limited (the "**Trustee**") on 14 November 2013 as amended by First Supplemental Deed dated 22 May 2015 (together the "**Trust Deed**"), and the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong (the "**REIT Code**"). The addresses of the registered offices of the Manager and the Trustee are Room 2801, 28/F, Man Yee Building, 68 Des Voeux Road Central, Hong Kong and 60/F, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong, respectively.

The principal activity of Spring REIT and its subsidiaries (together, the "**Group**") is to own and invest in income-producing real estate assets.

The consolidated financial statements are presented in Renminbi ("**RMB**"). The functional currency of Spring REIT is Hong Kong dollars ("**HK$**"), the distribution of Spring REIT is determined and paid in HK$.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") and Interpretations ("**Int**") issued by the International Accounting Standards Board ("**IASB**"), the requirements of the Trust Deed and the relevant disclosure requirements as set out in Appendix C of the REIT Code issued by the Securities and Futures Commission of Hong Kong.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, right-of-use assets, derivative financial instruments and derivative components of convertible bonds, which are carried at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

New standards, amendments, improvements and interpretation to existing standards adopted by the Group

The Group has adopted all of the new standards, amendments, improvements and interpretation to existing standards issued by the International Accounting Standards Board that are relevant to the Group's operations and mandatory for annual accounting periods beginning 1 January 2020.

New standards, amendments, improvements and interpretation to existing standards effective in 2020:

IAS 1 and IAS 8 Amendments	Definition of Material	1 January 2020
IAS 39, IFRS 7 and IFRS 9 Amendments	Interest Rate Benchmark Reform	1 January 2020
IFRS 3 Amendments	Definition of a Business	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020

The adoption of these new standards, amendments, improvements and interpretation to existing standards does not have a material impact on the accounting policies or results and the financial position of the Group and/or the disclosure set out in these consolidated financial statements.

New standards, amendments, improvements and interpretation to existing standards not yet adopted

The following new standards, amendments, improvements and interpretation to existing standards are in issue but not yet effective, and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
IFRS 16 Amendments	COVID-19 Related Rent Concessions	1 June 2020
IAS 39, IFRS 9, IFRS 7, IFRS 4 and IFRS 16 Amendments	Interest Rate Benchmark Reform – Phase 2	1 January 2021
IFRS 3, IAS 16 and IAS 37 Amendments	Narrow-Scope Amendments	1 January 2022
Annual Improvements to IAS 41, IFRS 1, IFRS 9, and IFRS 16	Annual Improvements 2018-2020 Cycle	1 January 2022
IFRS 17	Insurance Contracts	1 January 2023
IFRS 10 and IAS 28 (2011) Amendments	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group will apply the above new standards, amendments and interpretations to existing standards as and when they become effective. The Group has already commenced an assessment of the impact of these new standards, amendments and interpretations to existing standards, and anticipated that the adoption of new standards, amendments and interpretations to existing standards will not have a material effect on the Group's operating result or financial position.

(b) Consolidation

The consolidated financial statements incorporate the assets and liabilities of Spring REIT and its subsidiaries as at 31 December 2020 and their results for the year then ended.

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, for rental income in the ordinary course of the Group's activities. Amounts disclosed as revenue are net of returns and amounts collected on behalf of third parties. Revenue is recognised when or as the control of the good or service is transferred to the customer.

(i) Rental and car park income

Operating lease rental income from investment properties is recognised in the consolidated income statement on a straight-line basis over the terms of lease agreements. Lease incentives provided, such as rent-free periods, are amortised on a straight-line basis and are recognised as a reduction of rental income over the respective term of the lease.

(ii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(d) Property operating expenses

Property operating expenses include property related outgoings and other expenses, are recognised on an accrual basis.

(e) Investment properties

Investment properties, principally comprising freehold land, leasehold land and buildings, are held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs.

After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuer. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the consolidated income statement as part of a valuation gain or loss.

(f) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at its fair value at the end of each reporting year. The change in the fair value is recognised in the consolidated income statement.

(g) Trade and other receivables

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. The amount of the provision is recognised in the consolidated income statement.

In the event that lease incentives, including rent free periods, are given to enter into operating leases, such incentives are recognised as deferred rent receivables. The aggregate benefit of incentives is recognised as a reduction of rental income on a straight-line basis.

(h) Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits held at call with banks with original maturities of three months or less.

(i) Convertible bonds

The fair value of derivative components of the convertible bonds must be determined first at inception of the contract. The host liability components is measured as the residual amount that results from deducting the fair value of the derivative components from the initial fair value of the convertible bonds as a whole. This is recognised and included in liability and subsequently measured at amortised cost.

