# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis should be read in conjunction with the section headed "Selected Financial Information" in this Offering Circular and the historical financial information of RCA01 and related notes thereto set forth in Appendix I to this Offering Circular. The financial information for RCA01 included below is not indicative of Spring REIT's future performance. For a discussion of Spring REIT's future financial condition and operations, see the section headed "Management's Discussion and Analysis of Future Financial Condition and Results of Operations" in this Offering Circular.*

*Statements contained in this section that are not historical facts may be forward-looking statements based on certain assumptions, expectations and beliefs of the REIT Manager. You are cautioned that there are certain risks and uncertainties associated with Spring REIT and the actual results may differ materially from those projected by such forward-looking statements.*

## BASIS OF DISCUSSION AND PRESENTATION

Spring REIT, which will only acquire RCA01 on the second Business Day immediately preceding the Listing Date, has no operating history. The REIT Manager has therefore set forth below a discussion of the historical operating results of RCA01 as of and for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013.

The historical financial information set out in the section headed "Selected Financial Information" and the Accountant's Report on RCA01 set out in Appendix I to this Offering Circular reflect the operating results of RCA01. Upon Completion, Spring REIT will hold the ownership interest in the Property indirectly through RCA01. The Property is discussed in greater detail in the section headed "The Property and Business" in this Offering Circular.

After the Listing Date, there will be certain changes to Spring REIT's cost structure, level of indebtedness and operations. The cost structure of Spring REIT after the Listing Date will differ in certain significant respects from the historical cost structure of RCA01. For example, certain costs, such as the REIT Manager's and Trustee's fees and other trust-related expenses, that were not costs of RCA01 historically will become costs of Spring REIT going forward. Further, the presentation format of Spring REIT's financial information may differ from that of the audited financial information set forth in Appendix I to this Offering Circular. For more information, see the section headed "Management's Discussion and Analysis of Future Financial Condition and Results of Operations" in this Offering Circular.

## PRINCIPAL ACCOUNTING POLICIES

For a discussion of the principal accounting policies used in the preparation of the audited financial statements, see Note 2 of the Accountant's Report set out in Appendix I to this Offering Circular.

## FACTORS AFFECTING RESULTS OF OPERATIONS

The key factors affecting Spring REIT's financial condition and results of operations include the following:

### Rental and Occupancy Rates

Spring REIT's rental income depends principally on the rental rates the Property is able to command and the occupancy rates it is able to maintain. Factors affecting the rental rates and occupancy rates include the competitiveness of competing properties, tenant retention rates on expiration of the leases, market conditions and general macroeconomic and supply/demand trends affecting the office property market in Beijing. In addition to general macroeconomic and supply/demand trends affecting the office property market in Beijing, occupancy rates depend on rental rates relative to other competing properties and the ability to minimize downtime arising from lease expirations or early terminations.

The following table sets forth information on the average Office Occupancy Rate, average Unit Rent of new/renewed leases and the average leased Unit Rent for the periods indicated:

| | Average Office Occupancy Rate(1) | Average Unit Rent of New/Renewed Leases(2) | Average Leased Unit Rent(3) |
|---|---|---|---|
| | % | *(RMB)* | *(RMB)* |
| Year ended December 31, 2010 ....... | 90 | 198 | 188 |
| Year ended December 31, 2011 ....... | 96 | 241 | 201 |
| Year ended December 31, 2012 ....... | 96 | 332 | 226 |
| Six months ended June 30, 2013 ...... | 96 | 376 | 268 |

*Notes:*

(1) The average Office Occupancy Rate over the relevant period is derived by dividing the sum of the occupancy rates as of the end of each month during the relevant period by the number of months in the relevant period.

(2) The average Unit Rent of new/renewed leases over the relevant period is calculated as the weighted average of the Unit Rent for lease agreements, the performance of which commences during a relevant period.

(3) The average leased Unit Rent is calculated as the weighted average of the Unit Rent for lease agreements that are being performed during a relevant period.

