

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



2015
ANNUAL REPORT

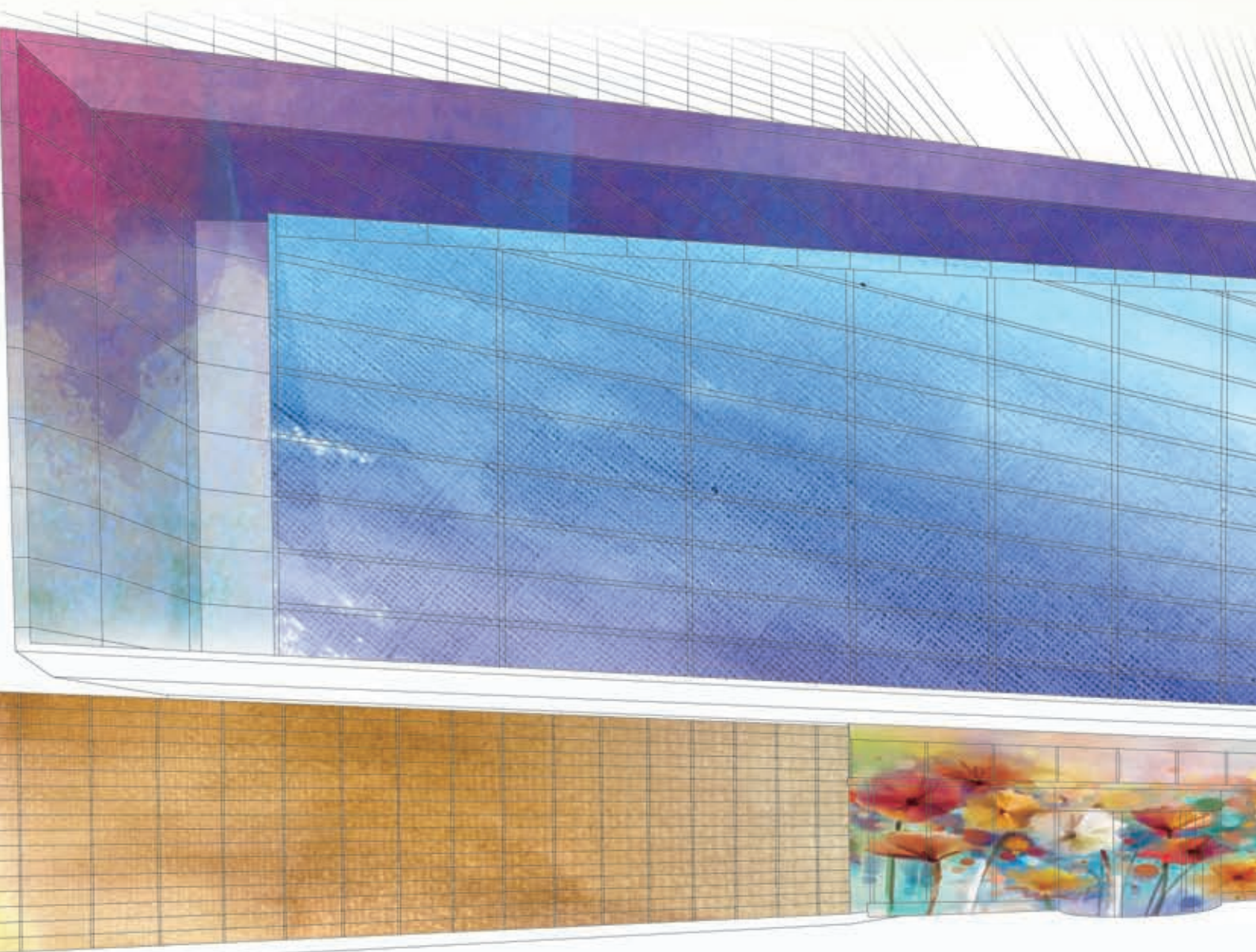
Managed by
Spring Asset Management Limited

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, as manager of Spring REIT (the “**Manager**”), 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.

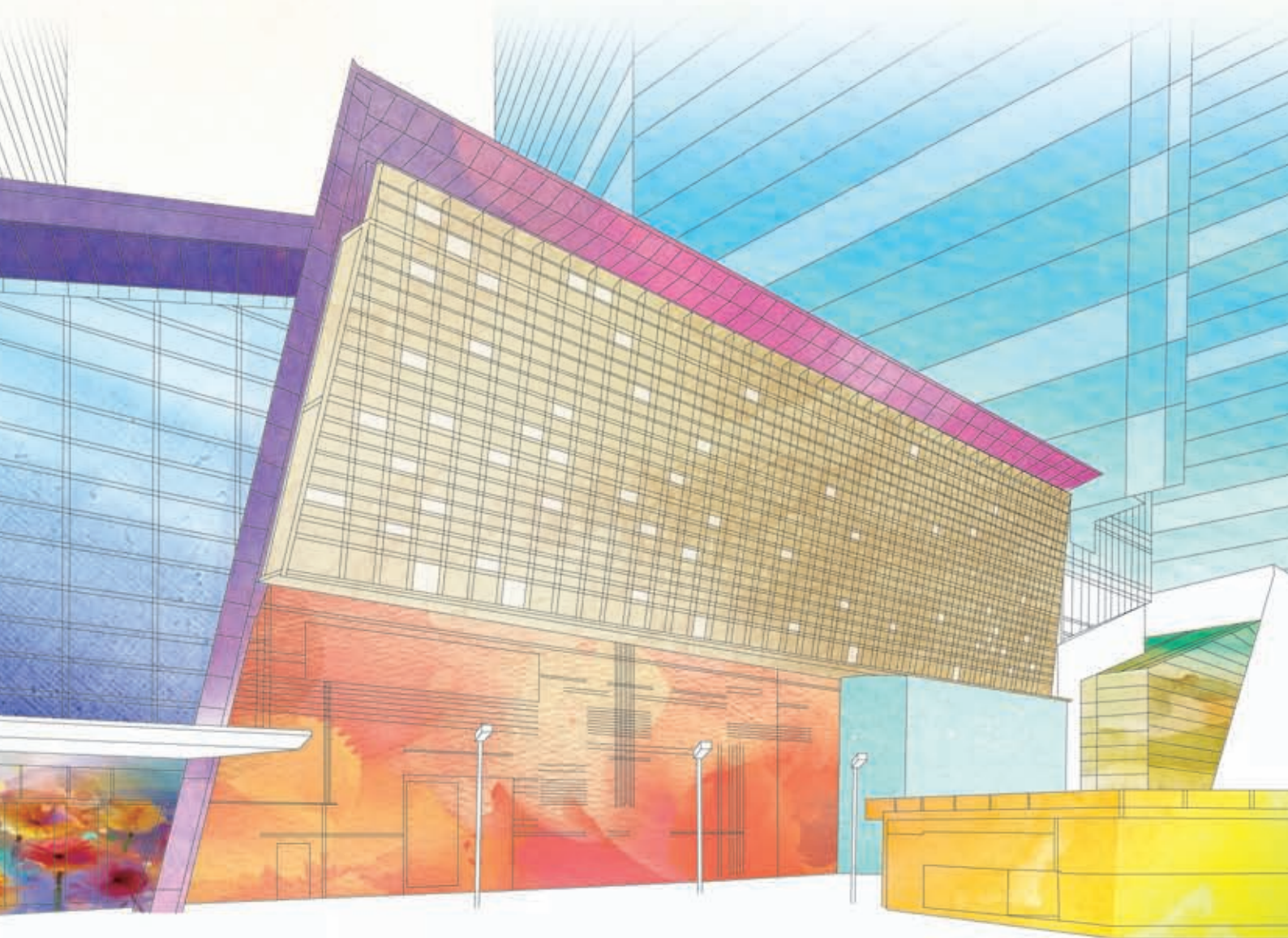
About the Manager

Spring REIT is managed by Spring Asset Management Limited, a company incorporated in Hong Kong for the sole purpose of managing Spring REIT. As at 31 December 2015, the Manager is 90.2% owned by Mercuria Investment Co., Limited., (“**Mercuria**”, formerly known as AD Capital Co., Ltd., name changed as of 1 January 2016) which is a private equity investment firm jointly owned by Development Bank of Japan, Itochu Corporation (“**ITOCHU**”), Asuka Holdings Co., Ltd., Sumitomo Mitsui Trust Bank, Limited (“**SMTB**”) and certain minority shareholders.



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Financial Highlights

Total Revenue

(US\$ million)



Net Property Income

(US\$ million)



Appraised Property Value

(RMB million)



Total Borrowings to Gross Asset Value

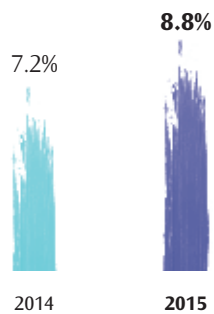


Average Monthly Passing Rent

(RMB/sqm)



Annual Distribution Yield



Financial Highlights (Continued)

Below are the annual results highlights and distribution summary of Spring REIT and its special purpose vehicle (together, the “Group”) for the year ended 31 December 2015 (the “Reporting Year” or “FY2015”).

Results Highlights

For the Year Ended 31 December	2015	2014	Change
Total Revenue (USD million)	80.52	81.46	–1.2%
Net Property Income (USD million)	61.28	62.17	–1.4%
Net Property Income Margin	76.1%	76.3%	–0.2 ppt
Total Distributable Income (USD million)	41.23	37.70	+9.4%
Distribution per Unit (HK cents)	26.6	26.4	+0.8%

As at 31 December	2015	2014	Change
Gross Assets (USD million)	1,377.19	1,392.40	–1.1%
Appraised Property Value (USD million)	1,283.55	1,306.58	–1.8%
Appraised Property Value (RMB million)	8,335.00	8,108.00	+2.8%
Net Assets per Unit (HKD)	5.98	6.25	–4.3%
Total Borrowings (USD million)	477.30	460.68	+3.6%
Total Borrowings to Gross Asset Value	34.7%	33.1%	+1.6 ppt
Number of Units Outstanding	1,120,158,306	1,109,468,088	+1.0%

Distribution Summary

Distributions	Distribution per Unit	Distribution Yield ³	Annualized Distribution Yield ³
2015 Final Distribution¹	HK12.6 cents	8.8%	8.8%
2015 Interim Distribution	HK14.0 cents		
2014 Final Distribution	HK12.5 cents	7.2%	7.2%
2014 Interim Distribution	HK13.9 cents		
2013 Final Distribution ²	HK1.6 cents	0.5%	6.8%
2013 Special Distribution	HK7.0 cents	2.2%	N/A

Notes:

1. The record date of 2015 final distribution is 8 April 2016 (“Record Date”) and the payment date is expected to be 20 April 2016.
2. The distribution for the period from 5 December 2013 to 31 December 2013 represented only 27 days of operation. It was paid on 30 September 2014.
3. Distribution yield and annualized distribution yield are calculated using closing price of the Units at the end of each relevant financial period.

Financial Highlights (Continued)

Total Distributable Income

Total distributable income (“**TDI**”) is the consolidated profit after tax before transactions with the unitholders of Spring REIT (the “**Unitholders**”) as adjusted to eliminate the effects of certain non-cash items. For details of the adjustments, please refer to the section headed “Statement of Distributions” in the consolidated financial statements. TDI to Unitholders for the year ended 31 December 2015 amounted to approximately USD41.23 million (2014: USD37.70 million).

Distribution

The board of directors (the “**Board**”) of the Manager has resolved to declare a final distribution for the period from 1 July 2015 to 31 December 2015 (“**2015 Final Distribution Period**”) of HK12.6 cents per Unit (“**2015 Final Distribution**”) to Unitholders on the register of Unitholders on 8 April 2016. Such 2015 Final Distribution, however, may be subject to adjustment upon issuance of new Units between 1 January 2016 and the Record Date, if any. Together with the interim distribution of HK14.0 cents per Unit, total distribution for the Reporting Year amounts to a total of HK26.6 cents per Unit (2014: HK26.4 cents per Unit), representing a payout ratio of approximately 93%.

Based on the closing price of HKD3.03 per Unit as at 31 December 2015, the FY2015 DPU represents a distribution yield of 8.8%. For details of the distribution, please refer to the section headed “Statement of Distributions” in the consolidated financial statements.

All distribution will be paid in Hong Kong dollars. The exchange rate adopted by the Manager for conversion of USD to HKD for the 2015 Final Distribution is the average mid-price of 7.7507 for HKD/USD opening indicative counter exchange rate, as published by the Hong Kong Association of Banks, for the five (5) business days immediately preceding 31 December 2015.

The Manager confirms that the 2015 Final Distribution is composed only of consolidated profit after tax before transactions with the Unitholders and non-cash adjustments for the 2015 Final Distribution Period.

Distribution Policy

In accordance with the Trust Deed, Spring REIT is required to distribute no less than 90% of TDI to Unitholders. Pursuant to the offering circular of Spring REIT dated 25 November 2013, the Manager’s policy was to distribute to the Unitholders 100% of Spring REIT’s TDI for the financial year ended 31 December 2014. The Manager’s current policy is to distribute to Unitholders at least 90% of TDI in each financial year. The Manager also has the discretion to make distributions over and above the minimum 90% of TDI for any financial year if and to the extent Spring REIT has funds surplus to its business requirements.

Closure of Register of Unitholders

The Record Date of the 2015 Final Distribution is 8 April 2016, Friday. The register of Unitholders is closed for the purpose of determining the identity of Unitholders from 7 April 2016, Thursday to 8 April 2016, Friday, both days inclusive, during which period no transfer of Units will be registered. The 2015 Final Distribution is expected to be payable on 20 April 2016, Wednesday to Unitholders whose names appear on the register of Unitholders on the Record Date.

In order to qualify for the 2015 Final Distribution, all properly completed transfer forms in respect of transfer of Units (accompanied by the relevant Unit certificates) must be lodged with Spring REIT’s unit registrar in Hong Kong, being Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 6 April 2016, Wednesday.

Chairman's Statement



Toshihiro Toyoshima
Chairman

Chairman's Statement

Dear Unitholders,

On behalf of the Board, I am pleased to present the annual results of the Group for the financial year ended 31 December 2015.

Stable Annual Results and Dividend Distribution

In FY2015, the Group delivered a set of stable operating results. Compared with a year ago, total revenue and net property income edged down 1.2% and 1.4%, respectively, mainly attributable to depreciation of Renminbi ("**RMB**") against USD during 2015, as the Group's financial statements are reported in USD and rental income collected is in RMB.

Excluding such foreign exchange impacts on translation of financial statements, the total revenue and net property income have shown a slight growth in RMB terms. It is encouraging to have achieved a set of stable operating results despite the slowdown in China's economic growth. From within, this is attributable to the high quality and good location of Spring REIT's prime assets and strong execution by the leasing team. At the same time, we believe Spring REIT has benefitted from two external trends. First, underneath a slowdown in China's overall economy, there is a fast-growing service sector, which bodes well for demand of premium office space. Second, the supply-demand condition of Grade-A office space in the Central Business District of Beijing ("**CBD**", or "**Beijing CBD**") remained tight with no major supply during the Reporting Year. According to the market research by Jones Lang LaSalle, vacancy of Grade-A office space in Beijing CBD dropped to a record low of 3.6% at the end of 2015 from 5.1% at the beginning of the year.

The Board has resolved to declare a final distribution of HK12.6 cents per Unit for the 2015 Final Distribution Period. This brings the full-year distribution to HK26.6 cents per Unit, which is 0.8% higher than the total distribution made in 2014.

Refinancing and Capital Management

As reported in the 2015 interim results, the Manager has successfully completed the drawdown of a new 5-year term loan to early repay the old 3-year term loan. Let me recap the key terms of the loans. The old term loan had a principal amount of USD465.00 million, a tenure of 3 years, and interest rate of 3-month USD London Interbank Offered Rate ("**LIBOR**") plus interest margin of 3.5%. The new term loan has a principal amount of USD480.00 million, a tenure of 5 years, interest rate of 3-month USD LIBOR plus interest margin of 2.75%.

The refinancing represented the Manager's strategy in capital management to enhance returns to Unitholders, while maintaining an appropriate level of debt. The exercise has brought tangible financial benefits of a 75 basis points savings in cash interest payment, which is equivalent to approximately USD3.08 million per annum. A longer loan tenure also provides Spring REIT with the flexibility of refinance timing until 2020, which has become increasingly desirable amid high volatilities in financial markets. With respect to outlook of USD interest rate, recent market gyrations appear to have tamed the consensus expectation of further rate hikes, as the meeting minutes of the Federal Reserve noted that prudence is warranted on pace and timing of monetary policy normalization.

As market conditions continue to evolve, as would the capital structure optimal to Spring REIT change. The Manager will continue to closely monitor the financial position of the Group as well as currency and interest rate markets and effect changes accordingly to balance both the short-term and long-term aspects of the risk-return profile of Spring REIT.

Chairman's Statement (Continued)

Assessing and Mitigating RMB Exposure

We consider distributable income a key performance benchmark of Spring REIT, as it determines the amount available for distribution to Unitholders. Spring REIT's core properties are held for long-term cash flow returns rather than for short-term trading gains. Amid volatility of RMB foreign exchange rate, the Manager pays more attention to ensuring gearing ratio is kept at an appropriate level, rather than non-cash foreign exchange translational loss which has no impact to distributable income.

Looking back in FY2015, RMB was stable against USD in the first 7 months, before its subsequent weakening brought the total depreciation of RMB to 4.4% during the last 5 months of 2015. As much concerns have been placed by the market on the effects of a weaker RMB on companies with operations in China, I shall take this chance to put into perspectives how RMB movements would impact Spring REIT in terms of distributable income, as well as gearing ratio, i.e. total borrowings to gross asset value.

Spring REIT's principal assets include two Premium Grade office buildings with a total GFA of 120,245 sqm and approximately 600 car parking spaces at China Central Place, Beijing, China (the "**Property**"). To start with, the rents are collected in RMB. After paying domestic operating expenses and taxes, the remaining amounts are repatriated out of China to settle offshore expenses, including interest payments and trust expenses mostly in USD and HKD. The residual would then be made available to Unitholders as distributions, payable in HKD.

Now, let us consider the impact of RMB volatility to distributable income. As net property income is translated from RMB to USD in financial results, there is always a component of foreign exchange difference. When RMB was appreciating, such as the couple of years leading up to 2013, it had a positive effect on net property income stated in USD; when RMB was depreciating, such as in 2015, the effect was on the opposite direction.

As a rough estimate, taking into consideration of the currency cost structure of Spring REIT, a 1.0% depreciation in RMB against the USD that persists over 12 months would result in a 1.0% reduction in USD net property income, and a 1.4% reduction in USD distributable income, assuming other things remain the same.

In terms of financial positions, with Spring REIT's investment property valued in RMB, and its term loan liability denominated in USD, a depreciation in RMB would result in a higher gearing ratio.

As Spring REIT's gearing ratio stood at a healthy level of 34.7% at end of 2015, there remains a good margin of safety towards moderate volatility in RMB/USD exchange rate — roughly speaking, a 5% depreciation in RMB would bring gearing ratio to 35.2%. Nonetheless, to mitigate the risk of a substantial depreciation in RMB, in December 2015, the Manager entered into a plain vanilla currency option that covers the full loan amount for 1 year. Given the heightened volatility in the foreign exchange markets, the currency option provides the Manager with the flexibility to fully explore and assess the merits of other hedging or capital management alternatives, while waiting for a more stable market condition.

As China continues the internationalization and marketization of RMB, volatility in RMB exchange rate may increase. To reduce Spring REIT's currency exposure, while balancing the return to Unitholders, the Manager will continue to prepare for converting part or all of the current USD debt into RMB, or the utilization of basic financial hedging instruments such as currency swaps, forwards and options, so that risk controlling measures can be deployed in a timely manner when deemed necessary.

Chairman's Statement (Continued)

Updates on the Property

While improving the air-quality of Beijing is a priority of the government, the Manager focuses on ways to improve the indoor air-quality for the well-being of the tenants. As an enhancement to the Property, during 2015, the Group has implemented daily monitoring and public displays of outdoor and indoor air qualities, and installed a new air purification system in the Property that filters out majority of PM2.5 pollutants. Selected tenant groups were invited to inspect the purification process and this initiative had received praises from local media.

On 26 December 2015, the central portion of Beijing Subway Line 14 and the expanded Dawanglu Station had commenced operation. Previously, the Property has been served by Beijing Subway Line 1, which runs underneath Chang'an Avenue. Now, with the opening of the new line, passengers of both Line 1 and Line 14 can get off at Dawanglu Station and reach the Property through an underground walkway, further enhancing the connectivity of the Property.

Environmental, Social and Governance

Always mindful of creating long-term value to all stakeholders, the Manager is now working with professional advisors to enhance Environmental, Social and Governance (“ESG”) disclosures of Spring REIT. We understand that investors are increasingly taking into account a company's ESG's performance when deciding whether to invest or not. By focusing on improving our standard and disclosures on ESG, step-by-step, we endeavor to create sustainable corporate value, while improving our risk management capabilities, corporate image, and access to capital markets.

A Token of Recognition

Spring REIT has received the “Hong Kong Outstanding Enterprises Award 2015”¹ from Economic Digest on 6 November 2015. As a relatively new listed company in Hong Kong, it is very encouraging to be recognized for our efforts in upholding good governance practices. We will continue to manage and develop Spring REIT for the benefit of our Unitholders and the community at large.

Broader Alliance

During the Reporting Year, the Manager's parent company Mercuria had brought in ITOCHU and SMTB as its shareholders.

ITOCHU is a leading trading conglomerate in Japan as well as a Fortune Global 500 company. It has business presence in 65 countries and regions around the world, and its real estate division provides services that extend from development and construction to sales, operation, leasing, brokering and financial management of real estate projects, with a geographical focus in Japan and other parts of Asia.

SMTB is a leading trust bank group in Japan. It offers a wide spectrum of financial services including financing, consulting, real estate management and asset management services.

By establishing closer business relationships with ITOCHU and SMTB, Mercuria is well positioned to leverage the experience and resources of ITOCHU and SMTB in order to facilitate future cooperation on business opportunities in real estate area, including the potential to identify and present Spring REIT with real estate investment opportunities.

¹ The Hong Kong Outstanding Enterprises Award was first organized in 2004 by Economic Digest, a professional finance magazine with a long history and the largest readership among its peers in Hong Kong. The awards identify areas of corporate excellence including business performance, corporate governance and recognition from minority shareholders.

Chairman's Statement (Continued)

Outlook

Looking into 2016, uncertainties over the operating environment will continue.

In China, transition in economy has continued as GDP growth slowed further to 6.9% in 2015 from 7.3% in 2014. While at this rate, China is still among the fastest growing economies in the world, the prolonged slowdown has had an impact to business confidence. On a brighter note though, a fast-growing service sector — which expanded 8.3% in 2015 to account for more than half of GDP for the first time should have a positive influence on the demand for quality office space.

Elsewhere, the tumbling in crude oil price has also impeded confidence in the financial markets. Meanwhile, as several European central banks and more recently Bank of Japan began to experiment with negative interest rate policies, it is yet to be seen how these developments will interact with the pace of global recovery.

Spring REIT has maintained occupancy rates above 95% for the past 5 years, amid these uncertainties, the Manager will stay focused on our asset management strategy to achieve good leasing performance. In 2016, we expect scheduled expiry equivalent to about 46.4% in leased GFA terms. This size is relatively large, considering our office leases are typically of a 3-year tenure. To prepare for this cycle, the Manager has initiated early discussions with expiring tenants to ensure adequate time is allowed should replacements are needed. We have made good progress in lease renewals and we remain confident in delivering a stable leasing operation. Working with professional tax advisors, the Manager is preparing for the transformation from business tax to value-added tax in China that is expected to cover the real estate sector in 2016.

