

# SpringREIT

Spring Real Estate Investment Trust

春泉產業信託

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

Stock Code : 01426

2014  
Interim Report

Managed by  
Spring Asset Management Limited



## SPRING REAL ESTATE INVESTMENT TRUST

Spring Real Estate Investment Trust (“**Spring REIT**”) is a real estate investment trust constituted by a trust deed (the “**Trust Deed**”) entered into on 14 November 2013 between Spring Asset Management Limited, as manager of Spring REIT (the “**Manager**”), and DB Trustees (Hong Kong) Limited, as trustee of Spring REIT (the “**Trustee**”). Units of Spring REIT (the “**Units**”) were first listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 5 December 2013 (the “**Listing Date**”).

## SPRING ASSET MANAGEMENT LIMITED

Spring REIT is managed by Spring Asset Management Limited, a company incorporated in Hong Kong for the sole purpose of managing Spring REIT. The Manager is wholly owned by AD Capital Co., Ltd., (“**AD Capital**”) which is a private equity investment firm owned by Development Bank of Japan, Asuka Holdings Co., Ltd., and certain minority management shareholders.

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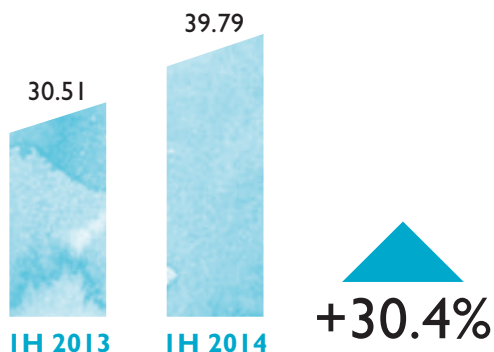
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# Performance Highlights

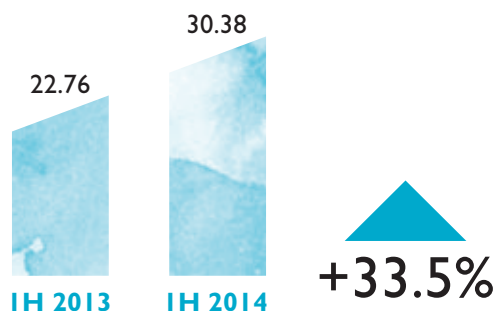
## Total Revenue

(US\$ million)



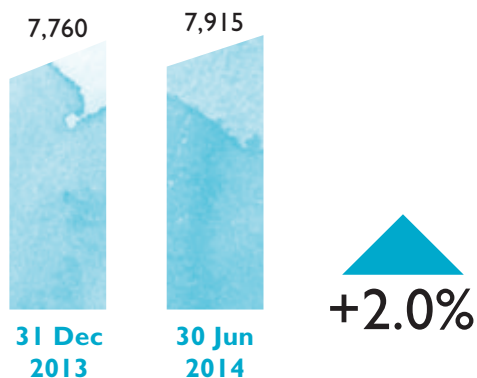
## Net Property Income

(US\$ million)

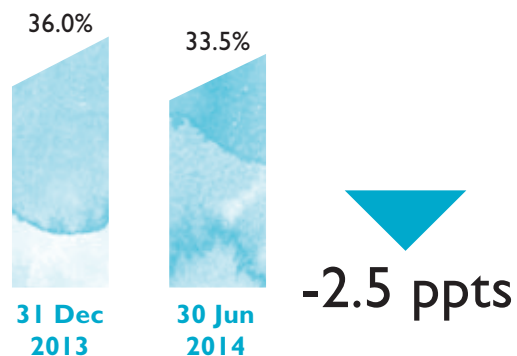


## Appraised Property Value

(RMB million)