Transaction costs relating to the debt component are included in the carrying amount of the host debt portion and amortised over the period of the convertible bond using the effective interest method.

(j) Interest-bearing borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

(k) Borrowing costs

Borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

(l) Payables and provisions

(i) Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(ii) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation that reflects current market assessments of the time value of money and the risks specific to the obligation.

(iii) Rental deposits

Rental deposits arise when the Group enters into lease agreement directly with a tenant.

(m) Taxation

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(n) Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). Spring REIT's functional currency is HK$ and the consolidated financial statements are presented in RMB.

The Group's functional currency is different from the presentation currency and the results and financial position are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statement within "finance costs". All other foreign exchange gains and losses are presented in the consolidated income statement within other gains or losses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in consolidated income statement as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

(o) Leases

(i) At initial recognition

The Group acting as lessee recognises a right-of-use asset and a lease liability for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The right-of-use asset is measured at it's cost which includes the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date (less any lease incentives received), any initial direct costs incurred by the Group; and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate adjusted for the length of lease.

Lease liabilities include the net present value of the following lease payments:

- fixed lease payments, included in-substance fixed payments, less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the exercise price of purchase options, if the Group is reasonably certain to exercise the option;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, or the penalty payable on the exercise of a termination option unless the Group is reasonably certain not to exercise the option; and
- any amounts expected to be payable under residual value guarantees.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the investment properties used in the Group's leasing activities. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group is using the lessee's incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

(ii) Subsequent measurement

The Group measures the right-of-use assets that meet the definition of investment property using the fair value model applied to its investment property.

The lease liability is measured as follows:

(a) increasing the carrying amount to reflect interest on the lease liability;

(b) reducing the carrying amount to reflect the lease payments made; and

(c) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

Where the Group is exposed to potential future increases in variable lease payments based on an index or rate, these are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease liability

payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(p) Unitholders' funds as a financial liability

In accordance with the Trust Deed, Spring REIT is required to distribute to Unitholders not less than 90% of the Group's total distributable income for each financial year. Accordingly, the units contain a contractual obligation of the trust to pay to its Unitholders cash distributions. The Unitholders' funds are therefore classified as a financial liability rather than equity in accordance with IAS 32: Financial Instruments: Presentation. It is shown on the consolidated statement of financial position as the net assets attributable to Unitholders.

3 FINANCIAL RISK AND CAPITAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the senior management. The management manages and monitors these risk exposures to ensure appropriate measures are implemented on timely and effective manners.

(a) Market risk

(i) Foreign exchange risk

The subsidiaries of the Group operate in the People Republic of China (the "**PRC**") and the United Kingdom (the "**UK**") with functional currency in Renminbi ("**RMB**") and British Pound Sterling ("**GBP**") respectively. It is therefore exposed to foreign exchange risk arising from commercial transactions, and from recognised assets and liabilities that are denominated in a currency that is not the functional currency. This is primarily with respect to the US$.

As at 31 December 2020, if US$ had strengthened/weakened by 5% against the RMB with all other variables held constant, loss for the year would have been increased/ decreased by RMB163,575,000 (2019: profit for the year would decreased/increased by RMB172,448,000) respectively, mainly as a result of foreign exchange differences on translation of monetary assets and liabilities being denominated in USD that is not the functional currency items in the PRC such as cash and bank balance, other payables and borrowings.

As at 31 December 2020, if GBP had strengthened/weakened by 5% against the USD with all other variables held constant, loss for the year would have been decreased/ increased by RMB9,167,000 (2019: profit for the year would have been increased/ decreased by RMB10,324,000) respectively, mainly as a result of foreign exchange differences on translation of monetary assets and liabilities being denominated in USD that is not the functional currency items in the UK.

(ii) Interest rate risk

The Group's interest rate risk mainly arises from its long-term borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk which is partially offset by bank deposits at variable rate. Under the Group's interest rate management policy, the Group generally raises borrowings at floating rates and may use plain vanilla interest rate swaps to manage the risk where the Group forecasts a significant rise in interest rate in the foreseeable future.

As at 31 December 2020, the Group has six plain vanilla interest rate swaps with notional amount of US$50 million each to hedge the interest rate risk arising from the variable rate bank borrowings. The Group pays interest at fixed rates from 0.450% to 0.565% per annum and receives interest at the rate of 3-month USD LIBOR until 20 December 2024.

As at 31 December 2020, if interest rates had been 50 basis points higher/lower with all other variables held constant, (loss)/profit for the year would have been RMB3,249,000 higher/lower (2019: RMB11,196,000 lower/higher) respectively, mainly as a result of higher/lower interest expense on floating rate borrowings and after taking into consideration of interest rate swaps.