### Expiration and Renewal of Existing Leases

The lease agreements entered into for the Property are generally for a term of three years. Tenants usually do not have the right to terminate their leases prior to the scheduled expiration dates, except in limited situations such as when there are major defects in the leased premises. As of June 30, 2013, leases representing 28%, 31% and 12% of the Leased Office GFA of the Property were scheduled to expire in the six months ending December 31, 2013 and the years ending December 31, 2014 and 2015, respectively. For additional information on leases which are scheduled to expire in the following few years, see the section headed "The Property and Business — Expiration and Renewals" in this Offering Circular. Spring REIT's ability to re-lease expiring space will impact its results of operations.

### Changes in Fair Value of Investment Property as a Result of Economic and Market Conditions

The revaluation of the Property in the past has had an impact on the results of operations of the Property, and may in the future result in significant fluctuations in the results of operations of Spring REIT. The Property is accounted for as investment property, and RCA01 is required to recognize income or loss in its income statement if the value of the Property changes in the revaluation. During the Track Record Period, RCA01 recorded gain from the increase in fair value of investment property of US$122.1 million, US$158.5 million, US$190.1 million, US$113.4 million and US$45.9 million for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013, respectively. The Property was valued as of December 31, 2010, 2011 and 2012 and June 30, 2012 and 2013 by the Independent Property Valuer. For additional information on the increase in fair value of investment property, see Note 11 to the Accountant's Report set out in Appendix I to this Offering Circular.

The fair value of the Property represents open market value, which is affected to a large extent by property market conditions. The fair value of the Property is valued by the Independent Property Valuer based on methods and assumptions that were periodically adjusted by the Independent Property Valuer to reflect market conditions. The PRC property market is volatile and has in the past experienced and may in the future experience oversupply and property price fluctuations. The central and local governments adjust monetary and other economic policies from time to time to prevent and curtail the overheating of the PRC and local economies, and such economic adjustments may affect the property market in Beijing and other parts of the PRC. For additional information on the policies adopted by the PRC Government, see the section headed "Risk Factors — Risks Relating to the PRC — The PRC Government has implemented property control measures in relation to the PRC property market" in this Offering Circular.

**Bank Borrowings**

RCA01 has maintained and is expected to maintain significant indebtedness under loan facilities with banks. RCA01 recognizes finance costs in connection with these bank borrowings and enters into derivative financial instruments as part of its financial risk management.

**COMPONENTS OF RESULTS OF OPERATIONS**

***Revenues***

During the Track Record Period, RCA01 generated revenues from (i) rental income; (ii) car park income; and (iii) other income from the Property. Rental income represents primarily the amounts recognized from tenants under their leases and signage revenues, but does not include building management fees as building management fees are paid directly to the Building Manager by tenants. Other income represents compensation paid by tenants for early termination of leases, which comprises primarily the deposit of three-month rents paid by the tenants when entering into lease agreements. The following table sets forth a breakdown of the revenues for the periods indicated:

| | Year ended December 31, | | | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | 2011 | | 2012 | | 2012 | | 2013 | |
| | *US\$'000* | *% of total* | *US\$'000* | *% of total* | *US\$'000* | *% of total* | *US\$'000* (unaudited) | *% of total* | *US\$'000* | *% of total* |
| Rental income | 36,746 | 98.8 | 43,687 | 97.8 | 51,345 | 97.1 | 24,256 | 97.7 | 30,221 | 99.0 |
| Car park income | 388 | 1.0 | 408 | 0.9 | 491 | 0.9 | 224 | 0.9 | 243 | 0.8 |
| Other income | 57 | 0.2 | 597 | 1.3 | 1,067 | 2.0 | 349 | 1.4 | 46 | 0.2 |
| **Total** | 37,191 | 100.0 | 44,692 | 100.0 | 52,903 | 100.0 | 24,829 | 100.0 | 30,510 | 100.0 |

RCA01 maintained consistently high occupancy rates during the Track Record Period. The average Office Occupancy Rates for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 were 90%, 96%, 96% and 96%, respectively.

### *Operating Expenses*

Operating expenses mainly include (i) property management fee, (ii) property taxes, (iii) business tax and other taxes and (iv) withholding tax. For more information on taxes to which RCA01 is subject, see section headed "Taxation" in this Offering Circular. RCA01's operating expenses do not include building management fees as they are paid directly to the Building Manager by tenants.

