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

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018 AND CLOSURE OF REGISTER OF UNITHOLDERS

ABOUT SPRING REIT

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

ABOUT THE MANAGER

Spring REIT is managed by Spring Asset Management Limited (as manager of Spring REIT, the "**Manager**"), a company incorporated in Hong Kong for the sole purpose of managing Spring REIT. As at 30 June 2018, the Manager was 90.2% owned by Mercuria Investment Co., Limited ("**Mercuria**", formerly known as AD Capital Co., Ltd., renamed on 1 January 2016), a private equity investment firm listed on the Tokyo Stock Exchange (Stock Code: 7190) with notable shareholders that include the Development Bank of Japan, the Itochu Corporation, and Sumitomo Mitsui Trust Bank, Limited.

DISTRIBUTION

The board of directors (the “**Board**”) of the Manager, for and on behalf of Spring REIT, has resolved to declare an interim distribution for the period from 1 January 2018 to 30 June 2018 (the “**Reporting Period**” or “**1H 2018**”) of HK12.0 cents per Unit (“**2018 Interim Distribution**”), representing a 26.3% increase year-on-year (“**YoY**”). The distribution, representing a payout ratio of approximately 96%, is subject to adjustment in the event of any issuance of new Units between 1 July 2018 and 18 September 2018 (the “**Record Date**”). Based on the closing price of HK$3.33 per Unit as at 30 June 2018, the distribution implies an annualized distribution yield of 7.2%.

The distribution will be paid in Hong Kong Dollars (“**HK$**”). The HK$/United States Dollars (“**US$**”) exchange rate adopted for the 2018 Interim Distribution is 7.8480, 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 30 June 2018.

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

The register of Unitholders will be closed for the purpose of determining the identity of Unitholders from 17 September 2018, Monday to 18 September 2018, Tuesday, both days inclusive, during which period no transfer of Units will be registered. The 2018 Interim Distribution is expected to be payable on 28 September 2018, Friday to Unitholders whose names appear on the register of Unitholders on the Record Date.

In order to qualify for the 2018 Interim Distribution, all completed transfer forms in respect of transfer of Units (accompanied by the relevant Unit certificates) must be lodged for registration with Computershare Hong Kong Investor Services Limited, Spring REIT’s unit registrar in Hong Kong, whose address is 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 14 September 2018, Friday.

MANAGEMENT DISCUSSION AND ANALYSIS

CCP Property Operation Review

The Beijing central business district ("**CBD**") hosts tenants from a wide range of industries, including representatives of the finance and insurance, professional services, Internet and other hi-tech industries among others. It holds the largest amount of Grade-A office stock in Beijing, amounting to 1.82 million sqm as at the end of 1H 2018, and accounting for 22.0% of the city's total Grade-A office space of 8.26 million sqm, largely unchanged compared to the end of 2017. The market has remained well supported due to the fact that no significant completions of new office buildings took place during the Reporting Period. In terms of leasing activities, the Beijing CBD has remained robust. This can be seen in a declining vacancy rate and higher average rentals compared to the previous half, with domestic firms, and finance firms in particular, being the key driving force. The trend that had previously affected demand in the CBD, namely relocation by tenants to decentralised locations such as Wangjing and other lower-rent areas, was no longer a threat because the larger spaces in these lower-cost areas have now mostly been taken. Due to a resilient market, the performance of the Office Tower 1 and Office Tower 2 in China Central Place along with its approximately 600 car parking slots (the "**CCP Property**") was stable throughout the Reporting Period.

Beijing CBD Office Market Vacancy and Rental Rates in 1H 2018

	Vacancy Rate	HoH Change	YoY Change	Average Rental Rate RMB	HoH Change	YoY Change
Grade A	3.2%	-1.7 ppts	-2.4 ppts	398	3.6%	4.2%
Premium Grade A	1.9%	-3.1 ppts	-4.3 ppts	446	4.9%	7.3%

Source: JLL Research

CCP Property Operation Performance					
For the Six Months Ended	30-Jun-17		31-Dec-17		30-Jun-18
	RMB million	Change	RMB million	Change	RMB million
Revenues					
– Rental income	237.81	3.0%	244.99	2.2%	**250.32**
– Car park income	1.72	0.6%	1.73	–	**1.73**
– Other income (note ii)	5.29	47.8%	7.82	(26.1%)	**5.78**
	244.82	4.0%	254.54	1.3%	**257.83**
Property Operating Expenses					
– Property management fee	(5.39)	2.8%	(5.54)	2.2%	**(5.66)**
– Property tax (note iii)	(28.92)	2.8%	(29.72)	1.3%	**(30.11)**
– Other taxes (note iv)	(3.48)	(0.6%)	(3.46)	2.9%	**(3.56)**
– Withholding tax (note v)	(24.20)	3.1%	(24.94)	6.0%	**(26.44)**
– Leasing Commission	(1.09)	275.2%	(4.09)	(70.9%)	**(1.19)**
– Others	(0.41)	–	(0.41)	48.8%	**(0.61)**
	(63.49)	7.4%	(68.16)	(0.9%)	**(67.57)**
Net Property Income	181.33	2.8%	186.38	2.1%	**190.26**

Notes:

i. While the consolidated financial statements were prepared in US$, the performance of the CCP Property is presented in RMB in order to facilitate meaningful discussions given that CCP Property is located in China.

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

iii. Property tax represents 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%.

During the Reporting Period, the performance of the CCP Property maintained an upward momentum, with revenue rising by 1.3% half-on-half ("**HoH**") and by 5.3% YoY. After deducting property operating expenses of RMB67.57 million, net property income for the Reporting Period stood at RMB190.26 million, representing rises of 2.1% HoH and 4.9% YoY respectively.