(b) Credit risk

Credit risk arises from the potential failure of the Group's counterparties to meet their obligations under financial contracts. The Group is exposed to credit risk on its deposits with financial institutions, derivative financial instruments as well as trade and other receivables.

For deposits with financial institutions, the Group has limited its credit exposure by restricting their selection of financial institutions to reputable banks with sound credit ratings.

In respect of credit exposures to tenants, credit risk exposure is minimised by undertaking transactions with a large number of counterparties and conducting credit evaluations on prospective tenants before lease agreements are entered into with tenants. Monthly rentals are payable in advance by tenants in accordance with the leases. The Group also has policies in place to ensure that rental security deposits are required from tenants prior to commencement of leases. It also has other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the Group regularly reviews the recoverable amount of each individual trade receivable to ensure that adequate provision for impairment losses is made for irrecoverable amounts.

(c) Liquidity risk

Cash flow forecasting is performed by the Group's finance function ("**Group Finance**"). Group Finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its borrowing facilities (note 19) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal financial position ratio targets and, if applicable external regulatory or legal requirements.

Liquidity risk management includes maintaining sufficient cash, the availability of funding from operating cash flow and seeking stable financing activities. The Group will continue to monitor market conditions to assess the possibility of arranging longer term refinancing at favorable rates and extending the maturity profile of its debts.

The table below analyses the Group's financial assets into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity dates.

	Within 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2020				
Restricted bank balances	**–**	**–**	**313,924**	**–**
Trade and other receivables	**1,643**	**–**	**–**	**–**
Cash and cash equivalents	**154,435**	**–**	**–**	**–**
At 31 December 2019				
Restricted bank balances	–	–	382,115	–
Trade and other receivables	156	–	–	–
Cash and cash equivalents	124,992	–	–	–

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows which comprise both interest and principal cash flows.

	Within 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2020				
Trade and other payables	**20,459**	**–**	**–**	**–**
Rental deposits	**49,315**	**49,925**	**46,991**	**1,749**
Interest payable on borrowings	**66,337**	**47,517**	**105,306**	**–**
Derivative financial instruments (net settled)	**7,412**	**6,265**	**3,744**	**–**
Interest-bearing borrowings	**–**	**445,933**	**2,565,190**	**–**
Lease liabilities	**1,037**	**1,037**	**3,110**	**63,237**
At 31 December 2019				
Trade and other payables	33,042	–	–	–
Rental deposits	31,037	51,631	69,822	2,920
Interest payable on borrowings and convertible bonds	126,356	102,600	274,206	–
Convertible bonds	522,816	–	–	–
Derivative financial instruments (net settled)	9,308	5,786	–	–
Interest-bearing borrowings	–	–	3,268,035	–
Lease liabilities	1,043	2,085	2,085	66,313

The convertible bonds have been fully converted to new units on 12 February 2020, details was set out in note 20.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for Unitholders.

The Group monitors capital on the basis of the gearing ratio. The gearing ratio is calculated as total borrowings (2019: total borrowings and convertible bonds) divided by total assets.

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Total borrowings (2019: total borrowings and convertible bonds) *(notes 19 and 20)*	**3,024,232**	3,704,841
Total assets	**9,712,865**	10,429,369
Gearing ratio	**31.1%**	35.5%

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2020 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents financial instruments that are measured at fair values.

	Level 1	**Level 2**	**Level 3**	**Total**
At 31 December 2020	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Liabilities				
Derivative financial instruments	**–**	**16,550**	**–**	**16,550**
At 31 December 2019				
Liabilities				
Derivative financial instruments	–	4,102	–	4,102
Convertible bonds – derivative components	–	83,226	–	83,226

There were no transfers between levels 1, 2 and 3 during the year.

Valuation techniques used to derive the fair values of the derivatives are as follows:

As at 31 December 2020, the level 2 derivative financial instruments represented six (2019: three) plain vanilla interest rate swaps which are not traded in an active market. The fair values of these derivative financial instruments are based on prices quoted by financial institutions at the end of the reporting period.

As at 31 December 2019, the level 2 convertible bonds are not traded in an active market. The fair values of convertible bonds are determined using valuation techniques.

There were no changes in valuation techniques during the year.

The disclosures of the investment properties and right-of-use assets, that are measured at fair value, are set out in notes 13 and 14.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimates of fair value of investment properties

The fair value of each investment property is individually determined at each reporting date by independent valuer using valuation techniques. Details of the judgement and assumptions have been disclosed in note 13.