The following table sets forth a breakdown of RCA01's operating expenses for the periods indicated:

| | Year ended December 31, | | | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | 2011 | | 2012 | | 2012 | | 2013 | |
| | *US$'000* | *% of total* | *US$'000* | *% of total* | *US$'000* | *% of total* | *US$'000 (unaudited)* | *% of total* | *US$'000* | *% of total* |
| Property management fee | (1,308) | 11.2 | (1,382) | 11.1 | (1,063) | 7.8 | (503) | 7.8 | (622) | 8.0 |
| Property taxes | (3,562) | 30.5 | (3,732) | 30.0 | (3,835) | 28.1 | (1,912) | 29.6 | (1,944) | 25.1 |
| Business tax and other taxes | (1,987) | 17.0 | (2,630) | 21.2 | (3,028) | 22.3 | (1,420) | 21.9 | (1,815) | 23.4 |
| Withholding tax | (3,927) | 33.6 | (4,727) | 38.0 | (5,341) | 39.2 | (2,503) | 38.7 | (3,158) | 40.7 |
| Leasing commission | (297) | 2.5 | (171) | 1.4 | (196) | 1.4 | (60) | 0.9 | (141) | 1.8 |
| Insurance | (146) | 1.2 | (158) | 1.3 | (141) | 1.0 | (70) | 1.1 | (70) | 0.9 |
| Others | (464) | 4.0 | 375 | (3.0) | (26) | 0.2 | — | — | (5) | 0.1 |
| Total | (11,691) | 100.0 | (12,425) | 100.0 | (13,630) | 100.0 | (6,468) | 100.0 | (7,755) | 100.0 |

### *General and Administrative Expenses*

General and administrative expenses include asset management fee and professional fee. Asset management fee represents the fee payable to AD Capital for the provision of asset management services. In January 2013, a management agreement was entered into between AD Capital and RCA01, whereby RCA01 agreed to pay an asset management fee to AD Capital until the Listing Date. Before January 2013, the asset management fee was borne by RCA Fund. Upon the Listing of the Units, the asset management services will be provided by the REIT Manager, which will receive REIT Manager's fees.

The following table sets forth a breakdown of RCA01's general and administrative expenses for the periods indicated:

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2012 | 2013 |
| | *US$'000* | *US$'000* | *US$'000* | *US$'000 (unaudited)* | *US$'000* |
| Asset management fee | — | — | — | — | (1,824) |
| Professional fee | (272) | (303) | (226) | (67) | (213) |
| Total | (272) | (303) | (226) | (67) | (2,037) |

### *Change in Fair Value of the Property*

The Property is accounted for as investment property. The Property was valued as of December 31, 2010, 2011 and 2012, June 30, 2013 and August 31, 2013 by the Independent Property Valuer.

The fair value of the Property as of December 31, 2010, 2011 and 2012 and as of June 30, 2013 was US$790.6 million, US$993.5 million, US$1,186.9 million and US$1,253.5 million, respectively. This resulted in increases of US$122.1 million, US$158.5 million, US$190.1 million and US$45.9 million for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively, which were recognized as increases in the fair value of investment property in the audited statements of comprehensive income of RCA01.

The fair value of the Property as of August 31, 2013 was US$1,255.4 million.

***Other Losses, net***

Other losses, net include net fair value losses of derivative financial instruments, foreign exchange gains or losses, payables written off and other miscellaneous gains or losses.

***Finance Income***

Finance income represents interest income generated from bank deposits.

***Finance Costs***

Finance costs represent the interest expenses on bank borrowings, foreign exchange losses or gains on bank borrowings and other incidental borrowing costs. Interest expenses on bank borrowings includes contractual loan interest and amortized loan arrangement fees, which were recognized using the effective interest rate method. Foreign exchange losses and gains on bank borrowing arise when translating the bank borrowings denominated in foreign currencies to RMB, the functional currency of RCA01. Other incidental borrowing costs include bank charges and the de-recognition of unamortized loan arrangement fees.

A breakdown of our finance costs is set out below.

