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 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 31 December 2018, the Manager was 90.2% owned by Mercuria Investment Co., Limited ("**Mercuria**"), 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, acting for and on behalf of Spring REIT, has resolved to declare a final distribution for the period from 1 July 2018 to 31 December 2018 ("**2018 Final Distribution Period**") of HK7.2 cents per Unit ("**2018 Final Distribution**") to Unitholders whose names appear on the register of Unitholders on 17 April 2019 (the "**Record Date**"). However, this 2018 Final Distribution may be subject to adjustment in the event of any issuance of new Units between 1 January 2019 and 17 April 2019. Before any such adjustment and together with the interim distribution of HK12.0 cents per Unit, total distribution for the year ended 31 December 2018 the "(the "**Reporting Year**") amounts to a total of HK19.2 cents per Unit (2017: HK21.1 cents per Unit), representing a payout ratio of approximately 98%.

Distribution per Unit ("DPU") for the full year was down by 9.0% year-on-year ("YoY"), but this is largely due to the impact of costs associated with various extraordinary events, as disclosed in the announcement dated 15 January 2019. If these one-off costs are excluded, then this year DPU would have shown an increase of approximately 9.0% YoY.

All distributions will be paid in Hong Kong Dollars ("**HK$**"). The HK$/United States Dollars ("**US$**") exchange rate adopted for the 2018 Final Distribution is 7.8310, 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 2018.

The Manager confirms that the 2018 Final Distribution is composed only of consolidated profit after tax, before transactions with the Unitholders and non-cash adjustments for the 2018 Final Distribution Period.

Based on the closing price of HK$3.46 per Unit as at 31 December 2018, the Reporting Year DPU represents a distribution yield of 5.5%. For details of the distribution, please refer to the section headed "Statement of Distributions" in the financial information.

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

The Record Date for the 2018 Final Distribution will be 17 April 2019, Wednesday. The register of Unitholders will be closed for the purpose of determining the identity and holdings of Unitholders from 16 April 2019, Tuesday to 17 April 2019, Wednesday, both days inclusive, during which period no transfer of Units will be registered. The 2018 Final Distribution is expected to be payable on 30 April 2019, Tuesday to Unitholders whose names appear on the register of Unitholders on the Record Date.

In order to qualify for the 2018 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 4:30pm on 15 April 2019, 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 FY2018. These results have proved satisfactory despite a year of some significant headwinds, both external and internal. They have been built on unstinting efforts by the Manager to maintain a steady and sustainable performance from our existing assets. Despite all obstacles, the Manager has also undertaken careful forward planning designed to achieve sustainable growth along with steps to further enhance the value of the Spring REIT portfolio.

Performance Review

From an operational perspective, Spring REIT performed well over the Reporting Year with net property income up by 11.0% YoY. Full-year results in terms of TDI were down by 6.3% YoY but this is largely due to the impact of costs associated with various extraordinary events, which I will discuss below. If these one-off costs are excluded, then this year's TDI would have shown an increase of approximately 12.3% YoY.

Within the Beijing office market where we primarily operate, Spring REIT followed up a robust first half with a satisfactory second half, despite various headwinds developing as the year went on. These centred around two main issues – firstly, concerns about the direction of the economy as the impact of the trade war gradually materialised; and secondly, worries about office oversupply with the potential completion of several new office blocks scheduled for 2019 onwards.

Analysis of the Beijing office market of 2018 indicates that, despite trade war fears, demand remains resilient. This is supported by the resilient economy of the city, which posted 6.6% GDP growth YoY. In particular, Beijing city's service sector was growing at 7.3% YoY, contributing 87.9% to the overall economic growth. The demand for office space supported the rental performance in Beijing as a whole, with the average rental rate for the City's Central Business District ("**CBD**") in 2018 rising 4.7% YoY according to market research conducted by Jones Lang LaSalle ("**JLL**").

Despite the rise in rental, momentum was slowed by an increase in office supply in 2018. According to JLL, the arrival of a number of new Grade-A office buildings on the market pushed up the overall Beijing and CBD vacancy rate to 4.9% and 5.0% respectively. New office buildings opening in 2018 increased the total Beijing office stock by another 377,050 sqm GFA to 8.56 million sqm GFA. Further, a large wave of office building supply, predominantly located in the CBD Core Area, is set to come onto the market in 2019.

However, we do not anticipate a supply glut for a number of reasons. One is the ongoing pent-up demand coming primarily from domestic corporations, with uptake proving particularly robust from companies in the internet and high-tech industries. Another reason has to do with power supply restrictions for the CBD core area which are still under development, meaning newly-completed buildings can only partially open before year-end, according to JLL. Furthermore, according to JLL, 56.5% of the potential new supply in 2019 will either to be self-occupied or is already pre-committed.

These dynamics of the Beijing office market highlight Spring REIT's competitive edge. Our primary investment property is the premium-grade China Central Place Office Towers 1 and 2 and the relevant portion of the car park (the "**CCP Property**"). This is a blue-chip building having a strategic position within the CBD, with a strong and steady tenant base. In 2018, the CCP Property had an averange occupancy rate of 95.8% and achieved positive rental reversions of 4.7%. Neither the completion of new office complexes in other submarkets nor the gradual increase in Beijing's overall office supply have significantly impacted the CCP Property's performance. We have continued to command high occupancy rates, strong rental reversions, and strong tenant demand.

Supplementing the steady results from the CCP Property is the stable cash flow provided by our 84 separate properties in the United Kingdom ("**UK Portfolio**"), which in 2018 delivered with a 96.3% pass through of its revenue. In this respect, the acquisition of the UK Portfolio in 2017, comprising 84 investment properties across the UK, all under long-term leases to national vehicle service provider Kwik Fit, with a five-yearly upward only mark-to-market rental review mechanism, has fully met our expectations.

Given the challenging macro environment of the Reporting Year, particularly in the second half, these results are especially encouraging as they necessarily reflected the impact of escalating China-US trade tensions. These tensions resulted in a considerable weakening of the Renminbi ("**RMB**"). Since Spring REIT's primary operating currency is the RMB but its distribution payments and debt are denominated in HK$ and US$ respectively, the weaker RMB exchange rate inevitably had a knock-on effect on our results.

A year ago, against a backdrop of upward-trending US dollar interest rates and tightening monetary policy, the importance of managing interest rate risk was emphasized by the Manager in Spring REIT's FY2017 Annual Report.In June 2017, the Manager negotiated a 110 basis point reduction in interest margin for Spring REIT's US$-denominated term loan facility, from 2.75% to 1.65%. In FY2018, Spring REIT's financial results continued to benefit from the full year contribution of the interest margin reduction exercise. Following on from this, during first half of 2018 Spring REIT entered into three US$ float-to-fixed interest rate swaps ("**IRS**") which have effectively locked in the interest rate for 32.1% of our US$ loan at an average fixed interest rate of 2.68%. The fixed rate is lower than the prevailing US dollar 3-month LIBOR rate of 2.81% as at 31 December 2018.