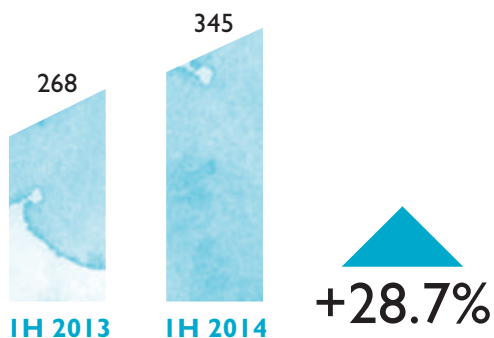


## Total Borrowings to Gross Asset Value

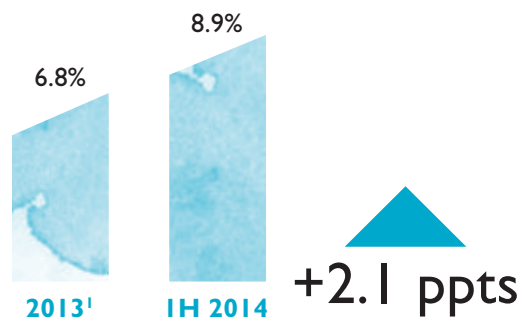


## Average Monthly Passing Rental

(RMB/sqm)



## Implied Annualized Distribution Yield



<sup>1</sup> For the period from Listing Date to 31 December 2013

# Results Highlights



Below are the interim results highlights of Spring REIT and its special purpose vehicle (together, the “Group”) for the six months ended 30 June 2014 (“Reporting Period”), and for the periods indicated:

	Six Months Ended 30 June 2014	Six Months Ended 30 June 2013	Change
Total Revenue (US\$ million)	<b>39.79</b>	30.51	+30.4%
Net Property Income (US\$ million)	<b>30.38</b>	22.76	+33.5%
Net Property Income Margin	<b>76.4%</b>	74.6%	+1.8 ppts

	As at 30 June 2014	As at 31 December 2013	Change
Gross Assets (US\$ million)	<b>1,367.13</b>	1,403.68	-2.6%
Appraised Property Value (US\$ million)	<b>1,275.98</b>	1,272.78	+0.3%
Appraised Property Value (RMB million)	<b>7,915.00</b>	7,760.00	+2.0%
Net Assets Attributable to Unitholders (US\$ million)	<b>870.91</b>	862.24	+1.0%
Net Assets Attributable to Unitholders per Unit (HK\$)	<b>6.12</b>	6.09	+0.5%
Total Borrowings (US\$ million)	<b>457.76</b>	504.80	-9.3%
Total Borrowings to Gross Asset Value	<b>33.5%</b>	36.0%	-2.5 ppts
Number of Units Outstanding	<b>1,102,859,141</b>	1,098,000,000	+0.4%

	2014 Interim Distribution	2013 Final Distribution	Special Distribution
Total Distribution (US\$ million) <sup>1</sup>	<b>19.77</b>	2.25	9.91
Distribution per Unit (HK cent) <sup>2</sup>	<b>13.9</b>	1.6	7.0
Announcement Date	<b>18 August 2014</b>		17 March 2014
Record Date	<b>12 September 2014</b>		9 April 2014
Payment Date	<b>30 September 2014</b>		16 May 2014
Distribution Yield <sup>3</sup>	<b>4.4%</b>	0.5%	2.2%
Implied Annualized Distribution Yield <sup>3</sup>	<b>8.9%</b>	6.8%	N/A

Notes:

<sup>1</sup> These total distributions represent distribution of 100% of the amount available for distribution for each period. For details of the amount available for distribution, please refer to the section headed “Statement of Distributions” in the condensed consolidated financial information.

<sup>2</sup> Cumulatively, distribution per Unit for the period from 5 December 2013 (the Listing Date) to 30 June 2014 (including the Special Distribution paid on 16 May 2014) amounts to HK22.5 cents.

<sup>3</sup> Distribution yield and implied annualized distribution yield are based on distribution per Unit for each period and closing price of the Units of HK\$3.16 on 30 June 2014.