From real estate investment industry's past experience, excellent investment opportunities tends to emerge during periods of uncertainties. With a broadened investment scope endorsed by Unitholders at an extraordinary general meeting in May 2015 and the consequential changes to the Trust Deed, Spring REIT now has greater flexibility with respect to geographical scope and targeted property types. During the Reporting Year, the Manager has explored various real estate projects in China, Japan and Southeast Asia. We will continue our efforts to identify potential investments that can enhance the value of Spring REIT and its distributions to Unitholders.

Appreciation

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all the Unitholders for their trust and support, especially at times when external environment is less certain. I would also like to thank the Manager's team and the professional parties for their hard work and dedication.

Toshihiro Toyoshima

Chairman and Non-executive Director

Spring Asset Management Limited

(as manager of Spring REIT)

16 March 2016

Management

Discussion & Analysis





Overview of Spring REIT's Properties



- The portfolio includes all office floors of Office Tower 1 and Office Tower 2 (total GFA of 120,245 sqm) of China Central Place and approximately 600 car parking spaces (total GFA of 25,127 sqm).
- Direct access to Beijing Subway Line 1 and 14 (opened in December 2015)
- About 20 km away from the Beijing Capital International Airport



Overview of China Central Place



China Central Place is a prime mixed-use complex in Beijing CBD with well-recognized brand hotels and shopping centers.

OFFICE

Premium Grade offices

- Awarded as Top 20 Office Buildings in China¹
- Direct underground connection to Beijing Subway

SHOPPING

SKP Beijing and other shopping areas

- SKP Beijing - one of the largest department stores in China by sales

RESIDENTIAL

Residential area

- Residential and serviced apartments with a clubhouse

HOTELS

Five-star luxury hotels

- Ritz-Carlton Hotel Beijing
- JW Marriott Hotel Beijing

1. Awarded jointly by www.funxun.com, China Office Building Industry Association and Nanfeng Think Tank in 2012

Management Discussion & Analysis

Property and Market Overview

The Property

Beijing CBD is a major business district of Beijing situated to the east of the city center in Chaoyang District. Traditionally covered the area around the intersection of Jianguo Road and East Third Ring Road, it has now extended eastward to include the East Fourth Ring Road. Beijing CBD is home to tenants from a wide range of industries, including finance and insurance, professional services, hi-tech and media, among others. It represented the largest Grade-A office stock in Beijing of 1.83 million sqm as at the end of 2015, accounting for 27.3% of the city's total Grade-A office space of 6.71 million sqm.¹

Spring REIT's principal assets include two Premium Grade office buildings with a total GFA of 120,245 sqm and approximately 600 car parking space at China Central Place, Beijing, China.

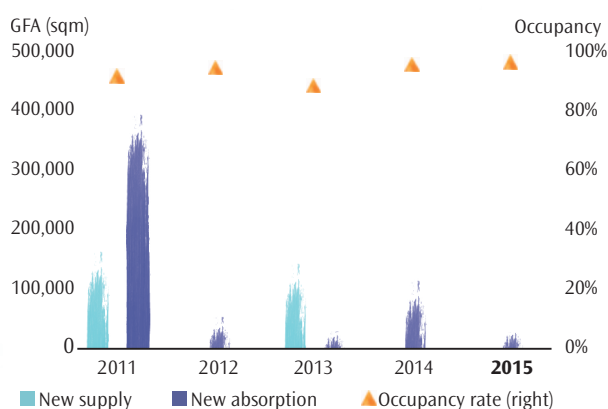
The Property is prominently located in the CBD of Beijing at the intersection of Jianguo Road (建國路) and West Dawang Road (西大望路), between the East Third Ring Road and the East Fourth Ring Road.

Property Valuation

The valuation of the Property as at 31 December 2015 was appraised at RMB8,335.00 million (equivalent to USD1,283.55 million), representing an appreciation of RMB227.00 million or approximately 2.8% in RMB terms over the valuation as at 31 December 2014, according to a valuation performed by Colliers International (Hong Kong) Limited (the "Principal Valuer") on the Property.

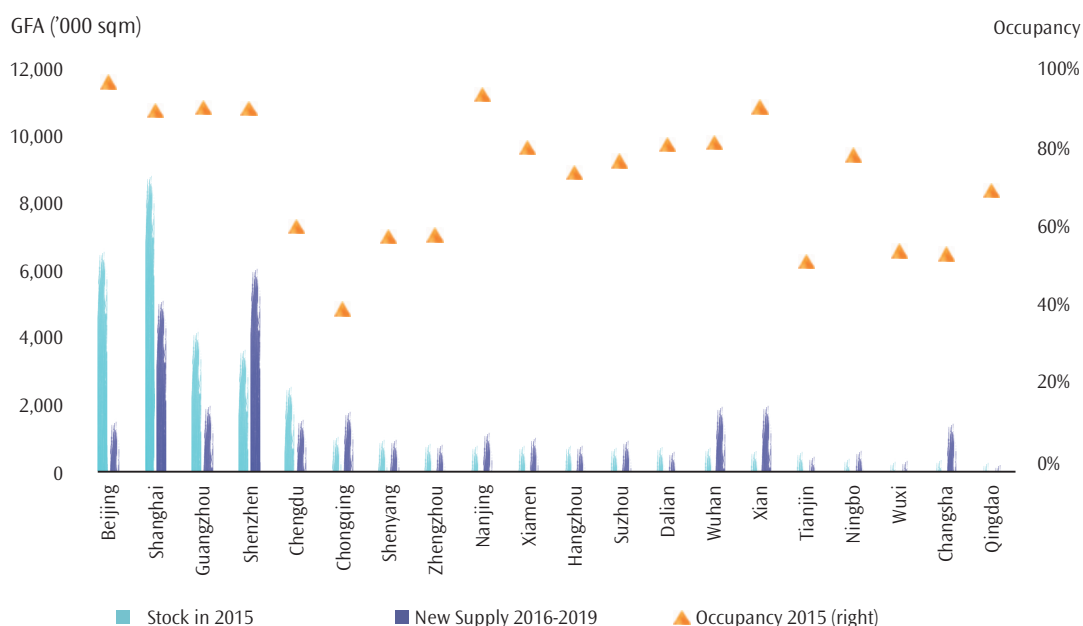
Grade-A Office Market Condition in Beijing CBD

The chart below shows the new supply (left) and net absorption (left) in Beijing CBD Grade-A market, also the occupancy rates (right) from 2011 to 2015.



Grade-A Office Markets across China

The chart below shows, the total stock (left) and occupancy (right) as at 31 December 2015 and contrast the future supply in 2016-2019 (left) in selected Chinese cities.



Source: Jones Lang LaSalle Research, December 2015

¹ Source: Jones Lang LaSalle Research, December 2015.

Management Discussion & Analysis (Continued)

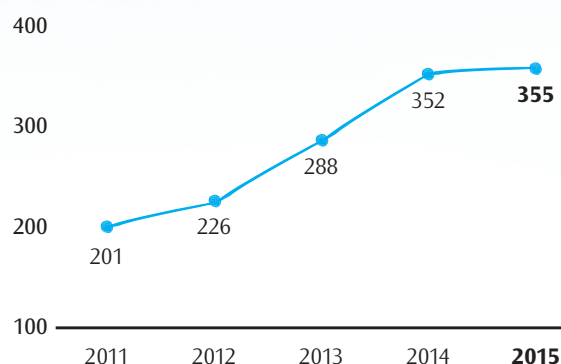
Operating and Financial Review

Leasing Performance

With a net absorption of approximately 27,280 sqm and no new supply during the year 2015, the average vacancy rate in Beijing CBD dropped further to 3.6% at the end of 2015, from 5.1% at the end of the previous year¹.

Against this backdrop, the Group recorded a set of stable operating results for the year ended 31 December 2015. Average monthly passing rent of the Property grew 0.9% to RMB355 per sqm, from RMB352 per sqm for 2014, on the back of stable rental reversion.

Average Monthly Passing Rental
(RMB per sq.m. per month)



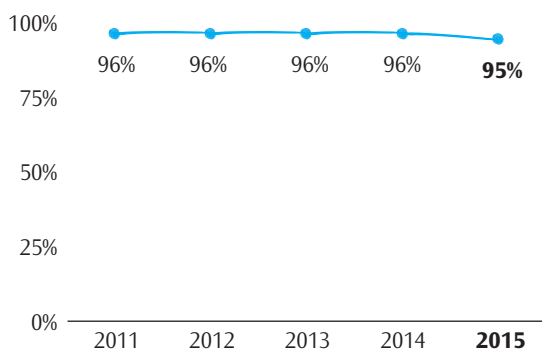
The Property achieved a high occupancy rate averaging around 95% for 5 consecutive years since 2011. During 2015, new and renewed leases equivalent to 25.2% of leased gross floor area ("GFA") (as at 31 December 2015) have been signed and became effective.

In 2016, there will be 46.4% of the existing office leases (in GFA terms) scheduled to expire. With the continuing tight demand-supply condition in Beijing office market and strong execution of our leasing strategy, we are optimistic in maintaining a relatively stable passing rent and occupancy rates as the fourth quarter achieved effective spot rents maintaining at above RMB375 per sqm.

Future Grade-A office supply in Beijing CBD is expected to mainly come from the Zhongfu Plot, the only large-scale land plot under development in Beijing CBD. Nonetheless, the new supply is not expected to start entering the market until 2017, with the majority of the new supply likely to materialise from 2019 onwards¹.

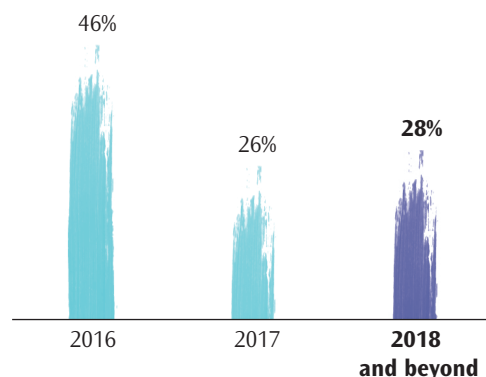
Historical Occupancy Rates

(Average % over the relevant period)



Lease Expiry Profile

(Expiring leases as a % of leased office GFA)

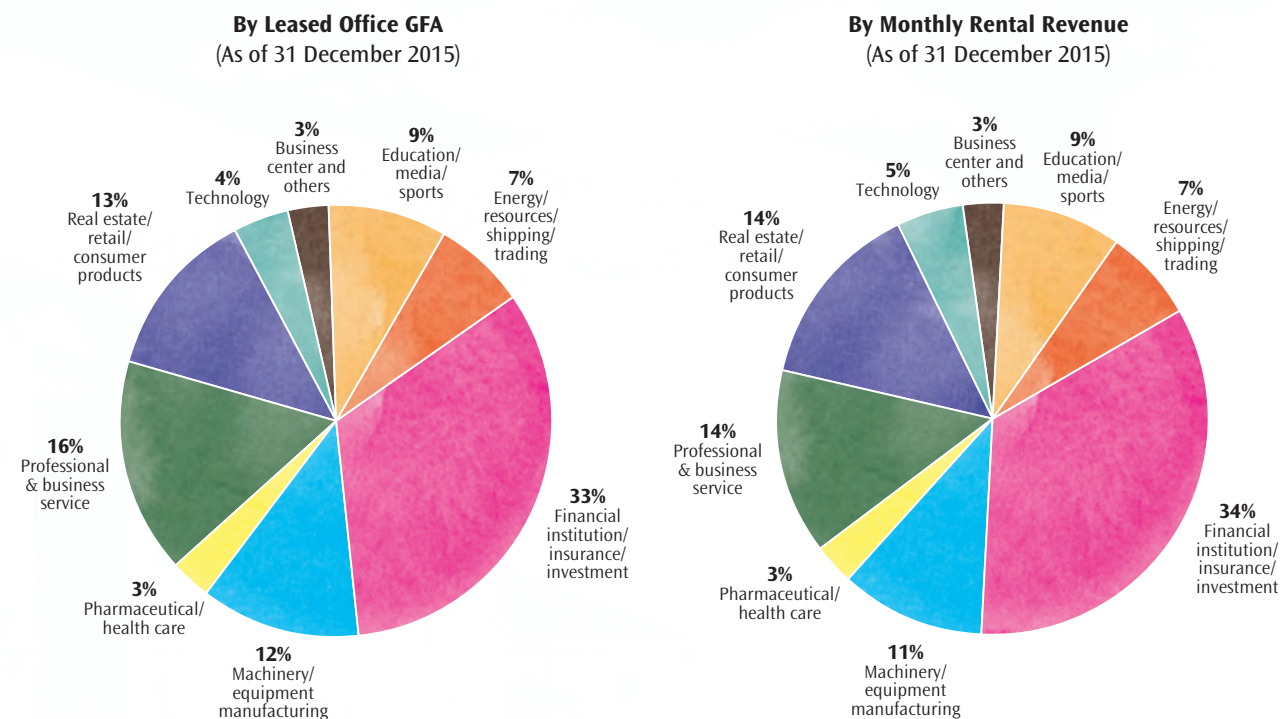


¹ Source: Jones Lang LaSalle Research, December 2015.

Management Discussion & Analysis (Continued)

Tenant Mix Analysis

The charts below provides a breakdown of the mix of office tenants of the Property by industry sector as a percentage of leased office GFA as at 31 December 2015 and a percentage of monthly rental revenue for the month ended 31 December 2015.



Top 5 Tenants as at 31 December 2015

Tenants	% of total leased office GFA
Deutsche Bank	6.2%
EPSON	5.8%
Conde Nast	4.7%
Zhong De Securities	4.2%
Xinyuan Real Estate	3.8%
Total	24.7%

Management Discussion & Analysis (Continued)

Financial Performance

Monthly average exchange rate of RMB/USD depreciated 2.0% in 2015, compare with that of 2014. Mostly attributable to RMB depreciation, the financial performance of the Group as reported in USD was slightly weaker than its results in 2014.

Total revenue of the Group decreased slightly by 1.2% year-on-year for the year ended 31 December 2015 to USD80.52 million (2014: USD81.46 million), largely due to the depreciation of RMB against USD.

Property operating expenses fell 0.3% year-on-year to USD19.24 million for the year ended 31 December 2015 (2014: USD19.29 million). Property operating expenses mainly comprise withholding tax, business and other tax (excluding stamp duty), and property tax, which accounted for 86.4% of the total. Property management fee, payable at 2.0% of total revenue, accounted for 8.4% of the property operating expenses. Most property expenses denominated in RMB, hence RMB depreciation also similarly reduced the property expense.

As a result, net property income declined 1.4% to USD61.28 million (2014: USD62.17 million). Net property income margin remained stable at 76.1% for the year ended 31 December 2015 (2014: 76.3%).

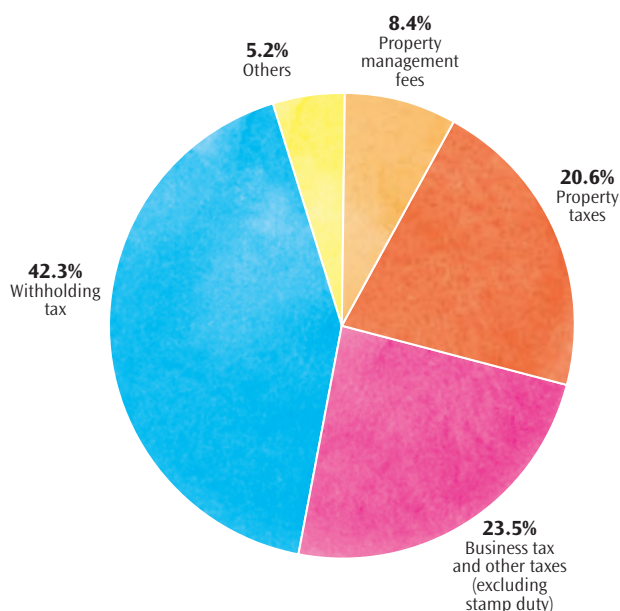
TDI to Unitholders for the year ended 31 December 2015 amounted to approximately USD41.23 million, a 9.4% increase from USD37.70 million in 2014, due to a lower base in 2014 that is mainly attributable to one-off loan arrangement fees related to refinancing.

Fair value gain of investment property was USD35.54 million for the year ended 31 December 2015, which reflected a 2.8% increase in fair value of investment property in RMB terms. This gain was attributable to a higher asking rent assumption of RMB430 per sqm (2014: RMB425 per sqm) that reflects the prevailing market conditions and a slightly lower capitalization rate assumption of 6.5% (2014: 6.75%) on the back of lower interest rate in China by the Principal Valuer.

Finance Costs

Total finance costs came in at USD46.84 million for the Reporting Year, comparing with USD33.74 million recorded in 2014. The increase was due to foreign exchange loss when USD bank borrowings are translated to RMB which is the functional currency of Spring REIT's subsidiary, RCA01. Such foreign exchange loss of USD21.47 million (2014: USD7.84 million) was non-cash in nature and did not affect the distributable income in FY2015. The other incidental borrowing costs of USD2.36 million represented the derecognition of unamortized loan arrangement fee when the Group early repaid the 3-year term loan upon the successful refinancing in April 2015. As the new 5-year term loan has a lower contractual interest rate at 3-month USD LIBOR plus 2.75%, compared with the old 3-year term loan's 3-month USD LIBOR plus 3.5%, the lower interest margin contributed to a 2.1% decrease in interest expense on bank borrowings to USD23.01 million for the Reporting Year, comparing with USD23.50 million in 2014.

Property Operating Expense as Percentage of Revenue



Management Discussion & Analysis (Continued)

Hedging Instruments

On 17 December 2015, the Group entered into a buy USD currency option contract to hedge against potential depreciation in RMB. The currency option has a notional principal amount of USD480.00 million with a strike rate of USD1 to RMB7.5 for a period of 1 year. As of 31 December 2015, the fair value of this currency option was approximately USD7.12 million. A moderate increase in net fair value of USD0.02 million was recorded for FY2015 as a result of slight weakening of the RMB against the USD since the purchase of the option towards 31 December 2015. The tenure of this currency option may not exactly match with that of the Group's bank borrowings.

As of 31 December 2015, the Group's existing interest rate option that caps the 3-month USD LIBOR rate at 1.3% is valued at USD0.00 million, expiring in January 2016 and recorded a fair value loss of USD85,000 for FY2015 (2014: USD695,000) on account of this interest rate option.

Debt Positions

On 18 February 2015, Spring REIT, through RCA01, entered into a facility agreement with 16 international and local banks in connection to a new five-year floating rate secured term loan facility of USD480.00 million and a new uncommitted revolving facility of USD20.00 million (collectively, the **"2015 Term Loan Facilities"**). The 2015 Term Loan Facilities bear an interest margin of 2.75% per annum over 3-month USD LIBOR.

On 30 April 2015, the term loan facility was drawn down with the proceeds applied to the early repayment of the entire previous USD465.00 million term loan facility (the **"2013 Term Loan Facility"**) that was to fall due on 27 January 2016. The 2013 Term Loan Facility had an interest margin of 3.5% per annum over 3-month USD LIBOR.

As at 31 December 2015, Spring REIT had in place total loan facilities of USD500.00 million, comprising of term loan facility of USD480.00 million which was fully drawn down and an uncommitted facility of USD20.00 million that remained undrawn. As a result, total outstanding borrowings increased by 3.2% year-on-year to USD480.00 million for the year ended 31 December 2015 (2014: USD465.00 million).

The term loan facility of USD480.00 million was recognized to be USD477.30 million in the financial results as at 31 December 2015, as such bank borrowing was carried at amortized cost in accordance with International Financial Reporting Standards. Bank borrowings are recognized initially at fair value, net of transaction costs incurred. They are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

As at 31 December 2015, the gearing ratio, i.e. total borrowings to gross assets value, was 34.7%, compared with 33.1% as at 31 December 2014.

Pledged Assets

As at 31 December 2015, Spring REIT's investment property, rent receivables, restricted bank accounts, currency option, RCA01's ordinary shares and all future trade receivables were pledged to secure the 2015 Term Loan Facilities. In addition, RCA01's restricted bank accounts were charged to, or otherwise subject to the control of, the security agent to secure the 2015 Term Loan Facilities.

Throughout the year ended 31 December 2015, both Spring REIT and RCA01 have in material respects complied with all the terms and provisions of the finance and security documents.

Management Discussion & Analysis (Continued)

Cash and Asset Positions

As at 31 December 2015, the Group's unrestricted cash amounted to USD30.86 million, compared with USD24.29 million as at 31 December 2014, representing an increase of 27.0%. The Group also had total undrawn bank loan facilities of USD20.00 million (2014: nil). With these financial resources, Spring REIT has sufficient liquid assets to satisfy its working capital and operating requirements. The cash is generally placed in short-term deposits mostly denominated in USD. The Group's liquidity and financing requirements are being reviewed regularly.

As at 31 December 2015, the gross asset value of the Group was USD1,377.19 million, a slight decrease by 1.1% as compared with USD1,392.40 million recorded on 31 December 2014.

The reduction of gross assets was mainly attributable to the exchange losses on translation of financial results from RMB to USD.

Net Assets Attributable to Unitholders

During the Reporting Year, net assets attributable to Unitholders decreased to USD864.22 million from USD894.15 million a year ago.

The net asset value per Unit as at 31 December 2015 was HKD5.98 (31 December 2014: HKD6.25). This represented a 97.4% premium to the closing price of the Units of HKD3.03 on 31 December 2015.

New Units Issued

As at 31 December 2015, the total number of issued Units was 1,120,158,306, compared with that at 31 December 2014, a total of 10,690,218 new Units were issued during the Reporting Year.

Date	Particulars	No. of Units
31 December 2014	Beginning balance of total number of Units in issue.	1,109,468,088
23 March 2015	Issue of new Units to the Manager at the price of HKD3.807 per Unit (being the Market Price as defined in the Trust Deed) as payment of 80% of the Manager's fees for the 3 months period ended 31 December 2014.	+3,079,589
8 May 2015	Issue of new Units to the Manager at the price of HKD3.642 per Unit (being the Market Price as defined in the Trust Deed) as payment of 80% of the Manager's Base Fee for the 3 months period ended 31 March 2015.	+2,338,431
11 August 2015	Issue of new Units to the Manager at the price of HKD3.566 per Unit (being the Market Price as defined in the Trust Deed) as payment of 80% of the Manager's Base Fee for the 3 months period ended 30 June 2015.	+2,415,054
28 October 2015	Issue of new Units to the Manager at the price of HKD3.088 per Unit (being the Market Price as defined in the Trust Deed) as payment of 80% of the Manager's Base Fee for the 3 months period ended 30 September 2015.	+2,857,144
31 December 2015	Ending balance of total number of Units in issue.	1,120,158,306

Management Discussion & Analysis (Continued)

Capital Commitments

As at 31 December 2015, the Group's capital commitments were not significant.

Employees

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

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	10,164,985	66.7%
北京世邦魏理仕物業管理服務有限公司	Leasing	2,735,620	17.9%
北京盛源房地產經紀有限公司	Leasing	361,001	2.4%
北京宏成行房地產經紀有限公司	Leasing	312,439	2.0%
北京中原房地產經紀有限公司	Leasing	260,652	1.7%
TOTAL		13,834,697	90.7%

¹ Beijing Hua-re Real Estate Consultancy Co., Ltd is owned as to 40% by Mercuria which in turn holds 90.2% shareholding in the Manager.

Board of Directors & Senior Management



Board of Directors and Senior Management

Directors



Toshihiro Toyoshima

Chairman and Non-executive Director

Mr. Toyoshima, aged 53, was appointed as the chairman of the Board and a Non-executive Director of the Manager on 29 January 2013. Mr. Toyoshima has been the chief executive officer of Mercuria since October 2008, and has been sitting on its board from its establishment in October 2005. Prior to joining Mercuria, he worked in Development Bank of Japan from April 1985 to October 2008. Between July 2001 and September 2004, Mr. Toyoshima also worked at the World Bank as a senior private sector specialist, in charge of the private sector policies in four African countries.

