SpringREIT

Spring Real Estate Investment Trust

春泉產業信託

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

(Stock Code: 01426)

Managed by
Spring Asset Management Limited

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017 AND CLOSURE OF REGISTER OF UNITHOLDERS

ABOUT SPRING REIT

Spring Real Estate Investment Trust ("**Spring REIT**") is a real estate investment trust constituted by a trust deed entered into on 14 November 2013 as amended by the first supplemental deed dated 22 May 2015 (collectively, the "**Trust Deed**") between Spring Asset Management Limited, 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 2017, the Manager is 90.2% owned by Mercuria Investment Co., Limited., ("**Mercuria**", formerly known as AD Capital Co., Ltd., renamed on 1 January 2016), which is a private equity investment firm listed on the Tokyo Stock Exchange (Stock Code: 7190) with notable shareholders such as Development Bank of Japan, Itochu Corporation and Sumitomo Mitsui Trust Bank, Limited.

DISTRIBUTION

The board of directors (the "**Board**") of the Manager, acting for and on behalf of Spring REIT, has resolved to declare a final distribution for the period from 1 July 2017 to 31 December 2017 ("**2017 Final Distribution Period**") of HK11.6 cents per Unit ("**2017 Final Distribution**") to holders of units ("**Unitholders**") whose names appear on the register of Unitholders on 18 April 2018. However, this 2017 Final Distribution may be subject to adjustment in the event of any issuance of new Units between 1 January 2018 and 18 April 2018 (the "**Record Date**"). Before any such adjustment and together with the interim distribution of HK9.5 cents per Unit, total distribution for the year ended 31 December 2017 (the "**Reporting Year**") amounts to a total of HK21.1 cents per Unit (2016: HK23.0 cents per Unit), representing a payout ratio of 100%.

All distributions will be paid in Hong Kong Dollars ("**HKD**"). The HKD/United States Dollars ("**USD**") exchange rate adopted for the 2017 Final Distribution is 7.8135, which represents the average mid-price of the opening indicative counter exchange rate, as published by the Hong Kong Association of Banks, for the five (5) business days immediately preceding 31 December 2017.

The Manager confirms that the 2017 Final Distribution is composed only of consolidated profit after tax, before transactions with the Unitholders and non-cash adjustments for the 2017 Final Distribution Period.

Based on the closing price of HKD3.40 per Unit as at 29 December 2017, the Reporting Year DPU represents a distribution yield of 6.2%.

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

The Record Date for the 2017 Final Distribution will be 18 April 2018, Wednesday. The register of Unitholders will be closed for the purpose of determining the identity and holdings of Unitholders from 17 April 2018, Tuesday to 18 April 2018, Wednesday, both days inclusive, during which period no transfer of Units will be registered. The 2017 Final Distribution is expected to be payable on 27 April 2018, Friday to Unitholders whose names appear on the register of Unitholders on the Record Date.

In order to qualify for the 2017 Final Distribution, all 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 16 April 2018, Monday.

CHAIRMAN'S STATEMENT

Dear Unitholders,

On behalf of the Board of the Manager, I am pleased to present the financial results of Spring REIT for FY2017. These pleasing results have been achieved despite a year filled with challenges. They follow from unstinting efforts by the Manager to achieve its stated objective of providing a stable distribution to Unitholders, while at the same time enacting various long-term strategies to ensure sustainable growth and to enhance the value of the portfolio.

Performance Review

Spring REIT's performance for the Reporting Year should be viewed within a generally steady world macroeconomic environment. Global economic growth proved to be more resilient than expected, despite various geo-political tensions around the globe. Central banks have begun to contemplate tighter monetary policies as economic recoveries are at last looking more sustainable for the first time since the start of the decade.

Domestically, China's GDP growth stood at 6.9%, moderating slightly on the back of a gradually cooling property sector and a rise in corporate borrowing costs. In Beijing's central business district ("**CBD**"), which acts as a proxy for national business activity, corporate demand for premium office space has remained resilient. This is the location of Spring REIT's primary investment portfolio, namely the premium-grade China Central Place Office Towers 1 and 2 and the relevant portion of the car park (the "**CCP Property**"). The robust business activity was reflected in continued high occupancy rates at the CCP Property, averaging 94.2% throughout the Reporting Year, along with positive rental reversions.

The Beijing office market continued to undergo "decentralization" during the year, whereby a number of cost-conscious foreign firms relocated from higher-rent locations in prime areas to smaller premises or lower-rent districts. However, pent-up demand from many domestic companies helped offset this trend, and over the year the demand for premium office space in Beijing such as our CCP Property remained steady. This has been the case despite a high volume of new construction in Beijing, and a steady stream of new properties coming onto the market. The relatively low impact of these new properties on demand for CCP Property reflects two important facts. First, high-quality office buildings in prime locations are now arriving on the market at high rental rates due to the high land costs associated with their development. Second, the proven track record and excellent management capabilities of Spring REIT for the CCP Property are proving to be a continuing drawcard for corporations looking for consistent long-term quality in office premises.

Given this background, the CCP Property has performed satisfactorily in the Reporting Year in all significant fundamentals. However, a set of external factors has had an impact on the bottom line performance, and raised a number of challenges for the Manager to address throughout the year.

As outlined in previous reports, a significant change in the Beijing real estate tax regime was introduced in 2016 that involved tax on leased portions of the CCP Property increasing substantially, from 1.2% of the property residual value to 12% of the annual rental income of the leased portion. This has significantly affected our net property income from the CCP Property for the year.

A second factor has been the decline of the Renminbi ("**RMB**") against the US dollar (USD), a depreciation that was significant throughout 2016 and the first half of 2017. Latterly, the RMB has begun to recover to an extent, making considerable gains against the USD in the second half of 2017. The earlier fall specifically impacted on Spring REIT because of the fact that, while our functional currency is primarily the RMB, our reporting currency is the USD. Currency fluctuations that are outside our control thus have the potential to influence operating cash flow even when the CCP Property performs strongly.

Before addressing the ways in which Spring REIT has tackled these external issues in 2017, it is worth emphasizing that a review of the full range of metrics we have been using to assess our performance over the past three years shows that at every level these have been improving. In other words, the CCP Property is continuing to deliver a sound performance and is experiencing ongoing organic growth. If the external effects of the Beijing real estate tax and RMB depreciation are set aside, the net property income from the CCP property for 2017 would surpass that reported for 2016. Our challenge, then, has been to build on these sound fundamentals to best manage the external effects of tax rises and exchange rate changes. I would like to outline some of the strategic steps we have undertaken to achieve these objectives.

The tax situation in Beijing is a permanent change, and so we must of necessity adjust our expectations of the income returns for the CCP Property in the long term. We will continue to work strenuously to optimize the returns from this premium investment property.

Because the CCP Property represents the core of Spring REIT's investment portfolio, the local Beijing tax change impacted our bottom line across the board. During the Reporting Year, we considered ways of reducing this impact by engaging in strategic investment outside our core investment focus of China, and thus diversifying our investment base. The goal was to locate a solid investment opportunity that would enhance our cash flow and provide greater flexibility in terms of managing the tax and exchange rate issues described above.

Such an opportunity materialized when Spring REIT was able to acquire a group of 84 separate investment properties (the "**UK Portfolio**") across the United Kingdom ("**UK**") as a single package. These properties are under long-term leases for a remaining period of 15 years, with the lessee being the nationwide vehicle service provider Kwik-Fit. All but one leases expire in 2032. This investment move brings minimal risks, while at the same time guaranteeing stable, regular cash flow over the longer term. The acquisition includes an upward-only mark-to-market rental review mechanism, which applies every five years. Already, returns from this UK investment are contributing to the bottom line and have helped deliver a stronger second half performance, reflected in the final distribution. The UK retail portfolio currently makes up approximately 6.7% of the overall REIT portfolio in terms of value, reflecting the fact that the CCP Property in Beijing remains the key focus of Spring REIT.

To help counteract the effect of RMB depreciation and reduce the costs associated with servicing Spring REIT's USD term loan, an equity placement was completed in April 2017. The majority of the proceed from this placement was put towards the partial repayment of the USD term loan. Although the equity placement resulted in a slight dilution, this was a strategic move to mitigate an asset and liability mismatch in currency terms. In addition, the Manager engaged in bank negotiations that saw it improve the terms of its RCA01 Facilities Agreement, negotiating a reduction in the interest margin of 110 basis points. This valuable and timely capital management exercise is resulting in significant interest savings, calculated at approximately USD3.28 million for the Reporting Year.