Rental income

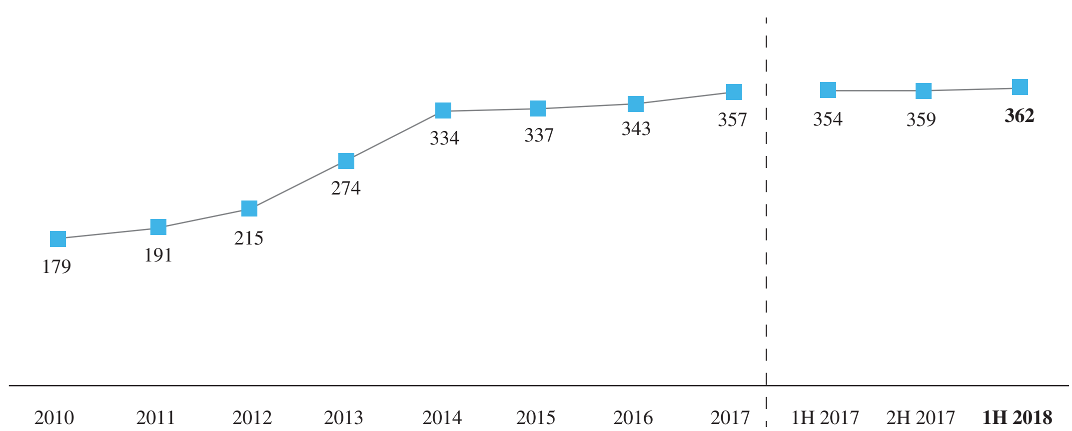
For the Reporting Period, the CCP Property reported a 2.2% increase HoH and a 5.3% increase YoY in rental income, to RMB250.32 million. Operating performance was encouraging, with an average occupancy of 96.1% (2H 2017: 95.0%; 1H 2017: 93.5%). A total area of 15,352 sqm (representing 12.8% of leasable office area) was leased out during the period, 40.2% of which was attributable to new lettings while the remainder were renewals. The monthly average passing rent (net of VAT) stood at RMB362 per sqm, up 0.8% HoH and 2.3% YoY on the back of a respectable average rental reversion of 4.5% (2H 2017: 5.8%; 1H 2017: 6.0%).

Summary of Operating Performance

For the six months ended	30-Jun-17	Change	31-Dec-17	Change	30-Jun-18
Net monthly average passing rent (RMB/sqm)	354	1.4%	359	0.8%	**362**
Average Occupancy (%)	94%	+1 ppts	95%	+1 ppts	**96%**

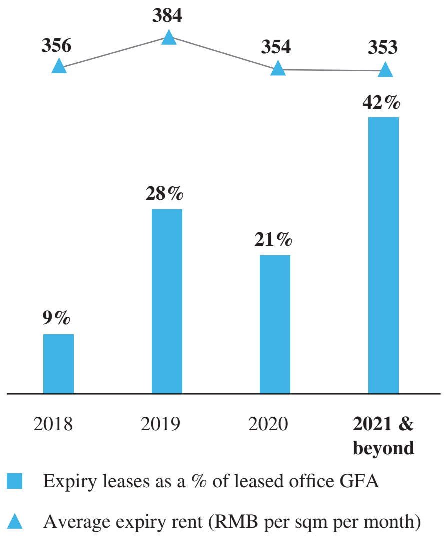
Note: Net passing rent is presented net of VAT.

Net Average Passing Rents
(RMB per sqm per month)



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

Expiry Profile by GFA

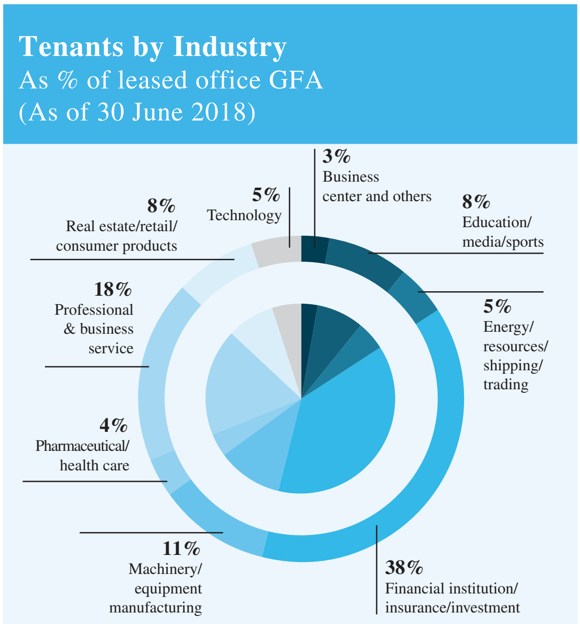


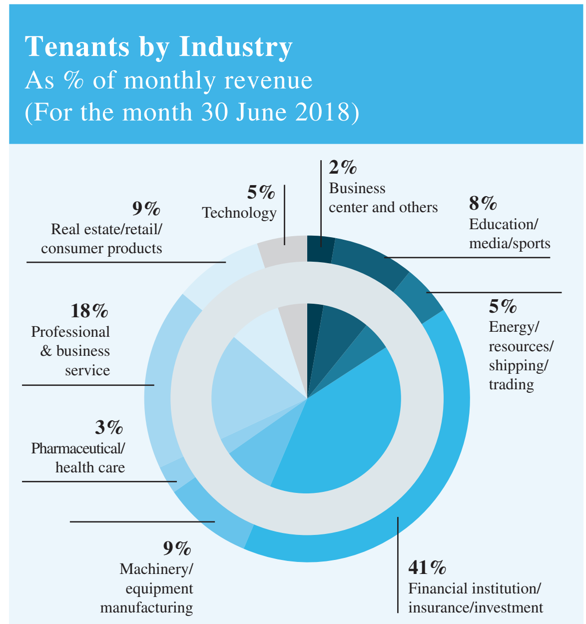
As at 30 June 2018, average lease expiry in terms of GFA was 771 days. Leases expiring in the second half of 2018 and in the year ending 31 December 2019 accounted for 9% and 28% of the total leased GFA respectively, and the average unit rents for the expiring leases were RMB356 per sqm and RMB384 per sqm respectively.