Mr. Toyoshima graduated from the University of Tokyo with a Bachelor's degree in Law in 1985 and from the Massachusetts Institute of Technology with Master's degrees in Real Estate Development and City Planning in 1992.



Hideya Ishino

Non-executive Director

Mr. Ishino, aged 52, was appointed as a Non-executive Director of the Manager on 10 April 2013. He has been working for Mercuria since June 2008 and has served as the chief operating officer of Mercuria since March 2010. Before joining Mercuria, Mr. Ishino co-founded Sports Vanguard Co., Ltd., a company which provides sports-related internet community services and trading platform, in March 2004. Mr. Ishino had also previously worked in Salomon Brothers (Tokyo) from April 1986 to March 2000.

Mr. Ishino graduated from the University of Tokyo with a Bachelor's degree in Liberal Arts in 1986.



Lau Jin Tin, Don

Executive Director

Mr. Lau, aged 59, was appointed as an Executive Director of the Manager on 10 April 2013 and is one of the Responsible Officers of the Manager. He has extensive experience in corporate finance, risk management and property investment and management. He is a director of RCA01, the special purpose vehicle wholly owned by Spring REIT, since May 2014. He is also an Independent Non-executive Director and a member of the audit, nomination and environmental, social and governance committees of WH Group Limited (a company listed on the Stock Exchange (Stock Code: 0288)) since August 2014. Prior to joining the Manager, he served as a Responsible Officer and Deputy Chief Executive Officer of a REIT listed on the Stock Exchange. He has the appropriate experience in planning the business direction and managing the overall day-to-day operation of a REIT.

Mr. Lau obtained a Master's degree in Applied Finance from Macquarie University.

Board of Directors and Senior Management (Continued)



Nobumasa Saeki

Executive Director

Mr. Saeki, aged 46, was appointed as an Executive Director of the Manager on 10 April 2013 and is one of the Responsible Officers of the Manager. Mr. Saeki is principally responsible for supervising property management for Spring REIT, including: (i) formulating leasing strategy and authorizing all the lease terms to maximize the rental income of the Property; (ii) setting budgets and monitoring of maintenance activities related to the Property; (iii) overseeing day-to-day cash operations of the Property, together with local team members and the Property Manager; and (iv) procuring valuations of the Property and reviewing and analyzing appraisal reports. He was a senior vice president of Mercuria from September 2008 until January 2012 at which time he became a managing director of Mercuria. Prior to that, he was the group head of overseas investment group of Re-Plus Inc., a company listed on the Tokyo Stock Exchange, from July 2007 to September 2008. He was also a vice president of The Tokyo Star Bank, Limited from August 2004 to July 2007, an assistant vice president of GMAC Commercial Mortgage Japan K.K. from July 2002 to August 2004 and an associate director of UBS Warburg Securities Japan Ltd. from March 2000 to July 2002.

Mr. Saeki obtained a Bachelor's degree in Economics from the University of Tokyo in 1993.



Simon Murray

Independent Non-executive Director

Mr. Murray, aged 76, was appointed an Independent Non-executive Director of the Manager on 20 November 2013. He was the founder and chairman of GEMS (General Enterprise Management Services Limited) a private equity group in 1998 and has changed his role to become the non-executive chairman as of July 2015. He is also an independent non-executive director of: (i) Orient Overseas (International) Limited (Stock Code: 316) since July 1992; (ii) Wing Tai Properties Limited (stock code: 369) since March 1994; (iii) Cheung Kong Property Holdings Limited (stock code: 1113) since February 2015; a non-executive director of (iv) Greenheart Group Limited (Stock Code: 94) since August 2010; (v) IRC Limited (Stock Code: 1029) since November 2010; (vi) Compagnie Financiere Richemont SA (a company listed on Swiss Exchange) since October 2003; (vii) China LNG Group Limited (stock code: 0931) since April 2015 (after having been re-designated from the role of Independent Non-executive Director which was appointed in October 2014).

Mr. Murray was an executive director of Hutchison Whampoa Ltd for 10 years. He was also the executive chairman, Asia Pacific of the Deutsche Bank Group between 1994 and 1998. Previously he acted as the vice chairman & Independent Non-executive Director of Essar Energy plc (a company listed on the London Stock Exchange) from 2010 to 2014; the non-executive chairman of Glencore International plc (a company dually listed on the London Stock Exchange and the Hong Kong Stock Exchange (stock code: 805) from 2011 to 2013; the chairman & Independent Non-executive Director of Gulf Keystone Petroleum Ltd. (a company listed on London Stock Exchange) between 2013 and 2015; the non-executive director of Vodafone Group Plc between 2007 and 2010, and independent director of Sino-Forest Corporation (a company listed on the Toronto Stock Exchange) between 1999 and 2013.

Mr. Murray holds an honorary degree of Doctor of Laws from Bath University.

Board of Directors and Senior Management (Continued)



Liping Qiu

Independent Non-executive Director

Mr. Qiu, aged 51, was appointed as an Independent Non-executive Director of the Manager on 20 November 2013. Mr. Qiu is a co-founder of Milestone Capital, a China-focused private equity investment company. Since February 2002, he has been the general partner of Milestone China Opportunities Fund I and Fund II, L.P., both being partnerships that invest primarily in high-growth Chinese companies. He has also been a director of the board of Trina Solar Limited, a company listed on the New York Stock Exchange, since 2006. Mr. Qiu has been a director of Qinhuangdao Boostsolar Photovoltaic Equipment Co., Ltd. (which has been quoted on the National Equities Exchange and Quotations since 18 August 2014).

Mr. Qiu received his Bachelor's degree and Master's degree in Engineering from the National University of Defense Technology of China.



Lam Yiu Kin

Independent Non-executive Director

Mr. Lam, aged 61, was appointed as an Independent Non-executive Director of the Manager on 12 January 2015. Mr. Lam is a fellow member of the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants in England & Wales (ICAEW), Chartered Accountants Australia and New Zealand (CA ANZ), and the Hong Kong Institute of Certified Public Accountants (HKICPA) and an honorary fellow of The Hong Kong Polytechnic University. Mr. Lam has extensive experience in accounting, auditing and business consulting.

Mr. Lam currently serves as an Independent non-executive Director of (i) Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (Stock Code: 1349) since October 2013; (ii) Vital Mobile Holdings Limited (Stock Code: 6133) since September 2014; (iii) Global Digital Creations Holdings Limited (Stock Code: 8271) since July 2015; (iv) Shougang Concord Century Holdings Limited (Stock Code: 0103) since August 2015; (v) Mason Financial Holdings Limited (Stock Code: 0273) since August 2015; (vi) COSCO Pacific Limited (Stock Code: 1199) since August 2015; and (vii) Nine Dragons Paper (Holdings) Limited (Stock Code: 2689) since March 2016.

Mr. Lam was previously a member of the Listing Committee and the Financial Reporting Advisory Panel of the Stock Exchange of Hong Kong Limited from 1997 to 2003, a committee member of HKICPA from 1994 to 2009, and a partner of PricewaterhouseCoopers Hong Kong from 1993 to 2013.

He is presently an Adjunct Professor in the School of Accounting and Finance of The Hong Kong Polytechnic University, and a member of the Finance Committee of the Hong Kong Management Association. Mr. Lam graduated from The Hong Kong Polytechnic University with a higher diploma in 1975.

Board of Directors and Senior Management (Continued)

Senior Executives



Chung Wai Fai

Senior vice president

Mr. Chung, aged 34, is senior vice president, one of the Responsible Officers and head of investment and investor relations of the Manager. He is responsible for identifying and evaluating potential acquisitions or investments and for investor relations activities. Mr. Chung has over 10 years of experience in asset management and investment research in the Asia ex-Japan region. Prior to joining the Manager, Mr. Chung was a senior fund manager and responsible officer of Imperial Capital Limited, where he was involved in launching an absolute-return Asia ex-Japan equity fund and assumed responsibilities in product development and strategy formulation. Previously, Mr. Chung was a fund manager of iVenture Investment Management Limited and was actively involved in investment idea generation, equity research, macroeconomic analysis, and day-to-day portfolio management of its absolute-return Asia ex-Japan equity fund. Mr. Chung started his career at PricewaterhouseCoopers, performing statutory audit works for companies in Hong Kong and mainland China.

Mr. Chung obtained a bachelor degree in business administration in finance from Hong Kong University of Science and Technology in 2003.



Alice Yu

Chief Compliance Officer

Ms. Yu, aged 51, was appointed the chief compliance officer of the Manager in April 2013 and is the head of compliance. Prior to joining the Manager, Ms. Yu acted as a responsible officer in various assignments including: Ohra Capital Partners Limited from 2010 to 2013; FB Investment Management Limited from 2007 to 2009; Qi Yuan Asset Management (H.K.) Limited from 2002 to 2007. She was the investment manager of Hang Seng Investment Management Limited from 1997 to 1999. From 1994 to 1997, she was a portfolio manager of Daiwa International Capital Management (HK) Limited.

Ms. Yu obtained a bachelor's degree in arts from the University of Hong Kong in November 1987. She finished the ICA international diploma in compliance with merit result in 2012 and has been a professional member (MICA) of International Compliance Association since then. She undertook a corporate governance compliance training program and was awarded a certificate in directorship from the Hong Kong Baptist University in 2007.

Other positions held by each of the above directors and senior staff in the Manager are set out in the Corporate Governance Report under the section headed "Organizational and Reporting Structure of the Manager".

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 (the “**Listing Rules**”) on the Stock Exchange, with necessary changes as if those rules were applicable to real estate investment trusts (“**REITs**”) 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 corporate governance principles emphasize on accountability to all Unitholders, resolution of conflict of interest issues, transparency in reporting, 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 regulations and legislation. The Board plays a central support and supervisory role in corporate governance duties. It will regularly review 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. The major activities during the Reporting Year are set out below:

Amendments to the Trust Deed

At the extraordinary general meeting convened on 20 May 2015 (the “**2015 EGM**”), special resolutions were passed to approve, among other things, expansions of the scope of the investment policy and objective of Spring REIT and the consequential and other miscellaneous amendments to the Trust Deed. Accordingly, the Trustee and the Manager had executed the first supplemental deed on 22 May 2015 to give effect to the relevant amendments.

Amendments to the Compliance Manual

During the Reporting Year, the Compliance Manual was updated mainly to:

- (i) include the corporate governance and risk mitigation measures and procedures with respect to the expanded investment scope of Spring REIT in relation to geographical scope, property types, property development and related activities and relevant investments as approved by the Unitholders at the 2015 EGM;
- (ii) amendments to the distribution formula to reconcile the minimum annual distribution required under the Code on Real Estate Investment Trusts (the “**REIT Code**”);
- (iii) incorporate other miscellaneous amendments and conforming changes due to latest regulatory developments.

Throughout the Reporting Year, both the Manager and Spring REIT have in material terms complied with the provisions of the Compliance Manual, the corporate governance policy, the Trust Deed, the REIT Code and applicable provisions of the Securities and Futures Ordinance (the “**SFO**”) and the Listing Rules.

Corporate Governance (Continued)

Authorization Structure

Spring REIT is a collective investment scheme constituted as a unit trust and authorized by Securities and Futures Commission (the “SFC”) under section 104 of the SFO (Chapter 571 of the Laws of Hong Kong) and regulated by the SFC pursuant to the provisions of the REIT Code and applicable provisions of the SFO 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 report, Mr. Lau Jin Tin, Don (the Executive Director of the Manager), Mr. Nobumasa Saeki (the Executive Director of the Manager) and Mr. Chung Wai Fai (the Senior Vice President of the Manager) are the responsible officers of the Manager (the “ROs”) 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. Lau Jin Tin, Don, an Executive Director, was appointed by the SFC as an approved person of the Manager pursuant to sections 104(2) and 105(2) of the SFO.

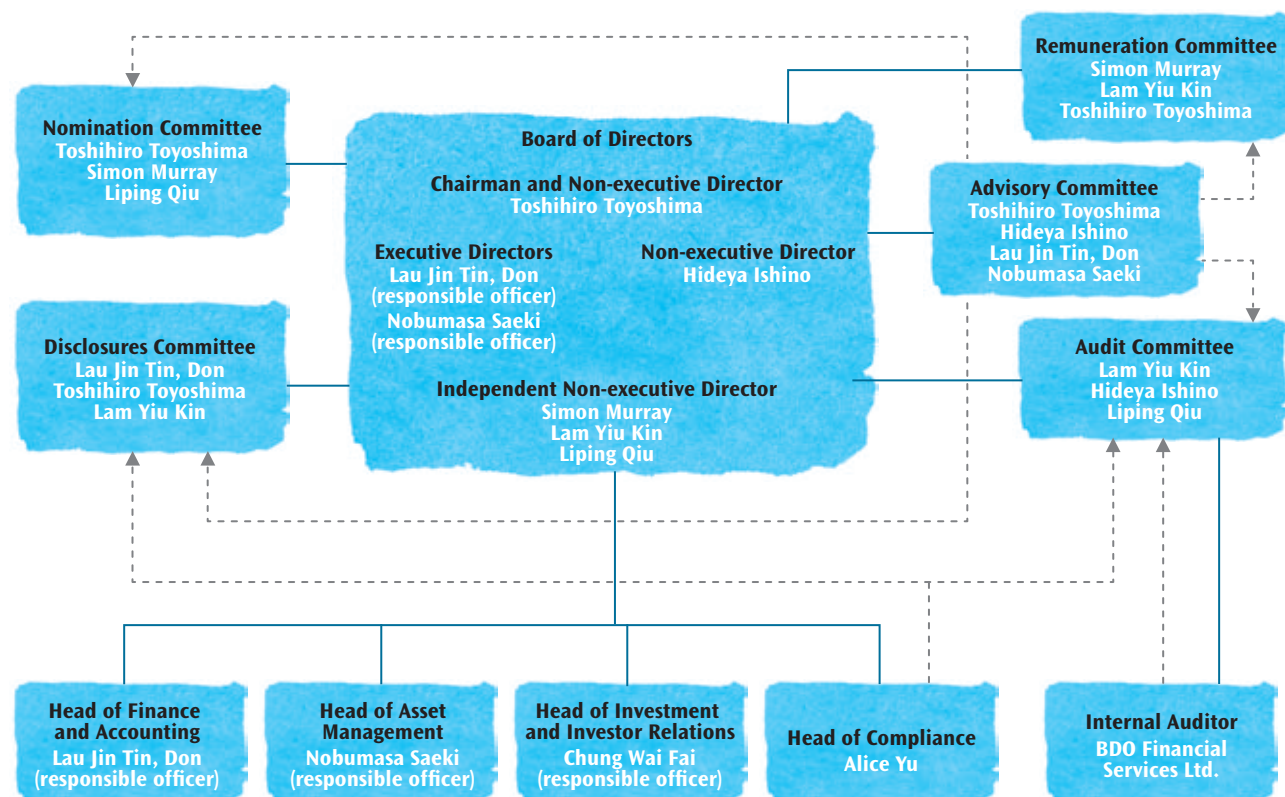
DB Trustees (Hong Kong) Limited, in its capacity as trustee of Spring REIT, is registered as a trust company under section 77 of the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong). The Trustee is qualified to act as a trustee for collective investment schemes authorized under the SFO pursuant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

Roles of the Trustee and the Manager

The Trustee and the Manager are independent of each other. The Trustee is responsible under the Trust Deed for the safe custody of the assets of Spring REIT on behalf of the Unitholders.

The Manager’s role under the Trust Deed is to manage Spring REIT and its assets in accordance with the Trust Deed in the sole interest of the Unitholders and to fulfil the duties imposed on it under general law as the manager of Spring REIT in particular, to ensure that the financial and economic aspects of Spring REIT’s assets are professionally managed in the sole interests of the Unitholders.

Organizational and Reporting Structure of the Manager



Dotted lines represent ad hoc reporting on a case by case basis.

Corporate Governance (Continued)

Board of Directors of the Manager

The Board of the Manager currently comprises seven members, with two Executive Directors and five Non-executive Directors (including three Independent Non-executive Directors (“Independent Non-executive Directors”)). The Board of Directors of the Manager during the Reporting Year is set out below:

Non-executive Directors

Toshihiro Toyoshima (*Chairman*)

Hideya Ishino

Executive Directors

Lau Jin Tin, Don

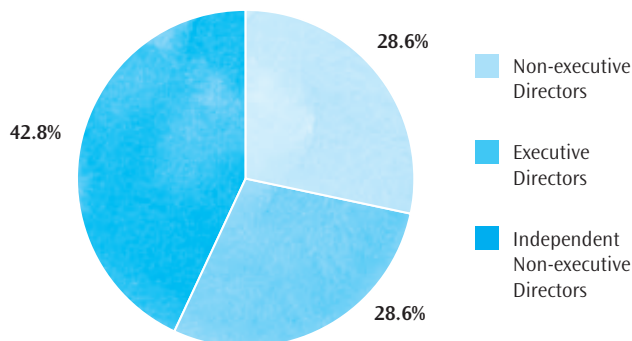
Nobumasa Saeki

Independent Non-executive Directors

Simon Murray

Lam Yiu Kin (appointed on 12 January 2015)

Liping Qiu



On 12 January 2015, the Manager announced the appointment of Mr. Lam Yiu Kin to replace the deceased Dr. Tin Sek Tang as an independent non-executive director and member of each of the Audit Committee, Disclosures Committee and Remuneration Committee of the Manager with effect from 12 January 2015.

Biographical details of the Directors are set out on the section headed “Board of Directors and Senior Management” and published on Spring REIT’s website at www.springreit.com.

Board Responsibilities

The Board is responsible for ensuring that the Manager discharges its duties under the Trust Deed, which include but not limited to:

- (i) managing Spring REIT in accordance with the Trust Deed in the sole interest of the Unitholders;
- (ii) ensuring sufficient oversight of the daily operations and financial conditions of Spring REIT when managing Spring REIT; and
- (iii) ensuring compliance with the licensing and authorization conditions of the Manager and Spring REIT and with any applicable laws, rules, codes and/or guidelines issued by government departments, regulatory bodies, exchanges or any other organizations regarding the activities of Spring REIT or its administration.

During the Reporting Year, the Board has considered and reviewed, among other things:

- (i) expansions of the scope of the investment policy and objective of Spring REIT and the consequential and other miscellaneous amendments to the Trust Deed; and
- (ii) amendments to the Compliance Manual.

The Board’s function is largely separated from, and independent of, the executive management function. The Board leads and guides the Manager’s corporate strategy and direction. Subject to the matters specifically reserved to the Board as set out in the Compliance Manual, the Board delegates certain management and supervisory functions to relevant committees of the Board. For more details, please see the section headed “Key Reserved Matters to the Board” below.

Corporate Governance (Continued)

Board Composition

With the aim of creating a board structure that is both effective and balanced, the size of the Board has been set to provide for a minimum of seven Directors and a maximum of nine Directors. Pursuant to the Manager's corporate governance policy, Independent Non-executive Directors must be individuals who fulfil the independence criteria set out in the Compliance Manual that are no less exacting than those set out in Rule 3.13 of the Listing Rules for assessing the independence of an independent non-executive director. During the Reporting Year, the Manager has received written annual confirmation from each Independent Non-executive Director of his independence pursuant to the "Criteria for Independence of Independent Non-executive Directors" as set out in the Compliance Manual.

The composition of the Board is determined mainly using the following principles:

- (i) the chairman of the Board should be a Non-executive Director;
- (ii) the Board should have a balance of skill and experience appropriate for the requirements of Spring REIT's business and should ensure that changes to its composition can be managed without undue disruption;
- (iii) the Board should have a balance composition of Executive Directors, Non-executive Directors and Independent Non-executive Directors so that there is a strong independent element on the Board which can effectively exercise independent judgement;
- (iv) the Board should include Non-executive Directors of sufficient caliber and number for their views to carry weight; and
- (v) at least one-third, and a minimum of three members, of the Board should be Independent Non-executive Directors and at least one Independent Non-executive Director must have appropriate professional qualifications or accounting or related financial management expertise.

The Board composition is being reviewed regularly to ensure that the Board has the appropriate mix of expertise and experience and that the Directors being appointed have the relevant expertise and experience in discharging their duties.

There is no relationships (including financial business, family or other material/relevant relationships) between Board members and in particular, between the chairman and the Executive Directors.

Board Meetings

The Board meets on a regular basis and generally no less than four times in each financial year at approximately quarterly intervals. According to the Compliance Manual, Directors are given written notices of board meetings at least fourteen days in advance of the regular meetings, with suitable arrangements in place to allow Directors to raise items in the agenda. Agenda and accompanying board papers are circulated at least three days before the scheduled date of a board meeting. Board consents are given by votes at board meetings and written resolutions are signed by all Directors from time to time. Board process is further facilitated by the use of telephone conferences in cases where urgent decisions are required before the next regular Board meeting or where certain Director(s) is/are out of town.

No Board meeting, or any adjourned Board meeting, will be quorate unless a simple majority of Directors for the time being are present at the time when the relevant business is transacted. A Director who, whether directly or indirectly, has a material interest in a contract or proposed transaction, arrangement or contract with the Manager, which is of significance to the Manager's business, must declare the nature and extent of his interest either at the earliest Board meeting or by giving a general notice to the Board before the question of entering into the transaction, arrangement or contract is taken into consideration on behalf of the Manager.

A Director who is prohibited from voting by reason of a conflict of interest is not counted for the purposes of establishing the necessary quorum for the meeting.

Corporate Governance (Continued)

Matters to be considered by the Board are to be adopted on the basis of a simple majority of votes.

During the Reporting Year, four physical meetings of the Board were held and twenty-one separate written resolutions were passed by all members of the Board. The attendance of individual Directors at such Board meetings is as follows:

Members of the Board	Number of meetings attended/ Number of Meetings Held	Attendance Rate
<i>Chairman and Non-executive Director</i>		
Mr. Toshihiro Toyoshima	4/4	100%
<i>Executive Directors</i>		
Mr. Lau Jin Tin, Don	4/4	100%
Mr. Nobumasa Saeki	4/4	100%
<i>Non-executive Director</i>		
Mr. Hideya Ishino	4/4	100%
<i>Independent Non-executive Directors</i>		
Mr. Simon Murray	4/4	100%
Mr. Lam Yiu Kin	4/4	100%
Mr. Liping Qiu	4/4	100%

Director's Training

Each newly appointed Directors will receive a package of orientation materials on the business and operations of Spring REIT and the legal framework under which Spring REIT is governed. The package includes but not limited to the REIT Code, Trust Deed and Compliance Manual and recent publications of Spring REIT. Senior executives of the Manager also provide the Directors with the necessary information in the form of exceptional reports. Also, additional information will always be provided to the Directors upon request.

To keep Directors abreast of their responsibilities and infuse them with new knowledge relevant to the Group and Spring REIT's business and operating environment, the Manager arranges and provides continuous professional development training and relevant reading materials to Directors to help ensure that they are apprised of the latest changes in the commercial, legal and regulatory environment in which Spring REIT conduct its businesses and to refresh their skills and knowledge on the roles, functions and duties of a Director. In addition, attendance at external forums or briefing sessions (including delivery of speeches) on the relevant topics also counts towards continuous professional development training.

During the Reporting Year, the Manager had arranged in-house training conducted by The Hong Kong Institute of Directors for the Directors and senior executives.



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Director CPD

Corporate Governance (Continued)

Based on the training records provided to the Manager by the Directors, the Directors have participated in the following training during the Reporting Year:

Members of the Board	Types of Training
<i>Chairman and Non-executive Director</i>	
Mr. Toshihiro Toyoshima	A,B
<i>Executive Directors</i>	
Mr. Lau Jin Tin, Don	A,B
Mr. Nobumasa Saeki	A,B
<i>Non-executive Director</i>	
Mr. Hideya Ishino	A,B
<i>Independent Non-executive Directors</i>	
Mr. Simon Murray	A,B
Mr. Lam Yiu Kin	A,B
Mr. Liping Qiu	A,B

A: Attending corporate events and/or Board visits and/or executive briefings relevant to Spring REIT's business.