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2012 | 2013 |
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* (Unaudited) | *US$'000* |
| Interest expenses on bank borrowings | (30,588) | (29,663) | (29,010) | (14,020) | (14,153) |
| Foreign exchange (losses)/gains on bank borrowings | (3,910) | 23,745 | 1,495 | (1,766) | 8,558 |
| Other incidental borrowing costs | — | (59) | (60) | (60) | (3,799) |
| | (34,498) | (5,977) | (27,575) | (15,846) | (9,394) |

## RESULTS OF OPERATIONS

The REIT Manager sets out below a discussion of the historical operating results of RCA01 for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and June 30, 2013.

**Six months ended June 30, 2013 compared against six months ended June 30, 2012**

***Revenues***

Total revenues increased by US$5.7 million, or 22.9%, from US$24.8 million for the six months ended June 30, 2012 to US$30.5 million for the six months ended June 30, 2013.

*Rental income*

Rental income increased by US$6.0 million, or 24.6%, from US$24.3 million for the six months ended June 30, 2012 to US$30.2 million for the six months ended June 30, 2013. The increase was primarily due to positive rental reversion as a result of the continued positive market conditions in Beijing.

*Car park income*

Car park income remained stable at US$0.2 million for the six months ended June 30, 2012 and 2013.

*Other income*

Other income decreased from US$0.3 million for the six months ended June 30, 2012 to US$0.1 million for the six months ended June 30, 2013. The decrease in other income derived from early termination of leases was primarily due to a decrease in the number of tenants who moved out of the Property before expiry as compared to the six months ended June 30, 2012.

***Operating Expenses***

Operating expenses increased by US$1.3 million, or 19.9%, from US$6.5 million for the six months ended June 30, 2012 to US$7.8 million for the six months ended June 30, 2013 primarily due to increases in withholding tax and business tax and other taxes corresponding to the increase in rental income.

***General and Administrative Expenses***

General and administrative expenses increased by US$2.0 million from US$67,000 for the six months ended June 30, 2012 to US$2.0 million for the six months ended June 30, 2013 primarily due to the incurrence of an asset management fee in the six months ended June 30, 2013.

***Change in Fair Value of the Property***

The increase in fair value of the Property was US$45.9 million for the six months ended June 30, 2013 compared to an increase of US$113.4 million for the six months ended June 30, 2012. The increase in the fair value of investment property for the six months ended June 30, 2013 was the result of higher property values in Beijing, which reflected strong property market conditions, but the increase was significantly less than the change in fair value for the six months ended June 30, 2012.

***Other Losses, net***

Other losses, net increased by US$1.5 million, or 37.6%, from US$3.7 million for the six months ended June 30, 2012 to US$5.2 million for the six months ended June 30, 2013. The increase was primarily attributable to an increase in exchange loss of the amount due from redeemable preference shareholders due to appreciation of RMB against Japanese yen during the period.

***Finance Income***

Finance income remained stable at US$0.2 million for the six months ended June 30, 2012 and 2013.

***Finance Costs***

Finance costs decreased by US$6.5 million, or 40.7%, from US$15.8 million for the six months ended June 30, 2012 to US$9.4 million for the six months ended June 30, 2013. The decrease was primarily due to (i) the recognition of foreign exchange gains on bank borrowings in the six months ended June 30, 2013, attributable to the appreciation of the RMB against the U.S. dollar during the period, as compared to foreign exchange losses on bank borrowings in the six months ended June 30, 2012, attributable to the depreciation of the RMB against the U.S. dollar during the period; and (ii) an increase in other incidental borrowing costs due to the de-recognition of an unamortized loan arrangement fee arising from the early repayment of bank borrowings in January 2013.

***Profit***

Profit decreased by US$60.0 million, or 53.4%, from US$112.2 million for the six months ended June 30, 2012 to US$52.3 million for the six months ended June 30, 2013 mainly as a result of the smaller increase in the fair value of the Property in the six months ended June 30, 2013 relative to the six months ended June 30, 2012 as well as the cumulative effect of the other factors described above.

**Financial Year ended December 31, 2012 compared against Financial Year ended December 31, 2011**

***Revenues***

Total revenues increased by US$8.2 million, or 18.4%, from US$44.7 million for the year ended December 31, 2011 to US$52.9 million for the year ended December 31, 2012.