Finally, another positive outcome from the Manager's perspective is that the results of the EGM held in November confirmed our investors' trust in the Spring REIT Manager and the management policy that is in place. Earlier in the year, one substantial unitholder proposed that the Spring REIT Manager be removed, and that the REIT management function be internalized. It was most gratifying that over 80% of unitholders voted at the EGM to reject this proposal, thus indicating their endorsement to the Manager's strategy and performance. I would like to add here my gratitude to those unitholders who supported the Manager. It has been unfortunate that the challenges raised to the Manager have necessarily diverted energies and financial resources from Spring REIT's primary goals. Ultimately, however, this clarification of the wishes of the majority of unitholders will, I believe, help Spring REIT move forward with full confidence in the legitimacy of its management policy to add value for unitholders.

Outlook

Although the first half of 2017 was a difficult one for Spring REIT, the second half has seen improvements thanks to a series of strategic initiatives carried out by the Manager that suggest the potential for a positive 2018 ahead. The Beijing tax situation has now stabilized and is a fact of the business landscape that applies to other landlords across the board. Meanwhile, our underlying operations have continued to improve, and we are seeing steady organic growth. Our new UK investment portfolio has begun immediately to contribute to the bottom line, helping vindicate our decision to diversify during the year. Further, our capital management initiatives during the Reporting Year have placed Spring REIT on a sounder footing in ways that are benefiting all unitholders.

With this sound footing, the Manager is cautiously optimistic about the prospects for the year ahead. The general outlook for China corporate activity is strong and as noted, despite the high volume of construction currently being undertaken in Beijing, demand for premium office space remains high, evidenced by the buoyant occupancy rates in the market.

A total GFA of 42,557 sqm was leased out and renewed in 2017, 46% of which was attributable to renewal while the remainder was new letting, with a respectable average rental reversion of 5.9%. We are striving to achieve positive rental reversion for new lettings and renewals, and in this regard, barring unforeseen circumstances, we expect a steady operating results for the CCP Property in 2018.

Last year, we placed importance in optimizing our capital structure to enhance the financial flexibility of Spring REIT. As mentioned above, in the Reporting Year we have taken steps to do this, specifically by renegotiating our loan arrangements and by expanding a portion of our portfolio into the UK. Going forward, the Manager expects to focus on managing interest rate risk now that major central banks have begun to tighten their reins in respect of interest rates and money supply. In the year ahead, we will continue to look for ways of streamlining our performance, which will also include exploring potential acquisitions opportunities. In such a case, the Manager's priority will remain the acquisition of solid cash flow, with China remaining the focus of Spring REIT's core investment activities.

As we move into 2018, the Manager remains wholly committed to providing unitholders with stable distributions while enhancing the overall portfolio value. This will be achieved through a combination of proactive leasing and property management strategies, an optimised capital structure, and taking advantage of acquisition opportunities as they arise. I look forward to seeing all these strategies in action in the year ahead.

To conclude, I would like to express my gratitude to the sponsor, my fellow directors, management and all our staff for all their hard work throughout a challenging year. I would also once again like to thank our unitholders for showing their support for the Manager at the EGM in November. With that support, I believe Spring REIT is well equipped to enter 2018 with new vigour in its efforts to achieve results that will further reward its loyal unitholders.

Toshihiro Toyoshima
Chairman and Non-executive Director

Spring Asset Management Limited
(as Manager of Spring REIT)

21 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

CCP Property Operation Review

For the Six Months Ended	31-Dec-2016 *RMB million*	Change	30-June-2017 *RMB million*	Change	31-Dec-2017 *RMB million*
Revenues					
– Rental income	233.70	1.8%	237.81	3.0%	**244.99**
– Car park income	1.68	2.4%	1.72	0.6%	**1.73**
– Other income (note ii)	8.11	(34.8%)	5.29	47.8%	**7.82**
	243.49	0.5%	244.82	4.0%	**254.54**
Property Operating Expenses					
– Property management fee	(5.54)	(2.7%)	(5.39)	2.8%	**(5.54)**
– Property tax (note iii)	(29.72)	(2.7%)	(28.92)	2.8%	**(29.72)**
– Other taxes (note iv)	(3.72)	(6.5%)	(3.48)	(0.6%)	**(3.46)**
– Withholding tax (note v)	(24.23)	(0.1%)	(24.20)	3.1%	**(24.94)**
– Leasing Commission	(1.90)	(42.6%)	(1.09)	275.2%	**(4.09)**
– Others	(0.43)	(4.7%)	(0.41)	–	**(0.41)**
	(65.54)	(3.1%)	(63.49)	7.4%	**(68.16)**
Net Property Income	177.95	1.9%	181.33	2.8%	**186.38**

Notes:

i. While the consolidated financial statements were prepared in USD, the performance of the CCP Property has been presented in RMB, the functional currency of the CCP Property.

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

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

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

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

The CCP Property's financial performance was encouraging throughout the Reporting Year registering half on half ("**HoH**") growth in RMB terms for both the first half ("**1H**") and the second half ("**2H**") of the Reporting Year. In 1H, a modest 1.8% rebound in rental income was registered due to the resilience of the CCP Property. The recovery followed through into the 2H with a further increase of 3.0% supported by robust demand from domestic tenants. Meanwhile, net property income exhibited a similar trend (1H: 1.9% HoH, 2H: 2.8% HoH) as cost components remained consistent.

For the Year Ended 31 December	**2016**	**2017**	**Change**
	RMB million	*RMB million*	*%*
Revenues			
– Rental income	477.90	**482.80**	1.0%
– Car park income	3.77	**3.45**	(8.5%)
– Other income (note ii)	19.24	**13.10**	(31.9%)
	500.91	**499.35**	(0.3%)
Property Operating Expenses			
– Property management fee	(10.75)	**(10.93)**	1.7%
– Property tax (note iii)	(42.14)	**(58.64)**	39.2%
– Business Tax (note iv)	(9.21)	**–**	N/A
– Other taxes (note v)	(6.40)	**(6.94)**	8.4%
– Withholding tax (note vi)	(50.21)	**(49.14)**	(2.1%)
– Leasing Commission	(4.13)	**(5.18)**	25.4%
– Others	(0.86)	**(0.82)**	(4.7%)
	(123.70)	**(131.65)**	6.4%
Net Property Income	377.21	**367.70**	(2.5%)

i. While the consolidated financial statements were prepared in USD, the performance of the CCP Property has been presented in RMB, the functional currency of the CCP Property.

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

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

iv. Business tax formerly applicable to the Group was replaced by the VAT, with effect from 1 May 2016, for details please refer to the announcement published by spring REIT on 3 May 2016 and 25 July 2016.

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

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

For the full year, CCP Property reported a 0.3% decrease in revenue year on year ("**YoY**"). Nonetheless, rental income from the office portion has sustained a healthy growth with an increase of 1.0% YoY.

Property operating expenses are mainly comprised of tax expenses, namely withholding tax, other taxes and property tax. Tax expenses in aggregate accounted for 87.1% of the total property operating expense. The property management fee, payable at 2.0% of total revenue, accounted for 8.3% of the total property operating expenses.

A 6.4% YoY increase in property operating expenses was recorded during the Reporting Year. This was primarily due to the 39.2% YoY increase in property tax and 25.4% YoY increase in leasing commission, being partially offset by the phasing out of business tax in China.

Assuming the calculation of the real estate tax is under the same basis as 2016, net property income would have shown an increase of approximately 1.6% YoY instead of a 2.5% decline as shown in the table above.