# Distribution Summary

## Total Distributable Income

Total distributable income (“**TDI**”) is the consolidated audited or reviewed profit after tax before transactions with the unitholders of Spring REIT (the “**Unitholders**”) as adjusted to eliminate the effects of certain non-cash items. For details of the adjustment, please refer to the section headed “Statement of Distributions” in the condensed consolidated financial information. TDI to the Unitholders for the six-month period from 1 January 2014 to 30 June 2014 amounted to approximately US\$19.75 million. Together with the US\$0.02 million discretionary distribution, total amount available for distribution for the Reporting Period amounted to approximately US\$19.77 million. TDI to the Unitholders for the 27 days period from the Listing Date to 31 December 2013 (the “**Relevant Period**”) amounted to approximately US\$2.25 million. Total amount available for distribution for the Relevant Period amounted to approximately US\$2.25 million.

Total aggregate amount available for distribution for the Reporting Period and Relevant Period amounted to US\$22.02 million.

## Distribution

The Manager has resolved to declare an interim distribution to Unitholders for the Reporting Period (“**2014 Interim Distribution**”) of HK13.9 cents per Unit and a final distribution for the Relevant Period (“**2013 Final Distribution**”) of HK1.6 cents per Unit, amounting to a total regular distribution (“**First Regular Distribution**”) of HK15.5 cents per Unit. This represents a 100% distribution of Spring REIT’s total amount available for distribution for the Relevant Period and Reporting Period. The First Regular Distribution, however, is subject to adjustment upon further issuance of new Units between 1 July 2014 and 12 September 2014 (the “**Record Date**”), if any. For details of the distribution, please refer to the section headed “Statement of Distributions” in the condensed consolidated financial information.

All distribution will be made in Hong Kong dollars.

The Manager confirms that the First Regular Distribution is composed only of TDI and certain discretionary distribution in the nature of capital.

## Distribution Yield

Distribution per Unit (“**DPU**”) for the six months ended 30 June 2014 (the Reporting Period) is HK13.9 cents based on the number of outstanding Units of 1,102,859,141 as at 30 June 2014. The DPU for the Reporting Period represents an annualized distribution yield of approximately 8.9% based on the closing price of HK\$3.16 per Unit as at 30 June 2014.

DPU for the period from 5 December 2013 to 31 December 2013 (the Relevant Period) is HK1.6 cents based on the number of outstanding Units of 1,102,859,141 as at 30 June 2014. The DPU for the Relevant Period represents an annualized distribution yield of approximately 6.8% based on the closing price of HK\$3.16 per Unit as at 30 June 2014.

As at the date of this report, the total number of outstanding units is 1,106,289,635.



## Distribution Policy

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

Pursuant to the terms of the Trust Deed, distribution in respect of the Relevant Period would be paid at the same time as the distribution in respect of the Reporting Period.

## Closure of Register of Unitholders

The Record Date of the First Regular Distribution will be 12 September 2014, Friday. The register of Unitholders will be closed for the purpose of determining the identity of Unitholders from 11 September 2014, Thursday to 12 September 2014, Friday, both days inclusive, during which period no transfer of Units will be registered. The First Regular Distribution is expected to be payable on 30 September 2014, Tuesday to Unitholders whose names appear on the register of Unitholders on the Record Date.

In order to qualify for the First Regular Distribution, all properly completed transfer forms in respect of transfer of Units (accompanied by the relevant Unit certificates) must be lodged with Spring REIT’s unit registrar in Hong Kong, being Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 10 September 2014, Wednesday.



# Chairman's Statement

On behalf of the board of directors of the Manager (the "**Board**"), I am pleased to present the unaudited consolidated interim results of the Group for the six months ended 30 June 2014.

## Strong Growth Delivered

The Group recorded excellent performance for the six months ended 30 June 2014. Compared to the same period in the last financial year, total revenue grew by 30.4% to an all-time high of US\$39.79 million and net property income increased by 33.5% to US\$30.38 million.