*Rental income*

Rental income increased by US$7.6 million, or 17.5%, from US$43.7 million for the year ended December 31, 2011 to US$51.3 million for the year ended December 31, 2012. The increase was primarily due to positive rental reversion as a result of strong positive market conditions in Beijing.

*Car park income*

Car park income increased by US$0.1 million, or 20.3%, from US$0.4 million for the year ended December 31, 2011 to US$0.5 million for the year ended December 31, 2012. The increase was primarily due to higher utilization levels of the car parking spaces.

*Other income*

Other income increased by US$0.5 million, or 78.7%, from US$0.6 million for the year ended December 31, 2011 to US$1.1 million for the year ended December 31, 2012. The increase was primarily due to an increase in tenants who moved out of the Property in 2012 to find more affordable substitutes.

***Operating Expenses***

Operating expenses increased by US$1.2 million, or 9.7%, from US$12.4 million for the year ended December 31, 2011 to US$13.6 million for the year ended December 31, 2012. The increase in operating expenses was primarily due to increases in withholding tax and business tax and other taxes corresponding to the increase in rental income, partially offset by a decrease in property management fees due to the restructuring of the property management fee arrangement.

***General and Administrative Expenses***

General and administrative expenses decreased by US$77,000, or 25.4%, from US$0.3 million for the year ended December 31, 2011 to US$0.2 million for the year ended December 31, 2012 primarily due to a decrease in professional fee.

***Change in Fair Value of the Property***

There was an increase in the fair value of the Property of US$190.1 million for the year ended December 31, 2012 compared to an increase of US$158.5 million for the year ended December 31, 2011. The substantial increases in the fair value of the Property for the years ended December 31, 2011 and 2012 were the result of higher property values in Beijing, which reflected improving property market conditions.

***Other Losses, net***

Other losses, net increased by US$6.5 million from US$1.0 million for the year ended December 31, 2011 to US$7.5 million for the year ended December 31, 2012. The increase was primarily attributable to an increase in net fair value losses of derivative financial instruments and an increase in exchange losses as a result of the continued strengthening of the RMB against the U.S. dollar during 2012.

***Finance Income***

Finance income increased by US$0.1 million from US$0.2 million for the year ended December 31, 2011 to US$0.3 million for the year ended December 31, 2012.

***Finance Costs***

Finance costs increased by US$21.6 million from US$6.0 million for the year ended December 31, 2011 to US$27.6 million for the year ended December 31, 2012. The increase was primarily due to the recognition of lower foreign exchange gains on bank borrowings in 2012 as compared to 2011, mainly attributable to the lower rate of appreciation of the RMB against the U.S. dollar in 2012 as compared to 2011.

***Profit***

Profit increased by US$10.8 million, or 5.9%, from US$183.6 million for the year ended December 31, 2011 to US$194.4 million for the year ended December 31, 2012, mainly as a result of the cumulative effect of the factors described above.

**Financial Year ended December 31, 2011 compared against Financial Year ended December 31, 2010**

***Revenues***

Total revenues increased by US$7.5 million, or 20.2%, from US$37.2 million for the year ended December 31, 2010 to US$44.7 million for the year ended December 31, 2011.

*Rental income*

Rental income increased by US$7.0 million, or 18.9%, from US$36.7 million for the year ended December 31, 2010 to US$43.7 million for the year ended December 31, 2011. The increase was primarily due to positive rental reversion as a result of strong positive market conditions in Beijing.

*Car park income*

Car park income was US$0.4 million in each of the years ended December 31, 2010 and 2011.

*Other income*

Other income increased by US$0.5 million from US$0.1 million for the year ended December 31, 2010 to US$0.6 million for the year ended December 31, 2011. The increase was primarily due to an increase in tenants who moved out of the Property in 2011 to find more affordable substitutes.

***Operating Expenses***

Operating expenses increased by US$0.7 million, or 6.3%, from US$11.7 million for the year ended December 31, 2010 to US$12.4 million for the year ended December 31, 2011. The increase was primarily due to increases in withholding tax and business tax and other taxes corresponding to the increase in rental income.