(b) Estimates of fair values of derivative financial instruments/convertible bonds

Fair values have been arrived at using valuations provided by the counterparty banks/valuer for each reporting period with reference to market data. Actual results may differ when assumptions and selections of valuation technique changes.

(c) Taxation

The Group is a foreign enterprise established outside the PRC and the UK. The Group is subject to various taxes in the PRC and the UK. Significant judgement is required in determining the provision for taxation including deferred taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises or writes back liabilities for anticipated tax issues based on estimates of whether additional taxes will be due or reversal to be made. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the taxation and deferred tax.

5 REVENUE AND SEGMENT INFORMATION

The Group holds investment properties in the PRC and the UK, and is principally engaged in property investment. Management has determined the operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions. Given that management review the operating results of the Group on an aggregate basis, no segment information is therefore presented.

For the year ended 31 December 2020, revenue of RMB493,636,000 (2019: RMB505,530,000) is attributable to tenants from the PRC investment properties and RMB39,535,000 (2019: RMB41,062,000) is attributable to tenants from the UK investment properties. As at 31 December 2020, investment properties of RMB8,553 million (2019: RMB9,174 million) is located in the PRC and RMB650 million (2019: RMB699 million) is located in the UK. Right-of-use assets of RMB 15.1 million (2019: RMB16.3 million) is located in the UK.

An analysis of revenues of the Group is as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Revenues		
Rental income	**518,810**	529,625
Car park income	**4,862**	3,670
Other income *(note i)*	**9,499**	13,297
	533,171	546,592

Note:

(i) Other income mainly represents compensation paid by tenants for early termination of lease.

6 PROPERTY OPERATING EXPENSES

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Property management fee	**11,314**	11,523
Property taxes *(note i)*	**59,866**	58,583
Other taxes *(note ii)*	**5,992**	6,156
Withholding tax *(note iii)*	**49,830**	50,328
Leasing commission	**1,899**	5,445
Reinstatement costs	**2,171**	6,573
Others	**4,619**	1,164
	135,691	139,772

Notes:

(i) Property taxes represent real estate tax and land use tax in the PRC. Real estate tax applicable to the Group's Beijing properties is calculated: (a) for leased area, at 12% of rental income; and (b) for vacant area, at 1.2% of the residual value of the relevant area.

(ii) Other taxes represent urban construction and maintenance tax, education surcharge and stamp duty in the PRC.

(iii) Withholding tax is calculated based on 10% of the revenues received from rental operation in the PRC.

7 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Manager's fee *(note i)*	**50,763**	54,120
Trustee fee	**1,763**	1,724
Valuation fee	**829**	903
Auditor's remuneration		
– Audit services	**1,788**	1,851
– Other assurance services	**2,238**	629
– Other non-assurance services	**681**	–
Legal and other professional fee	**13,036**	6,789
Others	**975**	1,333
	72,073	67,349

Note:

(i) The breakdown of the Manager's fee was set out in note 11.

8 OTHER GAINS/(LOSSES), NET

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Net fair value losses on derivative financial instruments at fair value through profit or loss	**(13,993)**	(3,737)
Change in fair values of derivative components of convertible bonds *(note 20)*	**–**	5,500
Gain on conversion of convertible bonds *(note 20)*	**56,699**	–
Foreign exchange gains, net	**48,023**	2,060
Other miscellaneous losses	**–**	(166)
	90,729	3,657

9 FINANCE INCOME/(COSTS)

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Interest expenses on bank borrowings *(note i)*	**(94,172)**	(146,230)
Interest expenses on convertible bonds	**(4,299)**	(3,724)
Interest expenses on derivative financial instruments	**(3,969)**	(1,798)
Interest expenses on lease liabilities	**(938)**	(983)
Foreign exchange gains/(losses) on bank borrowings *(note ii)*	**172,131**	(39,682)
Other borrowing costs	**(1,979)**	–
	66,774	(192,417)

Notes:

(i) Interest expenses on bank borrowings comprised contractual loan interest and amortised loan arrangement fee, which were recognised using the effective interest rate method.

(ii) Foreign exchange gains/(losses) on bank borrowings arise upon translating the bank borrowings denominated in foreign currencies.

10 INCOME TAX EXPENSE

For the subsidiary with operation in the PRC, it is not subject to the corporate income tax. It is subject to withholding tax as disclosed in note 6(iii).

Prior to 6 April 2020, for the subsidiary with operation in the UK, it is subject to non-resident landlord income tax at a rate of 20% (2019: 20%). From 6 April 2020 onwards, the UK subsidiary is subject to corporation tax at a rate of 19%.

No Hong Kong profits tax has been provided as the Group has no assessable profit in Hong Kong.