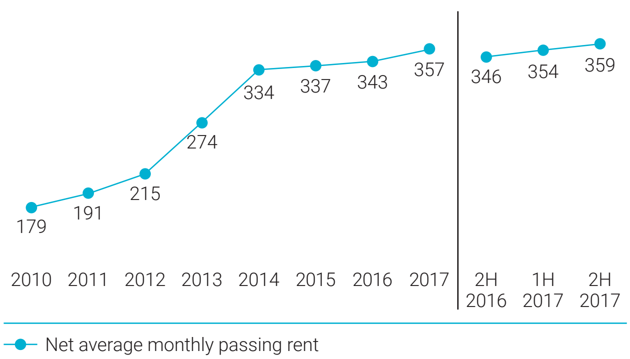
Rental Income

Operations at the CCP Property continued to be encouraging, comparing favourably with wider Beijing trends. The property registered an average occupancy of 94.2% in 2017 (2016: 94.3%) and a total area of 42,557 sqm was leased out and renewed during the Reporting Year, 54% of which was attributable to new lettings with the remainder being renewals. Average passing rent (net of (Value-Added Tax "**VAT**")) stood at RMB357 per sqm, up 4.1% YoY on the back of a respectable average rental reversion of 5.9% (FY2016: 7.5%).

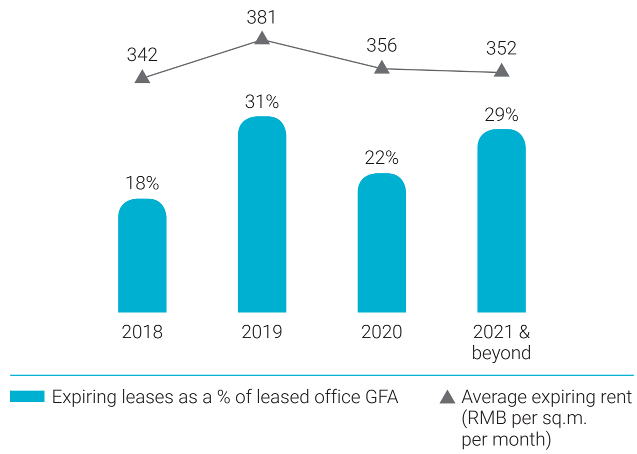
For the Six Months Ended	31-Dec-2016	Change	30-June-2017	Change	31-Dec-2017
Net Average Monthly Passing Rent (RMB/sqm)	346	+2.3%	354	+1.4%	**359**
Average Occupancy	93%	+1 ppts	94%	+1 ppts	**95%**

Passing Rent

(RMB per sq.m. per month)



Expiry Profile by GFA



Note: Net passing rent is presented net of business tax and VAT (where applicable).

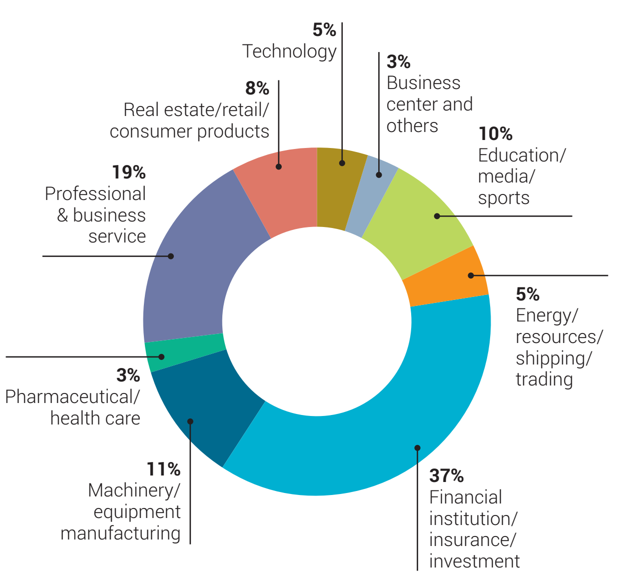
As at 31 December 2017, the weighted average lease expiry in terms of GFA was 814 days for the CCP Property. Leases expiring on or before the year ending 31 December 2018 and 31 December 2019 accounted for 17.8% and 30.8% of the total leased GFA respectively, and the net average unit rents for the expiring leases were RMB342 per sqm and RMB381 per sqm respectively.

Tenancy base

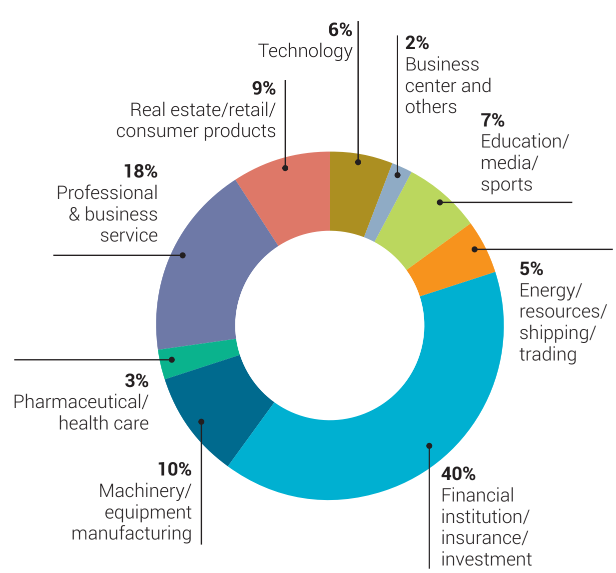
Spring REIT's Property had a total of 189 tenancies as at 31 December 2017. The top five tenants accounted for 21.8% of total revenue for the Reporting Year, and occupied 23.7% of total GFA as at 31 December 2017. Details of the top five tenants in terms of GFA are set out in the table below.

Tenants	% of total leased GFA
Epson	5.8%
Delsk	4.8%
Condé Nast	4.7%
Zhong De Securities	4.2%
Deutsche Bank	4.2%
Total	23.7%

Tenants by Industry
As % of leased Office GFA
(As of 31 December 2017)



Tenants by Industry
As % of monthly revenue
(For the month 31 December 2017)



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	10,931,995	67.8%
Jones Lang LaSalle (Beijing) Property Management Service Co., Ltd.	Leasing	1,427,958	8.9%
Beijing Lifeng Lianhang Real Estate Brokerage Co., Ltd.	Leasing	774,324	4.8%
Beijing Haozu Technology Development Co., Ltd.	Leasing	575,178	3.6%
Beijing Bo-re Huan Qiu Real Estate Brokerage Co., Ltd.	Leasing	411,014	2.6%
TOTAL		14,120,469	87.7%

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

UK Portfolio Operation Review

	For the period from acquisition date (14 July 2017) to 31 December 2017
	*British Pound Sterling ("**GBP**")*
Income	
– Rental income	2,058,626
Expenditure	
– Head rents on leasehold properties	(53,135)
– Property management fees	(32,400)
	(85,535)
Net Property Income	1,973,091

Spring REIT completed the acquisition of the UK Portfolio in July 2017. Each of the 84 properties is under a long-term lease with the tenant Kwik-Fit (GB) Limited, a leading car servicing operator in the United Kingdom, with all but one of the leases expiring in March 2032. Currently, the UK Portfolio has an occupancy rate of 100%, with an annual contract rental income of approximately GBP4.51 million. Spring REIT enjoys substantial pass through of rental income as the leases are "full repairing and insuring" in nature, under which the tenant agrees to pay all real estate taxes, building insurance, and maintenance (the triple "nets") on the properties in addition to any normal fees that are specified under the agreement (e.g. rent, utilities, etc.).

Financial Results Highlight

(in USD' million unless otherwise specified)

For the Year Ended 31 December	2016	**2017**	Change
Revenue	75.43	**76.70**	1.7%
Property operating expenses	(18.59)	**(19.62)**	5.5%
Net property income	56.84	**57.08**	0.4%
Net property income margin	75.4%	**74.4%**	-1.0 ppts
Profit after taxation	91.29	**55.16**	(39.6%)
Total distributable income	35.87	**33.97**	(5.3%)

As at 31 December	2016	**2017**	Change
Property valuation	1,296.62	**1,488.06**	14.8%
Total assets	1,381.16	**1,586.60**	14.9%
Total borrowings	480.50	**547.48**	13.9%
Net asset value	866.68	**1,000.40**	15.4%
Gearing ratio	34.8%	**34.5%**	-0.3 ppts

Units Information	2016	**2017**	Change
DPU *(HK cents)*	23.0	**21.1**	(8.3%)
Payout ratio	93%	**100%**	+7.0 ppts
Net asset value per Unit *(HK$)*	5.95	**6.22**	4.5%
Number of Units outstanding	1,130,562,940	**1,257,705,732**	11.2%

Financial Performance

Spring REIT's revenue for the Reporting Year was USD76.70 million, 1.7% higher than that in 2016. The improvement was the result of our new UK Portfolio contributing to the top line along with stable rental growth from the CCP Property, which helped to counteract the nominal accounting effects of the 2016 B2V reform and the weaker RMB/USD monthly average exchange rate adopted throughout 2017. After taking into account property operating expenses, net property income amounted to USD57.08 million, representing a 0.4% increase YoY and a property income margin of 74.4% (2016: 75.4%).