***General and Administrative Expenses***

General and administrative expenses remained stable at US$0.3 million for the years ended December 31, 2010 and 2011.

***Change in Fair Value of the Property***

Increase in fair value of the Property was US$158.5 million for the year ended December 31, 2011 compared to an increase of US$122.1 million for the year ended December 31, 2010. The substantial increases in the fair value of the Property for the years ended December 31, 2010 and 2011 were the result of higher property values in Beijing, which reflected improving property market conditions.

### *Other Losses, net*

Other losses, net decreased by US$12.8 million, or 92.6%, from US$13.8 million for the year ended December 31, 2010 to US$1.0 million for the year ended December 31, 2011. The decrease was primarily attributable to a decrease in net fair value losses of derivative financial instruments and a decrease in exchange gains as a result of fluctuations of foreign exchange rates of currencies in which part of RCA01's bank balances and the amount due from redeemable preference shareholders were denominated.

### *Finance Income*

Finance income remained stable at US$0.2 million for the years ended December 31, 2010 and 2011.

### *Finance Costs*

Finance costs decreased by US$28.5 million, or 82.7%, from US$34.5 million for the year ended December 31, 2010 to US$6.0 million for the year ended December 31, 2011. The decrease was primarily due to the recognition of foreign exchange gains on U.S. dollar denominated bank borrowings in 2011, attributable to an appreciation of the RMB against the U.S. dollar, as compared to net foreign exchange losses on Japanese yen and U.S. dollar denominated bank borrowings in 2010, attributable to a depreciation of the RMB against the Japanese yen, which was partially offset by an appreciation of the RMB against the U.S. dollar.

### *Profit*

Profit increased by US$84.4 million, or 85.2% from US$99.2 million for the year ended December 31, 2010 to US$183.6 million for the year ended December 31, 2011, mainly as a result of the cumulative effect of the factors described above.

## LIQUIDITY AND CAPITAL RESOURCES

The principal sources of funding for the management of the Property have historically been from internally generated funds and loan facilities from various banks.

## INDEBTEDNESS

As of December 31, 2010, 2011 and 2012 and June 30, 2013, bank borrowings amounted to US$465.9 million, US$472.3 million, US$477.2 million and US$500.5 million, respectively. Bank borrowings as of December 31, 2012 were classified as current liabilities as the bank borrowings were due to expire in June 2013, and such indebtedness was refinanced in January 2013 using proceeds from the Term Loan Facility. The Term Loan Facility of US$515.0 million was recognized to be US$500.5 million in the financial statements as of June 30, 2013, as such bank borrowing was carried at amortized cost in accordance with IFRS. During the Track Record Period, RCA01 complied with all terms of the loan facilities in all material respects. RCA01 currently has no committed but undrawn bank facilities.

Historically, RCA01 entered into derivative financial instruments consisting of certain plain vanilla interest rate caps and currency options as part of its financial risk management but did not account for these as accounting hedges under IAS 39. This investment resulted in the income statement effects described above. Spring REIT intends to maintain certain of these derivative financial instruments going forward. For a detailed discussion of our derivative financial instruments, see Note 12 of the Accountant's Report set out in Appendix I to this Offering Circular.

On January 10, 2013, RCA01 entered into the Term Loan Facility Agreement with Australia and New Zealand Banking Group Limited as the mandated lead arranger and bookrunner, pursuant to which a secured term loan facility of US$515.0 million was made available to RCA01 by a group of lenders for a term of three years. The Term Loan Facility has a floating interest rate of three-month LIBOR plus 3.5% per annum. The Property and RCA01's shares, derivative financial instruments, rental receivables and all future trade receivables were pledged to secure the Term Loan Facility. In addition, RCA01's restricted bank accounts were charged to, or otherwise subject to the control of, the security agent to secure the Term Loan Facility.

The Term Loan Facility Agreement contains certain customary covenants that restrict RCA01 from (subject to certain agreed exceptions), among other things, creating security on or disposing of its assets and incurring additional indebtedness.