Tenancy base

Spring REIT's Property had a total of 192 tenancies as at 30 June 2018. The top five tenants accounted for 21.8% of total rental income of CCP Property for the Reporting Period and occupied 22.8% of the total GFA as at 30 June 2018.

Tenants	% of total leased GFA
Epson	**5.7%**
Delsk	**4.8%**
Condé Nast	**4.1%**
Zhong De Securities	**4.1%**
Deutsche Bank	**4.1%**
Total	**22.8%**





Costs

Property operating expenses are mainly comprised of tax expenses, namely withholding tax, business and other taxes (excluding stamp duty), and property tax. Tax expenses in aggregate accounted for 89.0% of the total property operating expenses, while the property management fee, payable at 2.0% of total revenue, accounted for 8.4% of these expenses.

A 0.9% HoH decrease in property operating expenses was seen during the Reporting Period. This was primarily due to a 70.9% HoH decrease in leasing commission, which helped lower operating expenses despite increases in tax expenses and in the property management fee during the Reporting Period.

UK Portfolio Operation Review

For the period	14 Jul 2017[1] – 31 Dec 2017 Great Britain Pound ("**GBP**")	**1 Jan 2018 – 30 Jun 2018 GBP**
Income		
– Rental income	2,058,626	**2,193,404**
Expenditure		
– Head rents on leasehold properties	(53,135)	**(43,845)**
– Property management fees	(32,400)	**(31,500)**
	(85,535)	**(75,345)**
Net Property Income	1,973,091	**2,118,059**

1. Completion date of the acquisition of the 84 separate properties in the United Kingdom (the "**UK Portfolio**") by Spring REIT.

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. This means that 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 Highlights

(in US$ million unless otherwise specified)			
For the Six Months Ended 30 Jun	2017	**2018**	Change
Revenue	35.60	**43.41**	21.9%
Property operating expenses	(9.23)	**(10.71)**	16.0%
Net property income	26.37	**32.70**	24.0%
Net property income margin	74.1%	**75.3%**	+1.2 ppts
G&A expenses	(4.97)	**(6.60)**	32.8%
Cash interest expense	(8.77)	**(8.43)**	(3.9%)
Profit after taxation	19.02	**6.49**	(65.9%)
Total distributable income	15.21	**20.08**	32.0%
Unit information	1H 2017	**1H 2018**	Change
DPU (HK cents)	9.5	**12.0**	26.3%
Payout ratio	100%	**96%**	-4 ppts
Net asset value per Unit (HK$)	5.87	**6.05**	3.1%
Number of Units outstanding	1,251,315,163	**1,265,180,645**	1.1%
As at	31 December 2017	**30 June 2018**	Change
Portfolio valuation	1,488.06	**1,463.75**	(1.6%)
Total assets	1,586.60	**1,547.69**	(2.5%)
Total liabilities	586.20	**571.92**	(2.4%)
Net asset value	1,000.40	**975.77**	(2.5%)
Gearing ratio	34.5%	**34.4%**	-0.1 ppts

Financial Performance

Spring REIT's revenue for the Reporting Period was US$43.41 million, representing a 21.9% increase YoY. The improvement was the combined result of stable rental growth from the CCP Property and the contribution from the UK Portfolio, along with the effects of a stronger RMB/US$ monthly average exchange rate of 6.3680 being adopted for the first half of 2018 (1H 2017: 6.8749). After deducting property operating expenses of US$10.71 million, net property income amounted to US$32.70 million, representing a 24.0% increase YoY. The net property income margin improved to 75.3% for the Reporting Period (1H 2017: 74.1%). Excluding the contribution from the UK Portfolio, revenue and net property income would still have increased by 13.7% and 13.3% YoY respectively.

Professional fees and administrative expenses increased 32.8% to US$6.60 million (1H 2017: US$4.97 million) as a result of an increase in Manager's fee arising from a large portfolio and higher legal and professional fee. Total finance cost was US$20.03 million, resulting from a larger foreign exchange loss of US$8.97 million arising from the conversion of US$ bank borrowings into RMB. Further, a translation loss of US$1.82 million was recorded because the monthly average exchange rate adopted during the Reporting Period overstated the actual rate at which currency was converted. Cash interest expenses amounted to US$8.43 million, compared with US$8.77 million in 1H 2017, benefiting from margin reduction despite a higher benchmark floating rate and larger loan amount.

Taking into account the increase in fair value of the UK Portfolio of US$1.82 million and CCP Property of US$0.15 million, profit after taxation for the Reporting Period was US$6.49 million (1H 2017: US$19.02 million).

Total distributable income of Spring REIT for the Reporting Period was US$20.08 million, representing a 32.0% increase YoY. Among other adjustments, the reported amount excludes the foreign exchange loss and the increase in fair value of the investment properties, both of which are non-cash in nature.

Financial Position

Spring REIT's principal valuer, Knight Frank Petty Limited ("**Knight Frank**" or the "**Principal Valuer**") performed the valuation of the Spring REIT portfolio as at 30 June 2018. The CCP Property was appraised at RMB9,031.00 million (equivalent to US$1,363.99 million) as at 30 June 2018, representing a 0.01% increase in RMB terms and a 1.7% decrease in US$ terms compared to its valuation as at 31 December 2017. 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 mainly to an increase in market rent. The capitalization rate remained stable at 5.8% (31 December 2017: 5.8%; 30 June 2017: 5.8%).

The UK Portfolio was appraised at GBP75.53 million (equivalent to US$99.76 million) as at 30 June 2018, representing an increase of GBP1.38 million or approximately 1.9% in GBP terms (a decrease of 0.5% in US$ terms) over the valuation as at 31 December 2017. The valuation of the UK Portfolio was arrived at using the income capitalization approach. The increase in valuation was mainly attributable to a small decrease in capitalization rates, which range from 4.35% to 9.35% (31 December 2017: 4.45% to 9.45%), due to improved market sentiment in the UK commercial property investment markets since last December and the ongoing scarcity of good quality, long-let investment stock.