Professional fees and administrative expenses escalated to USD11.76 million, with costs of approximately USD0.52 million incurred in relation to the extraordinary general meeting held on 10 November 2017. Meanwhile, a total finance income on interest-bearing borrowings of USD9.87 million (2016: a cost of USD 51.90 million) is registered as a result of a foreign exchange gain of USD29.46 million (2016: a loss of USD32.16 million) recognized when translating USD bank borrowings to RMB. Cash interest expenses amounted to USD17.11 million, compared to USD16.54 million in 2016, as USD LIBOR rate has been rising and additional debt was taken on to fund the acquisition of the UK Portfolio. Further, a translation gain of USD56.16 million was recorded as the monthly average exchange rate adopted in 2017 understated the actual RMB/USD exchange rate at which currency was converted. A USD8.08 million loss was registered from the reversal of the mark-to-market gain and cash settlement of two currency forward contracts which expired in the first half of the Reporting Year.

Taking into account the increase in fair value of the CCP Property and UK Portfolio of USD4.81 million (2016: USD100.48 million), profit after taxation for the Reporting Year was USD55.16 million (2016: USD91.29 million).

Spring REIT's total distributable income for the Reporting Year was USD33.97 million, representing a decrease of 5.3% YoY. Among other adjustments, the reported amount excludes the foreign exchange gain and the increase in fair value of the CCP Property and UK Portfolio, both of which are non-cash in nature.

Financial Position

During the year Spring REIT's principal valuer, Knight Frank Petty Limited ("**Knight Frank**" or the "**Principal Valuer**") carried out a valuation of the Spring REIT portfolio. The CCP Property was appraised at RMB9,030.00 million (equivalent to USD1,387.78 million) as at 31 December 2017, representing an appreciation of RMB25.00 million or approximately 0.3% in RMB terms (7.0% in USD terms) over the valuation as of 31 December 2016. The valuation of the CCP Property was arrived at using the income capitalization approach and cross-checked by the direct comparison approach. The increase in valuation was attributable to an increase in market rent and a stable capitalization rate of 5.8%. (30 June 2017: 5.8%; 31 December 2016: 5.8%).

The UK portfolio was appraised at GBP74.15 million (equivalent to USD100.28 million) as at 31 December 2017, representing an appreciation of GBP0.58 million or approximately 0.8% in GBP terms (10.0% in USD terms) over the valuation as of 17 March 2017. The valuation of the UK Portfolio was arrived at using the income capitalization approach. The increase in valuation was attributable mainly to a small decrease of capitalization rates, which range from 4.45% to 9.45%, due to the improvement in market sentiment in the UK, and more certainty of Brexit settlement, sparking overseas investors' interest in stable income generating UK properties.

As at 31 December 2017, Spring REIT had in place aggregate secured loan facilities of approximately USD568.85 million, comprising:

1. A fully drawn term loan facility of USD450.00 million (following a partial prepayment in May 2017) and an uncommitted facility of USD20.00 million that remained undrawn (the "**CCP Facility**") expiring in April 2020;

   Prior to 26 June 2017, the amount of outstanding borrowings under the CCP Facility bore an interest margin of 2.75% per annum over the 3-month USD LIBOR. On 23 June 2017, Spring REIT entered into a deed of amendment (the "**Deed**") in relation to the original facilities agreement dated 18 February 2015 and the previous deed of amendment dated 5 February 2016 ("**Facilities Agreements**") for the CCP Facilities. The Deed amended certain provisions of the Facilities Agreements and included a 110 basis points reduction in the interest margin from 2.75% to 1.65% for both the term loan facility and the uncommitted facility, effective 27 June 2017. Based on the outstanding loan amount of USD450.00 million, the reduction in the interest margin represents an interest saving of approximately USD4.95 million annually.

2. A facility of GBP37.00 million (equivalent to approximately USD50.04 million) ("**UK Facility 1**") extended by Australia and New Zealand Bank ("**ANZ Bank**") put in place for the completion of the acquisition of the UK Portfolio on 14 July 2017. UK Facility 1 was expired on 31 January 2018; and

3. A loan of approximately GBP36.09 million (equivalent to approximately USD48.81 million) ("**UK Facility 2**"), extended by the Banco Santander to the property holding company which Spring REIT acquired and assumed during the acquisition of the UK Portfolio. UK Facility 2 will expire on 31 July 2020.

On 21 April 2017, Spring REIT issued 114,884,000 new units at the price of HK$3.25 per Unit with gross proceeds amounting to approximately HK$373.37 million (equivalent to approximately USD48.00 million). The Manager applied the gross proceeds towards: (i) partial early repayment of amounts drawn down under the CCP Facilities; and (ii) the general working capital requirements of Spring REIT.

As at 31 December 2017, the gearing ratio, i.e. total borrowings to gross asset value, was 34.5%, compared with 34.8% at 31 December 2016.

Spring REIT's investment properties, rent receivables, restricted bank balances, ordinary shares of RCA01, all future trade receivables and certain assets of Hawkeye Properties 501 were pledged to secure the loan facilities where applicable. In addition, RCA01, RUK01 and Hawkeye Properties 501's restricted bank balances were charged to, or otherwise subject to the control of the security agent to the CCP Facility or the lending banks of UK Facility 1 and UK Facility 2. Throughout the Reporting Year, Spring REIT, RCA01and RUK01 have in all material respects complied with the terms and provisions of the finance and security documents.

The unrestricted cash of Spring REIT (together with its special purpose vehicles, the "**Group**") amounted to USD21.31 million as at 31 December 2017, compared with USD28.83 million as at 31 December 2016. The Group also had total undrawn bank loan facilities of USD20.00 million. With these financial resources, Spring REIT has sufficient liquid assets to satisfy its working capital and operating requirements. The cash is generally placed as short-term deposits, mostly denominated in USD. The Group's liquidity and financing requirements are reviewed regularly.

As at 31 December 2017, the gross asset value of the Group was USD1,586.60 million representing an increase of 14.9% YoY as compared with USD1,381.6 million recorded on 31 December 2016. This was due to the addition of the UK Portfolio, higher valuation of the CCP Property and the stronger RMB/USD year end exchange rate.

Subsequent to 31 December 2017, before the end of January 2018, both UK Facility 1 and UK Facility 2 together with their accrued interests, prepayment penalties, fee and expenses of refinancing were fully repaid using GBP50.00 million (equivalent to approximately USD67.62 million) drawn down from a new facility granted to Spring REIT on 26 January 2018 (the "**New Facility**") by Sumitomo Mitsui Banking Corporation **("SMBC")**, as well as USD18.00 million drawn down from the USD20.00 million uncommitted line of the CCP Facility, and internal cash resources.

The New Facility was granted to Spring REIT pursuant to a bilateral facility agreement entered into between Spring REIT, through its wholly-owned special purpose vehicles Hawkeye Properties 501 and SMBC (the "**New Facility Agreement**") on 26 January 2018, for the aggregate amount of GBP50.00 million. The New Facility is a term loan which bears an interest rate of three-month GBP LIBOR plus 2.20% per annum and has a term of four years. It was subsequently drawn down on 29 January 2018 and 31 January 2018, and applied in full to the repayment of the UK Facility 1 and partial repayment of UK Facility 2.

From the USD20.00 million uncommitted line of the CCP Facility, USD18.00 million was also drawn down on 31 January 2018 and applied to the partial repayment of UK Facility 2. Similar to the term loan in the CCP Facility, the uncommitted facility bears an interest rate of three-month USD LIBOR plus 1.65% per annum and will expire in February 2020. UK Facility 2 has subsequently been repaid in full.

Net Assets Attributable to Unitholders

As at 31 December 2017, net assets attributable to Unitholders stood at USD1,000.40 million.