During the first half of 2014, new and renewed leases equivalent to 27.0% of leased gross floor area ("**GFA**") (as at 30 June 2014) have been signed and became effective. Attributable to active leasing management and positive rental reversions, for the six months ended 30 June 2014, the Group achieved an average monthly passing rental of RMB345 per square meter ("**sqm**"), 28.7% higher than RMB268 per sqm recorded for the six months ended 30 June 2013. Average monthly spot rental maintained at a satisfactory level of RMB377 per sqm, compared with RMB376 per sqm recorded for the six months ended 30 June 2013.

## 2013 Final Distribution and 2014 Interim Distribution

As disclosed in the Offering Circular, Spring REIT's First Regular Distribution comprises (i) the final distribution for the 27 days period from 5 December 2013 (the Listing Date) to 31 December 2013, and (ii) the interim distribution for the six months period from 1 January 2014 to 30 June 2014. Accordingly, the 2013 Final Distribution together with the 2014 Interim Distribution, which in aggregate form the First Regular Distribution, are expected to be payable on 30 September 2014, Tuesday to Unitholders whose names appear on the register of Unitholders on 12 September 2014, Friday.

The Board has resolved to declare a total distribution per Unit of HK15.5 cents as the First Regular Distribution. This comprises of the final distribution of HK1.6 cents per Unit for the period from 5 December 2013 (the Listing Date) to 31 December 2013 and an interim distribution of HK13.9 cents per Unit for the six months ended 30 June 2014.

Including the special distribution of HK7.0 cents per Unit already paid on 16 May 2014, cumulative distributions for the period from 5 December 2013 to 30 June 2014 amounts to HK22.5 cents per Unit. Based on the closing price of HK\$3.16 on 30 June 2014, this implies a cumulative distribution yield of 7.1% for a period of less than 7 months, and demonstrates the Manager's commitment to deliver distributions to the Unitholders.

## Increasing Market Awareness and Disclosure Transparency

In an effort to provide investors with more timely and transparent operating updates of Spring REIT, the Manager has commenced, on a voluntary basis, the disclosure of unaudited quarterly operating statistics during the first half of 2014. The unaudited operating statistics of the Group for the three months ended 31 March 2014 and 30 June 2014 were announced on 7 May 2014 and 22 July 2014, respectively. The Manager will adopt a consistent policy to publish such operating statistics each quarter going forward.

As Spring REIT established a trading record on the Stock Exchange, we are pleased to see that Spring REIT has been included in various equity indices. It became a member to the Hang Seng REIT Index on 10 March 2014 and to the MSCI China Small Cap Index as of the market close of 30 May 2014. By putting Spring REIT in the investment universe of a large number of institutional investors, we believe these inclusions will raise the profile of Spring REIT among institutional investors and will contribute to its trading liquidity.





## Outlook

In the first half of 2014, growth in China's economy continued to moderate. China's first quarter gross domestic product ("GDP") rose 7.4% from a year earlier, the slowest since third quarter in 2012, before recording a higher 7.5% annual growth in the second quarter. In an effort to attain the 7.5% annual GDP growth target and make up for the slowdown in the residential real estate sector, the Chinese government announced a "mini-stimulus" package in April 2014, which focuses on increasing railway investment, extension of tax breaks for small businesses and targeted lending.

In the second half of 2014, despite uncertainties in the Chinese economy, we expect positive rental reversion to continue for the premium office properties of Spring REIT, as passing rental further catches up with spot rental. Spot rental level is likely to be underpinned by favorable supply-demand dynamics, amidst limited new supply of high-quality office space in Beijing central business district ("CBD"), coupled with low vacancy and healthy take-ups. Longer term, we believe Spring REIT remains well-positioned to benefit from rising demand for high-quality office space on the back of China's urbanization and a structural economic shift towards service sectors.

To ensure long-term development prospect of Spring REIT, the Manager will stay diligent in actively managing its properties to maximize its long-term value and distribution income. We have committed to distribute 100% of the distributable income for the year ending 31 December 2014. We will continue to enhance communication with Unitholders and the investment community, while keeping a close eye on potential acquisitions in Asia that would further enhance Unitholder value.