B: Reading or attending briefings and/or seminars and/or conferences relevant to regulatory and governance updates.

Key Reserved Matters to the Board

To maintain appropriate checks and balances on management actions, certain matters which have a critical bearing on Spring REIT are specifically reserved for consideration by the full Board. These mainly include:

- (i) approval of interim, final and special (if any) distributions, interim and annual reports and financial statements and circulars to Unitholders;
- (ii) recommendation to Unitholders on any change of the provisions of the Trust Deed;
- (iii) approval of acquisition and/or disposition of properties;
- (iv) appointment or removal of the Executive Director and any other Directors as well as the company secretary;
- (v) issue of new Units of Spring REIT;
- (vi) approval of any matter which would have a material effect on the Spring REIT's financial position, liabilities, future strategy or reputation; and
- (vii) delegation of powers and authority to various Board committees.

Insurance

During the Reporting Year, appropriate Directors' and officers' liabilities insurance and professional indemnity insurance have been arranged in respect of legal action against the Directors and officers of the Manager and the provision of professional services by the Manager to Spring REIT.

Corporate Governance (Continued)

Chairman and Executive Directors of the Manager

The positions of chairman (Mr. Toshihiro Toyoshima, who is a Non-executive Director) and the Executive Directors (Mr. Lau Jin Tin, Don and Mr. Nobumasa Saeki) are held by separate persons in order to maintain an effective segregation of duties. The chairman leads the Board discussions and deliberations and is responsible for setting the meeting agenda of Board meetings. He ensures that Board meetings are held when necessary. He promotes high standards of corporate governance and maintenance of effective communications with Unitholders. Each of the Executive Directors is responsible for the day-to-day operation and management of the Manager and Spring REIT. Each of the Executive Directors executes the strategic plans set out by the Board and ensures that the Directors are kept updated and informed of Spring REIT's business via management reports.

Appointment, Re-election and Removal of Directors

The appointment, re-election and removal of Directors (including ROs) is a matter for the Board and the shareholders of the Manager to determine in accordance with the Compliance Manual, the articles of association of the Manager and the applicable law. As the Manager is licensed by the SFC under Part V of the SFO, the appointment and removal of any of the Executive Directors and the Non-executive Directors (including the Independent Non-executive Directors) and the removal of a RO must be notified to the SFC and the appointment of a RO requires the prior approval of the SFC.

All the Independent Non-executive Directors (except Mr. Lam Yiu Kin who was appointed on 12 January 2015) were appointed on 20 November 2013 for an initial term of three years and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term of appointment, unless and until terminated by not less than three months' notice in writing served by either party.

Disclosure on Independent Non-executive Director Remuneration Arrangement

Pursuant to the announcement of the Manager dated 24 October 2014, the Manager has adopted an arrangement for the remuneration of Independent Non-executive Directors (the "Independent Non-executive Director Remuneration Announcement"). As stated in the Independent Non-executive Director Remuneration Announcement, the Manager is required to disclose in the interim report and annual report of Spring REIT of the following matters:

Independent Non-executive Director	Remuneration for the Reporting Year ⁽ⁱ⁾ (HK\$)	Election for Percentage of fee in Units during the Reporting Year	Units paid as Remuneration during the Reporting Year ⁽ⁱⁱ⁾
Mr. Simon Murray	360,000	100%	108,000
Mr. Liping Qiu	360,000	100%	108,000
Mr. Lam Yiu Kin	349,355	100%	105,000

Notes:

- (i) Each Independent Non-executive Director's remuneration remains unchanged during the Reporting Year. This fee was determined after arm's length negotiation between each Independent Non-executive Director and the Manager, with reference to market conditions, the experience and qualifications of each Independent Non-executive Director.
- (ii) For each Independent Non-executive Director's current beneficial interest in Spring REIT and the change (if any) in their respective beneficial interest in Spring REIT during the year ended 31 December 2015, please see the section headed "Disclosure of Interest" below.

Corporate Governance (Continued)

Board Committees

The Board has the power to delegate to committees consisting of such numbers of its body as it thinks fit. Various committees have been established to assist the Board in discharging its responsibilities. The committees of the Board have been set up with clear terms of reference to review specific issues or items and then to submit their findings and recommendations to the full Board for consideration and endorsement. Unless the decision making power has been vested in the relevant committee by the Board, the ultimate responsibility for making final decisions rests with the full Board and not the committees.

The committees of the Board are currently as follows:

Audit Committee

The members of the Audit Committee of the Manager are appointed by the Board from among the Non-executive Directors only. Majority of the members of the Audit Committee shall be Independent Non-executive Directors and at least one Independent Non-executive Director has appropriate professional qualification or accounting or related financial management expertise. As at the date of this report, the Audit Committee is chaired by an Independent Non-executive Director, namely Mr. Lam Yiu Kin. The other members of the Audit Committee are Mr. Liping Qiu (an Independent Non-executive Director) and Mr. Hideya Ishino (a Non-executive Director).

The Audit Committee is responsible for establishing and maintaining an adequate internal control structure, effective financial reporting and risk management systems and ensuring the quality and integrity of financial statements. The Audit Committee is also responsible for the nomination of independent external auditors and reviewing the adequacy of external audits in respect of cost, scope and performance. The Audit Committee also ensures the existence and working of an effective system of internal control and risk management, in respect of both the Manager and Spring REIT.

The Audit Committee's responsibilities also include:

- (i) reviewing dealings of the Manager and the Directors on a half-yearly basis;
- (ii) reviewing all financial statements and all external audit reports and developing and implementing a policy on the engagement of external auditors to supply non-audit services;
- (iii) ensuring the internal audit function is adequately resourced and guiding the management to take appropriate actions to remedy any faults or deficiencies in internal controls which may be identified;
- (iv) assisting the Board in its monitoring of the entities' overall risk management profile and setting guidelines and policies to govern risk assessment and risk management;
- (v) periodically reviewing and monitoring all connected party transactions and related party transactions;
- (vi) reviewing the Manager and Spring REIT's compliance with legal and regulatory requirements on a regular basis; and
- (vii) reviewing and approving the annual internal audit plan and reviewing the internal audit reports and activities.

Corporate Governance (Continued)

During the Reporting Year, three physical meetings of the Audit Committee were held and one separate written resolution was passed by all members of the Audit Committee. The attendance of individual Directors at such Audit Committee meetings is as follows:

Members of the Audit Committee	Number of meetings attended/ Number of meetings held	Attendance Rate
Mr. Lam Yiu Kin (<i>Chairman</i>)	3/3	100%
Mr. Hideya Ishino	3/3	100%
Mr. Liping Qiu	3/3	100%

The following is a summary of the major work done of the Audit Committee during the Reporting Year:

- (i) reviewed the audited financial statements, the final results announcement and annual report of Spring REIT for the year ended 31 December 2014;
- (ii) reviewed the unaudited financial statements, the interim results announcement and interim report of Spring REIT for the six months period ended 30 June 2015;
- (iii) reviewed the internal control report of Spring REIT prepared by the internal auditor;
- (iv) considered and recommended to the Board on the re-appointment of external auditor of Spring REIT and approved the terms of engagement;
- (v) reviewed the legal and regulatory compliance matters for the year ended 31 December 2014 and for the six months period ended 30 June 2015 which included, among others, the connected party transactions of Spring REIT; and
- (vi) reviewed and approved the 2015 annual budget of Spring REIT prepared by the Manager.

Promotional Expenses

Pursuant to the waiver granted by the SFC on 21 November 2013 from strict compliance with the requirements under Paragraph 9.13(b) of the REIT Code, certain expenses relating to marketing, promotion, advertising, roadshows, press conferences, luncheons, presentations, and other public relations-related fees (collectively “**Promotional Expenses**”) are allowed to be paid out of the deposited property (as defined in the Trust Deed) of Spring REIT.

During the Reporting Year, the Promotional Expenses incurred amounted to US\$0.11 million. Pursuant to the conditions of the above-mentioned waiver and having reviewed the supporting evidences as it may reasonably deem necessary, the Audit Committee has confirmed that such Promotional Expenses were incurred (i) in accordance with the internal control procedures of the Manager; and (ii) the nature of these Promotional Expenses was solely for the purposes as set out in the relevant clauses of the Trust Deed.

Corporate Governance (Continued)

Disclosures Committee

The members of the Disclosures Committee are appointed by the Board from among the Directors. The Disclosures Committee consists of three Directors, one of whom should at all times be an Independent Non-executive Director. The role of the Disclosures Committee includes reviewing matters relating to the disclosure of information to Unitholders and public announcements. The Disclosures Committee also works with the management of the Manager to ensure the disclosure of information is accurate, complete and not misleading. As at the date of this report, the members of the Disclosures Committee are Mr. Lau Jin Tin, Don (an Executive Director), Mr. Toshihiro Toyoshima (a Non-executive Director) and Mr. Lam Yiu Kin (an Independent Non-executive Director). Mr. Lau Jin Tin, Don has been appointed as the chairman of the Disclosures Committee.

The Disclosures Committee's responsibilities mainly include:

- (i) reviewing and making recommendations to the Board on matters of corporate disclosure issues and announcements regarding (without limitation) financial reporting, connected party transactions, and potential areas of conflict of interests;
- (ii) overseeing compliance with applicable legal requirements and the continuity, accuracy, clarity, completeness and currency of information disseminated by or on behalf of Spring REIT to the public and applicable regulatory agencies;
- (iii) reviewing and approving all material non-public information and all public regulatory filings of or on behalf of Spring REIT prior to such information being disseminated to the public or filed with applicable regulatory agencies;
- (iv) reviewing periodic and current reports, proxy statements, information statements, registration statements and any other information filed with regulatory bodies;
- (v) reviewing press releases containing financial information, information about material acquisitions or dispositions or other information material to Unitholders;
- (vi) reviewing correspondence containing financial information disseminated to Unitholders;
- (vii) selecting, appointing, directing and terminating, where appropriate, outside experts (such as legal advisors or accountants) as the Disclosures Committee deems necessary in the performance of its duties; and
- (viii) maintaining and updating the terms of reference as the Disclosures Committee deems appropriate.

During the Reporting Year, two physical meetings of the Disclosures Committee were held and seventeen separate written resolutions were passed by all members of the Disclosures Committee. The attendance of individual Directors at such Disclosures Committee meetings is as follows:

Members of the Disclosures Committee	Number of meetings attended/ Number of Meetings Held	Attendance Rate
Mr. Lau Jin Tin, Don (<i>Chairman</i>)	2/2	100%
Mr. Toshihiro Toyoshima	2/2	100%
Mr. Lam Yiu Kin	2/2	100%

Corporate Governance (Continued)

The following is a summary of the major work done of the Disclosures Committee during the Reporting Year:

- (i) reviewed and recommended to the Board on the disclosure of the final results announcement and the 2014 final distribution, annual report for the year ended 31 December 2014, draft announcement relating to the payment of Manager's fees in cash and in Units;
- (ii) reviewed and recommended to the Board on the disclosure of the interim results announcement and 2015 interim distribution, interim report for the six months period ended 30 June 2015;
- (iii) reviewed and recommended to the Board on the notices convening the annual general meeting and the extraordinary general meeting;
- (iv) reviewed and recommended to the Board on the draft of announcement in relation to the amendments of Trust Deed, etc.;
- (v) reviewed and recommended to the Board on the draft of announcement in relation to continuing party transactions, sale of share in the Manager, etc.;
- (vi) reviewed and recommended to the Board on the draft announcements in relation to unaudited operating statistics for 31 December 2014, 31 March 2015, 30 June 2015 and 30 September 2015;
- (vii) reviewed and recommended to the Board on the draft announcement in relation to signing of facility agreement of new secured term loan and uncommitted revolving facility;
- (viii) reviewed and recommended to the Board on the draft announcement in relation to appointment of Independent Non-executive Director and member and chairman of Audit Committee and member of each of Disclosures Committee and Remuneration Committee; and
- (ix) reviewed and recommended to the Board on the draft announcement in relation to the 2016 election of Manager's fees.

Remuneration Committee

The members of the Remuneration Committee are appointed by the Board from among the Directors. A majority of the members of the Remuneration Committee shall at all times be Independent Non-executive Directors. The chairman of the Remuneration Committee shall at all times be an Independent Non-executive Director. As at the date of this report, the members of the Remuneration Committee are Mr. Simon Murray, Mr. Lam Yiu Kin (each of whom are Independent Non-executive Directors) and Mr. Toshihiro Toyoshima (a Non-executive Director). Mr. Simon Murray has been appointed as the chairman of the Remuneration Committee.

The Remuneration Committee is responsible for reviewing the terms and conditions of employment of Directors and all senior staff of the Manager (other than the members of Remuneration Committee, whose remuneration is determined by the Board) and recommending an appropriate manpower deployment plan (including the succession plan for the management of the Manager and the Board), remuneration and retirement policies and packages. The Remuneration Committee also ensures that no Director is involved in deciding his own remuneration.

Corporate Governance (Continued)

During the Reporting Year, one physical meeting of the Remuneration Committee was held and three separate written resolutions were passed by all members of the Remuneration Committee. The attendance of individual Directors at such Remuneration Committee meeting is as follows:

Members of the Remuneration Committee	Number of meetings attended/ Number of Meeting Held	Attendance Rate
Mr. Simon Murray (<i>Chairman</i>)	1/1	100%
Mr. Toshihiro Toyoshima	1/1	100%
Mr. Lam Yiu Kin	1/1	100%

During the Reporting Year, the Remuneration Committee reviewed the existing terms and conditions of employment of the Directors and senior staff, remuneration packages of individual Executive Director and senior staff, remuneration of Independent Non-executive Directors, manpower deployment plan, and remuneration and retirement policies.

Nomination Committee

The members of the Nomination Committee are appointed by the Board from among the Directors. A majority of the members of the Nomination Committee shall at all times be Independent Non-executive Directors. The chairman of the Nomination Committee shall at all times be an Independent Non-executive Director or the chairman of the Board. As at the date of this report, the members of the Nomination Committee are Mr. Toshihiro Toyoshima (a Non-executive Director), Mr. Simon Murray and Mr. Liping Qiu (each of whom are Independent Non-executive Directors). Mr. Toshihiro Toyoshima has been appointed as the chairman of the Nomination Committee.

The Nomination Committee is responsible for reviewing the structure, size and composition (including expertise and experience) of the Board and its committees on an ongoing basis and for nominating, and providing recommendations on, persons for appointment, re-appointment or removal of Directors.

The Nomination Committee had considered and reviewed the nomination of Mr. Lam Yiu Kin as an Independent Non-executive Director in December 2014 whose appointment was approved by the Board on 12 January 2015. Since then, there was no change in the Board composition.

Advisory Committee

The members of the Advisory Committee are appointed by the Board from among the Directors. As at the date of this report, the members of the Advisory Committee are Mr. Lau Jin Tin, Don, Mr. Nobumasa Saeki (each of whom are Executive Directors), Mr. Toshihiro Toyoshima and Mr. Hideya Ishino (each of whom are Non-executive Directors). The role of the Advisory Committee includes generally reviewing the management services provided by the Manager to Spring REIT, the financial performance of the Manager and Spring REIT, investor relations with respect to Spring REIT and potential acquisition opportunities, as well as supervising the performance of service providers to the Manager and Spring REIT (including the performance of the property manager and the building manager). The Advisory Committee presents information to the Board from time to time between Board meetings as advisable and ensures the smooth co-ordination between the various committees established by the Board. Where appropriate, the Advisory Committee can recommend to the chairman that a Board meeting be convened to discuss any Spring REIT matter. Meetings of the Advisory Committee are being held monthly (or more frequently if required) to review Spring REIT management issues and to make recommendations to the Board. During the Reporting Year, twelve meetings were held by the Advisory Committee and two separate written resolutions were passed by all members of the Advisory Committee.

Corporate Governance (Continued)

Company Secretary

The Manager has engaged Fair Wind Secretarial Services Limited, an external secretarial services provider, as the company secretary of the Manager (the “**Company Secretary**”). The primary contact person with the Company Secretary of the Manager is Ms. Alice Yu, the chief compliance officer of the Manager. The Company Secretary comprises a team of qualified company secretarial professionals who provide a full range of company secretarial support to the Manager and its Directors. Senior management of the Manager maintains regular contact with the Company Secretary to ensure the latter has knowledge of the affairs of Spring REIT. All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures and all applicable law, rules and regulations are followed.

Internal Auditor

The internal audit function of the Manager has been outsourced to BDO Financial Services Limited, an independent third party, and has been carried out in accordance with the instructions of the Manager. The internal auditor (the “**Internal Auditor**”) has been engaged to perform an independent assessment of Spring REIT and the Manager’s internal control systems.

The Internal Auditor reports directly to the Audit Committee on audit matters, and to the Board on administrative matters.

The functions of Internal Auditor include:

- (i) reviewing the accuracy and completeness of records of all operations and transactions of Spring REIT and ensuring that the Manager’s internal control system functions properly;
- (ii) identifying contingency events and escalating them to the appropriate level within the Manager; and
- (iii) reviewing and making recommendations to the Board or the Audit Committee (as the case may be) to ensure effective segregation of duties and operation functions of the Manager and effectiveness and accuracy of the reporting of irregularities and infringements of the Manager’s operational and compliance procedures.

During the Reporting Year, the Internal Auditor has conducted a risk-based review of the policies and procedures described in the Compliance Manual to ensure they have been operated as expected. Based on the results of the internal audit review for the year ended 31 December 2015 and the assessment of the Audit Committee thereon, the Board considers that the internal control systems are effective and adequate. No significant irregularity or deficiency in internal controls that may affect Unitholder’s investment and Spring REIT’s assets was identified.

External Auditor

The Group’s external auditor is PricewaterhouseCoopers (“**PwC**”). The responsibilities of the external auditor with respect to the financial reporting are set out in the Independent Auditor’s Report on page 66 of this report. PwC has confirmed to the Audit Committee that they are independent with respect to acting as an external auditor to Spring REIT. PwC has been re-appointed for performing the audit for the financial year ending 31 December 2016.

Corporate Governance (Continued)

During the Reporting Year, the fees paid/payable to PwC relating to audit and other non-audit services are set out as follows:

Services rendered	Fees paid/payable US\$'000
— Audit services	
PwC	175
— Other non-audit services	
PwC	132
	307

Management of Business Risk

The Board meets quarterly or more often if necessary to review the financial performance of Spring REIT and the Manager against a previously approved budget. The Board also reviews any risks associated with the management and performance of Spring REIT from time to time, to examine liability management and acts upon any advices or comments from the external auditor, where appropriate. In assessing any business risk, the Board will consider the economic environment and risk relevant to property market. In respect of risk management, mitigating strategies are formulated by the management team to combat with identified risks and are overseen by the Board on an on-going basis. It reviews periodically management reports and will conduct feasibility studies on development projects prior to considering and approving any major transactions.

The Manager has put in place procedures to ensure well defined and accessible channels to report on suspected fraud, corruption, dishonest practices and for the independent investigation of any reports and appropriate follow up action. The aim of the whistle-blowing policy is to encourage the reporting of such matters in good faith with the confidence that persons making such reports will be treated fairly, and to the extent possible, be protected from reprisal.

During the Reporting Year, the Board has, through the Audit Committee had reviewed and is generally satisfied with the effectiveness of the Group's risk management system.

Conflicts of Interest and Business Competitions

Mercuria may influence the affairs of Spring REIT through its control over RCA Fund 01, L.P. ("**RCA Fund**") and the Manager. RCA Fund, a fund managed by Mercuria pursuant to a management agreement between Mercuria and RCA Fund (acting through its general partner, RCAC), held 30.8% interest in Spring REIT as at 31 December 2015. Mercuria will therefore have the ability to influence RCA Fund's right as a Unitholder in respect of the affairs of Spring REIT (in so far as such matters are subject to the vote by the Unitholders and RCA Fund is not required to abstain from voting), including in relation to approval of significant corporate transactions, such as acquisitions and disposals. In addition, as at 31 December 2015, the Manager is 90.2% owned by Mercuria and some of its Non-executive Directors are also directors and/or senior executives of Mercuria. In addition, Mercuria has interest in Units of Spring REIT directly or through various subsidiaries; in particular, the Manager has received and continue to receive Units of Spring REIT by virtue of all or part of its entitlement to the fees for asset management services rendered to Spring REIT. Mercuria may exercise influence over the activities of Spring REIT through the Manager.

The principal activities of Mercuria include investment in, among other things, real estate assets and, there can be no assurance that Mercuria will not invest in real estate assets in Beijing or elsewhere in the PRC or other parts of Asia in the future. Moreover, Mercuria may in the future manage or invest in other real estate investment trusts or other vehicles which may compete with Spring REIT. There can be no assurance that conflicts of interest will not arise between Spring REIT and Mercuria in the future.

Corporate Governance (Continued)

Beijing Hua-re Real Estate Consultancy Co., Ltd., (the “**Property Manager**”) is currently 40% owned by Mercuria and 60% by third parties. If the Property Manager were to manage a property which competes with the Property, there can be no assurance that the Property Manager will not favor those properties owned by Mercuria or such third parties over the Property when providing management services to Spring REIT, which could lead to lower occupancy rates and/or lower rental income for the Property as a whole and thus materially adversely affect the business, financial condition, results of operations and prospects of Spring REIT and distributions to Unitholders.

All conflicts of interest are managed by the Board in accordance with the articles of association of the Manager and applicable laws, rules and regulations and the Compliance Manual. All conflicts of interest relating to Spring REIT shall be avoided and, if not possible, be managed.

In general, the Manager has established the following measures to deal with potential conflicts of interest:

- (i) unless with the approval of the SFC, the Manager will not manage any REIT other than Spring REIT nor manage other real estate assets other than those in which Spring REIT has an ownership interest or investment;
- (ii) the Manager will ensure that it will be able to function independently from its shareholders and all executive officers are employed by the Manager on a full time basis and be dedicated to the operations of Spring REIT;
- (iii) the Manager also has Independent Non-executive Directors and the Audit Committee which provide independent checks on the performance of the executive officers and ensure that the executive officers manage and operate Spring REIT independent from Mercuria;
- (iv) the Manager has established procedures to deal with conflict of interests under the Compliance Manual;
- (v) the Manager has established internal control systems to ensure that connected party transactions between Spring REIT and its connected persons are monitored and undertaken according to procedures and/or on terms in compliance with the REIT Code (or where applicable, in compliance with the waiver conditions imposed by the SFC) and that other potential conflicts of interest that may arise are monitored;
- (vi) all conflicts of interest involving a significant Unitholder or a Director will be required to be managed by a physical Board meeting rather than a written resolution and all Independent Non-executive Directors who, and whose associates, have no material interest in the matter should be present at such Board meeting;
- (vii) a Director who has material interests in a matter which is the subject of a resolution proposed at a Board meeting of the Manager shall abstain from voting on the resolution concerned and shall not be counted in the quorum at the Board meeting at which such resolution is proposed; and
- (viii) the Property Manager has a team of operational staff exclusively dedicated to provide property management services to the Property. The Property Management Agreement (as defined in the Offering Circular) provides that the Property Manager shall act in the best interest of RCA01.

The Manager has established an internal control system intended to ensure that connected party transactions between Spring REIT and its connected persons are monitored and are undertaken on terms in compliance with the REIT Code and the Compliance Manual.

The Manager confirms that it is capable of performing, and shall continue to perform, its duties for Spring REIT independent of the related business of Mercuria, RCA Fund, RCAC and in the best interest of Spring REIT and the Unitholders.

Corporate Governance (Continued)

Reporting and Transparency

Spring REIT prepares its financial statements in accordance with International Financial Reporting Standards with a financial year-end of 31 December and a financial half-year of 30 June. In accordance with the REIT Code, the annual reports and semi-annual reports for Spring REIT are published and sent to Unitholders and filed with the SFC no later than four months following each financial year-end and the semi-annual reports no later than two months following each financial half-year end respectively. In addition, Spring REIT also voluntarily provides Unitholders with unaudited operating statistics, such as occupancy levels and passing rents of the Property on a quarterly basis.