Our operational costs this year included one-off expenses incurred in connection with a proposed acquisition that was terminated and with responding to an unsolicited general offer by a unitholder. Regretfully Spring REIT was not able to proceed with the proposed acquisition, but the process incurred substantial costs which, while less than anticipated in the acquisition circular, still partially offset our operational gain. The proposal for the acquisition was followed by the attempt of a significant unitholder to obtain a majority unitholding in Spring REIT by means of an unsolicited general offer. Ultimately the offer lapsed because the minimum acceptance condition was not satisfied.

Together, these events contributed to the need for substantial expenditure by Spring REIT which did not bring any direct benefits to our Unitholders, and which did impact on our final results for the year. While we respect different unitholders may have different views and investment objective, it is regrettable that some have manifested into confrontational behaviour which took a toll on the otherwise growing distributable income to our Unitholders. There is a positive note to this episode, however. The fact that the minimum acceptance condition of the general offer was not satisfied sent a clear message that the majority of our Unitholders are committed to maintaining long-term holdings in Spring REIT. Such holdings enable them to take part in the ownership of unique and premium quality real estate assets, to diversify their investment risks in a context of market uncertainty, and to enjoy the benefits of a well-established yield-play instrument with a unique property portfolio that provides them with sustainable distributions. This shared investment philosophy means that, although the results for 2018 were less than ideal, Unitholders with Spring REIT retain strong long-term prospects and will continue to enjoy a solid recurring income stream from distributions.

It is my confident hope that, with this latest mandate from our Unitholders, the talents and skills of the Manager can now be fully refocused on the core responsibility of adding value for investors in 2019.

Outlook

Despite a volatile macro environment in 2018, I believe Spring REIT is well positioned to navigate the challenges ahead given the premium quality of the CCP Property. The market is at a critical juncture as a large supply of new offices is expected to come onto the Beijing market in 2019, coupled with uncertainty in global political and economic environment. It remains to be seen how the market will eventually unfold. From Spring REIT's perspective, our high-quality property remains a prime location for corporations looking for central, prestigious and quality premises in Beijing. In 2018, a total GFA of 28,843 sqm at the CCP Property was leased out and renewed. Of this, 54% was attributable to renewals, and 46% to new lettings. The average rental reversion was 4.7%. As at 31 December 2018, we have 14.9% and 10.7% of the total leasable GFA at CCP Property expiring in the first and second half of 2019, with an average expiring rental rate of RMB382 per sqm and RMB380 per sqm respectively, and we will remain vigilant with a view to deliver a sustainable performance in the context of the Beijing market in 2019.

In terms of capital arrangements, while we expect continuing volatility in the RMB exchange rate, the costs of currency hedging remain rather prohibitive. As part of our ongoing efforts to mitigate currency risks, we will continue to explore opportunities to diversify our funding sources with the aim of enhancing Spring REIT's resilience in the face of currency fluctuations.

Spring REIT's US$-denominated term loan facility expires in April 2020, and in 2019 we will be looking closely at refinancing options. As mentioned, interest rate hedging has been applied to approximately one third of the total US$ loan amount, and we may look at fine-tuning our interest and exchange rate exposure in a way that better serves the interests of Spring REIT.

In the year ahead, the Manager will continue to employ its expertise to explore other potential acquisitions, with the aim of further diversifying Spring REIT's holdings while retaining a core China investment focus.

Stepping into 2019, the Manager remains confident that our core CCP Property in Beijing will continue to deliver satisfactory returns, supplemented by steady returns from the UK Portfolio. While continuing to keep eyes open for potential acquisitions, a major focus will be on enhancing our capital management and financing arrangements.

Finally, I would like once again to express my sincere gratitude to all the different parties who have provided Spring REIT and the manager with essential support and advice during the past year. This includes the sponsor, my fellow directors, the management team and staff. Special thanks are due to our Unitholders who supported the Manager throughout the offer period. This support has primed Spring REIT to proceed with its carefully-developed long-term plans which we are confident will enhance the value of the portfolio and deliver satisfactory long-term distributions to Unitholders.

Toshihiro Toyoshima
Chairman and Non-executive Director

Spring Asset Management Limited
(as Manager of Spring REIT)

26 March 2019

CCP Property Operation Review

The Beijing CBD is home to tenants from a wide range of industries, including many from the finance and insurance, professional services and manufacturing industries. It holds the largest amount of Grade-A office stock in Beijing, amounting to 1.82 million sqm as at the end of 2018, and accounting for 21.3% of the city's total Grade-A office space of 8.56 million sqm. Against a backdrop of economic uncertainty, Beijing corporate tenants became increasingly cost conscious towards the end of 2018, including those in the CBD. However, throughout 2018, we have continued to see steady demand for Premium Grade A office premises, reflected in a modest increase in average rental rates and stable occupancy rates. On the back of this resilient market, the performance of the CCP Property remained satisfactory, exhibiting moderate growth for the Reporting Year.

Beijing Office Market Vacancy and Rental Rate in 2018

		Vacancy Rate[1]	YoY change *(ppts)*	Average Rental Rate[1] (RMB/sqm/ month)	YoY change *(%)*
CBD	Grade A	5.0%	0.1	402	4.7
	Premium Grade A	4.2%	(0.7)	447	5.2

1. Data is taken as at 31 December 2018.

Source: JLL Research

CCP Property Operation Performance

For the Year Ended 31 December	2018 (in RMB' million)	2017 (in RMB' million)	Change
Revenues			
– Rental income	**499.13**	482.80	3.4%
– Car park income	**3.45**	3.45	–
– Other income (note ii)	**17.68**	13.10	35.0%
	520.26	499.35	4.2%
Property Operating Expenses			
– Property management fee	**(11.42)**	(10.93)	4.5%
– Property tax (note iii)	**(60.92)**	(58.64)	3.9%
– Withholding tax (note iv)	**(53.05)**	(49.14)	8.0%
– Other taxes (note v)	**(6.98)**	(6.94)	0.6%
– Leasing Commission	**(3.68)**	(5.18)	(29.0%)
– Others	**(1.14)**	(0.82)	39.0%
	(137.19)	(131.65)	4.2%
Net Property Income	**383.07**	367.70	4.2%

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 discussion since the CCP Property is located in China.

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

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

For the full year, the CCP Property reported a 4.2% increase in revenue YoY. Rental income generated maintained healthy growth, with an increase of 3.4% YoY.

Property operating expenses are mainly comprised of tax expenses, namely property tax, withholding tax and other taxes. Tax expenses in aggregate accounted for 88.2% 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.