As at 30 June 2018, Spring REIT had in place aggregate secured loan facilities of approximately US$535.17 million, comprising:

1. A fully drawn term loan facility of US$450.00 million and an uncommitted facility of US$20.00 million (with US$18.00 million drawn down) (the "**CCP Facilities**"), which bears an interest rate of 3-month USD LIBOR plus 1.65% per annum and will expire in April 2020; and

2. A facility of GBP50.00 million (equivalent to approximately US$66.05 million) (the "**UK Facility**") extended by Sumitomo Mitsui Banking Corporation ("**SMBC**") and put in place on 26 January 2018. The UK Facility bears an interest rate of 3-month GBP LIBOR plus 2.20% per annum and will expire in January 2022.

As at 31 December 2017, Spring REIT had in place two GBP facilities extended by Australia and New Zealand Bank and Banco Santander respectively. In January 2018, the two facilities were fully repaid with GBP50.00 million drawn down from the UK Facility, US$18.00 million of CCP Facility and internal cash of US$17.00 million.

As at 30 June 2018, the gearing ratio, i.e. total borrowings to gross asset value, was 34.4%, compared with 34.5% as at 31 December 2017.

In the 2017 annual report, the Manager emphasised on managing the interest rate risk in a context of upward-trending interest rates and tightened monetary policies. During the Reporting Period, Spring REIT entered into three US dollar float-to-fixed interest rate swap ("**IRS**") contracts, with a weighted average swap rate of 2.68% per annum and each with a maturity on 29 April 2020. The aggregate notional amount of these IRS contracts is US$150 million, amounting to 32.1% of the US$ loans of Spring REIT.

As at 30 June 2018, Spring REIT's investment property, rent receivables, restricted bank balances, interest rate swaps and ordinary shares of RCA01, Hawkeye Properties 501 Limited, were pledged to secure term loan facilities where applicable. Throughout the Reporting Period, Spring REIT, RCA01, RUK01 Limited and Hawkeye Properties 501 Limited have in all material respects complied with the terms and provisions of the finance and security documents.

The unrestricted cash of Spring REIT (together with its special purpose vehicles, the "**Group**") amounted to US$21.84 million as at 30 June 2018, compared with US$21.31 million as at 31 December 2017. The Group also had total undrawn uncommitted bank loan facilities of US$2.00 million. With these financial resources, Spring REIT has sufficient liquid assets to satisfy its working capital and operating requirements. The cash is generally placed as short-term deposits, mostly denominated in US$. The Group's liquidity and financing requirements are reviewed regularly.

As at 30 June 2018, the gross asset value of the Group was US$1,547.69 million, representing an increase of 8.7% YoY and a decrease of 2.5% HoH.

New Units Issued

As at 30 June 2018, the total number of Units in issue was 1,265,180,645. A total of 7,474,913 new Units were issued during the Reporting Period.

Date	Particulars	No. of Units
31 December 2017	Beginning balance of the total number of Units in issue.	1,257,705,732
26 March 2018	Issue of new Units to the Manager at the price of HK$3.386 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-month period ended 31 December 2017.	+ 3,706,231
27 April 2018	Issue of new Units to the Manager at the price of HK$3.258 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-month period ended 31 March 2018.	+ 3,768,682
30 June 2018	Ending balance of the total number of Units in issue.	1,265,180,645

Net Assets Attributable to Unitholders

As at 30 June 2018, net assets attributable to Unitholders stood at US$975.77 million.

The net asset value per Unit as at 30 June 2018 was HK$6.05 (31 December 2017: HK$6.22; 30 June 2017: HK$5.87). This represented a 81.7% premium to the closing price of the Units of HK$3.33 as at 30 June 2018.

Capital Commitments

As at 30 June 2018, the Group had no significant capital commitments.

Employees

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

Outlook

The first half of 2018 was an encouraging one for Spring REIT in many different respects. Resilient activity in the Beijing office market and sustained demand for high quality office space was reflected in a notable improvement in occupancy rates and passing rents. As a result, our CCP Property continued its healthy organic growth with a respectable rental reversion of 4.5%. In the meantime, as anticipated, the UK Portfolio enhanced Spring REIT's cash flow, with a 96.6 percent pass through of its revenue.

From this sound footing, the Manager is cautiously optimistic about prospects for the second half of the year. Despite the potential of a China-US trade war, economic activity in Beijing has remained upbeat as evidenced by the 6.8% YoY growth in GDP growth in 1H2018. In addition, we continue to be confident about the fundamentals of the CCP Property, especially as we are seeing delays in a number of projects in the CBD area that were scheduled to be completed in 2019. Leases expiring in the second half of 2018 accounts for 9% of the total leased GFA, with the average unit rent at RMB356 per sqm. Another notable statistic is that 98 of the 192 tenancies at the CCP Property as at 30 June 2018 have been with us since our listing in 2013, with these tenancies making up 57.5% of the leasable GFA. Such a high percentage of renewed tenancies demonstrates strong levels of trust in CCP management and satisfaction with the quality of the building and its facilities, This certainly augurs well for Spring REIT in any future investment initiatives.

At the end of last year, we noted the importance of managing our interest rate risk given the stance of major central banks and the economic situation, and as a result we entered into three IRS contracts to mitigate the impact of probable future rate hikes.

Towards the end of the Reporting Period the RMB became more volatile, and since mid-June 2018 it has depreciated noticeably. Before then, the exchange rate was tracking broad moves in the dollar, and the RMB was resilient in light of the dollar rebound between mid-April and mid-June. The downward trend in the RMB exchange rate may negatively impact the performance of the CCP Property in US$ terms to the extent that distribution in the second half of 2018 may be lower than the 2018 interim distribution. The outcome of the potential trade war is hard to predict, and the Manager will continue to closely monitor the currency market paying particular attention to its impact on Spring REIT's gearing ratio as well as on future distributions.