As required by the REIT Code, the Manager is required to keep Unitholders informed of any material information and developments with respect to Spring REIT in a timely and transparent manner in order to keep Unitholders apprised of the position of Spring REIT. The Manager furnishes Unitholders with notices of meeting of Unitholders, announcements relating to Spring REIT, circulars in respect of transactions that require Unitholders' approval or information that is material in relation to Spring REIT (such as connected party transactions, transactions that exceed a stated percentage threshold, a material change in Spring REIT's financial forecasts, an issue of new Units or a valuation of real estate held by Spring REIT). These documents are also made available by publishing them on the designated website of Hong Kong Exchanges and Clearing Limited and the website of Spring REIT.

Directors' Responsibility for Financial Statements

The Directors acknowledge their responsibility for preparation of consolidated financial statements of Spring REIT that give a true and fair view in accordance with International Financial Reporting Standard, the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C of the REIT Code.

The consolidated financial statements of Spring REIT for the year ended 31 December 2015 were audited by PwC and a statement on their responsibilities with respect to financial reporting are set out in the Independent Auditor's Report on page 66 of this report.

Issues of Further Units

To minimize the possible material dilution of holdings of Unitholders, any further issue of Units will need to comply with the pre-emption provisions contained in the REIT Code, the Trust Deed and any other applicable laws and regulations. Such provisions require that further issues of Units be first offered on a pro rata pre-emptive basis to existing Unitholders except that Units may be issued or agreed (conditionally or unconditionally) to be issued, in any financial year (whether directly or pursuant to any Convertible Instruments (as defined in the Trust Deed)) otherwise than on a pro rata basis to all existing Unitholders and without the approval of Unitholders subject to conditions as more particularly set out in the Trust Deed.

In circumstances where pre-emption rights apply, only to the extent that the Units offered are not taken up by such holders may they be allowed to or issued to other persons or otherwise than pro rata to their existing holdings.

Any issue, grant or offer of Units or Convertible Instruments to a connected person of Spring REIT will require specific prior approval of Unitholders by way of an ordinary resolution in respect of which the connected person shall be prohibited from voting or being counted in the quorum for the meeting of the Unitholders, unless such issue, grant or offer is made under certain circumstances (where, for the avoidance of doubt, no Unitholders' approval will be required) including:

- (i) the connected person of Spring REIT receives a pro rata entitlement to Units and/or Convertible Instruments in its capacity as a Unitholders; or
- (ii) Units are issued to a connected person of Spring REIT under clauses 11.1.1 and 11.1.2 of the Trust Deed in or towards the satisfaction of the Manager's fees; or
- (iii) Units are issued to a connected person of Spring REIT pursuant to a distribution reinvestment arrangements in accordance with clause 20.9 under the Trust Deed.

Where the issue of Units would give rise to a conflict of interest on the part of the Manager or its connected persons, the Manager and its connected persons shall abstain from voting to any issuance of Units.

Corporate Governance (Continued)

Compliance with the Dealings Code

To monitor and supervise any dealings of Units, the Manager has adopted a code containing rules on dealings in the securities of Spring REIT by the Directors and the Manager (the “**Dealings Code**”) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the “**Model Code**”). Pursuant to the Dealings Code, all Directors, senior executives, officers and employees of the Manager, subsidiaries of the Manager or the special purpose vehicles of Spring REIT (“**Management Persons**”) who, because of his/her office or employment in the Manager, the relevant subsidiaries of the Manager or the relevant special purpose vehicles of Spring REIT, is likely to be in possession of unpublished price sensitive information in relation to the securities of Spring REIT wishing to deal in the Units, must first have regard to the provisions analogous to those set out in Parts XIII and XIV of the SFO with respect to inside dealing and market misconduct, as if those provisions applied to the securities of Spring REIT. In addition, a Director or the Manager must not make any unauthorized disclosure of confidential information obtained in the course of his/her or its service to any other person or make any use of such information for the advantage of himself or itself or others. The Dealings Code also extends to senior executives and officers of the Manager.

Specific enquiry has been made with the Manager’s Directors, senior executives and officers and they have confirmed that they complied with the required standard set out in the Dealings Code throughout the Reporting Year.

Management Persons who are in the possession of, aware of or privy to any negotiations or agreements related to intended acquisitions or disposals which are significant transactions or any unpublished inside information must refrain from dealing in the Units as soon as they become in the possession of, aware of them or privy to such information until proper disclosure of the information in accordance with the REIT Code and any applicable provisions of the Listing Rules. Management Persons who are privy to relevant negotiations or agreements or any inside information should caution those Management Persons who are not so privy that there may be unpublished inside information and that they must not deal in Spring REIT’s securities until proper disclosure of information has been made.

A Management Person and the Manager must not deal in any securities of Spring REIT at any time when he/she is in possession of unpublished price-sensitive information in relation to those securities, or where clearance to deal is not otherwise conferred upon him/her in the manner as provided in the Dealings Code. In addition, Management Persons must not deal in the securities of Spring REIT on any day on which Spring REIT’s financial results are published and: (a) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the annual results; and (b) during the period of 30 days immediately preceding the publication date of the quarterly results (if any) or half-yearly results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the relevant results, unless the circumstances are exceptional. In any event, in the case of dealings by a Management Persons, the Management Persons must comply with the procedures set out in the Dealings Code.

Under the Trust Deed and by virtue of Part XV of the SFO, Unitholders will have a notifiable interest if their holdings of Units reach or exceed the notifiable percentage level (as defined in the SFO for the purposes of Part XV of the SFO), i.e. 5.0% of the Units then in issue, and are required to notify the Stock Exchange and the Manager of their holdings in Spring REIT. The Manager keeps a register for these purposes and records in the register, against a person’s name, the particulars provided pursuant to the notification and the date of entry of such record. The said register is available for inspection by the Trustee and any Unitholder at any time during business hours upon reasonable notice to the Manager.

Corporate Governance (Continued)

Communication with Unitholders

The Manager considers that mutual and effective communication with Unitholders and the investment community about corporate strategy, business development and prospects is an important priority for Spring REIT. The Manager also recognizes the importance of transparency and timely disclosure of corporate information, which will enable Unitholders and investors to make informed decisions.

The convening of annual general meetings of Unitholders by the Manager is one of the communication channels between the Board and the Unitholders. It provides an opportunity for Unitholders to obtain a better understanding of and, if necessary, to enquire the Board about Spring REIT's operating performance.

During the Reporting Year, the corporate website of Spring REIT was revamped to also provide content in Japanese, in addition to Chinese and English. The Manager believes that such enhanced feature will provide greater convenience to Japanese investors.

Members of the Board	Annual General Meeting	Extraordinary General Meeting
Chairman and Non-executive Director		
Mr. Toshihiro Toyoshima	✓	✓
Executive Directors		
Mr. Lau Jin Tin, Don	✓	✓
Mr. Nobumasa Saeki	✓	✓
Non-executive Director		
Mr. Hideya Ishino	✓	✓
Independent Non-executive Directors		
Mr. Simon Murray	Absent	Absent
Mr. Liping Qiu	Absent	Absent
Mr. Lam Yiu Kin	✓	✓

Investors and Unitholders may at any time direct their enquiries about Spring REIT to the Board by writing to the Manager's office in Hong Kong at Room 2801, 28th Floor, Man Yee Building, 68 Des Voeux Road Central, Hong Kong or by email to website at: ir@springreit.com.

Notice of Unitholders' Meetings

The Trustee or the Manager may at any time convene a meeting of Unitholders. The Manager shall also convene a meeting of Unitholders if requested in writing by not less than two Unitholders registered as holding together not less than 10% of the Units for the time being in issue and outstanding. Whilst it is a requirement under the Trust Deed that at least 14 days' or 10 clear business days' (whichever is longer) notice of the meeting shall be given to Unitholders where an ordinary resolution is proposed for consideration at such meeting, and at least 21 days' or 20 clear business days' (whichever is longer) notice shall be given to Unitholders for an annual general meeting or where a special resolution is proposed for consideration at such meeting, the Manager has adopted the requirement under the Corporate Governance Code of the Listing Rules that notice of annual general meeting should be sent at least 20 clear business days before the meeting and notice of all other general meetings should be sent at least 10 clear business days before the meetings.

Corporate Governance (Continued)

Matters to be decided by Unitholders by special resolution

A meeting of Unitholders when convened may, by way of a special resolution and in accordance with the Trust Deed, among others, the following matters:

- (i) change in the Manager's investment policies and objectives of Spring REIT;
- (ii) disposal of any of Spring REIT's investment (which is in the nature of real estate or shares in any special purpose vehicle holding interest in real estate) prior to the expiry of two years from the time of Spring REIT's holding of such investment;
- (iii) any increase in the rate above the permitted limit or change in structure of the Manager's fees (other than any additional fee as allowed under the Trust Deed);
- (iv) any increase in the rate above the permitted limit or change in structure of the Trustee's fees (other than any additional fee as allowed under the Trust Deed);
- (v) any modifications, variation, alteration or addition to the Trust Deed which shall be agreed by the Trustee and the Manager as provided in the Trust Deed (save for issues that are necessary to comply with applicable regulatory requirements);
- (vi) remove Spring REIT's external auditor and appoint new external auditor;
- (vii) remove the Trustee and appoint new Trustee;
- (viii) termination of Spring REIT; and
- (ix) merger of Spring REIT in compliance with applicable provisions of the Takeover Code.

Quorum

Two or more Unitholders present in person or by proxy registered as holding together not less than 10% of the Units for the time being in issue and outstanding will form a quorum for the transactions of all business, except for the purpose of passing a special resolution. The quorum for passing a special resolution will be two or more Unitholders present in person or by proxy registered as holding together not less than 25% of the Units for the time being in issue and outstanding.

Voting

For a meeting at which Unitholders have a material interest in the business to be conducted and that interest is different from the investors of other Unitholders (as determined by the Manager (where the Unitholder(s) concerned is (are) not connected persons related to the Manager) or the Trustee (where the Unitholder(s) concerned is (are) connected persons related to the Manager), if appropriate, in its absolute opinion), which includes but not limited to an issue of new Units where a Unitholder may increase his holdings of Units by more than his pro rata share, such Unitholders shall be prohibited from voting their own Units at such meeting or being counted in the quorum for such meeting.

Corporate Governance (Continued)

Poll Vote

At any meeting, a resolution put to the meeting shall be decided on a poll, except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, and the result of the poll shall be deemed to be the resolution of the meeting. On a poll, every Unitholder who is present in person or by proxy shall have one vote for every Unit of which he is the Unitholder provided that such Units are fully paid up. Votes cast by a Unitholder in contravention of the REIT Code or Listing Rules shall not be counted.

Investor Relations

The Manager is committed to providing an open and effective communication platform, ensuring that Unitholders and the investment community at large are informed of the ongoing developments of Spring REIT. The Manager reinforces this platform by utilizing a variety of interactive means to engage and maintain dialogues with investors and analysts. The Manager believes feedback and comments from the investment community are critical to shaping the future direction of Spring REIT.

To the extent possible under the current regulatory framework, communications with investors are conducted through:

- (i) direct communication including physical meetings conducted with the senior management of the Manager, both locally and overseas;
- (ii) guided property tours organized by the Manager and the property management team;
- (iii) provision of regular communication materials; and
- (iv) announcements and press releases posted on Spring REIT's website, including disclosures made pursuant to regulatory requirements or on a voluntary basis.

Other than annual and interim results announcements, the Manager also voluntarily releases the unaudited operational statistics of Spring REIT on a quarterly basis.

Constitutional Documents

During the Reporting Year, the Manager had amended the Trust Deed pursuant to special resolutions of Unitholders passed at the 2015 EGM. There was no change in the Manager's articles of association.

Review of Annual Report

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. The consolidated annual results of Spring REIT for the Reporting Year have also been audited by the external auditor of Spring REIT in accordance with International Auditing Standards.

Corporate Governance (Continued)

Change in Information of Directors of the Manager

During the Reporting Year, the Manager received notification regarding the following changes of Directors' information:

Director	Change in Information
Mr. Simon Murray Independent Non-executive Director	— Resigned as an Independent Non-executive Director and chairman of Gulf Keystone Petroleum Ltd. (a company listed on London Stock Exchange) on 31 March 2015
Mr. Lam Yiu Kin Independent Non-executive Director	— Resigned as an Independent Non-executive Director of Kate China Holdings Limited (a company listed on the Stock Exchange (stock code: 8125)) with effect from 17 September 2015 — Appointed as an Independent Non-executive Director of Nine Dragons Paper (Holdings) Limited (a company listed on the Stock Exchange (stock code: 2689)), chairman of the Audit Committee and members of each of the Nomination Committee, Remuneration Committee and Corporate Governance Committee of the company with effect from 3 March 2016.

Save as disclosed above, the Manager has not been notified of any change in Director's information.

Purchase, Sale or Redemption of Units

During the Reporting Year, there was no purchase, sale or redemption of the Units by the Manager on behalf of Spring REIT or any of the special purpose vehicles that are owned and controlled by Spring REIT.

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 2015.

Investments in Property Development and Relevant Investments

As at 31 December 2015, Spring REIT did not enter into any (i) Investments in Property Development and Related Activities (as defined in Paragraph 2.16A of the REIT Code); and (ii) Relevant Investments (as defined in Paragraph 7.2B of the REIT Code).

Foreign Account Tax Compliance Act ("FATCA")

Spring REIT met the "regularly traded on a recognized securities market" criteria for the calendar year of 2014 and should therefore be excluded from having "financial accounts" under FATCA for the calendar year 2015, and hence was not required to perform account due diligence, reporting or withholding for its account holders under FATCA for the calendar year 2015.

Connected Party Transactions

The connected party transaction rules of the REIT Code govern transactions between Spring REIT and/or RCA01 and their connected persons (as defined in Paragraph 8.1 of the REIT Code). Such transactions will constitute connected party transactions for the purposes of the REIT Code.

Spring REIT's connected persons (as defined in Paragraph 8.1 of the REIT Code) includes, among others:

- (a) the Manager of Spring REIT;
- (b) the Principal Valuer of Spring REIT;
- (c) the Trustee of Spring REIT;
- (d) a significant holder;

Notes:

- (1) A holder is a significant holder if it holds 10% or more of the outstanding Units.
- (2) The following holdings will be deemed holdings of a holder:
 - (i) holdings of the associate of the holder who is an individual; or
 - (ii) holdings of the director, senior executive, officer, controlling entity, holding company, subsidiary or associated company of the holder if the holder is an entity.
- (e) a director, senior executive or an officer of any of the entities in (a), (b), (c) or (d) above;
- (f) an associate of the persons in (d) or (e); and
- (g) a controlling entity, holding company, subsidiary or associated company of any of the entities in (a) to (d).

The terms “associated company” and “associate” shall have the same meanings as they are defined under the REIT Code.

Set out below is information in respect of connected party transactions during the year ended 31 December 2015 involving Spring REIT and/or RCA01 and their connected persons as defined in Paragraph 8.1 of the REIT Code, which are governed by Chapter 8 of the REIT Code based on the best knowledge of the Manager.

Connected Party Transactions (Continued)

Connected Party Transactions — Income

The following table sets forth information on connected party transactions (other than those transactions disclosed under the section headed “Connected Party Transactions with Trustee Connected Persons” below) from which the Spring REIT Group derived its income during the Reporting Year:

Name of Connected Party	Relationship with Spring REIT	Nature of Connected Party Transaction	Income for the Reporting Year RMB	Rental Deposit received as at 31 December 2015 RMB
摩丘利亞(北京)投資諮詢有限公司	Associated company of the Manager and associate of a director of the Manager ¹	Leasing	966,944	284,809
ITOCHU (China) Holding Co., Ltd.	Associated company of the Manager ²	Leasing	4,842,323 ³	2,419,161

Notes:

- 1 摩丘利亞(北京)投資諮詢有限公司 (formerly AD Capital (Beijing) Investment Consulting Co. Ltd.) is wholly owned by Mercuria, which holds 90.2% shareholding in the Manager. Both Mr. Toshihiro Toyoshima, the chairman and a Non-Executive Director of the Manager, and Mr. Hideya Ishino, a Non-Executive Director of the Manager, are also directors of 摩丘利亞(北京)投資諮詢有限公司
2. As disclosed in an announcement of Spring REIT dated 29 March 2015, ITOCHU Corporation (“**ITOCHU**”) has acquired approximately 28.3% of the issued share capital in Mercuria and thus indirectly holds approximately 25.5% of the total issue share capital of the Manager. Accordingly, ITOCHU has become an associated company of the Manager under the REIT Code. As a result, ITOCHU has become a connected person of the Spring REIT Group under the REIT Code.
3. The amount represented lease payments paid by ITOCHU (China) Holding Co., Ltd. for the period from 29 May 2015 (the date on which it became a connected person of Spring REIT) up to 31 December 2015.

Connected Party Transactions (Continued)

Connected Party Transactions — Expenses

The following table sets forth information on connected party transactions (other than those disclosed under the section headed “Connected Party Transactions with Trustee Connected Persons” below) in which the Spring REIT Group incurred its expenses during the Reporting Year:

Name of Connected Party	Relationship with Spring REIT	Nature of Connected Party Transaction	Expenses for the Reporting Year RMB
Beijing Hua-re Real Estate Consultancy Co., Ltd.	Associated company of the Manager ¹	Property management	10,164,985

Note:

1. Beijing Hua-re Real Estate Consultancy Co., Ltd. is owned as to 40% by Mercuria which in turn holds 90.2% shareholding in the Manager.

Connected Party Transactions with Trustee Connected Persons

The following tables set forth information on connected party transactions entered into with the Trustee Connected Persons (as defined in the Offering Circular) during the Reporting Year:

Name of Connected Party	Relationship with Spring REIT	Nature of Connected Party Transaction	Income/(Expense) for the Reporting Year RMB
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Leasing Transactions

Deutsche Bank AG and its associated companies	Trustee Connected Persons	Leasing	45,733,986 ¹
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Ordinary Banking and Financial Services

Deutsche Bank AG, Hong Kong Branch	Trustee Connected Persons	Interest income received/receivable on bank deposits	3,512,180
Deutsche Bank AG, London Branch	Trustee Connected Persons	Loan Interest	(7,600,280) ²
Deutsche Bank AG, Hong Kong Branch	Trustee Connected Persons	Bank charges	(30,774)
Deutsche Bank AG, London Branch	Trustee Connected Persons	Fees related to term loan	(17,872,128)

Notes:

1. As at 31 December 2015, the Spring REIT Group received from the Trustee Connected Persons a rental deposit of RMB7,078,601. A rental deposit by way of bank guarantee provided by Deutsche Bank (China) Co., Ltd. was held by RCA01 (a special purpose vehicle wholly owned and controlled by Spring REIT) as at 31 December 2015.
2. On 30 April 2015, RCA01 concluded the US\$500,000,000 term loan and revolving facilities with a syndicate of banks. Deutsche Bank AG, London Branch was appointed as one of the mandated lead arrangers, underwriters and bookrunners and acted as one of the lenders for the financing. The outstanding principal balance of these facilities were US\$480,000,000 as at 31 December 2015.

Connected Party Transactions (Continued)

Connected Party Transactions with Trustee Connected Persons — Leasing under which the annual income exceed HK\$1 million

The following table sets forth information on leasing transactions with the Trustee connected persons with annual income that exceeds HK\$1 million during the Reporting Year.

Name of Connected Party	Relationship with Spring REIT	Nature of Connected Party Transaction	Rental income for the Reporting Year RMB
Deutsche Bank (China) Company Ltd.	Trustee connected person	Lease for the whole of 26th, 27th and 28th floors of Tower 1, China Central Place and signage income	24,304,837
Zhong De Securities	Trustee connected person	Lease for the whole of 22nd and 23rd floors of Tower 1, China Central Place and signage income	21,429,149

Confirmation by The Manager and Trustee of Corporate Finance Transaction with The Trustee Connected Persons

Both the Manager and the Trustee confirm that the appointment of Deutsche Bank AG, London Branch as the mandated lead arrangers, underwriters and book-runners for the US\$500,000,000 term loan and revolving facilities as described in the announcements dated 19 December 2014 and 18 February 2015 has complied with the general conditions of the waiver granted by the SFC to Spring REIT on 21 November 2013 in respect of “Corporate Finance Transaction” between the Spring REIT Group and the Trustee Connected Persons, and that the Trustee has not been involved in the making of any decision to enter into the above corporate finance transaction on behalf of the Spring REIT Group (subject to the Trustee’s duties of oversight under the REIT Code and the Trust Deed) including the selection of the financial advisor of the transaction during the Reporting Year.

Waivers from Strict Compliance

Waivers from strict compliance with the disclosure and approval requirements of Unitholders under Chapter 8 of the REIT Code in respect of certain connected party transactions entered into by Spring REIT and/or RCA01 with its connected persons (the “**Waivers**”) have been granted by the SFC. The Waivers have been granted subject to the relevant waiver terms and conditions including, inter alia, the requirements that transactions should be entered into on normal commercial terms in the ordinary and usual course of business of Spring REIT, and are to be reviewed by the external auditor of Spring REIT, the Independent Non-executive Directors of the Manager and/or the audit committee of the Manager and (in respect of certain types of transactions) the transaction amounts should be within the specified annual caps and shall be disclosed in Spring REIT’s semi-annual and annual reports as required under Paragraph 8.14 of the REIT Code (the “**Waiver Conditions**”).

During the Reporting Year, Spring REIT has complied with the requisite Waiver Conditions, where applicable.

An extension of period of waiver from strict compliance with the disclosure and approval requirements under Chapter 8 of the REIT Code in respect of certain new and all the existing continuing connected party transactions and new annual caps for certain leasing transactions and property management arrangements between the Spring REIT Group and its connected persons have been granted by the SFC on 20 May 2015, subject to annual limitation as to the capped value of such transactions, review by the external auditor for each relevant financial period, annual review by the Independent Non-executive Directors and other terms and conditions. For detailed terms and conditions of the waiver extension, please refer to the announcement of Spring REIT dated 20 May 2015.

Connected Party Transactions (Continued)

Confirmation By The Independent Non-executive Directors

The Independent Non-executive Directors have confirmed that they have reviewed the terms of all relevant connected party transactions above and that they are satisfied that these transactions have been entered into:

- (a) in the ordinary and usual course of business of Spring REIT;
- (b) on normal commercial terms (to the extent that there are comparable transactions) or, where there are insufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to Spring REIT than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreement and the Manager's internal procedures governing them, if any, on terms that are fair and reasonable and in the interests of the Unitholders as a whole.

Report from the Auditor in Relation to Certain Connected Party Transactions

The continuing connected party transactions conducted during the Reporting Year have been reviewed by the external auditor in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The external auditor has issued an unqualified letter containing its findings and conclusions in respect of the connected party transactions including lease transactions, property management transactions and transactions involving ordinary banking and financial services in accordance with the Waivers from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code granted by the SFC. A copy of such report would be issued and provided to the SFC.

Terms and Remuneration of Services Provided by the Manager, the Trustee and the Principal Valuer

Pursuant to note 2 to Paragraph 8.10 of the REIT Code, services provided by the Manager, the Trustee and the Principal Valuer to Spring REIT as contemplated under the constitutive documents shall not be deemed connected party transactions. Therefore, such services are not disclosed in the above sections.

During the Reporting Year, the aggregate amount of fees payable by Spring REIT and/or RCA01 to the Manager were USD7,503,000. For 2015, the Manager collected HK\$14,263,030.69 as variable fee in cash.

During the Reporting Year, the trustee fee of approximately RMB1,626,082 (inclusive of the additional fees of RMB49,620 for duties undertaken by the Trustee in relation to the US\$500,000,000 term loan and revolving facilities which are outside the scope of the Trustee's normal duties in the ordinary course of Spring REIT's normal day-to-day business operations) has been incurred.