## Appreciation

Finally, on behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all the Unitholders for their trust and support. I would also like to thank the Manager's team and the professional parties for their hard work and dedication.

### **Toshihiro Toyoshima**

*Chairman and Non-executive Director*

### **Spring Asset Management Limited**

*(as manager of Spring REIT)*

18 August 2014



# Management Discussion and Analysis



## Property and Industry Overview

### The Property

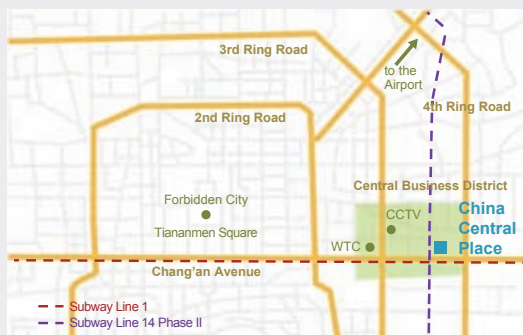
Spring REIT's principal assets includes two Premium Grade office buildings with a total GFA of 120,245 sqm and approximately 600 car parking space at China Central Place, Beijing, China (the "**Property**").

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

### Overview of Spring REIT's Properties

- The portfolio includes all office floors of Office Tower 1 and Office Tower 2 (total GFA of 120,245 sqm) of China Central Place and approximately 600 car parking spaces (total GFA of 25,127 sqm).
- China Central Place is a prime mixed-use complex in Beijing CBD with well-recognized brand hotels and shopping centers, including
  - ▶ Hotels — Ritz Carlton, JW Marriott
  - ▶ Shin Kong Place — one of the largest department stores in China by sales
  - ▶ Retail stores of international brands
- Appraised value RMB7,915.00 million<sup>1</sup> (equivalent to US\$1,275.98 million).
- Average Occupancy rate 95%<sup>2</sup>.

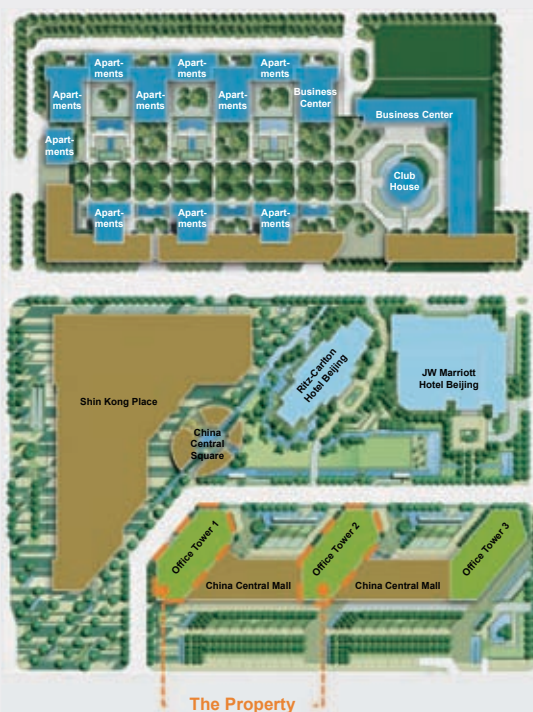
### Location Map



<sup>1</sup> As at 30 June 2014

<sup>2</sup> Average occupancy for the six months ended 30 June 2014

### Site Plan of China Central Place



### Accessibility

- Direct access to Subway Line I through the underground shopping mall
- Will be directly connected to Subway Line I4 Phase II (expected to be in operation in December 2014)
- About 20 km away from the Beijing Capital International Airport



## Property Valuation

According to a revaluation performed by Colliers International (Hong Kong) Limited, (the “Principal Valuer”) on the Property, the revalued market valuation as at 30 June 2014 was RMB7,915.00 million (equivalent to US\$1,275.98 million), representing an increase of RMB155.00 million or approximately 2.0% over the valuation as at 31 December 2013. The capitalization rate used to value the Property has remained the same at 7% as compared with that of 31 December 2013, and the increase in appraised value was attributable to higher rental assumptions based on newly committed leases.