As the property management fee and taxes are determined by revenue, the property operating expenses tracked the trend in revenue, recording a 4.2% YoY increase during the Reporting Year.

Rental Income

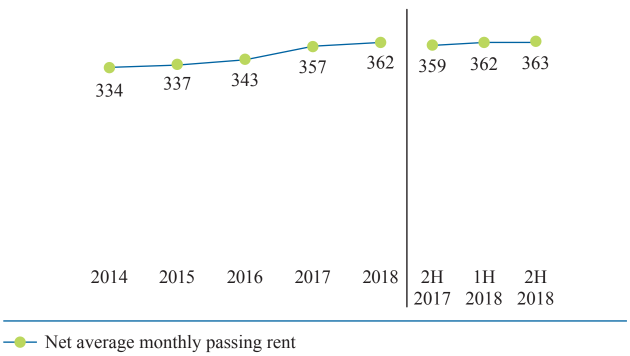
Operations at the CCP Property continued to be encouraging, comparing favourably with wider Beijing trends. The Property registered an average occupancy of 95.8% in 2018 (2017: 94.2%) and a total area of 28,843 sqm was leased out and renewed during the Reporting Year. Of the newly leased area, 46% was attributable to new lettings with the remainder being renewals. Average passing rent stood at RMB362 per sqm for 2018, up 1.4% YoY on the back of a respectable average rental reversion of 4.5% in the first half and 5.1% in the second half of 2018, rendering a full year reversion of 4.7%. (FY17: 5.9%).

For the Six Months Ended	31-Dec-2017	Change	30-June-2018	Change	31-Dec-2018
Average Monthly Passing Rent (RMB/sqm)[1]	359	0.8%	362	0.3%	**363**
Average Occupancy[2]	95.0%	+1.1 ppts	96.1%	-0.7 ppts	**95.4%**

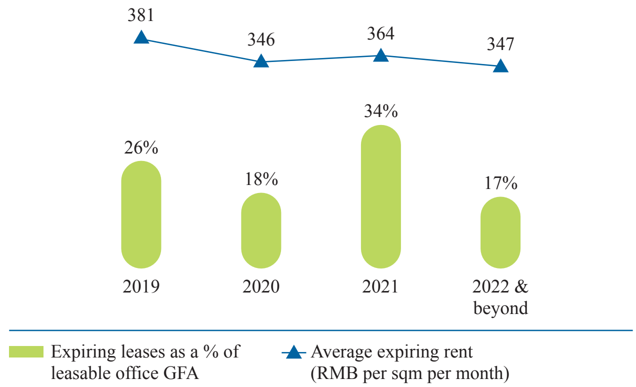
1. Average monthly passing rent is presented net of VAT and is calculated by taking an average of the month-end figures of the relevant reporting year.

2. Occupancy rate is calculated by taking an average of the month-end figures of the relevant reporting year.

Passing Rent
(RMB per sqm per month)



Expiry Profile by GFA
(RMB per sqm per month)



As at 31 December 2018, the weighted average lease expiry in terms of GFA was 715 days for the CCP Property. Leases expiring in the years ending 31 December 2019 and 31 December 2020 accounted for 25.6% and 17.9% of the total leasable office GFA respectively, and the average unit rents for the expiring leases were RMB381 per sqm and RMB346 per sqm respectively.

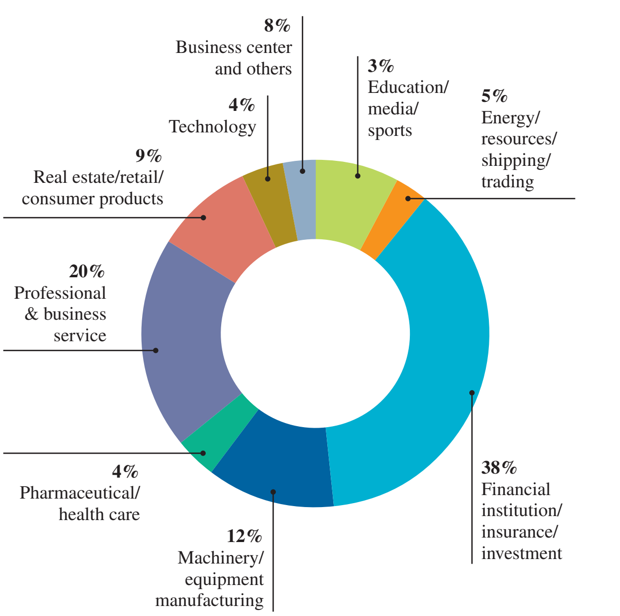
Tenancy base

CCP Property had a total of 188 tenancies as at 31 December 2018. The top five tenants accounted for 20.4% of total revenue for the Reporting Year, and occupied 23.0% of total GFA as at 31 December 2018. Details of the top five tenants in terms of GFA are set out in the table below.

Tenants	Portion of total leased GFA
Epson	5.9%
Delsk	4.5%
Condé Nast	4.2%
Zhong De Securities	4.2%
Deutsche Bank	4.2%
Total	23.0%

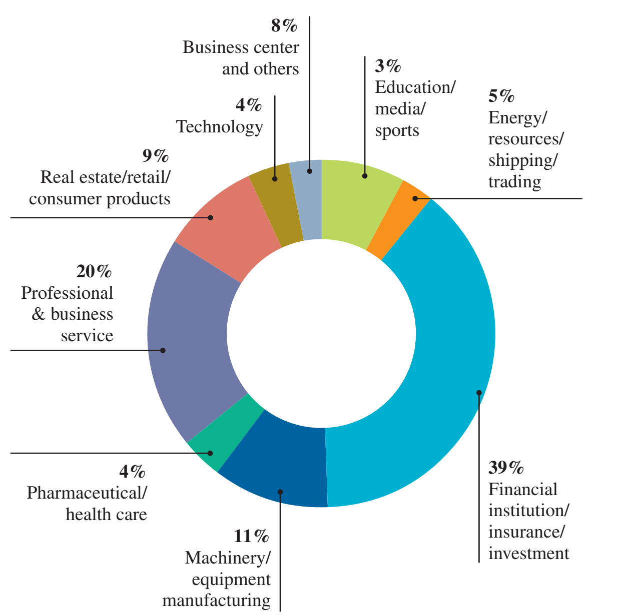
Tenants by Industry

As % of leased office GFA
(As of 31 December 2018)



Tenants by Industry

As % of monthly revenue
(For the month 31 December 2018)



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	11,419,014	75.6%
Beijing Yuan Xing Real Estate Brokerage Co., Ltd.	Leasing	597,239	4.0%
Beijing Lifeng Lianhang Real Estate Brokerage Co., Ltd.	Leasing	414,438	2.7%
Beijing Jingdong Lianhang Real Estate Consultant Ltd.	Leasing	303,767	2.0%
Beijing Colliers International Property Services Co., Ltd.	Leasing	287,606	1.9%
TOTAL		13,022,064	86.2%