During the Reporting Year, an amount of RMB301,651 in aggregate was rendered for services to the Group by Colliers International and its associated entities. Among these approximately RMB282,798 was valuation fee incurred for service rendered by Colliers International in its capacity as the Principal Valuer of Spring REIT.

Particulars of services provided by the Trustee, the Manager and the Principal Valuer are set out in notes 7, 10 and 7 respectively of the consolidated financial statements of Spring REIT for the year ended 31 December 2015.

Disclosure of Interests

The REIT Code requires that connected persons (as defined in Paragraph 8.1 of the REIT Code) of Spring REIT shall disclose their interests in Units. In addition, under the provisions of the Trust Deed, Part XV of the SFO is also deemed to be applicable to, among other things, the Directors and chief executives of the Manager and also indirectly to certain persons interested in or having a short position in Units.

Interests Held by the Manager, the Directors, Senior Executives and Officers of the Manager

As at 31 December 2015, the interests and short positions held by the Manager, the Directors, senior executives and officers of the Manager in the Units which were required to be disclosed to the Manager and the Stock Exchange pursuant to the provisions of Part XV of the SFO are set out below:

Name	Capacity/Nature of Interest	As at 31 December 2015		As at 31 December 2014		Change in % interest
		Units Interested (Long Position)	Approximate % of interest ⁵	Units Interested (Long Position)	Approximate % of interest ⁵	
The Manager						
Spring Asset Management Limited ¹	Beneficial owner/ Beneficial interest	11,938,306	1.07%	11,420,088	1.03%	+0.04%
The Directors						
Toshihiro Toyoshima	Beneficial owner/ Personal interest	700,000	0.06%	400,000	0.04%	+0.02%
Lau Jin Tin, Don	Beneficial owner/ Personal interest	200,000	0.02%	200,000	0.02%	0.00%
Nobumasa Saeki	Beneficial owner/ Personal interest	400,000	0.04%	200,000	0.02%	+0.02%
Hideya Ishino	Beneficial owner/ Personal interest	49,000	0.00%	49,000	0.00%	0.00%
Simon Murray ²	Beneficial owner/ Personal interest	132,000	0.01%	24,000	0.00%	+0.01%
Liping Qiu ³	Beneficial owner/ Personal interest	132,000	0.01%	24,000	0.00%	+0.01%
Lam Yiu Kin ⁴	Beneficial owner/ Personal interest	105,000	0.01%	—	0.00%	+0.01%
Senior Executives						
Alice Yu	Beneficial owner/ Personal interest	170,000	0.02%	—	0.00%	+0.02%

Disclosure of Interests (Continued)

Notes:

1. After issuance of an aggregate of 10,690,218 new Units to the Manager during the Reporting Year as payment of part of the Manager's fee, the Manager beneficially owned 11,938,306 Units at 31 December 2015 (2014: 11,420,088).
2. Mr. Simon Murray received these Units in lieu of cash, pursuant to the announcement made by the Manager on 24 October 2014 regarding the arrangement for remuneration of Independent Non-executive Director paid out of the Manager's own asset. As at 31 December 2015, there had been no change to (i) the Independent Non-executive Director's remuneration; and (ii) the annual election made by this Independent Non-executive Director.
3. Mr. Liping Qiu received these Units in lieu of cash, pursuant to the announcement made by the Manager on 24 October 2014 regarding the arrangement for remuneration of Independent Non-executive Director paid out of the Manager's own asset. As at 31 December 2015, there had been no change to (i) the Independent Non-executive Director's remuneration; and (ii) the annual election made by this Independent Non-executive Director.
4. Mr. Lam Yiu Kin received these Units in lieu of cash, pursuant to the announcement made by the Manager on 24 October 2014 regarding the arrangement for remuneration of Independent Non-executive Director paid out of the Manager's own asset. As at 31 December 2015, there had been no change to (i) the Independent Non-executive Director's remuneration; and (ii) the annual election made by this Independent Non-executive Director. Mr. Lam was appointed as an Independent Non-executive Director of the Manager on 12 January 2015.
5. The percentages expressed are based on the total number of issued Units of 1,120,158,306 as at 31 December 2015 and 1,109,468,088 as at 31 December 2014 respectively.

Save as disclosed, none of the Manager, the Directors, senior executives or senior officers of the Manager had beneficially interested (or deemed to be interested) in Units or held any short position in Units as at 31 December 2015 which were required to be notified to the Manager and the Stock Exchange pursuant to Divisions 7, 8 and 9 of Part XV of the SFO or pursuant to the Dealings Code as adopted by the Manager.

Interests Held by Significant Holders

As at 31 December 2015, based on the information available to the Manager, each of the following persons was considered a "significant holder" of Units and hence a "connected person" of Spring REIT within the meaning and for the purpose of the REIT Code. Their interests or short positions in Units which were required to be disclosed to the Manager and the Stock Exchange pursuant to the provisions of Part XV of the SFO are set out below:

Name	Capacity/Nature of interest	As at 31 December 2015		As at 31 December 2014		Change in % interest
		Units Interested (Long Position)	Approximate % of Issued Units ¹	Units Interested (Long Position)	Approximate % of Issued Units ¹	
RCA Fund ²	Beneficial owner/ Beneficial interest	345,204,000	30.82%	345,204,000	31.11%	-0.29%
RCAC ²	Interest of controlled corporation/corporate interests	345,204,000	30.82%	345,204,000	31.11%	-0.29%

Notes:

1. The percentages expressed are based on the total number of issued Units of 1,120,158,306 as at 31 December 2015 and 1,109,468,088 as at 31 December 2014 respectively.
2. Based on the information available to the Manager, RCAC is a general partner of RCA Fund. RCAC has the exclusive right on the management, control and operation in RCA Fund and is deemed to have corporate interest in the Units held by RCA Fund.

Save as disclosed above and the information available to the Manager, no other significant holders had beneficially interested (or deemed to be interested) in Units or held any short position in Units as at 31 December 2015 which were required to be notified to the Manager and the Stock Exchange pursuant to Divisions 2, 3 and 4 of Part XV of the SFO or pursuant to the Dealings Code as adopted by the Manager.

Disclosure of Interests (Continued)

Interests Held by Substantial Unitholders under the SFO

As at 31 December 2015, the interests and short position in Units held by persons, other than the Manager, Directors or senior executives and officers of the Manager or significant holders of Spring REIT, who were interested in 5% or more but below 10% of Units which were required to be disclosed to the Manager and the Stock Exchange pursuant to the provisions of Part XV of the SFO are set out below:

Name	Capacity/Nature of interest	As at 31 December 2015		As at 31 December 2014		Change in % interest
		Number of Units Interested (Long Position)	Approximate % of Issued Units ¹	Number of Units Interested (Long Position)	Approximate % of Issued Units ¹	
Asuka Asset Management Co., Ltd.	Investment manager/ other interest	77,861,000	6.95%	132,703,000	11.96%	-5.01%

Notes:

- The percentages expressed are based on the total number of issued Units of 1,120,158,306 as at 31 December 2015 and 1,109,468,088 as at 31 December 2014 respectively.

Save as disclosed above and the information available to the Manager, the Manager is not aware of any other substantial Unitholders under the SFO had beneficially interested (or deemed to be interested) in 5% or more but below 10% of Units or held any short position in Units as at 31 December 2015 which were required to be notified to the Manager and the Stock Exchange pursuant to Divisions 2, 3 and 4 of Part XV of the SFO or pursuant to the Dealings Code as adopted by the Manager.

Interests Held by Other Connected Persons

As at 31 December 2015, saved as disclosed above and the information available to the Manager, the Manager is not aware of any other connected persons of Spring REIT, including the Trustee and the Principal Valuer, who are interested (or deemed to be interested) in Units which were required to be notified to the Manager and the Stock Exchange pursuant to the Part XV of the SFO or pursuant to the Dealings Code as adopted by the Manager.

Valuation Report



27 January 2016

Spring Asset Management Limited
(as manager of Spring Real Estate Investment Trust)
28/F Man Yee Building
68 Des Voeux Road Central
Hong Kong

DB Trustees (Hong Kong) Limited
(as trustee of Spring Real Estate Investment Trust)
52/F, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Australia and New Zealand Banking Group Limited, Singapore Branch
(as Facility Agent of the syndicated loan to RCA01)
10 Collyer Quay, #22-0 Ocean Financial Centre
Singapore

Dear Sirs

Re: Office Tower 1 & 2 in China Central Place and a total of approximately 600 car spaces located in the underground levels of the two office buildings located at Nos. 79 and 81 Jianguo Road, Chaoyang District, Beijing, the People's Republic of China (the "Property")

Instructions

With reference to the instructions received from Spring Asset Management Limited (as manager of Spring Real Estate Investment Trust) (the "**REIT Manager**") and DB Trustees (Hong Kong) Limited to value the Property held by RCA01 (the "**Company**"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary to provide you with our opinion of the market value of the Property, as at 31 December 2015 (the "**Valuation Date**"), for Accounting and Financing Purposes.

Valuation Report (Continued)

Basis of Valuation

Our valuation of the Property represents the market value which we would define as “the estimated amount for which an asset or liability should exchange on the Valuation Date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

This estimate specifically excludes an estimated price inflated or deflated by special considerations or concessions granted by anyone associated with the sale, or any element of special value. The value of a property is also estimated without regard to costs of sale or purchase, and without offset for any associated taxes.

Valuation Methodology

In the course of our valuation, we have taken into account the existing tenancies of the Property.

We have adopted Discounted Cash Flow Analysis (“**DCF Analysis**”) to assess the market value of the Property. DCF Analysis involves discounting the estimated future net cash flows of the Property to its present value by using an appropriate discount rate that reflects the rate of return required by a third-party investor for an investment of this type. The DCF Analysis, which factors annual rental income streams, was based on the following assumptions:

- (i) We have estimated the market rent, excluding the property management fee, as at the Valuation Date is RMB430 per sq m per month based on newly-committed leases in the last six months. For 2016 and 2017, the rent will grow at 0% and 3% per annum, respectively, followed by an annual growth rate of 5% from 2018 to 2020;
- (ii) We have made reference to the occupancy rate of similar office developments in Beijing CBD and adopted a long-run occupancy rate of 95% in DCF Analysis;
- (iii) The discount rate adopted was 8.75%. We have taken into account the location, income and tenant mix of the Property and the rate of return requirement of property investors when determining the discount rate;
- (iv) A terminal capitalisation rate of 5.50% was applied when deriving the present value of the cash flows after year 2020;
- (v) The operating period of the Property is based on the un-expired term of the land-use rights of approximately 38 years as mentioned in the land-use rights certificate of the Property.

We have also carried out the valuation by the Income Capitalisation Approach, which is a valuation method typically used for income-producing properties. The Income Capitalisation Approach estimates the values of the properties on an open market basis by capitalising rental income on an assumed fully leased basis having regard to the current passing rental income from existing tenancies and potential future reversionary income at the market level. In this valuation method, the total rental income is divided into a current passing rental income over the existing lease term (the term income) and a potential future reversionary rental income over the residual land-use term (the reversionary income). The term value involves the capitalisation of the current passing rental income over the existing lease term. The reversionary value is taken to be current market rental income upon the expiry of the lease over the residual land-use rights term and is capitalised on an assumed fully leased basis. The gross yield adopted for capitalisation of the rental income is derived with reference to the comparable Grade A offices in Beijing in consideration of the characteristics of the Property. This expected return reflects implicitly the quality of the investment, the expectation of the potential future rental growth, capital appreciation, risk factors, and our experience in valuing other similar properties.

Valuation Report (Continued)

The market rent adopted in the Income Capitalisation Approach is RMB430 per square meter per month, which is in line with our assumption in DCF approach as it reflects the achievable rent in the market. The adopted capitalisation rate in our valuation is 6.50%. The capitalisation rate applied to the rental income generated for the unexpired term of the land-use rights of the Property until 28 October 2053.

Assumptions and Caveats

Our valuation has been made on the assumption that the owner sells the Property on the open market in their existing state without the benefit of deferred terms contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the value of the Property. In addition, no forced sale situation in any manner is assumed in our valuation.

In our valuations, we have not made any allowance for any charges, mortgages or amounts owing on the Property or for expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of any onerous nature which could affect its value.

We have assumed that no significant capital expenditure by the owners of the Property will be required in the foreseeable future.

We are not aware of any significant overseas taxes expected to be charged in respect of the Property.

Title Investigation

We have been provided with copies of documents in relation to the title of the Property interests situated in the PRC. We have not, however, examined the original documents to verify ownership or to verify any material encumbrances that might be attached to the Property or any amendments, which may not appear on the copies handed to us. We have relied on the PRC legal opinion given by the REIT Manager's PRC legal adviser on the PRC law regarding title to the Property.

Valuation Consideration

We have relied to a very considerable extent on the information provided by the REIT Manager and have accepted advice given to us on such matters as development schemes for the Property and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information provided to us by the REIT Manager.

We have inspected the exterior of the Property and, where possible, we have also inspected the interior of the premises. However, we have not carried out investigations to determine the suitability of the ground conditions, the services, etc. for any future development. We have not carried out detailed site measurements to verify the correctness of the site and floor areas in respect of the Property but have assumed that the site and floor areas provided to us are correct. All documents and contracts have been used as a reference only and all dimensions, measurements and areas are approximations.

Remarks

Our valuation is prepared in accordance with Chapter 6.8 of the Code on Real Estate Investment Trusts (the "REIT Code") issued by the Securities and Futures Commission (the "SFC"), the Practice Note on Overseas Investment by SFC — Authorized Real Estate Investment Trusts (forming part of the REIT Code) and the "HKIS Valuation Standards on Properties (First Edition 2005)" published by The Hong Kong Institute of Surveyors and the RICS Valuation — Professional Standards, incorporating the International Valuation Standards (2014) published by the Royal Institution of Chartered Surveyors.

Valuation Report (Continued)

This valuation report is prepared on a fair and unbiased basis and is issued subject to our general assumptions and limitation conditions.

We hereby certify that we have neither present nor prospective interests in Spring REIT, the Property and/or the Company. Pursuant to Paragraph 6.5 of the REIT Code, we confirm that we are independent to Spring REIT, the Trustee, the Manager and each of the significant holders of Spring REIT.

Unless otherwise stated, all monetary amounts stated in this report are in Renminbi (RMB).

Our valuation certificate is attached.

Yours faithfully,

For and on behalf of

Colliers International (Hong Kong) Ltd

Zhi Rong He (Flora He)

MRICS MCOMFIN

Senior Director

Valuation and Advisory Services I China

David Faulkner

BSc (Hons) FRICS FHKIS RPS(GP) MAE

Executive Director

Valuation and Advisory Services I Asia

Note: Mr. David Faulkner, Chartered Valuation Surveyor, BSc (Hons), FRICS, FHKIS, RPS (GP), MAE, has over 28 years of experience in the valuation of properties in Hong Kong and the PRC.

Ms. Zhi Rong He (Flora He), Chartered Valuation Surveyor, MRICS, MCOMFIN, has over 15 years of experience in the valuation of properties in Hong Kong and the PRC.

Valuation Report (Continued)

Valuation of the Property Valuation Abstract

Property:	Office Tower 1 & 2 in China Central Place and a total of approximately 600 car parking located in the underground levels of the two office buildings located at Nos. 79 and 81 Jianguo Road, Chaoyang District, Beijing, the People's Republic of China (中華人民共和國北京市朝陽區建國路79, 81號華貿中心1, 2號樓辦公區域及地下車位部分)
Description:	The Property comprises all of the office floors of Office Tower 1 (including Levels 4 to 28, and the emergency shelter floor on Level 16, which contains no lettable space) and Office Tower 2 (including Levels 4 to 32, and the emergency shelter floor on Level 20, which contains no lettable space) in China Central Place and a total of approximately 600 car spaces located in the underground levels of the two office buildings. The Property was completed in 2006 and the office portion is of Premium Grade (the highest quality of Grade A) quality by Colliers International's definition.
Site Area:	13,692.99 sq m
GFA:	Office: 120,245.19 sq m Car Park: 25,127.35 sq m Total: 145,372.54 sq m
Registered Owner:	RCA01
State-owned Land-Use Rights Certificate:	Jing Chao Guo Yong (2010 Chu) Di 00118 Hao (京朝國用(2010出)第00118號)
Permitted Use:	Office and car park uses
Building Ownership Certificate:	56 Real Estate Ownership Certificates Nos. X Jing Fang Quan Zheng Chao She Wai Zi Di 521508 to 521593 Hao (discontinuous)
Valuation Date:	31 December 2015
Valuation Approach:	Discounted Cash Flow Analysis (" DCF Analysis ") Income Capitalisation Approach
Market Value in Existing State as at 31 December 2015:	DCF Analysis: RMB8,291,000,000 Income Capitalisation Approach: RMB8,378,000,000 Reconciled Value: RMB8,335,000,000 RENMINBI EIGHT BILLION THREE HUNDRED THIRTY FIVE MILLION

Valuation Report (Continued)

Valuation Certificate

Property	Description and Tenure	Particulars of Occupancy	Estimated Net Property Yield	Market Value in Existing State as at 31 December 2015												
Office Tower 1 & 2 in China Central Place and a total of approximately 600 car spaces located in the underground levels of the two office buildings located at Nos. 79 and 81 Jianguo Road, Chaoyang District, Beijing, the People's Republic of China	<p>China Central Place is a mixed-use development in Beijing CBD, which comprises luxury retail, three premium grade office towers, two five star hotels, car park, residential, club house, etc.</p> <p>The Property comprises all of the office floors of Office Tower 1 (including Levels 4 to 28, and the emergency shelter floor on Level 16, which contains no lettable space) and Office Tower 2 (including Levels 4 to 32, and the emergency shelter floor on Level 20, which contains no lettable space) in China Central Place and a total of approximately 600 car spaces located in the underground levels of the two office buildings. The Property was completed in 2006 and the office portion is of Premium Grade (the highest quality of Grade A) quality by Collier International's definition.</p> <p>The Property has a total gross floor area (GFA) of approximately 145,372.54 sq m, a breakdown is as follows:</p> <table><tr><th>Use</th><th>GFA (sq m)</th></tr><tr><td>Office — Tower 1</td><td>56,068.32</td></tr><tr><td>Office — Tower 2</td><td>64,176.87</td></tr><tr><td>Sub-total</td><td>120,245.19</td></tr><tr><td>Car Park</td><td>25,127.35</td></tr><tr><td>Total</td><td>145,372.54</td></tr></table> <p>The land-use rights of the Property have been granted for a term expiring on 28 October 2053 for office and car park uses.</p>	Use	GFA (sq m)	Office — Tower 1	56,068.32	Office — Tower 2	64,176.87	Sub-total	120,245.19	Car Park	25,127.35	Total	145,372.54	<p>As at the Valuation Date, the Property (excl. car park) is let under various tenancies for various terms with the majority that expires within 3years, yielding a total monthly rental income of approximately RMB44,550,000, exclusive of property management fee and utility charges. A number of tenancies contain rent review clauses and/or options to renew for further terms at the then prevailing market rent.</p> <p>The occupancy rate of the Property (excl. car park) as at 31 December 2015 was about 96%.</p> <p>Approximately 600 car spaces are being operated as a fee-paying car park. The total average monthly income in 2015 is approximately RMB400,000.</p> <p>Various naming rights are let under various agreements, yielding an average monthly rental of approximately RMB375,000 in 2015.</p>	5.9%	RMB8,335,000,000
Use	GFA (sq m)															
Office — Tower 1	56,068.32															
Office — Tower 2	64,176.87															
Sub-total	120,245.19															
Car Park	25,127.35															
Total	145,372.54															

Valuation Report (Continued)

Notes:

- (1) Pursuant to State-Owned Land-Use Right Certificate Jing Chao Guo Yong (2010 Chu) No. 00118 (京朝國用(2010出)第00118號) dated 21 May 2010, the land-use rights of the Property, with a site area of 13,692.99 sq m, have been granted to RCA01 for a 50-year term expiring on 28 October 2053 for office and car park uses.
- (2) Pursuant to the 56 Real Estate Ownership Certificates X Jing Fang Quan Zheng Chao She Wai Zi No. 521508 to 521593 (discontinuous) issued by the Beijing Municipal Commission of Construction (北京市建設委員會), the ownership of the Property, located at Nos. 79 and 81 Jianguo Road, Chaoyang District, with a total gross floor area of approximately 145,372.54 sq m (including 120,245.19 sq m for office use and 25,127.35 sq m for car park use), is vested to RCA01.
- (3) The ownership and corresponding land-use rights of the Property are mortgaged to Australia and New Zealand Bank Group Limited, Singapore Branch, the security agent under the Facility Agreement and the Security Agreements, for a loan amount of USD480,000,000. Current outstanding loan amount is USD480,000,000.
- (4) In accordance with standard terms and conditions of the tenancy agreement, the landlord is responsible for repairs to the main building structure and the tenant is responsible for the maintenance of internal non-structural repairs of the Property.
- (5) The estimated net property yield of the Property is based on the said monthly rental income of the office and car park portion for December 2015 and average monthly income from naming rights after allowing business tax and real estate tax provided by RCA01.
- (6) Based on the tenancy information provided by the REIT Manager, our analysis of the existing tenancy profile as at 31 December 2015 (excluding car parking spaces) is set out below:

Valuation Report (Continued)

Occupancy Profile

Type	Office GFA (sq m) (approx.)	Total Proportion (approx.)
Leased	115,269	96%
Vacant	4,977	4%
Total	120,245	100%

Tenancy Expiry Profile

Year	Leased Office GFA (sq m) (approx.)	Percent of Total (approx.)	No. of Tenancies	Percent of Total (approx.)
2016	52,565	45.6%	78	42.2%
2017	30,336	26.3%	54	29.2%
2018 & beyond	32,368	28.1%	53	28.6%
Total	115,269	100.0%	185	100.0%

Tenancy Duration Profile

Duration	Leased Office GFA (sq m) (approx.)	Percent of Total (approx.)	No. of Tenancies	Percent of Total (approx.)
0–3 year	7,678	6.7%	18	9.7%
3–6 years	39,078	33.9%	74	40.0%
6–9 years	32,397	28.1%	45	24.3%
9+ years	36,116	31.3%	48	25.9%
Total	115,269	100.0%	185	100.0%

PRC Legal Opinion on RCA01

The PRC legal opinion states, inter alia, that:

- (i) RCA01 has obtained the land-use rights and building ownership rights of the Property with a site area of 13,692.99 sq m and the gross floor area of 145,372.54 sq m, respectively. RCA01, being the sole legal owner of the land-use rights and building ownership rights of the Property, has obtained all necessary permits and certificates from relevant departments of the PRC Government, and has the rights to occupy, use, lease, transfer, mortgage or deal with the said land-use rights and building ownership rights by other lawful means in accordance with the permitted use during the term of the said land-use rights.
- (ii) The land-use rights and building ownership rights of the Property are mortgaged to the security agent under the Facility Agreement and the Security Agreements for a loan amount of USD480,000,000. Except the aforesaid mortgage, there are no other mortgage registrations and seizure records relating to the building ownership and land-use rights of the Property.

Valuation Report (Continued)

- (iii) RCA01 is the sole legal owner of the building ownership rights of the Property and possesses the rights to lease the Property and receive rental income from the leased Property according to the relevant tenancy agreements.
- (iv) The existing tenancy agreements are legal and valid, and binding on both the signing parties within the respective tenancy period.
- (v) The tenants should not sub-let the leased portion of the Property during relevant lease terms unless agreed by RCA01 in writing. The tenants agree to waive its rights of refusal regarding the purchase of the leased portion of the Property. If RCA01 wishes to dispose of the leased portion of the Property, no consent is required of the tenants but a notice shall be given the tenants. The said property management agreements regarding the office portion of the Property as stipulated in the valuation certificate are legal and valid, and binding on both the signing parties.