The amount of income tax expense charged to the consolidated income statement represents:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Current income tax	**2,660**	2,136

The differences between the Group's expected tax charge, calculated at the domestic rates applicable to the country concerned, and the Group's tax charge for the years were as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
(Loss)/profit before income tax and transactions with unitholders	**(187,264)**	225,198
Exclude loss/(profit) from the PRC operation which is not subject to income tax *(note 6(iii))*	**170,025**	(263,974)
	(17,239)	(38,776)
Tax calculated at the Hong Kong profit tax rate at 16.5% (2019: 16.5%)	**(2,844)**	(6,398)
Effect on different taxation rate on overseas operations	**236**	888
Income not subject to tax	**(11,897)**	(4,104)
Expenses not deductible for tax purposes	**17,165**	11,750
	2,660	2,136

11 MANAGER'S FEE

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Base fee	**38,839**	41,804
Variable fee	**11,924**	12,316
	50,763	54,120

Pursuant to the Trust Deed, the Manager is entitled to receive remuneration for its services as the manager of Spring REIT, which is the aggregate of:

(i) Base fee at 0.4% per annum of the value of the Deposited Property ("**Base Fee**", as defined in the Trust Deed).

(ii) Variable fee at 3.0% per annum of the Net Property Income ("**Variable Fee**", as defined in the Trust Deed) (before deduction therefrom of the Base Fee and Variable Fee).

Based on the election made by the Manager dated 10 December 2019 and 19 December 2018 in relation to the Manager's elections for the Base Fee to be paid to the Manager in the form of cash as to 20% and in the form of Units as to 80% (2019: in the form of Units entirely), and Variable Fee to be paid to the Manager in the form of cash entirely (2019: in the form of cash entirely), arising from any real estate of Spring REIT for the year ended 31 December 2020 and 2019 in accordance with the Trust Deed.

12 (LOSS)/EARNINGS PER UNIT

	2020	2019
	RMB'000	*RMB'000*
(Loss)/profit for the year, before transactions with Unitholders	**(189,924)**	223,062
Adjustment for dilutive convertible bonds	**(52,372)**	(1,776)
(Loss)/profit for the year, before transactions with Unitholders for calculating diluted (loss)/earnings per unit	**(242,296)**	221,286
Weighted average number of units for the year for calculating basic (loss)/earnings per unit	**1,435,823,789**	1,279,052,306
Adjustment for dilutive units issuable in respect of the Manager's fee	**–**	3,596,762
Adjustment for dilutive convertible bonds	**18,432,495**	160,626,029
Weighted average number of units for the year for calculating diluted (loss)/earnings per unit	**1,454,256,284**	1,443,275,097
Basic (loss)/earnings per unit based upon (loss)/profit before transactions with Unitholders	**(RMB13.2 cents)**	RMB2.37 cents
Diluted (loss)/earnings per unit based upon (loss)/profit before transactions with Unitholders	**(RMB16.7 cents)**	RMB2.36 cents

Convertible bonds issued on 27 November 2019 are considered to be potential units and have been included on the determination of diluted (loss)/earnings per unit.

The units issuable in respect of the Manager's fee are considered to have an anti-dilutive effect on the basic loss per unit for the year ended 31 December 2020, thus it is not included in the calculation of diluted loss per unit.

13 INVESTMENT PROPERTIES

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
At beginning of the year	**9,873,265**	9,764,060
Additions	**26,609**	3,237
Exchange differences recognised in other comprehensive income	**(24,294)**	35,201
Changes in fair value recognised in consolidated income statement	**(672,678)**	70,767
At end of the year	**9,202,902**	9,873,265

Note:

(i) The investment properties of the Group include those located in the PRC and the UK.

In the PRC, the investment property comprises office towers 1 & 2 and approximately 600 car parking spaces located at No. 79 and 81 Jianguo Road, Beijing, the PRC. The land use rights of the property have been granted to RCA01 for a 50-year term expiring on 28 October 2053.

In the UK, the investment properties comprise 84 individual properties with diversified locations across the UK. The investment properties are held under either freehold or leasehold interests.

As at 31 December 2020 and 31 December 2019, the Group had no unprovided contractual obligations for future repairs and maintenance of the investment properties.

As at 31 December 2020 and 31 December 2019, the investment properties were pledged to secure the Group's bank borrowings (note 19).

Valuation process

The Group's investment properties were valued by an independent qualified valuer not connected to the Group who holds a recognised relevant professional qualification and has recent experiences in the locations and segments of the investment properties valued.