As mentioned previously, the Manager will continue to seek potential acquisitions actively but at the same time will remain diligent in carefully evaluating these opportunities. By adopting proactive leasing and property management strategies, and maintaining a healthy, stable capital structure, the Manager is committed to providing unitholders with a stable distribution while capitalising on potential acquisition opportunities as they arise.

To sum up, the Manager believes Spring REIT is in a good position to build on the strong foundations of the first half of 2018, and achieve results that will further reward its loyal unitholders.

CORPORATE GOVERNANCE

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

The Manager was established for the sole purpose of managing Spring REIT. The Manager is committed to maintaining good corporate governance practices and procedures. The corporate governance principles emphasize on accountability to all Unitholders, resolution of conflict of interest issues, transparency in reporting, compliance with relevant procedures and guidelines. The Manager has adopted its compliance manual (the "**Compliance Manual**") for use in relation to the management and operation of Spring REIT, which sets out the key processes, systems and measures, and certain corporate governance policies and procedures to be applied for compliance with all applicable regulations and legislation.

During the Reporting Period, both the Manager and Spring REIT have in material terms complied with the provisions of the Compliance Manual, the corporate governance policy, the Trust Deed, the Code on Real Estate Investment Trusts and applicable provisions of the Securities and Futures Ordinance (the "**SFO**") and the Listing Rules.

Key components of the governance framework and the corporate governance report for the Reporting Period will be set out in the forthcoming interim report.

Authorization Structure

Spring REIT is a collective investment scheme authorised by the Securities and Futures Commission (the "**SFC**") under section 104 of the SFO and regulated by certain laws, regulations and documents including the provisions of the REIT Code. The Manager is licensed by the SFC under Section 116 of the SFO to conduct the regulated activity 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 pursuant to the requirements under Section 125 of the SFO and Paragraph 5.4 of the REIT Code. Mr. LEUNG Kwok Hoe, Kevin, an Executive Director, was appointed by the SFC as an approved person of the Manager pursuant to section 104(2) and 105(2) of the SFO.

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

Purchase, Sale or Redemption of Units

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

Public Float of the Units

Based on information that is publicly available and within the knowledge of the Manager, Spring REIT maintained a public float of not less than 25% of the issued and outstanding Units as of 30 June 2018.

Review of Interim Results

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

The consolidated interim results of Spring REIT for the Reporting Period have been reviewed by Spring REIT's auditor in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board.

Issuance of the Interim Report

The interim report of Spring REIT for the six months ended 30 June 2018 will be published on the websites of the Stock Exchange, at www.hkexnews.hk, and Spring REIT, at www.springreit.com, and will be sent to Unitholders on or before 31 August 2018.

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

Hong Kong, 23 August 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, Lam Yiu Kin and Liping Qiu (independent non-executive directors).

FINANCIAL INFORMATION

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Note	***US$'000***	*US$'000*
Revenues	*6*	**43,407**	35,604
Property operating expenses	*7*	**(10,712)**	(9,234)
Net property income		**32,695**	26,370
General and administrative expenses	*8*	**(6,602)**	(4,970)
Fair value gain of investment properties	*14*	**1,981**	3,378
Other losses, net	*9*	**(1,781)**	(6,976)
Operating profit		**26,293**	17,802
Finance income		**303**	222
Finance costs on interest-bearing borrowings	*10*	**(20,026)**	999
Profit before taxation and transactions with Unitholders		**6,570**	19,023
Income tax expenses	*11*	**(81)**	–
Profit for the period, before transactions with Unitholders		**6,489**	19,023
Distributions paid to Unitholders:			
– 2016 final distribution		**–**	(14,568)
– 2017 final distribution *(note i)*		**(18,644)**	–
		(12,155)	4,455
Represented by:			
Change in net assets attributable to Unitholders, excluding issuance of new units		**(27,801)**	23,597
Amount arising from exchange reserve movements regarding translations of financial statements		**15,646**	(19,142)
		(12,155)	4,455

Notes:

(i) 2017 final distribution of US$18,644,000 for the year ended 31 December 2017 was paid during the six months ended 30 June 2018. Total distribution for the six months ended 30 June 2018 is presented in the statement of distributions.

(ii) Earnings per unit, based upon profit for the period, before transactions with Unitholders and the weighted average number of units in issue, is set out in note 13.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Note	Before transactions with Unitholders (Unaudited) *US$'000*	Transactions with Unitholders *(note i)* (Unaudited) *US$'000*	After transactions with Unitholders (Unaudited) *US$'000*
For the six months ended 30 June 2018				
Profit for the period		6,489	9,157	15,646
Other comprehensive loss:				
Items that may be reclassified to condensed consolidated income statement				
Exchange losses on translation of financial statements		(15,646)	–	(15,646)
Total comprehensive income for the period	*ii*	(9,157)	9,157	–
For the six months ended 30 June 2017				
Profit for the period		19,023	(38,165)	(19,142)
Other comprehensive income:				
Items that may be reclassified to condensed consolidated income statement				
Exchange gains on translation of financial statements		19,142	–	19,142
Total comprehensive income for the period	*ii*	38,165	(38,165)	–

Notes:

(i) Transactions with Unitholders comprise the distributions paid to Unitholders of US$18,644,000 (2017: US$14,568,000), and change in net assets attributable to Unitholders excluding issuance of new units, which is a decrease of US$27,801,000 (2017: an increase of US$23,597,000).

(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 condensed consolidated income statement. Accordingly, the total comprehensive income, after transactions with Unitholders is zero.

STATEMENT OF DISTRIBUTIONS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Profit for the period, before transactions with Unitholders	**6,489**	19,023
Adjustments:		
– Fair value gain of investment properties	**(1,981)**	(3,378)
– Net fair value (gains)/losses of derivative financial instruments	**(40)**	8,082
– Manager's fee expenses in units in lieu of cash	**3,151**	2,743
– Amortization of transaction cost for the bank borrowings	**1,680**	896
– Unrealized foreign exchange losses/(gains)	**10,783**	(12,155)
Distributable income for the period *(note i)*	**20,082**	15,211
Total distributions of the period *(note ii)*	**19,339**	15,211
Percentage of total distribution over distributable income for the period	**96%**	100%
Distributions per unit to Unitholders for the period		
– Interim distribution per unit, paid *(note iii and iv)*	**HK12.0 cents**	HK9.5 cents

Notes:

(i) Under the terms of the Trust Deed, the distributable income represents the profit for the period 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 period.