Market Overview

China General Overview

The People's Republic of China ("PRC") is the world's most populous country with a total population of approximately 1.4 billion in 2015. Since implementation of the Open Door Policy in 1978, it has become one of the fastest-growing economies in the world, mainly driven by the rapid urbanisation progress and heavy investment in secondary and tertiary industries. According to the International Monetary Fund (IMF), China's socialist market economy is the world's second largest economy by nominal Gross Domestic Product (GDP) and the largest by Purchasing Power Parity (PPP). In 2015, China's total GDP grew by 6.9% year on year (YOY) and reached around RMB67.7 trillion according to the preliminary data by the National Bureau of Statistics of the PRC. In addition, the People's Bank of China anticipates China's GDP growth will continue at an average rate of 6.8% in 2016. Over the past decades, all major cities in China have been expanding and advancing their infrastructure underpinned by the economic growth. Also, the real estate markets have undergone sustainable improvements in total scale, building quality, market structure and so on.

Beijing City Overview

Beijing is the capital city of the PRC. It is a centre of politics, culture, transport, tourism and international exchanges, and home to the Chinese Central Government including the State Council of the PRC and National People's Congress. Being the capital city, Beijing policies are influential nationwide particularly in the economy. Currently, with the rising status of China and the leading role played in international affairs, in addition to the successful hosting of the 2008 Olympic Games, Beijing has become the eye-catching city to the world, and attracted many domestic and international investors. There are a large number of state-owned enterprises (SOEs) and multinational corporations (MNCs) that have chosen Beijing to be their bases in China. As a central city, Beijing has made a heavy investment in its infrastructure and has developed one of the most advanced networks in the country.

Beijing Office Market

The office market in Beijing is primarily divided into two sectors, Grade A and Grade B. The Grade A sector mainly contains office properties on par with superior standards in building quality and specifications, and solely owned by one or only a few owners. These properties usually occupy prime locations in the urban area of the city with advantageous accessibility and completed facilities. Beijing Central Business District (CBD) and Financial Street are the two most developed office submarkets that have relatively mature business atmospheres.

The Grade A offices are usually built to compete for high-profile tenants, especially those prestigious offices ranked as Premium Grade. The Beijing CBD and Financial Street submarkets supply most of the Premium Grade office properties and are home to a large number of reputable domestic and multinational corporations, as well as financial institutions at the state level. Because of this, the average rental rates of these two areas are at the top among the other areas in the city; and rents for the Premium Grade offices are the highest amidst the entire market. The Property is one of the Premium Grade office properties located in the Beijing CBD.

Valuation Report (Continued)

Supply and Demand

Since 2008, the total stock of the Grade A office market in Beijing has been increasing, amounting to approximately 5.6 million sq m in 2015. Over the past year, six Grade A office properties together with a total of approximately 350,000 sq m of quality office space were completed and handed over onto the market. The new supply in 2015 was spread around various business submarkets, and no new office development was added to the CBD area. Over the next three years, a combined GFA of approximately 1.5 million sq m of Grade A office projects is scheduled to be completed, about 40% of which will be located in the CBD submarket. As a result, fiercer competition in the area is expected in the medium to long term.

Demand for Beijing's Grade A office space has been strong, underpinned by the steady growth of the correlated tertiary industry. According to the Statistics Bureau of Beijing, the GDP of tertiary industries increased by 8.1% YOY by the end of 2015, 1.2% higher than the GDP growth rate of the overall economy. Led by the strong demand, overall vacancy rate remained at a relatively low level of 4.7% in 2015. Due to an absence of new supply in the past year in the CBD submarket, the vacancy rate of Grade A office properties in this area stayed at the low point of approximately 4%. Leasing activities in the CBD submarket have been active in the recent years, as numerous of transactions were witnessed in this area by a number of domestic companies, typically those in the financial and IT-related industries.

Rents

The average rent in the Beijing Grade A office market remained the highest in China. The sustainable growing economy and strong demand for prime office space have been edging the rental rates up over the past decade. By the end of 2015, the city's overall average rent rose to RMB331.6 per square metre per month (psm per month), representing a YOY increase of 2.3%. By submarket, the Financial Street submarket continued to record the highest rent in Beijing at approximately RMB440.3 psm per month, with the largest yearly rental growth of 7.5%.

In comparison, the CBD submarket, which has the highest proportion of the Grade A office supply in Beijing, offers more leasable office space. Many landlords tend to provide incentives to secure a high occupancy rate and a fine tenant profile. Considering the pipeline of upcoming new supplies in this area, the future rents are more likely to remain stable with slight increases. Nevertheless, the rental rates of Premium Grade office properties in the Beijing CBD are still in a lead position at RMB400–RMB450 psm per month.

Market Trend

China's overall economy is predicted to experience a continuous increase but at a sluggish growth rate. Despite this macroeconomic slowdown, Beijing's service sector, which is the major driver for office demand and the local economy nowadays, has shown strong momentum supporting the leasing demand for quality office space in Beijing. Moreover, the Beijing Municipal Commission of Development and Reform announced in August 2015, a ban on new large-scale public development including office buildings and hotels within the six urban districts of Beijing. This strict prohibition will further constrain office property expansion in the traditional core business submarkets, and will accelerate the decentralisation trend of Beijing's office market in the medium to long term.

The Property is the majority of office portion at China Central Place, located on the eastern side of the Beijing CBD area. China Central Place is an iconic commercial complex, comprising a luxury shopping mall, three Premium Grade office towers, high-end apartments and other amenities. The Property has been demonstrating strong marketability due to its premium quality, prime location, synergistic effect with the mall and apartments and so on. As of the end of Q4 2015, the occupancy rate reached approximately 96% and rents for newly-signed leases remained at approximately RMB430 psm per month. No new Grade A office property is scheduled to enter the CBD submarket in 2016. Therefore, the Property will more likely retain its competitiveness and maintain stable rental and occupancy rates in the short to medium term.

Trustee's Report

Spring Asset Management Limited
(in its capacity as the REIT Manager of Spring REIT)
Room 2801, 28/F, Man Yee Building
68 Des Voeux Road Central
Hong Kong

Dear Sirs,

Spring Real Estate Investment Trust
Annual Confirmation for the period from 1 January 2015 to 31 December 2015

We hereby confirm that, in our opinion, the Manager of Spring Real Estate Investment Trust ("**Spring REIT**") has, in all material respects, managed Spring REIT in accordance with the provisions of the Trust Deed dated 14 November 2013 (as amended by the First Supplemental Deed dated 22 May 2015) for the period from 1 January 2015 to 31 December 2015.

DB Trustees (Hong Kong) Limited
(in its capacity as trustee of Spring Real Estate Investment Trust)

Hong Kong, 25 January 2016

Independent Auditor's Report



羅兵咸永道

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF

SPRING REAL ESTATE INVESTMENT TRUST

(a Hong Kong collective investment scheme authorized under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

We have audited the consolidated financial statements of Spring Real Estate Investment Trust (the "Spring REIT") and its subsidiary (collectively referred to as the "Group") set out on pages 68 to 96, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and net assets attributable to Unitholders and the consolidated statement of cash flows for year ended 31 December 2015, and a summary of significant accounting policies and other explanatory information.

Manager's Responsibility for the Consolidated Financial Statements

Spring Asset Management Limited (the "Manager") is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and is responsible for ensuring that the consolidated financial statements have been properly prepared in accordance with the relevant provisions of the Trust Deed dated 14 November 2013, as amended by the first supplemental deed dated on 22 May 2015 (the "Trust Deed"), and the relevant disclosure requirements set out in the Appendix C of the Code on Real Estate Investment Trusts established by the Securities and Futures Commission of Hong Kong (the "REIT Code"), and for such internal control as the Manager determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain the reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

Independent Auditor's Report (Continued)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of the financial performance and cash flows of the Group for the year ended 31 December 2015 in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C of the REIT Code.

Other Matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 16 March 2016

Consolidated Income Statement

For the year ended 31 December 2015

	Notes	Year ended 31 December	
		2015 US\$'000	2014 US\$'000
Revenues	5	80,515	81,458
Property operating expenses	6	(19,239)	(19,285)
Net property income		61,276	62,173
General and administrative expenses	7	(9,320)	(10,309)
Fair value gain of investment property	12	35,543	56,048
Other losses, net	8	(854)	(1,252)
Operating profit		86,645	106,660
Finance income		559	467
Finance costs on interest-bearing borrowings	9	(46,837)	(33,742)
Profit for the year, before transactions with Unitholders		40,367	73,385
Distributions paid to Unitholders:			
— 2013 special distribution		—	(9,912)
— 2013 final distribution		—	(2,248)
— 2014 interim distribution		—	(19,768)
— 2014 final distribution (note i)		(17,931)	—
— 2015 interim distribution (note i)		(20,135)	—
		2,301	41,457
Represented by:			
— Change in net assets attributable to Unitholders, excluding issuance of new units		(34,791)	27,062
— Amount arising from exchange reserve movements regarding translations of financial statements		37,092	14,395
		2,301	41,457

Notes:

(i) 2015 interim distribution and 2014 final distribution of US\$20,135,000 and US\$17,931,000 respectively were paid during the year ended 31 December 2015. Total distribution for the year ended 31 December 2015 is presented in the statement of distributions.

(ii) Earnings per unit, based upon profit for the year, before transactions with Unitholders and the weighted average of number of units in issue, is set out in note 11.

The notes on pages 76 to 96 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	Notes	Before transactions with Unitholders US\$'000	Transactions with Unitholders (note i) US\$'000	After transactions with Unitholders US\$'000
For the year ended 31 December 2015				
Profit for the year		40,367	(3,275)	37,092
Other comprehensive loss:				
<i>Items that may be reclassified to consolidated income statement</i>				
Exchange losses on translation of financial statements		(37,092)	–	(37,092)
Total comprehensive income for the year	ii	3,275	(3,275)	–
For the year ended 31 December 2014				
Profit for the year		73,385	(58,990)	14,395
Other comprehensive loss:				
<i>Items that may be reclassified to consolidated income statement</i>				
Exchange losses on translation of financial statements		(14,395)	–	(14,395)
Total comprehensive income for the year	ii	58,990	(58,990)	–

Notes:

- (i) Transactions with Unitholders comprise the distributions paid to Unitholders of US\$38,066,000 (2014: US\$31,928,000), and change in net assets attributable to Unitholders excluding issuance of new units, of a decrease of US\$34,791,000 (2014: an increase of US\$27,062,000).
- (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, are part of finance costs which are recognized in the consolidated income statement. Accordingly, the total comprehensive income, after transactions with Unitholders is zero.

The notes on pages 76 to 96 are an integral part of these consolidated financial statements.

Statement of Distributions

For the year ended 31 December 2015

	2015 USD'000	2014 USD'000
Profit before transactions with Unitholders	40,367	73,385
Adjustments:		
— Fair value gain of investment property	(35,543)	(56,048)
— Fair value losses of derivative financial instruments	72	695
— Manager's fee payable in units in lieu of cash	4,477	5,918
— Amortization of transaction cost for the bank borrowings	7,278	5,372
— Derecognition of loan arrangement fee upon early repayment of previous bank borrowings	2,358	—
— Foreign exchange losses	22,225	8,377
Distributable income for the year (note i)	41,234	37,699
Total distribution of the year (note ii)	38,389	37,699
Represented by:		
— Interim distribution, paid (note iii)	20,135	19,768
— Final distribution, to be paid	18,254	17,931
Total distribution of the year	38,389	37,699
Percentage of total distribution over distributable income for the year	93%	100%
Distributions per unit to Unitholders		
— Interim distribution per unit, paid (note iii)	HK14.0 cents	HK13.9 cents
— Final distribution per unit, to be paid (note iv)	HK12.6 cents	HK12.5 cents
Distribution per unit for the year (note iv)	HK26.6 cents	HK26.4 cents

Statement of Distributions (Continued)

For the year ended 31 December 2015

Notes:

- (i) Under the terms of the Trust Deed, the distributable income represents the 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. As disclosed in the offering circular dated 25 November 2013, it is the Manager's intention to distribute 100% of Spring REIT's total distributable income for the period from 5 December 2013 (the "Listing Date") to 31 December 2014, and thereafter not less than 90% of its total distributable income for each subsequent financial period. 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 2015 was calculated based on the interim distribution of US\$20,135,000 for the period and 1,114,886,108 units in issue as at 30 June 2015. The interim distribution was paid to Unitholders on 17 September 2015.
- (iv) The final distribution per unit of HK12.6 cents for the year ended 31 December 2015 is calculated based on the final distribution to be paid to Unitholders of US\$18,254,000 for the second half of the financial year and 1,120,158,306 units in issue as at 31 December 2015, rounded to the nearest HK0.1 cent, may be subject to adjustment upon the consolidation, subdivision or issuance of new units between 1 January 2016 and 8 April 2016 (the "Record Date"), if any. The final distribution for the year ended 31 December 2015 is expected to be paid to Unitholders on 20 April 2016.

The final distribution per unit of HK12.5 cents for the year ended 31 December 2014 was calculated based on the final distribution paid to the Unitholders of US\$17,931,000 for the second half of 2014 and 1,109,468,088 units in issue as at 31 December 2014, rounded to the nearest HK0.1 cent. The final distribution for the year ended 31 December 2014 was paid to Unitholders on 22 April 2015.

- (v) All distributions to Unitholders are determined and paid in HK\$.

The notes on pages 76 to 96 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2015

		As at 31 December	
	Notes	2015 US\$'000	2014 US\$'000
Non-current assets			
Investment property	12	1,283,552	1,306,583
Derivative financial instruments	13	–	85
Total non-current assets		1,283,552	1,306,668
Current assets			
Trade and other receivables	14	1,455	784
Derivative financial instruments	13	7,117	–
Restricted bank balances	15	54,208	60,657
Cash and cash equivalents	15	30,857	24,286
Total current assets		93,637	85,727
Total assets		1,377,189	1,392,395
Current liabilities			
Trade and other payables	16	13,258	13,970
Rental deposits	16	22,406	23,588
Total current liabilities		35,664	37,558
Non-current liabilities, excluding net assets attributable to Unitholders			
Interest-bearing borrowings	17	477,301	460,683
Total liabilities, excluding net assets attributable to Unitholders		512,965	498,241
Net assets attributable to Unitholders		864,224	894,154
Units in issue ('000)	18	1,120,158	1,109,468
Net asset value per unit attributable to Unitholders			
In US\$		0.77	0.81
In HK\$		5.98	6.25

The notes on pages 76 to 96 are an integral part of these consolidated financial statements.

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

Lau Jin Tin, Don
Executive Director

Nobumasa Saeki
Executive Director

Consolidated Statement of Changes in Equity and Net Assets Attributable to Unitholders

For the year ended 31 December 2015

	Reserve (note i) US\$'000	Net assets attributable to Unitholders US\$'000	Total US\$'000
As at 1 January 2015	—	894,154	894,154
Profit for the year, before transactions with Unitholders	—	40,367	40,367
Exchange losses on translation of financial statements	(37,092)	—	(37,092)
Amount arising from exchange reserve movements	37,092	(37,092)	—
Distributions paid to Unitholders:			
— 2014 final distribution	—	(17,931)	(17,931)
— 2015 interim distribution	—	(20,135)	(20,135)
Change in net assets attributable to Unitholders for the year ended 31 December 2015, excluding issues of new units	—	(34,791)	(34,791)
Issuance of units	—	4,861	4,861
As at 31 December 2015	—	864,224	864,224

Note:

- (i) Reserves include exchange reserve, arising from translation of financial statements and retained earnings, representing amount set aside to offset exchange reserve movements.

Consolidated Statement of Changes in Equity and Net Assets Attributable to Unitholders (Continued)

For the year ended 31 December 2015

	Reserve (note i) US\$'000	Net assets attributable to Unitholders US\$'000	Total US\$'000
As at 1 January 2014	—	862,244	862,244
Profit for the year, before transactions with Unitholders	—	73,385	73,385
Exchange losses on translation of financial statements	(14,395)	—	(14,395)
Amount arising from exchange reserve movements	14,395	(14,395)	—
Distributions paid to Unitholders:			
— 2013 special distribution	—	(9,912)	(9,912)
— 2013 final distribution	—	(2,248)	(2,248)
— 2014 interim distribution	—	(19,768)	(19,768)
Change in net assets attributable to Unitholders for the year ended 31 December 2014, excluding issues of new units	—	27,062	27,062
Issuance of units	—	4,848	4,848
As at 31 December 2014	—	894,154	894,154

Note:

- (i) 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 76 to 96 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Notes	Year ended 31 December	
		2015 US\$'000	2014 US\$'000
Cash flows from operating activities			
Net cash generated from operations	19	56,047	61,003
Interest received		559	467
Net cash from operating activities		56,606	61,470
Cash flows from financing activities			
Proceeds from borrowings, net of transaction cost		471,924	—
Repayment of borrowings		(465,000)	(50,000)
Interest paid		(15,741)	(17,840)
Other incidental borrowing cost		—	(2,400)
Decrease/(increase) in restricted bank balances		4,959	(1,585)
Distributions to Unitholders		(38,066)	(31,928)
Purchase of derivative financial instrument		(7,104)	—
Net cash used in financing activities		(49,028)	(103,753)
Net increase/(decrease) in cash and cash equivalents		7,578	(42,283)
Cash and cash equivalents at the beginning of the year		24,286	67,360
Exchange loss on cash and cash equivalents		(1,007)	(791)
Cash and cash equivalents at end of year		30,857	24,286

The notes on pages 76 to 96 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

1 General Information

Spring REIT is a Hong Kong collective investment scheme authorized 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 addresses of the registered offices of the Manager, Spring Asset Management Limited, and the trustee of Spring REIT, DB Trustees (Hong Kong) Limited, are Room 2801, 28/F, Man Yee Building, 68 Des Voeux Road Central, Hong Kong and 52/F, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong, respectively.

The principal activity of Spring REIT and RCA01, its wholly owned subsidiary (together, the “Group”) is to own and invest in income-producing real estate assets.

The consolidated financial statements are presented in United States dollars (“US\$”). 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 during the year unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), 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 property and derivative financial instruments, 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.

Amendments and improvements to existing standards adopted by the Group

The Group has adopted all of the amendments and improvements to existing standards issued by the International Accounting Standard Board that are relevant to the Group’s operations and mandatory for annual accounting periods beginning 1 January 2015.

Amendments and improvements to existing standards effective in 2015 which are relevant to the Group’s operations:

IAS 19 (2011) Amendments	Defined Benefit Plans: Employee Contribution
Annual Improvements Project	Annual Improvements 2010-2012 cycle
Annual Improvements Project	Annual Improvements 2011-2013 cycle

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

2 Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (Continued)

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

The following new standards, amendments to standards and improvements 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
IAS 1 Amendment	Disclosure Initiative	1 January 2016
IAS 16 and IAS 38 Amendment	Clarification of Acceptable Methods of Depreciation and Amortization	1 January 2016
IAS 16 and IAS 41 Amendment	Agriculture: Bearer Plants	1 January 2016
IAS 27 Amendment	Equity Method in Separate Financial Statements	1 January 2016
IAS 28 and IFRS 10 Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
IFRS 10, IFRS 12 and IAS 28 Amendment	Investment Entities: Applying the Consolidation Exception	1 January 2016
IFRS 11 Amendment	Accounting for Acquisitions of Interests in Joint Operation	1 January 2016
IFRS 14	Regulatory Deferral Accounts	1 January 2016
Annual Improvements Project	Annual Improvements 2012-2014 cycle	1 January 2016
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019

The Group will apply the above new standards, amendments and improvements to existing standards as and when they become effective. The Group has yet to commence an assessment of the impact of these new standards, amendments and improvements to existing standards, and anticipated that the adoption of these new standards, amendments and improvements to existing standards whether they 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 subsidiary as at 31 December 2015 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 unrealized gains on transactions between Group companies are eliminated in full on consolidation. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

2 Summary of Significant Accounting Policies (Continued)

(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. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

(i) Rental and car park income

Operating lease rental income from investment property is recognized 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 amortized on a straight-line basis and are recognized as a reduction of rental income over the respective term of the lease.

(ii) Interest income

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

(d) Investment property

Investment property, principally comprising leasehold land and buildings, is 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. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is 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.

(e) Derivative financial instruments

Derivatives are initially recognized 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 recognized in the consolidated income statement. The transaction price for an arm's length transaction reflects the fair value of the derivatives. The difference between the transaction price and the value using valuation technique that not all the data is from observable markets is amortized over the life of the derivatives on a systematic basis.

(f) Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized 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 recognized as deferred rent receivables. The aggregate benefit of incentives is recognized as a reduction of rental income on a straight-line basis.

(g) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand and deposits held at call with banks with original maturities of three months or less, and bank overdrafts.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

2 Summary of Significant Accounting Policies (Continued)

(h) Interest-bearing borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized 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 recognized 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 capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(i) Borrowing costs

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

(j) Payables and provisions

(i) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(ii) Provisions

Provisions are recognized 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 recognized 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 deposit

Rental deposits arise when the Group enters into lease agreement directly with a tenant. Such deposits are included in current liabilities, as they are expected to be realized in the Group's normal business operating cycle.

(k) Taxation

The current taxation charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting year in the People's Republic of China ("PRC") where the Group operates and generates 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.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

2 Summary of Significant Accounting Policies (Continued)

(l) 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 Hong Kong dollars. The consolidated financial statements are presented in United States dollars to facilitate analysis of financial information by Unitholders.

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 consolidated statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each consolidated 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 recognized in other comprehensive income in the consolidated financial statements.

(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 recognized 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.

Translation differences on non-monetary financial assets and liabilities such as derivatives held at fair value through profit or loss are recognized in the consolidated income statement as part of the fair value gains or losses. Translation differences on other non-monetary financial assets are included in other comprehensive income in the consolidated financial statements.

(m) 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

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 minimize 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 subsidiary of the Group operates in the PRC with functional currency in RMB and is therefore exposed to foreign exchange risk arising from commercial transactions, and from recognized assets and liabilities that are denominated in non-functional currency, primarily with respect to the US\$.

The Group entered into one plain vanilla foreign exchange option to buy US\$ and sell RMB with notional principal amounts of US\$480 million in December 2015 to hedge the foreign exchange rate risk arising from the US\$480 million loan denominated in US\$. The foreign exchange option contract had a strike price of US\$1 to RMB7.5 and would expire in December 2016.

As at 31 December 2015, if RMB had strengthened/weakened by 5% against the US\$ with all other variables held constant, profit for the year would have increased by US\$17,943,000/decreased by US\$15,745,000 (2014: increased/decreased by US\$21,011,000) respectively, mainly as a result of foreign exchange differences on translation of monetary assets and liabilities being denominated in a currency that is not the functional currency items such as cash and bank balance, derivative financial instruments, other payables and borrowings. Foreign exchange differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration.

(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 caps to manage the risk where the Group forecasts a significant rise in interest rate in the foreseeable future.

The Group entered into two plain vanilla interest rate caps with notional principal amounts of US\$260 million and US\$255 million in February 2013 to economically hedge the interest rate risk arising from the variable rate bank borrowings with principal amount of US\$515 million at draw down. The US dollar London Interbank Offered Rate ("LIBOR") interest rate is capped at 1.3% until the maturity of the caps in January 2016.