The affirmative covenants of RCA01 include (without limitation) that RCA01 shall:

- make all payments and perform all its obligations in accordance with the terms of the Term Loan Facility Agreement and relevant finance documents;
- maintain the Property, including its use, in material compliance with all applicable governmental rules relating to health, safety, zoning, construction, building codes and environmental matters;
- comply with all governmental rules to which it is subject;
- insure the Property for its full replacement value; and
- submit to the facility agent its annual budget, audited annual financial statements and semi-annual financial statements at the times set out in the Term Loan Facility Agreement.

RCA01 must also ensure that the following financial covenants are complied with:

- the ratio of loan to the aggregate value of the Property on each valuation test date shall not be greater than 60%; and
- the quotient of the net operating income divided by the amount of interest accruing on the loan shall not be less than 1.25.

The negative covenants include (but are not limited to) that RCA01 shall not, apart from certain agreed exceptions:

- create any charge over its existing or future assets;
- sell, lease, transfer or otherwise dispose of all or part of its assets;

- enter into any amalgamation, de-merger, consolidation, merger or corporate reconstruction or reorganization;
- make any substantial change to the general nature of its business as a whole;
- wind up, liquidate or dissolve;
- incur, create, assume, guarantee or become liable for any financial indebtedness other than the Permitted Indebtedness (as defined in the Term Loan Facility Agreement) without prior consent;
- cancel, forgive or release any claim or debt owed to RCA01 by any person; or
- cause any material alteration to the Property.

Provided that RCA01 is in compliance with the covenants under the Term Loan Facility, it may pay distributions out of available reserves.

In connection with the Term Loan Facility, DBJ entered into a specified recourse obligations guarantee dated January 10, 2013 (the "Specified Recourse Guarantee") with the security agent whereby DBJ irrevocably and unconditionally guarantees the punctual and complete payment of all obligations or liabilities that the security agent, facility agent, arranger and lender are entitled to be paid under the Term Loan Facility and are actually suffered or incurred by the security agent, facility agent, arranger and lender arising out of or in connection with certain specified acts or occurrences in connection with the financing, including among other things (i) fraud, wilful misconduct, wilful breach, gross negligence or intentional misrepresentation by RCA01 or the REIT Manager; (ii) misapplication, misappropriation, theft or conversion of funds by RCA01 or the REIT Manager, (iii) failure of RCA01 to remain a single purpose entity as provided in the Term Loan Facility and (iv) any voluntary filing of insolvency proceedings by RCA01 or the REIT Manager. The Specified Recourse Guarantee remains in operation until all of the obligations under the Term Loan Facility have been paid in full.

## INDEBTEDNESS AS AT SEPTEMBER 30, 2013

As at September 30, 2013, borrowings of RCA01 amounted to approximately US$502,762,000, representing the Term Loan Facility available to RCA01 in January 2013, which is due to be fully repayable in January 2016.

RCA01 entered into interest rate caps with notional principal amount of US$515 million to economically hedge the interest rate risk arising from the Term Loan Facility. The fair value of these interest rate caps as at September 30, 2013 was approximately US$1,201,000.

## CAPITAL EXPENDITURE

There were no significant capital expenditures during the Track Record Period.

### Quantitative and Qualitative Disclosure about Market Risk

RCA01's activities expose it to a variety of financial risks, including foreign exchange risk, interest rate risk, credit risk and liquidity risk.

***Foreign exchange risk***

RCA01 operates in the PRC and is exposed to foreign exchange risk arising from commercial transactions, and from recognized assets and liabilities that are denominated in non-functional currencies. This is primarily with respect to the U.S. dollar.

RCA01 entered into a currency option with a notional principal amount of US$370 million on June 29, 2010 to economically hedge bank borrowings denominated in U.S. dollars with a principal amount of US$370 million against the potential weakening of RMB against the U.S. dollar as of December 31, 2010, 2011 and 2012. The strike price of the currency option was RMB7/US$1, and it was exercisable on the date of maturity in June 2013. The bank loan was fully repaid on January 28, 2013 and the currency option expired upon its maturity date in June 2013. On January 10, 2013, RCA01 entered into the Term Loan Facility with principal amount US$515 million, but did not enter into any currency option in relation to the Term Loan Facility. As of June 30, 2013, RCA01's bank borrowings amounted to US$500.5 million.