The net asset value per Unit as at 31 December 2017 was HKD6.22 (30 June 2017: HKD5.87; 31 December 2016: HKD5.95). This represented a 82.9% premium to the closing price of the Units of HKD3.40 as at 29 December 2017, the last trading day in the Reporting Year.

New Units Issued

As at 31 December 2017, the total number of issued Units was 1,257,705,732. A total of 127,142,792 new Units were issued during the Reporting Year.

Date	Particulars	No. of Units
31 December 2016	Opening balance of total number of Units in issue.	1,130,562,940
27 March 2017	Issue of new Units to the Manager at the price of HKD3.299 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 2016.	+ 2,615,069
21 April 2017	Issue of new Units to China Orient Stable Value Fund Limited at the price of HKD3.25 per Unit	+ 114,884,000
28 April 2017	Issue of new Units to the Manager at the price of HKD3.257 per Unit (being the Market Price as defined in the Trust Deed) as payment of 100% of the Manager's Base Fee for the 3 months period ended 31 March 2017.	+ 3,253,154
4 August 2017	Issue of new Units to the Manager at the price of HKD3.466 per Unit (being the Market Price as defined in the Trust Deed) as payment of 100% of the Manager's Base Fee for the 3 months period ended 30 June 2017.	+ 3,104,388
2 November 2017	Issue of new Units to the Manager at the price of HKD3.409 per Unit (being the Market Price as defined in the Trust Deed) as payment of 100% of the Manager's Base Fee for the 3 months period ended 30 September 2017.	+ 3,286,181
31 December 2017	Closing balance of total number of Units in issue.	1,257,705,732

Capital Commitments

As at 31 December 2017, the Group had no significant capital commitment.

Employees

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

CORPORATE GOVERNANCE

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

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

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

Key components of the governance framework and the corporate governance report for the year ended 31 December 2017 will be set out in the forthcoming annual report.

Authorization Structure

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

During the Reporting Year, Mr. Lau Jin Tin, Don retired from being Executive Director of the Manager and ceased to be an RO and an approved person of the Manager with effect from 31 May 2017.

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

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. Please also refer to the section headed "Management Discussion and Analysis – New Units Issued" above for details relating to new Units issued by Spring REIT during the Reporting Year.

Investments in Property Development and Relevant Investments

As at 31 December 2017, 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); or (ii) Relevant Investments (as defined in Paragraph 7.2B of the REIT Code).

Foreign Account Tax Compliance Act ("FATCA")

Spring REIT met the criteria of "regularly traded on a recognized securities market" for the calendar year of 2016 and should therefore be excluded from preparing "financial accounts" under FATCA for the calendar year 2017, and hence was not required to perform account due diligence, reporting or withholding for its account holders under FATCA for the calendar year 2017.

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 2017.

Review of Annual Results

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

Issuance of the Annual Report 2017

The annual report of Spring REIT for the year ended 31 December 2017 will be published on the respective websites of the Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and Spring REIT at www.springreit.com, and will be sent to Unitholders on or before 30 April 2018.

Annual General Meeting

The 2018 annual general meeting of Spring REIT will be held on or around 24 May 2018, Thursday, notice of which will be published and given to Unitholders in due course.

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

Hong Kong, 21 March 2018

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

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

		Year ended 31 December	
		2017	2016
	Notes	***US$'000***	*US$'000*
Revenues	*5*	**76,695**	75,431
Property operating expenses	*6*	**(19,615)**	(18,593)
Net property income		**57,080**	56,838
General and administrative expenses	*7*	**(11,761)**	(9,428)
Fair value gain of investment properties	*13*	**4,807**	100,477
Other losses, net	*8*	**(5,147)**	(5,214)
Operating profit		**44,979**	142,673
Finance income		**482**	519
Finance costs on interest-bearing borrowings	*9*	**9,874**	(51,898)
Profit before taxation and transactions with Unitholders		**55,335**	91,294
Income tax expense	*10*	**(175)**	–
Profit for the year, before transactions with Unitholders *(note i)*		**55,160**	91,294
Distributions paid to Unitholders:			
– 2015 final distribution		**–**	(18,238)
– 2016 interim distribution		**–**	(18,902)
– 2016 final distribution *(note ii)*		**(14,568)**	–
– 2017 interim distribution *(note ii)*		**(15,257)**	–
		25,335	54,154

		Year ended 31 December	
		2017	2016
	Notes	***US$'000***	*US$'000*
Represented by:			
Change in net assets attributable to Unitholders, excluding issuance of new units		**80,439**	(2,004)
Amount arising from exchange reserve movements regarding translations of financial statements		**(55,104)**	56,158
		25,335	54,154

Notes:

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

(ii) 2017 interim distribution and 2016 final distribution of US$15,257,000 and US$14,568,000 respectively were paid during the year ended 31 December 2017. Total distribution for the year ended 31 December 2017 is presented in the statement of distributions.

The notes on pages 34 to 59 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	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 2017				
Profit for the year		**55,160**	**(110,264)**	**(55,104)**
Other comprehensive loss:				
Items that may be reclassified to consolidated income statement				
Exchange gains on translation of financial statements		**55,104**	**–**	**55,104**
Total comprehensive income for the year	*ii*	**110,264**	**(110,264)**	**–**
For the year ended 31 December 2016				
Profit for the year		91,294	(35,136)	56,158
Other comprehensive loss:				
Items that may be reclassified to consolidated income statement				
Exchange losses on translation of financial statements		(56,158)	–	(56,158)
Total comprehensive income for the year	*ii*	35,136	(35,136)	–

Notes:

(i) Transactions with Unitholders comprise the distributions paid to Unitholders of US$29,825,000 (2016: US$37,140,000), and change in net assets attributable to Unitholders excluding issuance of new units, which is an increase of US$80,439,000 (2016: a decrease of US$2,004,000).

(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 34 to 59 are an integral part of these consolidated financial statements.

STATEMENT OF DISTRIBUTIONS

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017	2016
	US$'000	*US$'000*
Profit for the year, before transactions with Unitholders	**55,160**	91,294
Adjustments:		
– Fair value gain of investment properties	**(4,807)**	(100,477)
– Net fair value losses of derivative financial instruments	**8,082**	4,447
– Manager's fee expenses in units in lieu of cash	**5,595**	4,506
– Amortization of transaction costs for the bank borrowings	**2,347**	3,199
– Unrealized foreign exchange (gains)/losses	**(32,410)**	32,903
Distributable income for the year *(note i)*	**33,967**	35,872
Total distributions of the year *(note ii)*	**33,967**	33,451
Represented by:		
Interim distribution, paid *(note iii)*	**15,257**	18,902
Final distribution, to be paid	**18,710**	14,549
Total distributions of the year *(note ii)*	**33,967**	33,451
Percentage of total distributions over distributable income for the year	**100%**	93%
Distributions per unit to Unitholders		
– Interim distribution per unit, paid *(note iii)*	**HK9.5 cents**	HK13.0 cents
– Final distribution per unit, to be paid *(note iv)*	**HK11.6 cents**	HK10.0 cents
Distribution per unit for the year *(note iv)*	**HK21.1 cents**	HK23.0 cents

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. 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 2017 was calculated based on the interim distribution of US$15,257,000 for the period and 1,251,315,163 units in issue. The interim distribution was paid to Unitholders on 22 September 2017.

(iv) The final distribution per unit of HK11.6 cents for the year ended 31 December 2017 is calculated based on the final distribution to be paid to Unitholders of US$18,710,000 for the second half of the financial year and 1,257,705,732 units in issue as at 31 December 2017, rounded to the nearest HK0.1 cents, without taking into account any consideration or subdivision of units which may have occurred between the dates of declaration of the distribution and 18 April 2018 (the "Record Date"). The final distribution for the year ended 31 December 2017 is expected to be paid to Unitholders on 27 April 2018. Such final distributions per unit, however, may be subject to adjustment upon the issuance of new units between 1 January 2018 and the Record Date, if any.

The final distribution per unit of HK10.0 cents for the year ended 31 December 2016 was calculated based on the final distribution paid to the Unitholders of US$14,549,000 for the second half of the financial year and 1,130,562,940 units in issue as at 31 December 2016, rounded to the nearest HK0.1 cent. The final distribution for the year ended 31 December 2016 was paid to Unitholders on 28 April 2017.