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	1 Jan 2018 – 31 Dec 2018 *British Pounds (“**GBP**”)*	14 Jul 2017[1] – 31 Dec 2017 *GBP*
Income		
– Rental income	**4,423,162**	2,058,626
Expenditure		
– Head rents on leasehold properties	**(101,429)**	(53,135)
– Property management fees	**(63,000)**	(32,400)
	(164,429)	(85,535)
Net Property Income	**4,258,733**	1,973,091

1. Completion date of the acquisition of the UK portfolio by Spring REIT

Spring REIT completed the acquisition of the UK Portfolio in July 2017. Each of the Portfolio’s 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 Highlights

For the Year Ended 31 December	2018 *(in US$' million)*	2017 *(in US$' million)*	Change
Revenue	**84.34**	76.70	10.0%
Property operating expenses	**(20.97)**	(19.62)	6.9%
Net property income	**63.37**	57.08	11.0%
Net property income margin	**75.1%**	74.4%	+0.7 ppts
G&A expenses	**(17.66)**	(11.76)	50.2%
Cash interest expenses	**(19.06)**	(17.47)	9.1%
Profit after taxation	**4.65**	55.16	(91.6%)
Total distributable income	**31.82**	33.97	(6.3%)
Average RMB/US$ rate[1]	**6.6157**	6.7578	2.1%

Units Information	2018	2017	Change
DPU *(HK cents)*	**19.2**	21.1	(9.0%)
Payout ratio	**98%**	100%	-2.0 ppts
Net asset value per Unit *(HK$)*	**5.69**	6.22	(8.5%)
Number of Units outstanding	**1,272,356,925**	1,257,705,732	1.2%

As at 31 December	2018	2017	Change
Property valuation	**1,419.51**	1,488.06	(4.6%)
Total assets	**1,495.09**	1,586.60	(5.8%)
Total borrowings	**531.30**	547.48	(3.0%)
Net asset value	**925.12**	1,000.40	(7.5%)
Gearing ratio	**35.5%**	34.5%	+1.0 ppts
RMB/US$ rate[2]	**6.8785**	6.5068	(5.4%)

1. Income and expenses are translated at average exchange rates for each month's consolidated income statement.

2. The assets and liabilities of the financial position presented here are translated at the closing exchange rate of the year.

Financial Performance

Spring REIT's revenue for the Reporting Year was US$84.34 million, 10.0% higher than that in 2017. The improvement includes the effect of a full year contribution from our UK Portfolio and revenue growth of the CCP Property. After taking into account property operating expenses, net property income amounted to US$63.37 million, representing a 11.0% increase YoY and a property income margin of 75.1% (2017: 74.4%).

General and administrative expenses escalated to US$17.66 million, primarily due to costs of approximately US$3.21 million incurred in relation to the due diligence and implementation of the proposed acquisition along with unanticipated costs of approximately US$3.11 million incurred in relation to the unsolicited general offer launched by a unitholder and the proposed acquisition. These one-off costs are detailed in the announcement published on 15 January 2019. Meanwhile, a total finance cost on interest-bearing borrowings of US$49.44 million (2017: a gain of US$9.87 million) was registered, which consisted of non-cash foreign exchange loss, interest expenses and other incidental borrowing costs. Foreign exchange loss of US$26.77 million (2017: a gain of US$29.46 million) was recognized when translating US dollar bank borrowings to RMB. Cash interest expenses amounted to US$19.06 million, compared to US$17.47 million in 2017, as US dollar and GBP LIBOR rates have been rising partially offset by a refinancing exercise in January 2018 which resulted in an overall lower borrowing amount.

Taking into account the increase in the fair value of the CCP Property and the UK Portfolio of US$12.04 million (2017: US$4.81 million), profit after taxation for the Reporting Year was US$4.65 million (2017: US$55.16 million).

Spring REIT's total distributable income for the Reporting Period was US$31.82 million, representing a decrease of 6.3% YoY. Among other adjustments, the reported amount excludes the foreign exchange loss and the increase in the fair value of the CCP Property and the UK Portfolio, 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 31 December 2018. The CCP Property was appraised at RMB9,096 million (equivalent to US$1,322.38 million) as at 31 December 2018, representing a 0.7% increase in RMB terms and a 4.7% decrease in US$ terms compared to its valuation as of 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 to an increase in market rent. The capitalization rate remained stable at 5.8%. (30 June 2018: 5.8%; 31 December 2017: 5.8%).

The UK Portfolio was appraised at GBP76.14 million (equivalent to US$97.13 million) as at 31 December 2018, representing a 2.7% increase in GBP terms and a 3.1% decrease in US$ term compared to its valuation as of 31 December 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 across the UK Portfolio, which now ranges from 4.3% to 9.3%. The yield compressions is due to an improvement in market sentiment in the UK, sparking overseas investors' interest in good quality, long let investment stock, especially with respect to alternative asset classes.

As at 31 December 2018, Spring REIT had in place aggregate secured loan facilities of approximately US$531.30 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 US dollar LIBOR plus 1.65% per annum and will expire in April 2020; and

2. A facility of GBP50.00 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 loan facilities extended by Australia and New Zealand Bank Group Limited and Banco Santander respectively. In January 2018, the two facilities were fully repaid using GBP50.00 million drawn down from the UK Facility, US$18.00 million of the CCP Facilities, and internal cash of US$17.00 million.

As at 31 December 2018, the gearing ratio, i.e. total borrowings to gross asset value, was 35.5%, compared with 34.5% at 31 December 2017.

During the Reporting Year, Spring REIT entered into three IRS contracts, with a weighted average swap rate of 2.68% per annum and maturing in April 2020, in tandem with the loan maturity of the CCP Facilities. The aggregate notional amount of these IRS contracts is US$150.00 million, representing 32.1% of the US$ loans of Spring REIT.

Spring REIT's investment properties, rent receivables, restricted bank balances, ordinary shares of RCA01, and Hawkeye Properties 501 were pledged to secure the loan facilities where applicable. Throughout the Reporting Year, Spring REIT, RCA01, RUK01 Limited and Hawkeye Properties 501 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$16.00 million as at 31 December 2018, compared with US$21.31 million as at 31 December 2017. The Group also had total undrawn 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 31 December 2018, the gross asset value of the Group was US$1,495.09 million representing a decrease of 5.8% YoY and a decrease of 3.4% HoH. This was due to a weaker RMB and GBP against the US$ at year-end.

Net Assets Attributable to Unitholders

As at 31 December 2018, net assets attributable to Unitholders stood at US$925.12 million.