## Office Market in Beijing CBD

As the capital city of China, Beijing takes on the role within the country as the exchange center of politics, culture, education and international affairs. Moreover, it is the management and decision center of China’s economy, with a high concentration of government institutions. Because of its unique advantage as the capital city, Beijing has attracted both domestic companies and multinational corporations to settle and do business.

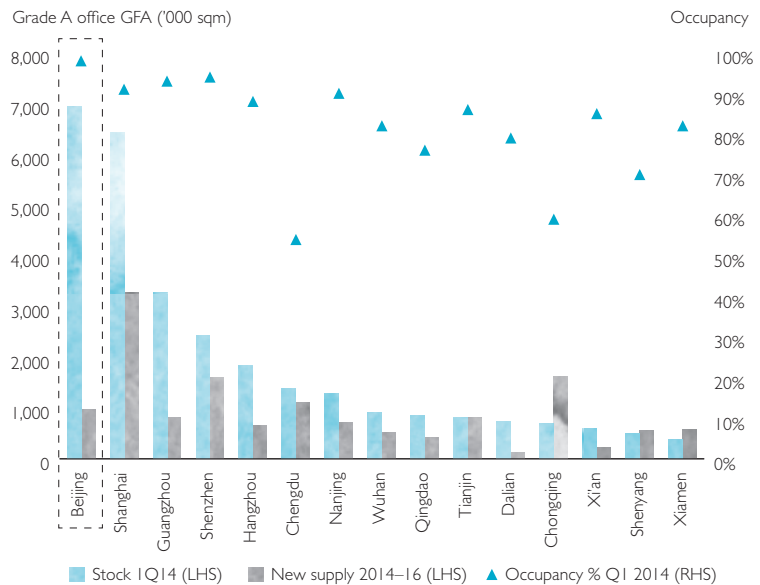
Beijing CBD is situated on the east side of the city in Chaoyang District. It is traditionally around the intersection of Jianguo Road and East 3rd Ring Road and now extended to cover the 4th Ring Road. As at 30 June 2014, CBD submarket accounted for 37.4% of the city’s total Grade-A office space, with a total GFA of around 2.61 million sqm.<sup>1</sup>

The favorable supply-demand dynamics of Grade-A office market in Beijing CBD continued in the first half of 2014. Against this backdrop, a sizable Grade-A office project completed at the end of last year has ramped up its occupancy to over 60% with high effective rent.<sup>1</sup>

With a continued strong underlying demand and limited new supply in the market, average occupancy reached 96.6% in June 2014 in CBD submarket, an increase from 95.1% at end of December 2013.<sup>1</sup>

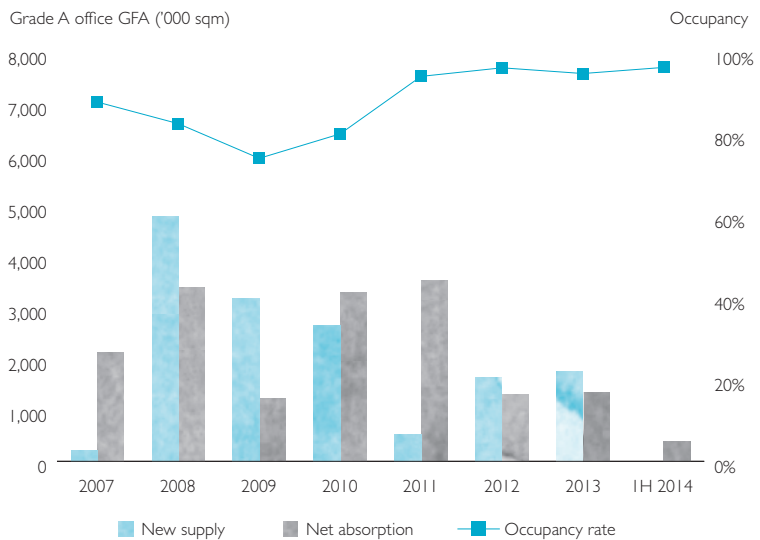
<sup>1</sup> Data source: DTZ Consulting, June 2014.