The Manager reviewed the valuation performed by the independent valuer for financial reporting purpose. Discussions of valuation processes and results are held between the Manager and the independent valuer at least once every six months, in line with the Group's interim and annual reporting dates. As at 31 December 2020 and 2019, the fair values of the investment properties have been determined by Jones Lang LaSalle Corporate Appraisal and Advisory Limited. The independent valuer adopted the income capitalisation approach and cross-checked by the direct comparison approach for the valuation where applicable.

Valuation techniques

(i) *PRC investment property*

The income capitalisation approach estimates the value of the property on an open market basis by capitalising the estimated rental income on a fully leased basis having regard to the current passing rental income from the existing tenancies and potential future reversionary income at the market level. In this valuation method, the total rental income comprises the current passing rental income over the existing remaining lease terms (the "**term income**") and a potential market rental income upon reversion (the "**reversionary income**"). The term value involves the capitalisation of the current passing rental income over the existing remaining lease terms. The reversionary value is estimated by capitalising the current market rental income on a fully leased basis. It is then discounted back to the valuation date. In this method, the independent qualified valuer has considered the term and reversionary yields to capitalise the current passing rental income and the market rental income, respectively.

The direct comparison approach is based on comparing the subject property with other comparable sales evidences of similar properties in the local market.

(ii) *UK investment properties*

The income capitalisation approach estimates the values of the properties on an open market basis by capitalising the estimated rental income on a fully leased basis having regard to the current passing rental income from the existing tenancies and potential future reversionary income at the market level. In this valuation method, the total rental income comprises the term income and the reversionary income. Both the term income and the reversionary income are capitalised using the same capitalisation rate either on perpetual basis (for freehold properties) or on the basis of the properties' remaining land tenure (for leasehold properties).

Fair value hierarchy

	Fair value measurements using		
	Level 1	**Level 2**	**Level 3**
	RMB'000	*RMB'000*	*RMB'000*
Recurring fair value measurements			
As at 31 December 2020	**–**	**–**	**9,202,902**
As at 31 December 2019	–	–	9,873,265

There were no transfers between levels 1, 2 and 3 during the year.

(i) PRC investment properties

(a) Capitalisation rate

This is estimated based on the market lease over market value on comparable. The higher the capitalisation rates used, the lower the fair values of the investment properties. In the 31 December 2020 valuation, a capitalisation rate of 5.0% (2019: 5.0%) is used in the income capitalisation approach.

(b) Base rent

Base rent is the standard rent payable under the lease exclusive of any other charges and reimbursements. This was estimated based on the market lease comparable. The higher the base rent used, the higher the fair values of the investment properties. The average gross monthly office unit base rent of RMB387 (2019: RMB404) per square meter exclusive of VAT is used in the valuation.

(ii) UK investment properties

(a) Capitalisation rate

This is estimated based on the market lease over market value on comparable. The higher the capitalisation rate used, the lower the fair values of the investment properties. In the 31 December 2020 valuations, the capitalisation rate used in the income capitalisation approach of 84 investment properties range from 4.6% to 8.5% (2019: 4.1% to 8.0%).

(b) Base rent

Base rent is the standard rent payable under the lease exclusive of taxes, other relevant charges and reimbursements. This was estimated based on the market lease comparable. The higher the base rent used, the higher the fair values of the investment properties. The gross annual unit base rents of 84 investment properties range from GBP4.50 to GBP22.47 (2019: GBP4.50 to GBP22.47) per square foot.

As at 31 December 2020, if the market value of investment properties had been 5% higher/lower with all other variables held constant, the carrying value of the Group's investment properties would have been RMB460 million (2019: RMB494 million) higher/lower.

14 LEASES

This note provides information for leases where the Group is a lessee that is not occupied by the Group.

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Right-of-use assets		
At beginning of the year	**16,304**	–
Adjustment on adoption of IFRS 16	**–**	15,275
Exchange differences recognised in other comprehensive income	**(567)**	891
Changes in fair value recognised in consolidated income statement	**(664)**	138
At end of the year	**15,073**	16,304

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Lease liabilities, expected to be settled:		
Within 1 year	**169**	136
After 1 year	**11,335**	11,936
	11,504	12,072

The following table presents right-of-use assets relating to investment properties that are measured fair values.

Fair value hierarchy

	Fair value measurements using		
	Level 1	**Level 2**	**Level 3**
	RMB'000	*RMB'000*	*RMB'000*
Recurring fair value measurements			
As at 31 December 2020	**–**	**–**	**15,073**
As at 31 December 2019	–	–	16,304

There were no transfers between levels 1, 2 and 3 during the year.

15 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Liability		
Fair value of the interest rate swaps	**16,550**	4,102

Notes:

The Group has entered into six (2019: three) interest rate swaps as part of its financial risk management but did not account for these as accounting hedges under IFRS 9. Plain vanilla interest rate swap was used to hedge the floating interest payments of the debt instruments.