The net asset value per Unit as at 31 December 2018 was HK$5.69 (30 June 2018: HK$6.05; 31 December 2017: HK$6.22). This represented a 64.5% premium to the closing price of the Units of HK$3.46 as at 31 December 2018, the last trading day in the Reporting Year.

New Units Issued

As at 31 December 2018, the total number of issued Units was 1,272,356,925. A total of 14,651,193 new Units were issued during the Reporting Year.

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
3 August 18	Issue of new Units to the Manager at the price of HK$3.275 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 30 June 2018.	+ 3,791,887
14 December 18	Issue of new Units to the Manager at the price of HK$3.603 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 30 September 2018.	+ 3,384,393
31 December 2018	Closing balance of total number of Units in issue.	1,272,356,925

Capital Commitments

As at 31 December 2018, 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 corporate governance report for the year ended 31 December 2018 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 report, 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.

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 2018, 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 2017 and should therefore be excluded from preparing "financial accounts" under FATCA for the calendar year 2018, and hence was not required to perform account due diligence, reporting or withholding for its account holders under FATCA for the calendar year 2018.

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 2018.

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

The annual report of Spring REIT for the year ended 31 December 2018 will be published on the websites of 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 2019.

Annual General Meeting

The 2019 annual general meeting of Spring REIT will be held on or around 23 May 2019, 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, 26 March 2019

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).

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Year ended 31 December **2018** ***US$'000***	 2017 *US$'000*
Revenues	*5*	**84,343**	76,695
Property operating expenses	*6*	**(20,966)**	(19,615)
Net property income		**63,377**	57,080
General and administrative expenses	*7*	**(17,661)**	(11,761)
Fair value gain of investment properties	*13*	**12,038**	4,807
Other losses, net	*8*	**(4,198)**	(5,147)
Operating profit		**53,556**	44,979
Finance income		**586**	482
Finance costs on interest-bearing borrowings	*9*	**(49,439)**	9,874
Profit before taxation and transactions with Unitholders		**4,703**	55,335
Income tax expense	*10*	**(49)**	(175)
Profit for the year, before transactions with Unitholders *(note i)*		**4,654**	55,160
Distributions paid to Unitholders:			
– 2016 final distribution		**–**	(14,568)
– 2017 interim distribution		**–**	(15,257)
– 2017 final distribution *(note ii)*		**(18,644)**	–
– 2018 interim distribution *(note ii)*		**(19,453)**	–
		(33,443)	25,335

	Notes	Year ended 31 December **2018** ***US$'000***	 2017 *US$'000*
Represented by:			
Change in net assets attributable to Unitholders, excluding issuance of new units		**(81,586)**	80,439
Amount arising from exchange reserve movements regarding translations of financial statements		**48,143**	(55,104)
		(33,443)	25,335

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) 2018 interim distribution and 2017 final distribution of US$19,453,000 and US$18,644,000 respectively were paid during the year ended 31 December 2018. Total distribution for the year ended 31 December 2018 is presented in the statement of distributions.

The notes on pages 31 to 57 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	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 2018				
Profit for the year		**4,654**	**43,489**	**48,143**
Other comprehensive loss:				
Items that may be reclassified to consolidated income statement				
Exchange gains on translation of financial statements		**(48,143)**	**–**	**(48,143)**
Total comprehensive income for the year	*ii*	**(43,489)**	**43,489**	**–**
For the year ended 31 December 2017				
Profit for the year		55,160	(110,264)	(55,104)
Other comprehensive income:				
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)	–

Notes:

(i) Transactions with Unitholders comprise the distributions paid to Unitholders of US$38,097,000 (2017: US$29,825,000), and change in net assets attributable to Unitholders excluding issuance of new units, which is a decrease of US$81,586,000 (2017: an increase of US$80,439,000).

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

The notes on pages 31 to 57 are an integral part of these consolidated financial statements.

STATEMENT OF DISTRIBUTIONS

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	US$'000	*US$'000*
Profit for the year, before transactions with Unitholders	**4,654**	55,160
Adjustments:		
– Fair value gain of investment properties	**(12,038)**	(4,807)
– Net fair value losses of derivative financial instruments	**38**	8,082
– Manager's fee expenses in units in lieu of cash	**6,251**	5,595
– Amortisation of transaction cost for the bank borrowings	**2,026**	2,347
– Unrealised foreign exchange losses/(gains)	**30,892**	(32,410)
Distributable income for the year *(note i)*	**31,823**	33,967
Total distributions of the year *(note ii)*	**31,187**	33,967
Represented by:		
Interim distribution, paid *(note iii)*	**19,453**	15,257
Final distribution, to be paid *(note iv)*	**11,734**	18,710
Total distributions of the year *(note ii)*	**31,187**	33,967
Percentage of total distribution over distributable income for the year	**98%**	100%
Distributions per unit to Unitholders		
– Interim distribution per unit, paid *(note iii)*	**HK12.0 cents**	HK9.5 cents
– Final distribution per unit, to be paid *(note iv)*	**HK7.2 cents**	HK11.6 cents
Distribution per unit for the year *(note iv)*	**HK19.2 cents**	HK21.1 cents

The notes on pages 31 to 57 are an integral part of these consolidated financial statements.

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 2018 was calculated based on the interim distribution of US$19,453,000 for the period and 1,265,180,645 units in issue. The interim distribution was paid to Unitholders on 28 September 2018.

(iv) The final distribution per unit of HK7.2 cents for the year ended 31 December 2018 is calculated based on the final distribution to be paid to Unitholders of US$11,734,000 for the second half of the financial year and 1,272,356,925 units in issue as at 31 December 2018, rounded to the nearest HK$0.1 cents, without taking into account any consideration or subdivision of units which may have occurred between the dates of declaration of the distribution and 17 April 2019 (the "Record Date"). The final distribution for the year ended 31 December 2018 is expected to be paid to Unitholders on 30 April 2019. Such final distributions per unit, however, may be subject to adjustment upon the issuance of new units between 1 January 2019 and the Record Date, if any.

The final distribution per unit of HK11.6 cents for the year ended 31 December 2017 was calculated based on the final distribution paid to the 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 cent. The final distribution for the year ended 31 December 2017 was paid to Unitholders on 27 April 2018.