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

The notes on pages 34 to 59 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

		As at 31 December	
		2017	2016
	Notes	***US$'000***	*US$'000*
Non-current asset			
Investment properties	*13*	**1,488,059**	1,296,616
Total non-current asset		**1,488,059**	1,296,616
Current assets			
Trade and other receivables	*15*	**4,525**	2,421
Derivative financial instruments	*14*	**–**	2,670
Restricted bank balances	*16*	**72,701**	50,631
Cash and cash equivalents	*16*	**21,310**	28,825
Total current assets		**98,536**	84,547
Total assets		**1,586,595**	1,381,163
Current liabilities			
Interest-bearing borrowings	*18*	**50,005**	–
Trade and other payables	*17*	**13,878**	13,342
Rental deposits	*17*	**24,360**	20,640
Income tax payable		**476**	–
Total current liabilities		**88,719**	33,982
Non-current liabilities, excluding net assets attributable to Unitholders			
Interest-bearing borrowings	*18*	**497,472**	480,499
Total liabilities, excluding net assets attributable to Unitholders		**586,191**	514,481
Net assets attributable to Unitholders		**1,000,404**	866,682
Units in issue *('000)*	*19*	**1,257,706**	1,130,563
Net asset value per unit attributable to Unitholders			
In US$		**0.80**	0.77
In HK$		**6.22**	5.95

The notes on pages 34 to 59 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

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

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Reserves *(note)* *US$'000*	Net assets attributable to Unitholders *US$'000*
As at 1 January 2017	**–**	**866,682**
Profit after taxation and before transactions with Unitholders	**–**	**55,160**
Exchange gains on translation of financial statements	**55,104**	**–**
Amount arising from exchange reserve movements	**(55,104)**	**55,104**
Distributions paid to Unitholders:		
– 2016 final distribution	**–**	**(14,568)**
– 2017 interim distribution	**–**	**(15,257)**
Change in net assets attributable to Unitholders for the year ended 31 December 2017, excluding issues of new units	**–**	**80,439**
Issuance of units *(note 19)*	**–**	**53,283**
As at 31 December 2017	**–**	**1,000,404**

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

	Reserves *(note)* *US$'000*	Net assets attributable to Unitholders *US$'000*
As at 1 January 2016	–	864,224
Profit for the year, before transactions with Unitholders	–	91,294
Exchange losses on translation of financial statements	(56,158)	–
Amount arising from exchange reserve movements	56,158	(56,158)
Distributions paid to Unitholders:		
– 2015 final distribution	–	(18,238)
– 2016 interim distribution	–	(18,902)
Change in net assets attributable to Unitholders for the year ended 31 December 2016, excluding issues of new units	–	(2,004)
Issuance of units	–	4,462
As at 31 December 2016	–	866,682

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

The notes on pages 34 to 59 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Spring Real Estate Investment Trust ("Spring REIT") is a Hong Kong collective investment scheme 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 "REIT Code"). The addresses of the registered offices of the Manager and the Trustee are Room 2801, 28/F, Man Yee Building, 68 Des Voeux Road Central, Hong Kong and 52/F, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong, respectively.

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

The consolidated financial statements are presented in 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") and Interpretations ("Int") issued by the International Accounting Standards Board ("IASB"), the requirements of the Trust Deed and the relevant disclosure requirements as set out in Appendix C of the REIT Code issued by the Securities and Futures Commission of Hong Kong.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties 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 Standards Board that are relevant to the Group's operations and mandatory for annual accounting periods beginning 1 January 2017.

Amendments and improvements to existing standards effective in 2017 which are relevant to the Group's operations:

IAS 7 Amendments	Disclosure Initiative
IAS 12 Amendments	Recognition of Deferred Tax Assets for Unrealized Loss
IFRS 12 Amendments	Annual Improvements to IFRSs 2014-2016 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.

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

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

		Effective for accounting periods beginning on or after
IAS 40 Amendments	Transfers of Investment Property	1 January 2018
IFRS 2 Amendments	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 4 Amendments	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 9 Amendments	Prepayment Features with Negative Compensation	1 January 2019
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 15 Amendments	Clarifications to IFRS 15	1 January 2018
Annual Improvements Project IFRS 1 and IAS 28	Annual Improvements to IFRS 2014 – 2016 Cycles	1 January 2018
IFRIC – Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRS 16	Leases	1 January 2019
IFRIC – Int 23	Uncertainty over Income Tax Treatments	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IFRS 10 and IAS 28 Amendments	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

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

(b) Consolidation

The consolidated financial statements incorporate the assets and liabilities of Spring REIT and its subsidiaries as at 31 December 2017 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.

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, for rental income in the ordinary course of the Group's activities. Amounts disclosed as revenue are net of returns and amounts collected on behalf of third parties. 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 properties 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) Property operating expenses

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

(e) Investment properties

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

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

(f) Derivative financial instruments

Derivatives are initially 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. At the initial recognition of the derivatives financial instrument, the difference between the transaction price and the valuation using valuation technique that applies only the market observable date is not recognized in income statements, such difference will be amortized over the life of the derivatives in a systematic basis.

(g) 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.

(h) Cash and cash equivalents

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

(i) 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.

(j) Borrowing costs

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

(k) Payables and provisions

(i) Trade and other payables

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

(l) Taxation

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

Current income tax

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

Deferred income tax

Deferred income tax is provided in full, 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. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(m) Foreign currency translation

(a) Functional and presentation currency

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

(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.

(n) Unitholders' funds as a financial liability

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

3 FINANCIAL RISK AND CAPITAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to 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 subsidiaries of the Group operate in the People's Republic of China (the "PRC") and the United Kingdom (the "UK") with functional currency in Renminbi ("RMB") and British Pound Sterling ("GBP") respectively. It is therefore exposed to foreign exchange risk arising from commercial transactions, and from recognized assets and liabilities that are denominated in a currency that is not the functional currency. This is primarily with respect to the US$.

In December 2016, the Group entered into two 3-month vanilla forward contracts to buy US$ and sell RMB with notional amount of US$120 million each to hedge the foreign exchange rate risk. The forward contracts had a contract rate of US$1 to RMB7.0293 and RMB7.0495 respectively and were settled in March 2017.

As at 31 December 2017, if RMB had strengthened/weakened by 5% against the US$ with all other variables held constant, profit for the year would have been increased/decreased by US$20,795,000 (2016: increased/decreased by US$21,627,000) respectively, mainly as a result of foreign exchange differences on translation of monetary assets and liabilities being denominated in RMB that is not the functional currency items in the PRC such as cash and bank balance, other payables and borrowings.

As at 31 December 2017, if GBP had strengthened/weakened by 5% against the US$ with all other variables held constant, profit for the year would have been decreased/increased by US$850,000 (2016: Nil) respectively, mainly as a result of foreign exchange differences on translation of monetary assets being denominated in GBP that is not the functional currency items in the UK such as cash and bank balance.

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.

As at 31 December 2017, if interest rates had been 50 basis points higher/lower with all other variables held constant, profit for the year would have been US$2,274,000 (2016: US$2,003,000) 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.

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 18) 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 analyzes 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 2017				
Trade and other payables	**3,081**	**–**	**–**	**–**
Rental deposit	**5,161**	**13,039**	**5,503**	**657**
Income tax payable	**476**	**–**	**–**	**–**
Interest payable on borrowings	**16,035**	**17,702**	**5,890**	**–**
Interest-bearing borrowings	**98,854**	**–**	**450,000**	**–**

	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 2016				
Trade and other payables	2,712	–	–	–
Rental deposit	5,204	4,804	10,269	363
Interest payable on borrowings	19,105	21,889	31,959	–
Interest-bearing borrowings	–	–	480,000	–

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	
	2017 *US$'000*	2016 *US$'000*
Total borrowings *(note 18)*	**547,477**	480,499
Total assets	**1,586,595**	1,381,163
Gearing ratio	**34.5%**	34.8%

3.3 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as at 31 December 2017 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 2017	**Level 1** ***US$'000***	**Level 2** ***US$'000***	**Level 3** ***US$'000***	**Total** ***US$'000***
Asset				
Derivative financial instruments	**–**	**–**	**–**	**–**

At 31 December 2016	Level 1 *US$'000*	Level 2 *US$'000*	Level 3 *US$'000*	Total *US$'000*
Asset				
Derivative financial instruments	–	2,670	–	2,670

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

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

As at 31 December 2017, the Group did not have any derivative financial instruments outstanding.