Except as described above relating to the foreign currency bank borrowings, RCA01 currently does not have other foreign currency hedging arrangements. It manages its foreign currency risk by closely monitoring the movement of foreign currency rates and will consider entering into forward foreign exchange contracts to reduce its exposure should the need arise.

***Interest rate risk***

RCA01's interest rate risk mainly arises from long-term borrowings. Borrowings issued at variable rates expose RCA01 to cash flow interest rate risk which is partially offset by cash. Under RCA01's interest rate management policy, RCA01 generally raises borrowings at floating rates and may use interest rate caps to manage the risk where RCA01 forecasts a significant rise in interest charges in the foreseeable future.

As of June 30, 2013, RCA01 had outstanding plain vanilla interest rate caps with a notional principal amount of US$515 million entered into in February 2013 to economically hedge the interest rate risk arising from the Term Loan Facility with a principal amount of US$515 million. The interest rate was capped at 1.3% until maturity of the caps in January 2016.

***Credit risk***

Credit risk arises from the potential failure of RCA01's counterparties to meet their obligations under financial contracts. RCA01 is exposed to credit risk on its cash and cash equivalents and deposits with banks and financial institutions, derivative financial instruments as well as trade and other receivables.

For deposits with banks and financial institutions, RCA01 has limited its credit exposure by restricting its selection of financial institutions to licensed banks with sound credit ratings.

In respect of credit exposures to tenants, credit risk exposure is minimized by undertaking transactions with a large number of counterparties and conducting credit reviews on prospective tenants. Monthly rentals are payable in advance by tenants in accordance with their leases. RCA01 also has policies in place to ensure that rental security deposits, typically equivalent to rental payments for a period of three months, are required from tenants prior to commencement of leases. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, RCA01 regularly reviews the recoverable amount of each individual trade receivable to ensure that adequate provision for impairment losses is made for irrecoverable amounts.

***Liquidity risk***

Cash flow forecasting is performed by RCA01's finance function. RCA01's finance function monitors rolling forecasts of RCA01's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its borrowing facilities at all times so that RCA01 does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration RCA01's debt financing plans, covenant compliance, compliance with internal Statements of 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 cashflow and seeking stable financing activities. RCA01 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 categorizes RCA01's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows which comprise both interest and principal cash flows.

| | Within 1 year | Between 1 and 2 years | Between 2 and 5 years |
|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* |
| **At December 31, 2010** | | | |
| Accruals and other payables | 2,763 | — | — |
| Interest payable on borrowings | 22,658 | 22,658 | 10,863 |
| Borrowings | — | — | 480,000 |
| **At December 31, 2011** | | | |
| Accruals and other payables | 137 | — | — |
| Interest payable on borrowings | 23,989 | 11,501 | — |
| Borrowings | — | 480,000 | — |
| **At December 31, 2012** | | | |
| Accruals and other payables | 398 | — | — |
| Interest payable on borrowings | 10,869 | — | — |
| Borrowings | 480,000 | — | — |
| **At June 30, 2013** | | | |
| Accruals and other payables | 1,009 | — | — |
| Interest payable on borrowings | 19,431 | 19,431 | 11,286 |
| Borrowings | — | — | 515,000 |

### Capital risk management

RCA01's objectives when managing capital are to safeguard RCA01's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

RCA01 monitors capital on the basis of its gearing ratio. The gearing ratio is calculated as total borrowings divided by total assets.

| | As of December 31, | | | As of June 30, 2013 |
|---|---|---|---|---|
| | 2010 | 2011 | 2012 | |
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| Total borrowings | 465,947 | 472,343 | 477,174 | 500,535 |
| Total assets | 848,336 | 1,061,778 | 1,266,787 | 1,334,827 |
| Gearing ratio | 54.9% | 44.5% | 37.7% | 37.5% |

## OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, RCA01 had not entered into any off-balance sheet arrangements other than those described elsewhere in this Offering Circular relating to derivative financial instruments.

## RECENT DEVELOPMENTS

RCA01 paid a distribution, by way of a dividend, of US$15 million to its preference shareholder, RCA Fund on November 15, 2013. The source of funding for the distribution was internally generated funds.