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

The notes on pages 31 to 57 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	As at 31 December 2018 US$'000	2017 US$'000
Non-current assets			
Investment properties	*13*	**1,419,507**	1,488,059
Derivative financial instrument	*14*	**64**	–
Total non-current assets		**1,419,571**	1,488,059
Current assets			
Trade and other receivables	*15*	**4,147**	4,525
Restricted bank balances	*16*	**55,364**	72,701
Cash and cash equivalents	*16*	**16,003**	21,310
Total current assets		**75,514**	98,536
Total assets		**1,495,085**	1,586,595
Current liabilities			
Interest-bearing borrowings	*18*	**–**	50,005
Trade and other payables	*17*	**16,010**	13,878
Rental deposits	*17*	**22,466**	24,360
Income tax payable		**87**	476
Total current liabilities		**38,563**	88,719
Non-current liabilities, excluding net assets attributable to Unitholders			
Interest-bearing borrowings	*18*	**531,300**	497,472
Derivative financial instruments	*14*	**102**	–
Total non-current liabilities		**531,402**	497,472
Total liabilities, excluding net assets attributable to Unitholders		**569,965**	586,191
Net assets attributable to Unitholders		**925,120**	1,000,404
Units in issue *('000)*	*19*	**1,272,357**	1,257,706
Net asset value per unit attributable to Unitholders			
In US$		**0.73**	0.80
In HK$		**5.69**	6.22

The notes on pages 31 to 57 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
Executive Director

Nobumasa Saeki
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Reserves *(note)* *US$'000*	Net assets attributable to Unitholders *US$'000*
As at 1 January 2018	**–**	**1,000,404**
Profit after taxation and before transactions with Unitholders	**–**	**4,654**
Exchange gains on translation of financial statements	**(48,143)**	**–**
Amount arising from exchange reserve movements	**48,143**	**(48,143)**
Distributions paid to Unitholders:		
– 2017 final distribution	**–**	**(18,644)**
– 2018 interim distribution	**–**	**(19,453)**
Change in net assets attributable to Unitholders for the year ended 31 December 2018, excluding issues of new units	**–**	**(81,586)**
Issuance of units *(note 19)*	**–**	**6,302**
As at 31 December 2018	**–**	**925,120**

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 31 to 57 are an integral part of these consolidated financial statements.

	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	–	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.

The notes on pages 31 to 57 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

The Group has adopted all of the new standards, amendments, improvements and interpretation to existing standards issued by the International Accounting Standards Board that are relevant to the Group's operations and mandatory for annual accounting periods beginning 1 January 2018.

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

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 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

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

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

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

		Effective for accounting periods beginning on or after
IAS 19 Amendments	Employee Benefit	1 January 2019
IAS 28 Amendments	Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRS 9 Amendments	Prepayment Features with Negative Compensation	1 January 2019
IFRS 16	Leases	1 January 2019
Annual Improvements Project IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRS 2015 – 2017 Cycles	1 January 2019
IFRIC – Int 23	Uncertainty over Income Tax Treatments	1 January 2019
IAS 1 and IAS 8 Amendments	Definition of Material	1 January 2020
IFRS 3 Amendments	Definition of A Business	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
IFRS 17	Insurance Contracts	1 January 2021
IFRS 10 and IAS 28 (2011) Amendments	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

IFRS 16 "Leases"

IFRS 16 addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on the consolidated statements of financial position for lessees.

The Group is a lessee of the UK lands which are currently classified as operating leases. IFRS 16 provides a new provision for the accounting treatment of leases when the Group is the lessee, almost all leases should be recognised in the form of an asset (for the right-of-use) and a financial liability (for the payment obligation). Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated statements of financial position. As for the financial performance impact in the consolidated income statement, straight-line depreciation expense on the right-of-use asset and the interest expenses on the financial liability are recognised and no rental expenses will be recognised. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the financial liability will result in a higher total charge to consolidated income statements in the initial years of the lease, and decreasing expenses during the latter part of the lease term.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately US$7,784,000 (note 21) which accounts for approximately 0.5% and 1.4% of the Group's total assets and total liabilities respectively as at 31 December 2018. The Group expects that the adoption of IFRS 16 as compared with the current accounting policy would impact on the Group's total assets and total liabilities. Upon the adoption of IFRS 16, the Group will recognize a liability for the future operating lease payments and right-of-use assets, in its consolidated statements of financial position. However, the Group does not expect a significant impact on operating performance. IFRS 16 is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. The Group does not intend to adopt IFRS 16 before its mandatory date and intends to adopt IFRS 16 with the cumulative retrospective impact as an adjustment to equity on the date of adoption.

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 other new standards, amendments, improvements and interpretation to existing standards.

(b) Consolidation

The consolidated financial statements incorporate the assets and liabilities of Spring REIT and its subsidiaries as at 31 December 2018 and their results for the year then ended.

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

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

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, for rental income in the ordinary course of the Group's activities. Amounts disclosed as revenue are net of returns and amounts collected on behalf of third parties. The Group recognises 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 recognised in the consolidated income statement on a straight-line basis over the terms of lease agreements. Lease incentives provided, such as rent-free periods, are amortised on a straight-line basis and are recognised as a reduction of rental income over the respective term of the lease.

(ii) Interest income

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

(d) Property operating expenses

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

(e) Investment properties

Investment properties, principally comprising freehold 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 recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at its fair value at the end of each reporting year. The change in the fair value is recognised in the consolidated income statement. 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 recognised in income statements, such difference will be amortised over the life of the derivatives in a systematic basis.

(g) Trade and other receivables

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

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

(h) Cash and cash equivalents

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

(i) Interest-bearing borrowings

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

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

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

(ii) Provisions

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

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

(iii) Rental 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 realised 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 recognised 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 realised 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 recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group 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 realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised 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 statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;

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

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

(b) Transactions and balances

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

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

Translation differences on non-monetary financial assets and liabilities such as derivatives held at fair value through profit or loss are recognised 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 minimise potential adverse effects on the Group's financial performance.

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

(a) Market risk

(i) Foreign exchange risk

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

As at 31 December 2018, 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$23,948,000 (2017: increased/decreased by US$20,795,000) respectively, mainly as a result of foreign exchange differences on translation of monetary assets and liabilities being denominated in USD that is not the functional currency items in the PRC such as cash and bank balance, other payables and borrowings.

As at 31 December 2018, 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$1,697,000 (2017: decreased/increased by US$850,000 respectively, mainly as a result of foreign exchange differences on translation of monetary assets being denominated in USD 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 swaps to manage the risk where the Group forecasts a significant rise in interest rate in the foreseeable future.

During the year ended 2018, the Group entered into three plain vanilla interest rate swaps with notional amount of US$50 million each to hedge the interest rate risk arising from the variable rate bank borrowings. The Group pays interest at fixed rates from 2.58% to 2.74% per annum and receives interest at the rate of 3-month USD LIBOR until 29 April 2020.

As at 31 December 2018, if interest rates had been 50 basis points higher/lower with all other variables held constant, profit for the year would have been US$ 1,552,000 (2017: US$2,274,000) lower/higher respectively, mainly as a result of higher/lower interest expense on floating rate borrowings and after taking into consideration of interest rate swaps.