As at 31 December 2016, the level 2 derivative financial instruments represented vanilla forward 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 properties, that is measured at fair value, are set out in note 13.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Estimates of fair value of investment properties

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

(b) Taxation

The Group is a foreign enterprise established outside the PRC and the UK. The Group is subject to various taxes in the PRC and the UK. Significant judgement is required in determining the provision for taxation including deferred taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group 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.

5 REVENUE AND SEGMENT INFORMATION

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

For the year ended 31 December 2017, revenue of US$73.9 million (2016: US$75.4 million) is attributable to tenants from the PRC investment properties and US$2.8 million (2016: Nil) is attributable to tenants from the UK investment properties. As at 31 December 2017, non-current assets of US$1,388 million (2016: US$1,297 million) is located in the PRC and US$100 million (2016: Nil) is located in the UK.

An analysis of revenues of the Group is as follows:

	Year ended 31 December	
	2017	2016
	US$'000	*US$'000*
Revenues		
Rental income *(note i)*	**74,909**	72,645
Car park income	**511**	566
Other income *(note ii)*	**1,275**	2,220
	76,695	75,431

Note:

(i) With effect from 1 May 2016, the business tax in the PRC formerly applicable to the Group was replaced by the value-added tax ("VAT"). VAT is a tax detached from selling price and pursuant to the IFRS, the rental income from 1 May 2016 onwards is presented in the financial statements as excluding any VAT collected by Spring REIT on behalf of the relevant tax authorities. Relevant business tax of rental income borne by the Group before 1 May 2016 was included in property operating expenses (note 6).

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

6 PROPERTY OPERATING EXPENSES

	Year ended 31 December	
	2017	2016
	US$'000	*US$'000*
Property management fee	**1,662**	1,617
Property tax *(note i)*	**8,681**	6,286
Business tax *(note ii)*	**–**	1,401
Other taxes *(note iii)*	**1,027**	972
Withholding tax *(note iv)*	**7,274**	7,564
Leasing commission	**777**	623
Others	**194**	130
	19,615	18,593

Notes:

(i) Property taxes represent real estate tax and land use tax in the PRC. With effect from 1 July 2016, real estate tax applicable to the Group's Beijing properties is calculated: (a) for leased area, at 12% of rental income; and (b) for vacant area, at 1.2% of the residual value of the relevant area. Prior to the change, real estate tax was charged at the rate of 1.2% of the residual value of the property.

(ii) With effect from 1 May 2016, the business tax in the PRC formerly applicable to the Group was replaced by the VAT.

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

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

7 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2017	2016
	US$'000	*US$'000*
Manager's fee *(note i)*	**8,164**	7,258
Trustee fee	**239**	243
Valuation fee	**49**	85
Auditor's remuneration		
– Audit services	**202**	182
– Non-audit services	**152**	88
Legal and other professional fee *(note ii)*	**2,501**	1,358
Others	**454**	214
	11,761	9,428

Notes:

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

(ii) Legal and other professional fee mainly comprises advisory fees and other professional fees.

8 OTHER LOSSES, NET

	Year ended 31 December	
	2017	2016
	US$'000	*US$'000*
Net fair value losses on derivative financial instruments at fair value through profit or loss	**8,082**	4,447
Foreign exchange (gains)/losses	**(2,955)**	746
Other miscellaneous losses	**20**	21
	5,147	5,214

9 FINANCE COSTS

	Year ended 31 December	
	2017	2016
	US$'000	*US$'000*
Interest expenses on bank borrowings *(note i)*	**19,431**	19,741
Foreign exchange (gains)/losses on bank borrowings *(note ii)*	**(29,455)**	32,157
Other incidental borrowing costs	**150**	–
	(9,874)	51,898

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

10 INCOME TAX EXPENSE

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

For the subsidiary with operation in the UK, it is subject to non-resident landlord income tax at a rate of 20%.

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

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

	Year ended 31 December	
	2017	2016
	US$'000	*US$'000*
Current income tax	**175**	–

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

	Year ended 31 December	
	2017	2016
	US$'000	*US$'000*
Profit before income tax and transactions with Unitholders	**55,335**	91,294
Exclude profit from the PRC operation which is not subjected to income tax *(note 6(iv))*	**(62,689)**	(99,754)
	(7,354)	(8,460)
Tax calculated at the domestic rates applicable to profits in the country concerned	**(1,128)**	(1,396)
Income not subject to tax	**(442)**	(1)
Expenses not deductible for tax purposes	**1,745**	1,397
	175	–

11 MANAGER'S FEE

	Year ended 31 December	
	2017	2016
	US$'000	*US$'000*
Base fee	**5,493**	5,635
Variable fee	**1,715**	1,623
Acquisition fee	**956**	–
	8,164	7,258

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

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

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

(iii) The acquisition fee is 1% of the base purchase price for the acquisition of investment properties in the UK.

Based on the election made by the Manager dated 12 December 2016 in relation to the Manager's elections for the Base Fee to be paid to the Manager in the form of Units as entirely, and Variable Fee to be paid to the Manager in the form of cash entirely, arising from any real estate of Spring REIT for the year ended 31 December 2017 in accordance with the Trust Deed.

Such election for the year ended 31 December 2016 was for Base Fee payable in the form of cash as to 20% and in the form of Units as to 80%, and for Variable Fee payable in the form of cash entirely.

The acquisition fee has been paid to the Manager in the form of cash entirely.

12 EARNINGS PER UNIT

	2017	2016
	US$'000	*US$'000*
Profit for the year, before transactions with Unitholders	**55,160**	91,294
Weighted average number of units for the year for calculating basic earnings per unit	**1,206,452,143**	1,125,241,731
Adjustment for units issuable in respect of the Manager's fee	**3,206,937**	2,719,873
Weighted average number of units for the year for calculating diluted earnings per unit	**1,209,659,080**	1,127,961,604
Basic earnings per unit based upon profit before transactions with Unitholders	**US4.57 cents**	US8.11 cents
Diluted earnings per unit based upon profit before transactions with Unitholders	**US4.56 cents**	US8.09 cents

13 INVESTMENT PROPERTIES

	Year ended 31 December	
	2017	2016
	US$'000	*US$'000*
At beginning of the year	**1,296,616**	1,283,552
Additions	**419**	1,124
Acquisition *(Note ii)*	**95,654**	–
Exchange differences recognized in other comprehensive income	**90,563**	(88,537)
Changes in fair value recognized in consolidated income statement	**4,807**	100,477
At end of the year	**1,488,059**	1,296,616

Notes:

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

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

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

(ii) Amount included base purchase price of GBP73.5 million, related transaction costs and net asset adjustments for the investment properties in the UK.

As at 31 December 2017, the Group had no unprovided contractual obligations for future repairs and maintenance of the investment properties.

As at 31 December 2016 and 31 December 2017, the investment properties were pledged to secure the Group's bank borrowings (note 18).

Valuation process

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

The Manager reviewed the valuation performed by the independent valuer for financial reporting purpose. Discussions of valuation processes and results are held between the Manager and the independent valuer at least once every six months, in line with the Group's interim and annual reporting dates. As at 31 December 2017 and 31 December 2016, the fair values of the investment properties have been determined by Knight Frank. The independent valuer adopted the income capitalization approach and cross-checked by the direct comparison approach for the valuation where applicable.

Valuation techniques

(i) PRC investment property

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

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

(ii) UK investment properties

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

Fair value hierarchy

	Fair value measurements using		
	Level 1	**Level 2**	**Level 3**
	US$'000	***US$'000***	***US$'000***
Recurring fair value measurements			
As at 31 December 2017	**–**	**–**	**1,488,059**
As at 31 December 2016	–	–	1,296,616

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

Key unobservable inputs used to determine fair values

(i) *PRC investment properties*

(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 properties. In the 31 December 2017 valuation, a capitalization rate of 5.8% (2016: 5.8%) is used in the income capitalization approach.