The aggregated notional principal amount of the interest rate swaps as at 31 December 2020 was RMB1,958 million (31 December 2019: RMB1,032 million) with maturity on 20 December 2024.

The Group recorded net fair value losses on interest rate swap for the year ended 31 December 2020 amounting to RMB13,993,000 (2019: RMB3,737,000) (note 8) which were charged to the consolidated income statement. The maximum exposure to credit risk at the reporting date is the carrying values of the derivative financial instruments.

The carrying amounts of interest rate swaps are expected to be settled as below:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Within 1 year	**–**	4,102
After 1 year	**16,550**	–
	16,550	4,102

16 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Rent receivables	**1,643**	156
Deferred rent receivables *(note iv)*	**22,373**	28,187
Prepayment	**2,332**	4,323
Other receivables	**54**	27
VAT recoverable	**129**	–
	26,531	32,693

Notes:

(i) Trade and other receivables are mainly denominated in RMB and GBP, and the carrying amounts of these receivables approximate their fair values.

There are no specific credit terms given to the tenants.

Monthly rentals are payable in advance by tenants in accordance with the leases while daily gross receipts from car parks are received from the car park operators in arrears.

(ii) The Group's exposure from outstanding rent receivables and deferred rent receivables in the PRC is generally fully covered by the rental deposits from the corresponding tenants (note 18).

(iii) As at 31 December 2020 and 2019, the rent receivables and all future rent receivables in the PRC were pledged to secure the Group's bank borrowings in the PRC (note 19).

(iv) Deferred rent receivables represent the accumulated difference between effective rental revenue and actual rental receipts.

(v) The carrying amounts of trade and other receivables are expected to be recovered within the next twelve months.

17 RESTRICTED BANK BALANCES AND CASH AND CASH EQUIVALENTS

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Restricted bank balances	**313,924**	382,115
Cash and cash equivalents	**154,435**	124,992
	468,359	507,107

Cash and cash equivalents and restricted bank balances are denominated in the following currencies:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
US$	**233,856**	239,980
RMB	**197,949**	228,543
HK$	**4,895**	17,756
GBP	**31,659**	20,828
	468,359	507,107

Restricted bank balances are related to bank accounts restricted under the bank borrowing facility agreements of the Group's bank borrowings (note 19).

The carrying amounts of restricted bank balances and cash and cash equivalents are expected to be recovered after one year and within the next twelve months, respectively.

18 RENTAL DEPOSITS AND TRADE AND OTHER PAYABLES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Rental deposits *(note i)*	**147,980**	155,410
Trade and other payables:		
Rental receipts in advance	**43,302**	46,850
Provision for other taxes *(note ii)*	**374**	50
VAT payable	**1,969**	2,176
Accrued expenses and other payables	**31,388**	53,922
	77,033	102,998

(i) The ageing analysis based on the terms of agreement is as follows and the carrying amount is expected to settle as below:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Within 1 year	**49,315**	31,037
After 1 year	**98,665**	124,373
	147,980	155,410

(ii) Provision for other taxes represents provision for urban construction and maintenance tax, education surcharge and stamp duty.

The carrying amounts of trade and other payables approximate its fair values and is expected to be settled within twelve months.

19 INTEREST-BEARING BORROWINGS

The carrying amounts of bank borrowing is expected to be settled as below:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Bank borrowings		
After one year	**3,024,232**	3,199,602

Bank borrowings are denominated in the following currencies:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
US$ *(note i)*	**2,580,135**	2,741,416
GBP *(note ii)*	**444,097**	458,186
	3,024,232	3,199,602

The exposure of the Group's borrowings to interest rate changes and the contractual re-pricing dates at the end of the reporting year are as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
6 months or less	**3,024,232**	3,199,602

The carrying amounts of bank borrowings approximate their fair values, as the borrowings were at floating interest rate.

(i) The borrowing bears interest of 1.55% per annum above 3-month US$ LIBOR and repayable in full on 24 December 2024; and

(ii) The borrowing is repayable in full on 26 January 2022 and bears an interest rate of 3-month GBP LIBOR plus 2.20% per annum.

As at 31 December 2020 and 31 December 2019, the Group's investment properties (note 13), rent receivables and all future rent receivables (note 16), restricted bank balances (note 17), interests in certain subsidiaries of the Group and certain assets of a subsidiary of the Group were pledged to secure the Group's loan borrowings. In addition, the Trustee (in its capacity as trustee of Spring REIT) has provided guarantee for all the loan facilities.