(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) Interim distribution per unit of HK12.0 cents for the six months ended 30 June 2018 is calculated based on the interim distribution to be paid to Unitholders of US$19,339,000 for the first half of 2018 and 1,265,180,645 units in issue as at 30 June 2018, without taking into account any consideration or subdivision of units which may have occurred between the dates of declaration of the distribution and 18 September 2018 (the "**Record Date**"). Distributions to Unitholders for the six months ended 30 June 2018 represent a payout ratio of 96% (2017: 100%) of Spring REIT's total distributable income for the period. The interim distribution for the six months ended 30 June 2018 is expected to be paid on 28 September 2018. Such interim distribution per unit, however, is subject to adjustment upon the issuance of new units between 1 July 2018 and Record Date, if any.

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Note	**As at 30 June 2018 (Unaudited) *US$'000***	As at 31 December 2017 (Audited) *US$'000*
Non-current assets			
Investment properties	*14*	**1,463,754**	1,488,059
Derivative financial instruments	*15*	**103**	–
Total non-current assets		**1,463,857**	1,488,059
Current assets			
Trade and other receivables	*16*	**4,798**	4,525
Restricted bank balances	*17*	**57,192**	72,701
Cash and cash equivalents	*17*	**21,841**	21,310
Total current assets		**83,831**	98,536
Total assets		**1,547,688**	1,586,595
Current liabilities			
Interest-bearing borrowings	*19*	**–**	50,005
Trade and other payables	*18*	**13,901**	13,878
Rental deposits	*18*	**24,550**	24,360
Income tax payable		**241**	476
Total current liabilities		**38,692**	88,719
Non-current liabilities, excluding net assets attributable to Unitholders			
Interest-bearing borrowings	*19*	**533,166**	497,472
Derivative financial instrument	*15*	**63**	–
Total non-current liabilities		**533,229**	497,472
Total liabilities, excluding net assets attributable to Unitholders		**571,921**	586,191
Net assets attributable to Unitholders		**975,767**	1,000,404
Units in issue ('000)	*20*	**1,265,181**	1,257,706
Net asset value per unit attributable to Unitholders			
In US$		**0.77**	0.80
In HK$		**6.05**	6.22

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Reserves *(note)* *US$'000*	Net assets attributable to Unitholders *US$'000*
As at 1 January 2018	**–**	**1,000,404**
Profit for the period, before transactions with Unitholders	**–**	**6,489**
Exchange losses on translation of financial statements	**(15,646)**	**–**
Amount arising from exchange reserve movements	**15,646**	**(15,646)**
Distributions paid to Unitholders:		
– 2017 final distribution	**–**	**(18,644)**
Change in net assets attributable to Unitholders for the six months ended 30 June 2018, excluding issues of new units	**–**	**(27,801)**
Issuance of units	**–**	**3,164**
As at 30 June 2018	**–**	**975,767**
As at 1 January 2017	–	866,682
Profit for the period, before transactions with Unitholders	–	19,023
Exchange gains on translation of financial statements	19,142	–
Amount arising from exchange reserve movements	(19,142)	19,142
Distributions paid to Unitholders:		
– 2016 final distribution	–	(14,568)
Change in net assets attributable to Unitholders for the six months ended 30 June 2017, excluding issues of new units	–	23,597
Issuance of units	–	50,474
As at 30 June 2017	–	940,753

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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 condensed consolidated interim financial information 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 BASIS OF PREPARATION

The condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared in accordance with International Accounting Standards ("**IAS**") 34 "Interim financial reporting" issued by the International Accounting Standards Board. The condensed consolidated interim financial information should be read in conjunction with the Group's annual financial statements as at 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017 as described in those annual financial statements.

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

The Group has adopted all of the new 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 2018.

New standards, amendments, interpretations and improvements to existing standards effective in 2018 which are relevant to the Group's operations:

IAS 40 Amendments	Transfers of Investment Property
IFRS 2 Amendments	Classification and measurement of Share-based Payment Transactions
IFRS 4 Amendments	Applying IFRS 9 Financial Instruments with IFRS4 Insurance Contracts
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 15 Amendments	Clarifications to IFRS 15
Annual Improvements Project IFRS 1 and IAS 28	Annual Improvements to IFRS 2014 – 2016 Cycles
IFRIC – Int 22	Foreign Currency Transactions and Advance Consideration

The adoption of these amendments to existing standards does not have a material impact on the accounting policies or results and the financial position of the Group.

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

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

		Effective for accounting periods beginning on or after
IFRS 9 Amendments	Prepayment Features with Negative Compensation	1 January 2019
IFRS 16	Leases	1 January 2019
IFRIC – Int 23	Uncertainty Over Income Tax Treatments	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

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

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 14.

(b) Estimates of fair values of derivative financial instruments

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

(c) Taxation

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

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange and interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

There have been no changes in the risk management policies since the year end.

6 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 reviews the operating results of the Group on an aggregate basis, no segment information is therefore presented.

For the six months period ended 30 June 2018, revenue of US$40.5 million (30 June 2017: US$35.6 million) is attributable to tenants from the PRC investment properties and US$2.9 million (30 June 2017: Nil) is attributable to tenants from the UK investment properties. As at 30 June 2018, non-current assets of US$1,364 million (31 December 2017: US$1,388 million) is located in the PRC and US$100 million (31 December 2017: US$100 million) is located in the UK.