(b) *Credit risk*

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

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

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

(c) *Liquidity risk*

Cash flow forecasting is performed by the Group's finance function ("Group Finance"). Group Finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its borrowing facilities (note 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 analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows which comprise both interest and principal cash flows.

	Within 1 year *US$'000*	**Between 1 and 2 years** *US$'000*	**Between 2 and 5 years** *US$'000*	**Over 5 years** *US$'000*
At 31 December 2018				
Trade and other payables	**5,398**	**–**	**–**	**–**
Rental deposit	**7,453**	**3,971**	**11,029**	**13**
Income tax payable	**87**	**–**	**–**	**–**
Interest payable on borrowings	**26,077**	**8,590**	**2,054**	**–**
Derivative financial instruments (net settled)	**95**	**33**	**–**	**–**
Interest-bearing borrowings	**–**	**468,000**	**63,783**	**–**

	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	–

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	
	2018 *US$'000*	2017 *US$'000*
Total borrowings *(note 18)*	**531,300**	547,477
Total assets	**1,495,085**	1,586,595
Gearing ratio	**35.5%**	34.5%

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2018 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

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

At 31 December 2018	**Level 1** *US$'000*	**Level 2** *US$'000*	**Level 3** *US$'000*	**Total** *US$'000*
Non-current asset				
Derivative financial instrument	**–**	**64**	**–**	**64**
Non-current liability				
Derivative financial instruments	**–**	**102**	**–**	**102**

At 31 December 2017	Level 1 *US$'000*	Level 2 *US$'000*	Level 3 *US$'000*	Total *US$'000*
Non-current asset				
Derivative financial instrument	–	–	–	–
Non-current liability				
Derivative financial instrument	–	–	–	–

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 2018, the level 2 derivative financial instruments represented three plain vanilla interest rate swaps which are not traded in an active market. The fair values of these derivative financial instruments are based on prices quoted by financial institutions at the end of the reporting period.

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

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) 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 recognises or writes back liabilities for anticipated tax issues based on estimates of whether additional taxes will be due or reversal to be made. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the taxation and deferred tax.

5 REVENUE AND SEGMENT INFORMATION

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

For the year ended 31 December 2018, revenue of US$78.7 million (2017: US$73.9 million) is attributable to tenants from the PRC investment properties and US$5.6 million (2017: US$2.8 million) is attributable to tenants from the UK investment properties. As at 31 December 2018, investment properties of US$1,322 million (2017: US$1,388 million) is located in the PRC and US$96 million (2017: US$100 million) is located in the UK.

An analysis of revenues of the Group is as follows:

	Year ended 31 December	
	2018	2017
	US$'000	*US$'000*
Revenues		
Rental income	**81,854**	74,909
Car park income	**523**	511
Other income *(note i)*	**1,966**	1,275
	84,343	76,695

Note:

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

6 PROPERTY OPERATING EXPENSES

	Year ended 31 December	
	2018	2017
	US$'000	*US$'000*
Property management fee	**1,808**	1,662
Property taxes *(note i)*	**9,219**	8,681
Other taxes *(note ii)*	**1,057**	1,027
Withholding tax *(note iii)*	**8,028**	7,274
Leasing commission	**550**	777
Others	**304**	194
	20,966	19,615

Notes:

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

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

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

7 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2018	2017
	US$'000	*US$'000*
Manager's fee *(note i)*	**8,309**	8,164
Trustee fee	**297**	239
Valuation fee *(note ii)*	**195**	49
Auditor's remuneration		
– Audit services	**211**	202
– Non-audit services:		
– Acquisition related professional fees *(note ii)*	**522**	64
– Others	**88**	88
Legal and other professional fee *(note ii)*	**7,914**	2,501
Others	**125**	454
	17,661	11,761

Notes:

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

(ii) The amounts include costs of approximately US$3.2 million incurred in relation to the due diligence and implementation of a proposed acquisition of a commercial property in Huizhou, the PRC along with unanticipated costs of approximately US$3.1 million incurred in relation to the unsolicited general offer launched by a unitholder and the proposed acquisition.

8 OTHER LOSSES, NET

	Year ended 31 December	
	2018	2017
	US$'000	*US$'000*
Net fair value losses on derivative financial instruments at fair value through profit or loss	**38**	8,082
Foreign exchange losses/(gains)	**4,118**	(2,955)
Other miscellaneous losses	**42**	20
	4,198	5,147

9 FINANCE COSTS

	Year ended 31 December	
	2018	2017
	US$'000	*US$'000*
Interest expenses on bank borrowings *(note i)*	**21,939**	19,431
Foreign exchange losses/(gains) on bank borrowings *(note ii)*	**26,774**	(29,455)
Other borrowing costs	**726**	150
	49,439	(9,874)

Notes:

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

(ii) Foreign exchange losses/(gains) 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(iii).

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	
	2018	2017
	US$'000	*US$'000*
Current income tax	**49**	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	
	2018	2017
	US$'000	*US$'000*
Profit before income tax and transactions with unitholders	**4,703**	55,335
Exclude profit from the PRC operation which is not subjected to income tax *(note 6(iii))*	**(19,820)**	(62,689)
	(15,117)	(7,354)
Tax calculated at the domestic rates applicable to profits in the country concerned	**(2,476)**	(1,128)
Income not subject to tax	**(1,035)**	(442)
Expenses not deductible for tax purposes	**3,560**	1,745
	49	175

11 MANAGER'S FEE

	Year ended 31 December	
	2018	2017
	US$'000	*US$'000*
Base fee	**6,400**	5,493
Variable fee	**1,909**	1,715
Acquisition fee	**–**	956
	8,309	8,164

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 4 December 2017 and 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 2018 in accordance with the Trust Deed.

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

12 EARNINGS PER UNIT

	2018	2017
	US$'000	*US$'000*
Profit for the year, before transactions with Unitholders	**4,654**	55,160
Weighted average number of units for the year for calculating basic earnings per unit	**1,264,874,858**	1,206,452,143
Adjustment for units issuable in respect of the Manager's fee	**3,456,904**	3,206,937
Weighted average number of units for the year for calculating diluted earnings per unit	**1,268,331,762**	1,209,659,080
Basic earnings per unit based upon profit before transactions with Unitholders	**US0.37 cents**	US4.57 cents
Diluted earnings per unit based upon profit before transactions with Unitholders	**US0.37 cents**	US4.56 cents

13 INVESTMENT PROPERTIES

	Year ended 31 December	
	2018	2017
	US$'000	*US$'000*
At beginning of the year	**1,488,059**	1,296,616
Additions	**70**	419
Acquisition *(Note ii)*	**–**	95,654
Exchange differences recognised in other comprehensive income	**(80,660)**	90,563
Changes in fair value recognised in consolidated income statement	**12,038**	4,807
At end of the year	**1,419,507**	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 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 2018 and 31 December 2017, the Group had no unprovided contractual obligations for future repairs and maintenance of the investment properties.