(b) *Base rent*

Base rent is the standard rent payable under the lease exclusive of any other charges and reimbursements. This was estimated based on the market lease comparable. The higher the base rent used, the higher the fair values of the investment properties. The average gross monthly office unit base rent of RMB409 (2016: RMB405) per square meter exclusive of VAT is used in the valuation. The corresponding amount inclusive of VAT is RMB454 (2016: RMB450) per square meter.

(ii) *UK investment properties*

(a) *Capitalization rate*

This is estimated based on the market lease over market value on comparable. The higher the capitalization rate used, the lower the fair values of the investment properties. In the 31 December 2017 valuations, the capitalization rate used in the income capitalization approach of 84 investment properties range from 4.45% to 9.45%.

(b) *Base rent*

Base rent is the standard rent payable under the lease exclusive of taxes, other relevant charges and reimbursements. This was estimated based on the market lease comparable. The higher the base rent used, the higher the fair values of the investment properties. The gross annual unit base rents of 84 investment properties range from GBP4.52 to GBP20.11 per square foot.

As at 31 December 2017, if the market value of investment properties had been 5% higher/lower with all other variables held constant, the carrying value of the Group's investment properties would have been US$74.4 million (2016: US$64.8 million) higher/lower.

14 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December	
	2017	2016
	US$'000	*US$'000*
Current		
Fair value of the forward contracts	**–**	2,670
	–	2,670

Notes:

The Group had entered into forward contracts as part of its financial risk management but did not account for these as hedge accounting under IAS 39. Fair value gains or losses on derivative financial instruments were charged to the consolidated income statement (note 8). Forward contracts were used to hedge the relevant foreign exchange rate risk.

The aggregated notional principal amount of the forward contracts was US$240 million and were settled in March 2017.

At the reporting date, the Group did not have any derivative financial instruments outstanding.

15 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2017	2016
	US$'000	*US$'000*
Rent receivables	**8**	178
Deferred rent receivables *(note iv)*	**4,133**	1,871
Prepayment	**365**	372
Other receivable	**19**	–
	4,525	2,421

Notes:

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

There are no specific credit terms given to the tenants.

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

(ii) The Group's exposure from outstanding rent receivables in the PRC is generally fully covered by the rental deposits from the corresponding tenants (note 17).

(iii) As at 31 December 2017 and 2016, the rent receivables and all future rent receivables in the PRC were pledged to secure the Group's bank borrowings in the PRC (note 18).

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

16 RESTRICTED BANK BALANCES AND CASH AND CASH EQUIVALENTS

	As at 31 December	
	2017	2016
	US$'000	*US$'000*
Restricted bank balances	**72,701**	50,631
Cash and cash equivalents	**21,310**	28,825
	94,011	79,456

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

	As at 31 December	
	2017	2016
	US$'000	*US$'000*
US$	**56,146**	49,873
RMB	**33,354**	28,103
HK$	**1,875**	1,480
GBP	**2,636**	–
	94,011	79,456

Restricted bank balances are related to bank accounts restricted under the bank borrowing facility agreements of the Group's bank borrowings (note 18).

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 is an amount of US$6,000 which is denominated in RMB as at 31 December 2017 (2016: US$6,000).

17 RENTAL DEPOSITS AND TRADE AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	US$'000	*US$'000*
Rental deposits ***(note i)***	**24,360**	20,640
Trade and other payables:		
Rental receipts in advance	**7,566**	7,676
Provision for other taxes *(note ii)*	**4**	15
VAT payable	**380**	21
Accrued expenses and other payables	**5,928**	5,630
	13,878	13,342

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 aging analysis is as follows:

	As at 31 December	
	2017	2016
	US$'000	*US$'000*
Within 1 year	**5,161**	5,204
Over 1 year	**19,199**	15,436
	24,360	20,640

(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.

18 INTEREST-BEARING BORROWINGS

	As at 31 December	
	2017	2016
	US$'000	*US$'000*
Bank borrowings		
Current *(note i)*	**50,005**	–
Non-current *(note ii)*	**497,472**	480,499
	547,477	480,499

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

	As at 31 December	
	2017	2016
	US$'000	*US$'000*
6 months or less	**449,004**	480,499

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

The Group's current and non-current bank borrowings are denominated in US$ and GBP respectively.

Notes:

(i) On 14 July 2017, the Group obtained a bank borrowing of GBP37 million (approximately US$50.0 million) to finance the acquisition of the UK investment properties. The borrowing is repayable in full on 31 January 2018 and bears an interest rate of 3-month GBP LIBOR plus 2.15% per annum.

(ii) The existing US dollar term loan facility will be repayable in full on 29 April 2020. On 12 May 2017, the Group early repaid part of the term loan of an amount of US$30 million, reducing the outstanding principal amount to US$450 million. On 27 June 2017, the interest rate of the term loan facility was reduced by 110 basis point, from 3-month US dollar LIBOR plus 2.75% per annum to 3-month US dollar LIBOR plus 1.65% per annum. The Group also had in place a US$20 million undrawn uncommitted revolving facility. Both the term loan facility and uncommitted revolving facility are guaranteed by the Trustee. The Group's shares of RCA01 were pledged to secure the Group's term loan facility and uncommitted revolving facility.

On 14 July 2017, the Group assumed a bank borrowing due to Abbey National Treasury Services plc, which is part of Banco Santander, of an amount of GBP36.1 million (approximately US$48.8 million) as part of the consideration of the acquisition of the UK investment properties. The term loan facility is repayable in full on 18 August 2020. 54% of the borrowing bears interest rate of 3-month GBP LIBOR plus 1.90% per annum and the remaining portion of the borrowing bears interest rate of fixed rate 1.66% plus 1.90% per annum.

(iii) In January 2018, the Group has fully repaid the abovementioned two GBP denominated bank borrowings, amounting to GBP37 million (approximately US$50.0 million) and GBP36.1 million (approximately US$48.8 million) respectively. The repayment is financed by a GBP50 million (approximately US$67.7 million) drawn down from a new facility granted to the Group in January 2018, a US$18 million drawn down from an existing facility and internal resources.

As at 31 December 2017 and 31 December 2016, the Group's investment properties (note 13), derivative financial instruments (note 14), rent receivables and all future rent receivables (note 15), restricted bank accounts (note 16), a subsidiary of the Group's shares of RCA01 and certain assets of a subsidiary of the Group were pledged to secure the Group's bank borrowings.

19 UNITS IN ISSUE

	Number of units
Balance as at 31 December 2016	1,130,562,940
New units issued for Manager's fee	12,258,792
Placing of units *(note i)*	114,884,000
Balance as at 31 December 2017 *(note ii)*	1,257,705,732

(i) On 21 April 2017, an aggregate of 114,884,000 new Units were placed to China Orient Stable Value Fund Limited at the price of HK$3.25 per Unit, with net proceeds of the subscription of HK$373.0 million (approximately US$47.8 million) intended to be applied towards partial early repayment of bank loan and general working capital purposes.

(ii) Traded market value of the units as of 31 December 2017 was HK$3.40 per unit. Based on 1,257,705,732 units, the market capitalization was US$547.3 million.

20 FUTURE MINIMUM RENTAL RECEIVABLES

As at 31 December 2017, the analysis of the Group's aggregate future minimum rental receivable under non-cancellable leases is as follows:

	As at 31 December	
	2017	2016
	US$'000	*US$'000*
Within 1 year	**74,935**	67,519
After 1 year, but within 5 years	**138,364**	120,201
After 5 years	**50,947**	3,901
	264,246	191,621

21 LEASE COMMITMENT

The future aggregate minimum lease payments under non-cancellable operating leases that are related to the leasehold land of certain UK investment properties are as follows:

	As at 31 December	
	2017	2016
	US$'000	*US$'000*
Within 1 year	**146**	–
After 1 year, but within 5 years	**583**	–
After 5 years	**7,535**	–
	8,264	–

22 SUBSIDIARIES

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%
RUK01 Limited	Jersey, limited liability	Investment holding	1 of GBP1 each	100%
Indirectly held:				
Hawkeye Properties 501 Limited	Jersey, limited liability	Property investment	2 of GBP1 each	100%

23 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were authorized for issue by the Manager on 21 March 2018.