An analysis of revenues of the Group is as follows:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Revenues		
Rental income	**42,578**	34,911
Car park income	**271**	250
Other income *(note i)*	**558**	443
	43,407	35,604

Note:

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

7 PROPERTY OPERATING EXPENSES

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Property management fee	**930**	784
Property tax *(note i)*	**4,729**	4,205
Other taxes *(note ii)*	**558**	506
Withholding tax *(note iii)*	**4,151**	3,520
Leasing commission	**189**	159
Others	**155**	60
	10,712	9,234

Notes:

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

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

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

8 GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Manager's fee *(note i)*	**4,565**	3,429
Trustee fee	**151**	120
Valuation fee	**31**	8
Auditor's remuneration	**109**	109
Legal and other professional fee *(note ii)*	**1,611**	960
Others	**135**	344
	6,602	4,970

Notes:

(i) The breakdown of the Manager's fee was set out in note 12.

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

9 OTHER LOSSES, NET

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Net fair value (gains)/losses on derivative financial instruments at fair value through profit or loss	**(40)**	8,082
Foreign exchange losses/(gains)	**1,816**	(1,108)
Other miscellaneous losses	**5**	2
	1,781	6,976

10 FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Interest expenses on bank borrowings *(note i)*	**10,530**	9,898
Interest expenses on derivative financial instruments	**127**	–
Foreign exchange losses/(gains) on bank borrowings *(note ii)*	**8,967**	(11,047)
Other incidental borrowing costs	**402**	150
	20,026	(999)

Notes:

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

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

11 INCOME TAX EXPENSE

For the subsidiary with operation in the PRC, it is not subject to the corporate income tax. It is subject to withholding tax as disclosed in note 7(iii).

For the subsidiary with operation in the UK, they are 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 condensed consolidated income statement represents:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Current income tax	**81**	–
	81	–

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 period are as follows:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Profit before income tax and transactions with unitholders	**6,570**	19,023
Exclude profit from the PRC operation which is not subject to income tax *(note 7 (iii))*	**(11,903)**	(22,896)
	(5,333)	(3,873)
Tax calculated at the domestic rates applicable to profit in the country concerned	**(875)**	(639)
Income not subject to tax	**(533)**	–
Expenses not deductible for tax purposes	**1,489**	639
	81	–

12 MANAGER'S FEE

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Base fee	**3,577**	2,637
Variable fee	**988**	792
	4,565	3,429

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

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

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

Based on the election made by the Manager dated 4 December 2017 and 6 December 2016 in relation to the Manager's elections for the Base Fee to be paid to the Manager in the form of Units 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 ending 31 December 2018 and 2017 respectively in accordance with the Trust Deed.

13 EARNINGS PER UNIT

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Profit for the period, before transactions with Unitholders	**6,489**	19,023
Weighted average number of units for the period for calculating basic earnings per unit	**1,261,045,338**	1,178,165,219
Adjustment for units issuable in respect of the Manager's fee	**3,791,887**	3,104,388
Weighted average number of units for the period for calculating diluted earnings per unit	**1,264,837,225**	1,181,269,607
Basic earnings per unit based upon profit before transactions with Unitholders	**US0.5 cents**	US1.6 cents
Diluted earnings per unit based upon profit before transactions with Unitholders	**US0.5 cents**	US1.6 cents

14 INVESTMENT PROPERTIES

	For the period ended 30 June 2018	For the year ended 31 December 2017
	US$'000	*US$'000*
At beginning of the period/year	**1,488,059**	1,296,616
Additions	**–**	419
Acquisition *(note ii)*	**–**	95,654
Exchange differences recognized in other comprehensive income	**(26,286)**	90,563
Changes in fair value recognized in consolidated income statement	**1,981**	4,807
At end of the period/year	**1,463,754**	1,488,059

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 acquisition consideration of GBP73.5 million, related transaction costs and net asset adjustments for the investment properties in the UK.

As at 30 June 2018 and 31 December 2017, the Group had no unprovided contractual obligations for future repairs and maintenance of the investment properties.

As at 30 June 2018 and 31 December 2017, the investment properties were pledged to secure the Group's bank borrowings (note 19).

Valuation process

The Group's investment properties were valued by an independent professionally qualified valuer not connected to the Group who holds a recognized relevant professional qualification and has recent experience in the locations and segments of the investment 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 30 June 2018 and 31 December 2017, the fair values of the investment property have been determined by Knight Frank Petty Limited. 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 30 June 2018	**–**	**–**	**1,463,603**
As at 31 December 2017	–	–	1,488,059

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

Key unobservable inputs used to determine fair values

(i) *PRC investment property*

(a) Capitalization rate

This is estimated based on the market lease over market value on comparable. The higher the capitalization rates used, the lower the fair values of the investment property. In the 30 June 2018 valuation, a capitalization rate of 5.8% (31 December 2017: 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 RMB412 (31 December 2017: RMB409) per square meter exclusive of VAT is used in the valuation. The corresponding amount inclusive of VAT is RMB457 (31 December 2017: RMB454) 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 rates used, the lower the fair values of the investment properties. In the 30 June 2018 valuations, the capitalization rate used in the income capitalization approach of 84 investment properties range from 4.35% to 9.35% (31 December 2017: 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 GBP21.96 per square foot (31 December 2017: from GBP4.52 to GBP20.11 per square foot).

As at 30 June 2018, 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$73.2 million (31 December 2017: US$74.4 million) higher/lower.

15 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 June 2018 (Unaudited) ***US$'000***	As at 31 December 2017 (Audited) *US$'000*
Non-current asset		
Fair value of the interest rate swap	**103**	–
Non-current liability		
Fair value of the interest rate swap	**63**	–

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

The aggregated notional principal amount of the interest rate swaps as at 30 June 2018 was US$150 million (31 December 2017: Nil) which will be settled on 29 April 2020.

The Group recorded net fair value gains on interest rate swaps for the six months ended 30 June 2018 amounting to US$40,000 (2017: Nil) (note 9) which were charged to the condensed consolidated income statement.