As at 31 December 2018 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 recognised relevant professional qualification and has recent experiences in the locations and segments of the investment properties valued.

The Manager reviewed the valuation performed by the independent valuer for financial reporting purpose. Discussions of valuation processes and results are held between the Manager and the independent valuer at least once every six months, in line with the Group's interim and annual reporting dates. As at 31 December 2018 and 31 December 2017, the fair values of the investment properties have been determined by Knight Frank Petty Limited. The independent valuer adopted the income capitalisation approach and cross-checked by the direct comparison approach for the valuation where applicable.

Valuation techniques

(i) *PRC investment property*

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

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

(ii) *UK investment properties*

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

Fair value hierarchy

	Fair value measurements using		
	Level 1	**Level 2**	**Level 3**
	US$'000	*US$'000*	*US$'000*
Recurring fair value measurements			
As at 31 December 2018	**–**	**–**	**1,419,507**
As at 31 December 2017	–	–	1,488,059

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

(i) PRC investment properties

(a) Capitalisation rate

This is estimated based on the market lease over market value on comparable. The higher the capitalisation rates used, the lower the fair values of the investment properties. In the 31 December 2018 valuation, a capitalisation rate of 5.8% (2017: 5.8%) is used in the income capitalisation approach.

(b) Base rent

Base rent is the standard rent payable under the lease exclusive of any other charges and reimbursements. This was estimated based on the market lease comparable. The higher the base rent used, the higher the fair values of the investment properties. The average gross monthly office unit base rent of RMB418 (2017: RMB409) per square meter exclusive of VAT is used in the valuation.

(ii) UK investment properties

(a) Capitalisation rate

This is estimated based on the market lease over market value on comparable. The higher the capitalisation rate used, the lower the fair values of the investment properties. In the 31 December 2018 valuations, the capitalisation rate used in the income capitalisation approach of 84 investment properties range from 4.30% to 9.30% (2017: 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 GBP22.42 (2017: GBP4.52 to GBP20.11) per square foot.

As at 31 December 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$71.0 million (2017: US$74.4 million) higher/lower.

14 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December	
	2018	2017
	US$'000	*US$'000*
Non-current asset		
Fair value of the interest rate swap	**64**	–
Non-current liability		
Fair value of the interest rate swaps	**102**	–

Notes:

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 swap as at 31 December 2018 was US$150 million (31 December 2017: Nil) which will be settled on 29 April 2020.

The Group recorded net fair value losses on interest rate swap for the year ended 31 December 2018 amounting to US$38,000 (2017: Nil) (note 8) which were charged to the consolidated income statement.

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

15 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
	US$'000	*US$'000*
Rent receivables	**62**	8
Deferred rent receivables *(note iv)*	**3,504**	4,133
Prepayment	**523**	365
Other receivable	**58**	19
	4,147	4,525

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 2018 and 2017, 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 represent the accumulated difference between effective rental revenue and actual rental receipts.

16 RESTRICTED BANK BALANCES AND CASH AND CASH EQUIVALENTS

	As at 31 December	
	2018	2017
	US$'000	*US$'000*
Restricted bank balances	**55,364**	72,701
Cash and cash equivalents	**16,003**	21,310
	71,367	94,011

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

	As at 31 December	
	2018	2017
	US$'000	*US$'000*
US$	**30,655**	56,146
RMB	**32,790**	33,354
HK$	**5,499**	1,875
GBP	**2,423**	2,636
	71,367	94,011

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

17 RENTAL DEPOSITS AND TRADE AND OTHER PAYABLES

	As at 31 December	
	2018	2017
	US$'000	*US$'000*
Rental deposits *(note i)*	**22,466**	24,360
Trade and other payables:		
Rental receipts in advance	**6,595**	7,566
Provision for other taxes *(note ii)*	**3**	4
VAT payable	**244**	380
Accrued expenses and other payables	**9,168**	5,928
	16,010	13,878

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

	As at 31 December	
	2018	2017
	US$'000	*US$'000*
Within 1 year	**7,453**	5,161
Over 1 year	**15,013**	19,199
	22,466	24,360

(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	
	2018	2017
	US$'000	*US$'000*
Bank borrowings		
Current	**–**	50,005
Non-current	**531,300**	497,472
	531,300	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 year are as follows:

	As at 31 December	
	2018	2017
	US$'000	*US$'000*
6 months or less	**531,300**	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 secured 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 GBP50.0 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 2.2% 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 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 31 December 2018 and 31 December 2017, the Group's investment properties (note 13) derivative financial instruments (note 14), rent receivables and all future rent receivables (note 15), restricted bank balances (note 16), 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.

19 UNITS IN ISSUE

	Number of units
Balance as at 31 December 2017	1,257,705,732
New units issued for Manager's fee	14,651,193
Balance as at 31 December 2018 *(note i)*	1,272,356,925

(i) Traded market value of the units as of 31 December 2018 was HK$3.46 per unit. Based on 1,272,356,925 units, the market capitalisation was US$562.1 million.

20 FUTURE MINIMUM RENTAL RECEIVABLES

As at 31 December 2018, the analysis of the Group's aggregate future minimum rental receivable under non-cancellable leases is as follows:

	As at 31 December	
	2018	2017
	US$'000	*US$'000*
Within 1 year	**73,575**	74,935
After 1 year, but within 5 years	**122,726**	138,364
After 5 years	**46,719**	50,947
	243,020	264,246

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	
	2018	2017
	US$'000	*US$'000*
Within 1 year	**139**	146
After 1 year, but within 5 years	**555**	583
After 5 years	**7,090**	7,535
	7,784	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%
RHZ01 Limited	Cayman Islands, limited liability	Investment holding	1 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 FINANCIAL INSTRUMENTS BY CATEGORY

		Year ended 31 December	
		2018	2017
	Notes	***US$'000***	*US$'000*
Financial assets			
Financial assets at amortised cost:			
Trade and other receivables	*15*	**120**	27
Restricted bank balances	*16*	**55,364**	72,701
Cash and cash equivalents	*16*	**16,003**	21,310
Financial asset at fair value through profit and loss:			
Derivative financial instrument	*14*	**64**	–
		71,551	94,038
Financial liabilities			
Financial liabilities at amortised cost:			
Trade and other payables	*17*	**9,168**	5,928
Rental deposits	*17*	**22,466**	24,360
Income tax payable		**87**	476
Borrowings	*18*	**531,300**	547,477
Financial liability at fair value through profit and loss:			
Derivative financial instruments	*14*	**102**	–
		563,123	578,241

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

24 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were authorised for issue by the Manager on 26 March 2019.