20 CONVERTIBLE BONDS

On 27 November 2019, the Group issued HK$585 million convertible bonds at 1.75% per annum due on 27 November 2022. These bonds are convertible into new units at an initial conversion price of HK$3.642 per unit at the option of the bond holder.

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Host liability components		
At the beginning of the year	**422,013**	–
Issuance of convertible bonds	**–**	421,320
Finance costs	**3,307**	2,856
Exchange difference recognised in other comprehensive income	**2,694**	(2,163)
Conversion of convertible bonds	**(428,014)**	–
At the end of the year	**–**	422,013
Derivative components		
At the beginning of the year	**83,226**	–
Issuance of convertible bonds	**–**	89,153
Change in fair value	**–**	(5,500)
Exchange difference recognised in other comprehensive income	**530**	(427)
Conversion of convertible bonds	**(83,756)**	–
At the end of the year	**–**	83,226
At the end of the year	**–**	505,239

As at 31 December 2019, the effective interest rate of the convertible bonds, excluding derivative components was 3.36%.

On 12 February 2020, the holder of the convertible bonds converted all of the bonds based on the initial conversion price of HK$3.642 per unit, and 160,626,029 new units have been issued and allotted to the bond holder. The conversion represented a settlement of the Group's financial liabilities and resulted in a gain of approximately RMB56.7 million.

21 UNITS IN ISSUE

	Number of units As at 31 December	
	2020	2019
Balance as at beginning of the year	**1,285,813,315**	1,272,356,925
New units issued for Manager's fee	**15,648,521**	13,456,390
New units issued for conversion of convertible bonds *(note 20)*	**160,626,029**	–
Repurchase of units in issue *(note ii)*	**(1,215,000)**	–
Balance as at end of the year	**1,460,872,865**	1,285,813,315

(i) Traded market value of the units as of 31 December 2020 was HK$2.70 (2019: HK$3.22) per unit. Based on 1,460,872,865 (2019: 1,285,813,315) units, the market capitalisation was HK$3,944 million (2019: HK$4,140 million) (approximately RMB3,320 million (2019: approximately RMB3,700 million)).

(ii) Pursuant to the general mandate granted to the Manager by the Unitholders, the Manager (on behalf of Spring REIT) bought back a total of 1,215,000 units at an aggregate price of approximately RMB2,835,000 during the year ended 31 December 2020. All units bought back were cancelled during the year.

22 FUTURE MINIMUM RENTAL RECEIVABLES

As at 31 December 2020, the analysis of the Group's aggregate future minimum rental receivable under non-cancellable leases is as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Within 1 year	**467,365**	527,001
1 – 2 years	**355,174**	391,852
2 – 3 years	**247,423**	227,323
3 – 4 years	**158,233**	119,796
4 – 5 years	**115,804**	75,308
After 5 years	**266,565**	300,981
	1,610,564	1,642,261

Note: Most of the operating leases are on fixed terms and of terms of 3 years (2019: 3 years).

23 SUBSIDIARIES

Name	Place of establishment and kind of legal entity/ place of operations	Principal activities	Particulars of issued share capital	Interest held 2020	Interest held 2019
Directly held:					
RCA01	Cayman Islands, limited liability	Property investment	1,000 of US$1 each	**100%**	100%
RUK01 Limited	Jersey, limited liability	Investment holding	1 of GBP1 each	**100%**	100%
Spring Treasury Limited*	British Virgin Islands, limited liability	Financing	1 of US$1 each	**–**	100%
Indirectly held:					
Hawkeye Properties 501 Limited	Jersey, limited liability	Property investment	2 of GBP1 each	**100%**	100%

* Spring Treasury Limited has been deregistered on 9 November 2020.

24 FINANCIAL INSTRUMENTS BY CATEGORY

		Year ended 31 December	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
Financial assets			
Financial assets at amortised cost:			
Trade and other receivables	*16*	**1,643**	156
Restricted bank balances	*17*	**313,924**	382,115
Cash and cash equivalents	*17*	**154,435**	124,992
		470,002	507,263
Financial liabilities			
Financial liabilities at amortised cost:			
Accrued expenses and other payables	*18*	**31,388**	53,922
Rental deposits	*18*	**147,980**	155,410
Interest-bearing borrowings	*19*	**3,024,232**	3,199,602
Convertible bonds – host liability components	*20*	**–**	422,013
Financial liabilities at fair value through profit and loss:			
Derivative financial instruments	*15*	**16,550**	4,102
Convertible bonds – derivative components	*20*	**–**	83,226
		3,220,150	3,918,275

The Group's exposure to various risks associated with the financial instruments is discussed in note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

25 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were authorised for issue by the Manager on 23 March 2021.