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

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 30 June 2018			
Non-current asset			
Fair value of the interest rate swap	**–**	**103**	**–**
Non-current liability			
Fair value of the interest rate swap	**–**	**63**	**–**
As at 31 December 2017			
Non-current asset			
Fair value of the interest rate swap	–	–	–
Non-current liability			
Fair value of the interest rate swap	–	–	–

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

16 TRADE AND OTHER RECEIVABLES

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
	US$'000	*US$'000*
Rent receivables	**277**	8
Deferred rent receivables *(note iv)*	**3,875**	4,133
Prepayments	**608**	365
Other receivable	**38**	19
	4,798	4,525

Notes:

(i) Trade and other receivables are 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 18).

(iii) As at 30 June 2018 and 31 December 2017, the Group's rent receivables and all future rent receivables in the PRC were pledged to secure the Group's bank borrowings (note 19).

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

17 RESTRICTED BANK BALANCES AND CASH AND CASH EQUIVALENTS

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
	US$'000	*US$'000*
Restricted bank balances	**57,192**	72,701
Cash and cash equivalents	**21,841**	21,310
	79,033	94,011

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

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
	US$'000	*US$'000*
US$	**39,003**	56,146
RMB	**34,627**	33,354
HK$	**1,071**	1,875
GBP	**4,332**	2,636
	79,033	94,011

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

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$7,000 which is denominated in RMB as at 30 June 2018 (31 December 2017: US$6,000).

18 RENTAL DEPOSITS AND TRADE AND OTHER PAYABLES

	As at 30 June 2018 (Unaudited) *US$'000*	As at 31 December 2017 (Audited) *US$'000*
Rental deposits *(note i)*	**24,550**	24,360
Trade and other payables:		
Rental receipts in advance	**7,315**	7,566
Provision for other taxes *(note ii)*	**6**	4
VAT payable	**261**	380
Accrued expenses and other payables	**6,319**	5,928
	13,901	13,878

Notes:

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

	As at 30 June 2018 (Unaudited) *US$'000*	As at 31 December 2017 (Audited) *US$'000*
Within 1 year	**7,335**	5,161
Over 1 year	**17,215**	19,199
	24,550	24,360

(ii) Provision for other taxes represents provision for 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.

19 INTEREST-BEARING BORROWINGS

	As at 30 June 2018 (Unaudited) *US$'000*	As at 31 December 2017 (Audited) *US$'000*
Current *(note i)*	**–**	50,005
Non-current *(note ii)*	**533,166**	497,472
	533,166	547,477

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 period are as follows:

	As at 30 June 2018 (Unaudited) *US$'000*	As at 31 December 2017 (Audited) *US$'000*
6 months or less	**533,166**	477,802

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

Upon completion of the acquisition of the UK investment properties on 14 July 2017, the Group:

(i) assumed a security loan facility of GBP36.1 million (approximately US$48.8 million) as part of the acquisition consideration. The borrowing 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 fixed interest rate of 1.66% plus 1.90% per annum. The Group subsequently repaid the borrowing in January 2018; and

(ii) obtained a unsecured loan facility of GBP37.0 million (approximately US$50.0 million) to finance the acquisition of the UK investment properties. The borrowing bears an interest rate of 3-month GBP LIBOR plus 2.15% per annum, and was subsequently repaid in full on 31 January 2018.

To refinance existing facilities, in January 2018, the Group:

(iii) entered into a GBP50 million (approximately US$66.1 million) secured term loan facility. The borrowing is repayable in full on 26 January 2022 and bears an interest rate of 3-month GBP LIBOR plus 2.20% per annum; and

(iv) utilised a US$18.0 million revolving loan under the existing US dollar secured loan facility. Together with the previously drawn down US$450.0 million term loan from the same secured loan facility, the entire US dollar borrowing of US$468.0 million is repayable in full on 29 April 2020. The term loan facility bears an interest rate of 3-month US dollar LIBOR plus 1.65% per annum.

As at 30 June 2018 and 31 December 2017, the Group's investment properties (note 14), derivative financial instruments (note 15), rent receivables and all future rent receivables (note 16), restricted bank balances (note 17), interests in certain subsidiaries of the Group and certain assets of a subsidiary of the Group were pledged to secure the Group's loan borrowings. In addition, the Trustee (in its capacity as trustee of Spring REIT) has provided guarantee for all the loan facilities.

20 UNITS IN ISSUE

	Number of units
Balance as at 31 December 2017	1,257,705,732
New units issued for Manager's fee	7,474,913
Balance as at 30 June 2018 *(note i)*	1,265,180,645

Notes:

(i) Traded market value of the units as of 30 June 2018 was HK$3.33 per unit. Based on 1,265,180,645 units, the market capitalization was US$536.93 million.

21 FUTURE MINIMUM RENTAL RECEIVABLES

As at 30 June 2018, the analysis of the Group's aggregate future minimum rental receivable under non-cancellable leases is as follows:

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
	US$'000	*US$'000*
Within 1 year	**80,599**	74,935
After 1 year, but within 5 years	**130,612**	138,364
After 5 years	**49,554**	50,947
	260,765	264,246

Note: Most of the operating leases are on fixed terms and of terms of 3 years (2017: 3 years).

22 CAPITAL COMMITMENT

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
	US$'000	*US$'000*
Capital commitments in respect of the investment property		
Contracted but not provided for	**203**	–
	203	–

23 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 30 June 2018 (Unaudited) ***US$'000***	As at 31 December 2017 (Audited) *US$'000*
Within 1 year	**143**	146
After 1 year, but within 5 years	**572**	583
After 5 years	**7,258**	7,535
	7,973	8,264

24 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	PRC	Property investment	1,000 of US$1 each	100%
RUK01 Limited	Jersey, limited liability	Jersey	Investment holding	1 of GBP1 each	100%
Indirectly held:					
Hawkeye Properties 501 Limited	Jersey, limited liability	UK	Property investment	2 of GBP1 each	100%

25 APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The condensed consolidated interim financial information were authorized for issue by the Manager on 23 August 2018.