As at 31 December 2015, if interest rates had been 50 basis points higher/lower with all other variables held constant, profit for the year would have been US\$1,975,000 (2014: US\$1,900,000) lower/higher respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

3 Financial Risk and Capital Risk Management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

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 minimized 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 17) 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 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 US\$'000	Between 1 and 2 years US\$'000	Between 2 and 5 years US\$'000	Over 5 years US\$'000
--	------------------------------	---	---	-----------------------------

At 31 December 2015

Other payables	2,432	—	—	—
Rental deposits	9,603	6,075	6,715	13
Interest payable on borrowings	17,595	20,584	54,388	—
Interest-bearing borrowings	—	—	480,000	—

	Within 1 year US\$'000	Between 1 and 2 years US\$'000	Between 2 and 5 years US\$'000
--	---------------------------	--------------------------------------	--------------------------------------

At 31 December 2014

Other payables	2,604	—	—
Rental deposits	4,645	9,412	9,531
Interest payable on borrowings	19,484	1,589	—
Interest-bearing borrowings	—	465,000	—

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

3 Financial Risk and Capital Risk Management (Continued)

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 divided by total assets.

	As at 31 December	
	2015 US\$'000	2014 US\$'000
Total borrowings (note 17)	477,301	460,683
Total assets	1,377,189	1,392,395
Gearing ratio	34.7%	33.1%

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2015 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized 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.

At 31 December 2015	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
Asset:				
Derivative financial instruments	—	—	7,117	7,117
At 31 December 2014				
Asset:				
Derivative financial instruments	—	85	—	85

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

3 Financial Risk and Capital Risk Management (Continued)

3.3 Fair value estimation (Continued)

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

For the year ended 31 December 2015, the level 3 derivative financial instruments represented plain vanilla foreign exchange option with inputs which are not based on observable market data. The difference between the transaction price and the value using valuation technique of which not all the data is from observable markets, is amortized over the life of the derivatives on a systematic basis. The value so derived from using option models' valuation technique relies on spot currency exchange rates and volatility of the underlying currency.

For the year ended 31 December 2014, the level 2 derivative financial instruments represented plain vanilla interest rate cap contracts which are not traded in an active market. The fair values of these derivative financial instruments are based on prices quoted by financial institutions, which are determined using forward prices at the end of the reporting period.

There were no changes in valuation techniques during the year.

The disclosures of the investment property, that is measured at fair value, are set out in note 12.

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 property

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 12.

(b) Estimates of fair values of derivatives

Fair values of derivative financial instruments have been arrived at using valuations provided by the counterparty banks for each reporting year with reference to market data such as interest rates and exchange rates. Actual results may differ when assumptions and selections of valuation technique changes.

(c) Taxation

The Group is a foreign enterprise established outside the PRC. The Group is subject to various taxes in the PRC. 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 recognizes 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

5 Revenue and Segment Information

The Group holds an investment property in the PRC and is principally engaged in property investment. Revenue mainly consists of rental income from tenants. Management has determined the operating segments based on the reports reviewed by the executive directors of the Manager, who is 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.

The Group's revenues from tenants are derived solely from its operation in the PRC and the non-current assets of the Group are also mainly located in the PRC.

An analysis of revenues of the Group is as follows:

	2015 US\$'000	2014 US\$'000
Revenues		
— Rental income	78,154	79,678
— Car park income	678	803
— Other income (note)	1,683	977
	80,515	81,458

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

6 Property Operating Expenses

	2015 US\$'000	2014 US\$'000
Property management fee	1,618	1,636
Property tax (note i)	3,955	4,034
Business and other tax (note ii)	4,591	4,624
Withholding tax (note iii)	8,142	8,221
Leasing commission	803	635
Others	130	135
	19,239	19,285

Notes:

- (i) Property taxes represent real estate tax and land use tax.
- (ii) Business and other taxes represent business tax, urban construction and maintenance tax, education surcharge and stamp duty.
- (iii) Withholding tax in the PRC is calculated based on 10% of the revenues received from rental operation.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

7 General and Administrative Expenses

	2015 US\$'000	2014 US\$'000
Manager's fee (note i)	7,503	7,397
Trustee fee	251	235
Valuation fee	48	50
Auditor's remuneration		
— Audit services	175	165
— Non-audit services	87	80
Legal and other professional fee (note ii)	1,203	2,341
Others	53	41
	9,320	10,309

Notes:

- (i) The breakdown of the Manager's fee was set out in note 10.
- (ii) Legal and other professional fee mainly comprises advisory fees and other professional fees.

8 Other Losses, Net

	2015 US\$'000	2014 US\$'000
Derivative financial instruments at fair value through income statement:		
Net fair value losses	72	695
Foreign exchange losses	756	538
Other miscellaneous loss	26	19
	854	1,252

9 Finance Costs

	2015 US\$'000	2014 US\$'000
Interest expenses on bank borrowings (note i)	23,010	23,503
Foreign exchange losses on bank borrowings (note ii)	21,469	7,839
Other incidental borrowing costs (note iii)	2,358	2,400
Total	46,837	33,742

Notes:

- (i) Interest expenses on bank borrowings comprised contractual loan interest and amortized loan arrangement fee, which were recognized using the effective interest rate method.
- (ii) Foreign exchange losses and gains on bank borrowings arise upon translating the bank borrowings denominated in foreign currencies to RMB. The exchange losses on bank borrowings during the year ended 31 December 2014 and 2015, were mainly arisen from the depreciation of RMB against US\$.
- (iii) Other incidental borrowing costs include loan arrangement fee and derecognition of unamortized loan arrangement fee.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

10 Manager's Fee

	2015 US\$'000	2014 US\$'000
Base fee	5,607	5,542
Variable fee	1,896	1,855
	7,503	7,397

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 (as defined in the Trust Deed).
- (ii) Variable fee at 3.0% per annum of the Net Property Income (as defined in the Trust Deed) (before deduction therefrom of the base fee and variable fee).

11 Earnings per Unit

	2015 US\$'000	2014 US\$'000
Profit for the year, before transactions with Unitholders	40,367	73,385
Weighted average number of units for the year for calculating basic earnings per unit	1,114,844,025	1,103,194,007
Adjustment for units issuable in respect of the Manager fee	2,958,587	3,155,592
Weighted average number of units for the year for calculating diluted earnings per unit	1,117,802,612	1,106,349,599
Basic earnings per unit based upon profit before transactions with Unitholders	US\$3.62 cents	US\$6.65 cents
Diluted earnings per unit based upon profit before transactions with Unitholders	US\$3.61 cents	US\$6.63 cents

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

12 Investment Property

Detail of the movements of investment property is as follows:

	2015 US\$'000	2014 US\$'000
At beginning of the year	1,306,583	1,272,778
Exchange differences recognized in other comprehensive income	(58,574)	(22,243)
Changes in fair value recognized in consolidated income statement	35,543	56,048
At end of the year	1,283,552	1,306,583

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. Land use rights have been granted to RCA01 for a 50-year term expiring on 28 October 2053.

As at 31 December 2015, the investment property was pledged to secure the Group's bank borrowings (note 17).

Valuation Process

The Group's investment property was valued by an independent professionally qualified valuer not connected to the Group who holds a recognized relevant professional qualification and has recent experience in the locations and segments of the investment property valued.

The Manager reviewed the valuations 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 2015 and 2014, the fair values of the investment property have been determined by Colliers International (Hong Kong) Limited. The independent valuer used the discounted cash flow method and income capitalization approach for the valuation.

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

Valuation techniques

The discounted cash flow method in the context of property valuation is defined in International Valuation Standards as a financial modelling technique based on explicit assumptions regarding the prospective cash flow to a property. This analysis involves the projection of a series of periodic cash flows to an operating property. To this projected cash flow series, an appropriate discount rate is applied to establish an indication of the present value of the income stream associated with the property. In operating real property, periodic cash flow is typically estimated as gross income less vacancy and operating expenses and other outgoings. The series of periodic net operating incomes, along with an estimate of the terminal value which is anticipated at the end of the projection period, is then discounted at the discount rate, being a cost of capital or a rate of return used to convert a monetary sum, payable or receivable in the future, into present value.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

12 Investment Property (Continued)

Valuation techniques (Continued)

The income capitalization approach estimates the values of the properties on an open market basis by capitalizing net rental income on a fully leased basis having regard to the current passing rental income from existing tenancies and potential future reversionary income at the market level. In calculating the net rental income, no deduction has been made from the net passing rental income which is exclusive of property management fee. In this valuation method, the total rental income is divided into a current passing rental income over the existing lease term (the term income) and a potential future reversionary rental income over the residual land use term (the reversionary income). The term value involves the capitalization of the current passing rental income over the existing lease term. The reversionary value is taken to be current market rental income upon the expiry of the lease over the residual land use rights term and is capitalized on a fully leased basis. It is then discounted back to the date of valuation. In this approach, the independent qualified valuer has considered the term yield and reversionary yield. The term yield is used for capitalization of the current passing rental income as at the date of valuation whilst the reversionary yield is used to convert reversionary rental income.

Fair value hierarchy

Description	Fair value measurements using		
	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs
	(Level 1) US\$'000	(Level 2) US\$'000	(Level 3) US\$'000
As at 31 December 2015			
Recurring fair value measurements investment property	—	—	1,283,552
As at 31 December 2014			
Recurring fair value measurements investment property	—	—	1,306,583

There were no transfers between levels 1, 2 and 3 during the year of 2015.

Key unobservable inputs used to determine fair values

(a) Capitalization rate

This is estimated based on the market lease over market value on comparable. The higher the capitalization rates used, the lower the fair values of the investment property. In the 31 December 2015 valuation, a capitalization rate of 6.50% (2014: 6.75%) was used in the income capitalization approach; and a net terminal capitalization rate of 5.50% (2014: 5.75%) was used in the discounted cash flow method.

(b) Discount rate

This was estimated based on cost of capital of a rate of return used to convert a monetary sum, payable or receivable in the future into present value. The higher the discount rates used, the lower the fair values of the investment property. In the 31 December 2015 valuation, a discount rate of 8.75% (2014: 8.75%) was used in the discounted cash flow method.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

12 Investment Property (Continued)

Key unobservable inputs used to determine fair values (Continued)

(c) 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 property. For the year ended 31 December 2015, an average gross monthly office unit base rent of RMB430 (2014: RMB425) per square meter was used in the valuation.

As at 31 December 2015, if the market value of investment property had been 5% higher/lower with all other variables held constant, the carrying value of the Group's investment property would have been US\$64.2 million (2014: US\$65.3 million) higher/lower.

13 Derivative Financial Instruments

	2015 US\$'000	2014 US\$'000
Non-current		
Fair value of the interest rate caps (Note i)	—	85
Current		
Fair value of the currency option (Note ii)	7,117	—
	7,117	85

Notes:

- (i) The Group has entered into certain interest rate caps as part of its financial risk management but did not account for these as accounting hedges under IAS 39. Plain vanilla interest rate cap was used to hedge the floating interest payments of the debt instruments.

The aggregated notional principal amount of outstanding plain vanilla interest rate caps as at 31 December 2015 was US\$515 million (2014: US\$515 million).

The Group recorded fair value losses on interest rate caps for the year ended 31 December 2015 amounting to US\$85,000 (2014: US\$695,000) (note 8) which were charged to the consolidated income statement.

- (ii) The Group has entered into a currency option as part of its financial risk management but did not account for these as accounting hedges under IAS 39. Plain vanilla currency option was used to hedge the relevant foreign exchange rate risk.

The aggregated notional principal amount of the currency option as at 31 December 2015 was US\$480 million (2014: Nil).

The Group recorded fair value gains on currency option for the year ended 31 December 2015 amounting to US\$13,000 (2014: Nil) (note 8) which were charged to the consolidated income statement.

The maximum exposure to credit risk at the reporting date was the carrying values of the derivative financial instruments.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

14 Trade and Other Receivables

	2015 US\$'000	2014 US\$'000
Rent receivables	53	—
Deferred rent receivables	1,000	729
Prepayment	402	55
	1,455	784

Notes:

- (i) Trade and other receivables were denominated in RMB and the carrying amounts of these receivables approximate their fair values.

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. There were no specific credit terms given to the tenants.
- (ii) The Group's exposure from outstanding rent receivables is generally fully covered by rental deposits from the corresponding tenants (note 16).
- (iii) As at 31 December 2015 and 2014, the Group's rent receivables and all future rent receivables were pledged to secure the Group's bank borrowings (note 17).

15 Restricted Bank Balances and Cash and Cash Equivalents

	2015 US\$'000	2014 US\$'000
Restricted bank balances	54,208	60,657
Cash and cash equivalents	30,857	24,286
	85,065	84,943

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

	2015 US\$'000	2014 US\$'000
US\$	51,153	50,113
RMB	32,644	34,195
HK\$	1,268	635
	85,065	84,943

Restricted bank balances were related to bank accounts restricted under the bank borrowing facility agreements and were charged to the facility agent, Australia and New Zealand Banking Group Limited, to secure the Group's bank borrowings (note 17). Prior consent from facility agent must be obtained before transfer and withdrawal of funds in the restricted bank accounts.

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government. Included in the unrestricted bank balances, there was an amount in RMB equivalent to US\$1,000 as at 31 December 2015 (2014: US\$635,000).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

16 Rental Deposits and Trade and Other Payables

	2015 US\$'000	2014 US\$'000
Rental deposits (note i)	22,406	23,588
Trade and other payables:		
Rental receipts in advance	6,870	6,448
Provision for withholding tax	698	1,375
Provision for other taxes (note ii)	391	411
Accrued expenses and other payables	5,299	5,736
	13,258	13,970

Notes:

- (i) Rental deposits are classified as current liabilities on the basis that it is expected to be realized in the Group's normal rental business operating cycle. The ageing analysis was as follows:

	2015 US\$'000	2014 US\$'000
Within 1 year	9,603	4,645
Over 1 year	12,803	18,943
	22,406	23,588

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

The carrying amounts of rental deposits and trade and other payables approximate their fair values.

17 Interest-Bearing Borrowings

	2015 US\$'000	2014 US\$'000
Non-current		
Bank borrowings	477,301	460,683

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

	2015 US\$'000	2014 US\$'000
6 months or less	477,301	460,683

The carrying amounts of interest-bearing borrowings approximate their fair value, as the interest-bearing borrowings were at floating interest rate.

The Group's bank borrowings are denominated in US\$.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

17 Interest-Bearing Borrowings (Continued)

Notes:

- (i) A new term loan facility, with principal of US\$480 million was drawn on 30 April 2015 to repay the previous term loan facility of US\$465 million. The new term loan facility will be repayable in full on 29 April 2020. The borrowing bears interest of 2.75% above 3-month LIBOR. The Group had also entered into a US\$20 million uncommitted revolving facility, which is to be used to facilitate the general working capital needs of the Group in the future. Both the new term loan facility and uncommitted revolving facility are guaranteed by the Trustee. The Group's subsidiary's shares were pledged to secure the Group's term loan facility and uncommitted revolving facility.
- (ii) As at 31 December 2015 and 2014, the Group's investment property (note 12), rent receivables and all future rent receivables (note 14), restricted bank accounts (note 15) and Group's subsidiary's shares were pledged to secure the Group's term loan facilities. As at 31 December 2015, the Group's currency option (2014: interest rate caps) (note 13) was pledged to secure the Group's term loan facilities.

18 Units in Issue

	Number of units
Balance as at 31 December 2014	1,109,468,088
New units issued for Manager's fee	10,690,218
Balance as at 31 December 2015	1,120,158,306

Traded market value of the units as of 31 December 2015 was HK\$3.03 per unit. Based on 1,120,158,306 units, the market capitalization was US\$437.91 million.

19 Notes to Statements of Cash Flows

Reconciliation of profit for the year to net cash generated from operations

	2015 US\$'000	2014 US\$'000
Profit for the year, before transactions with Unitholders	40,367	73,385
Changes in fair value of investment property	(35,543)	(56,048)
Net fair value losses on derivative financial instruments	72	695
Manager's fee paid in Units	4,861	4,848
Interest income	(559)	(467)
Finance costs on interest-bearing borrowings	46,837	33,742
Net exchange losses	756	538
(Increase)/decrease in trade and other receivables	(703)	2,317
(Decrease)/increase in rental deposits	(135)	2,058
Increase/(decrease) in trade and other payables	94	(65)
Net cash generated from operations	56,047	61,003

Material non-cash movements:

- (i) Included in the finance costs on interest-bearing borrowing, the derecognition of unamortized loan arrangement fee upon early termination of previous term loan was US\$2,358,000 as disclosed in note 9 (2014: Nil).
- (ii) The Manager's fee amounting US\$4,861,000 (2014: US\$4,848,000) was settled by issuance of new units.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

20 Future Minimum Rental Receivables

As at 31 December 2015, the analysis of the Group's aggregate future minimum rental receivable under non-cancellable leases was as follows:

	2015 US\$'000	2014 US\$'000
Within 1 year	59,452	75,745
After 1 year, but within 5 years	47,616	64,801
After 5 years	204	—
	107,272	140,546

Note: Most of the operating leases are on fixed terms and of terms of 3 years (2014: 3 years).

21 Connected Party Transactions and Related Party Transactions and Balances

As at 31 December 2015, the Group was significantly influenced by RCA Fund 01, L.P. (established in the Cayman Islands), which owns approximately 31% (2014: 31%) of Spring REIT's units. The remaining 69% (2014: 69%) of the units are widely held.

For the year ended 31 December 2015, the Group entered into the following transactions with related parties at mutually agreed terms in the normal course of its business.

(a) Nature of relationship with connected/related parties

The table set forth below summarizes the names of the connected/related parties, as defined in the REIT Code/IAS 24 (Revised) "Related Party Disclosures", and nature of their relationship with the Group as at 31 December 2015:

Connected/related party	Relationship with the Group
DB Trustees (HK) Ltd	The Trustee of Spring REIT
Spring Asset Management Limited*	The Manager of Spring REIT
RCA Fund 01, L.P. ("RCA Fund")*	Significant Unitholder of Spring REIT
Mercuria Investment Co., Ltd. ("Mercuria Investment")* (formerly known as AD Capital Co., Ltd.)	Parent company of the Manager
Development Bank of Japan, Inc. ("DBJ")*	An associated company of a significant Unitholder of Spring REIT and a controlling entity of the Manager through Mercuria Investment
ITOCHU (China) Holding Co., Ltd. ("ITOCHU China")*	An associated company of the Manager
摩丘利亞(北京)投資諮詢有限公司 ("摩丘利亞(北京)")* (formerly known as AD Capital (Beijing) Investment Consulting Co. Ltd.)	An associated company of the Manager
Beijing Hua-re Real Estate Consultancy Co., Ltd. ("HuaRe")*	An associated company of the Manager
Colliers International (Hong Kong) Ltd.	The Principal Valuer
DBJ-JAIC Investment Consulting (Beijing) Co., Ltd. ("JAIC")*	An associated company of the Manager
Wownew (Beijing) Commerce Co. Ltd. ("Wownew")*	An associate of a director of the Manager
Deutsche Bank AG, Hong Kong Branch ("DBHK")	Trustee Connected Persons
Deutsche Bank (China) Company Ltd. ("DB China")	Trustee Connected Persons
Deutsche Bank AG, London Branch ("DBUK")	Trustee Connected Persons
Zhong De Securities ("ZDS")	Trustee Connected Persons

* These connected parties are also considered as related parties of the Group.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

21 Connected Party Transactions and Related Party Transactions and Balances (Continued)

(b) Income from connected/related parties

	Note	2015 US\$'000	2014 US\$'000
Rental revenue from ITOCHU China	(i) (viii)	771	–
Rental revenue from 摩丘利亞(北京)	(i)	154	112
Rental revenue from JAIC	(i)	–	106
Rental revenue from Wownew	(i)	–	23
Rental revenue from DB China and ZDS	(i)	7,277	7,330
Interest income from DBHK	(ii)	559	465

(c) Expenses to connected/related parties

	Note	2015 US\$'000	2014 US\$'000
Management fees to HuaRe	(iii)	1,618	1,636
Trustee's fee paid and payable to the Trustee	(iv)	251	235
Administration fee of the new term loan facility paid to the Trustee		8	–
Manager's fee to Spring Asset Management Limited	(v)	7,503	7,397
Valuation fee paid to valuer	(vi)	48	50
Interest expense to DBUK	(vii)	1,209	–
Term loan arrangement and upfront fee to DBUK	(vii)	2,880	960
Bank charges to DBHK	(ii)	5	–

(d) Balances with connected/related parties

	Note	2015 US\$'000	2014 US\$'000
Lease deposit from ITOCHU China	(viii)	373	–
Lease deposit from 摩丘利亞(北京)		44	35
Lease deposit from DB China and ZDS		1,090	1,097

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

21 Connected Party Transactions and Related Party Transactions and Balances (Continued)

(d) Balances with connected/related parties (Continued)

- (i) Rental revenue was charged in accordance with the terms of the relevant agreements with the connected/related parties.
- (ii) Interest income received on bank deposits and bank charges paid were charged in accordance with the terms of the relevant agreements with DBHK.
- (iii) Property management services fees were charged based on mutually agreed terms between the parties.
- (iv) The Trustee is entitled to in each financial year, an ongoing fee of not more than 0.025% of the value of the Deposited Property payable semi-annually or quarterly in arrears, subject to a minimum of US\$9,000 per annum.
- (v) Fee to the Manager was charged in accordance with the Trust Deed.
- (vi) Valuation fee was charged based on mutually agreed terms between the parties.
- (vii) Interest expense was charged in accordance with the terms of the relevant agreements with DBUK. Loan arrangement fee of US\$2,880,000 (2014: US\$960,000) to DBUK was charged based on mutually agreed terms.
- (viii) ITOCHU China became a connected person of Spring REIT on 29 May 2015.

No transaction was entered into with the directors of the Manager (being the key management personnel) for the year ended 31 December 2015 (2014: Nil).

22 Subsidiary

Name	Place of establishment and kind of legal entity/ place of operations	Principal activities	Particulars of issued share capital	Interest held
Directly held:				
RCA01	Cayman Islands, limited liability	Property investment	1,000 of US\$1 each	100%

23 Capital Commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	2015 US\$'000	2014 US\$'000
Improvement projects to existing investment properties	726	—

24 Approval of the Consolidated Financial Statements

The consolidated financial statements were authorized for issue by the Manager on 16 March 2016.

Performance Table

As at 31 December	2015	2014
Net assets attributable to Unitholders	US\$864.22 million	US\$894.15 million
Net assets per Unit attributable to Unitholders	HK\$5.98	HK\$6.25
Total borrowings as a percentage of gross assets	34.7%	33.1%
Market capitalization ¹	US\$437.91 million	US\$523.61 million
Units issued	1,120,158,306	1,109,468,088

For the year ended 31 December	2015	2014
Highest traded unit price	HK\$3.84	HK\$3.91
Highest premium of the traded unit price to net assets per Unit	N/A	N/A
Lowest traded unit price	HK\$2.86	HK\$2.73
Highest discount of the traded unit price to net assets per Unit	52.2%	56.3%
Distributions per Unit ²	HK26.6 cents	HK26.4 cents
Net yield per Unit ²	8.8%	7.2%

Notes:

- 1 Market capitalization is calculated based on the closing unit price of the period times the unit outstanding as at the end of the period.
- 2 Net yield per Unit is calculated based on distribution per Unit for each period to the closing price as at the end of each period.

Corporate Information

The Manager

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Board of Directors of the Manager Chairman and Non-Executive Director

Mr. Toshihiro Toyoshima

Executive Directors

Mr. Lau Jin Tin, Don
Mr. Nobumasa Saeki

Non-Executive Director

Mr. Hideya Ishino

Independent Non-Executive Directors

Mr. Simon Murray
Mr. Liping Qiu
Mr. Lam Yiu Kin

Responsible Officers of the Manager

Mr. Lau Jin Tin, Don
Mr. Nobumasa Saeki
Mr. Chung Wai Fai

Company Secretary of the Manager

Fair Wind Secretarial Services Limited

Auditor

PricewaterhouseCoopers

Internal Auditor

BDO Financial Services Limited

Trustee

DB Trustees (Hong Kong) Limited

Principal Valuer

Colliers International (Hong Kong) Limited

Legal Advisors

As to Hong Kong and United States laws

DLA Piper Hong Kong

As to PRC law

Zhong Lun Law Firm

As to Cayman Islands law

Maples and Calder

Unit Registrar

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