## Grade-A office markets across China



Data source: DTZ Consulting, June 2014

## Grade-A office market in Beijing CBD



Data source: DTZ Consulting, June 2014

## Operating and Financial Review

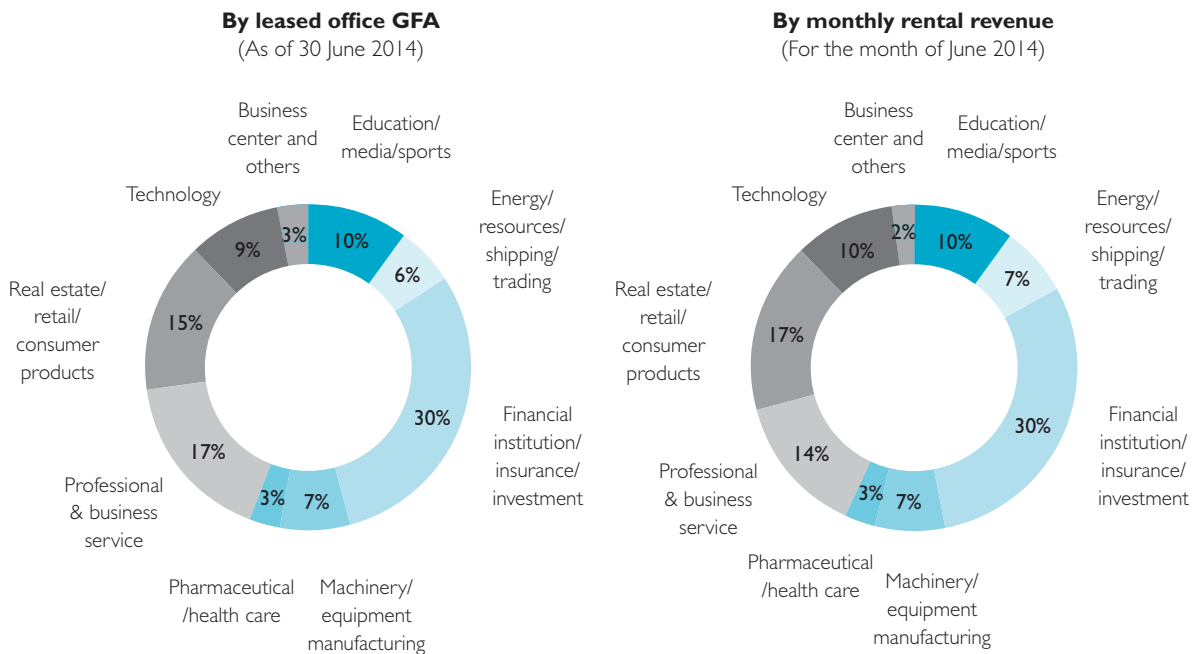
### Leasing Performance

The Property enjoyed consistently high occupancy rate averaging above 95% for the six months ended 30 June 2014. In GFA terms, 27.0% of the leases as at 30 June 2014 were entered into during the six months ended 30 June 2014, of which around 78.9% were renewals.

By active leasing management and positive rental reversion, the Group's passing rental increased substantially. For the six months ended 30 June 2014, average monthly passing rental grew 28.7% to RMB345 per sqm, from RMB268 per sqm for the six months ended 30 June 2013. In terms of effective spot rental, the Group achieved an average monthly spot rental of RMB377 per sqm, maintained at a satisfactory level, compared with RMB376 per sqm recorded for the six months ended 30 June 2013.

Taking advantage of the renewal opportunities and signing up new tenants in the first half of 2014, the Group had managed to raise the average monthly passing rental closer to average monthly spot rental, thus delivering significantly increase in rental income during the Reporting Period.

### Tenant mix analysis





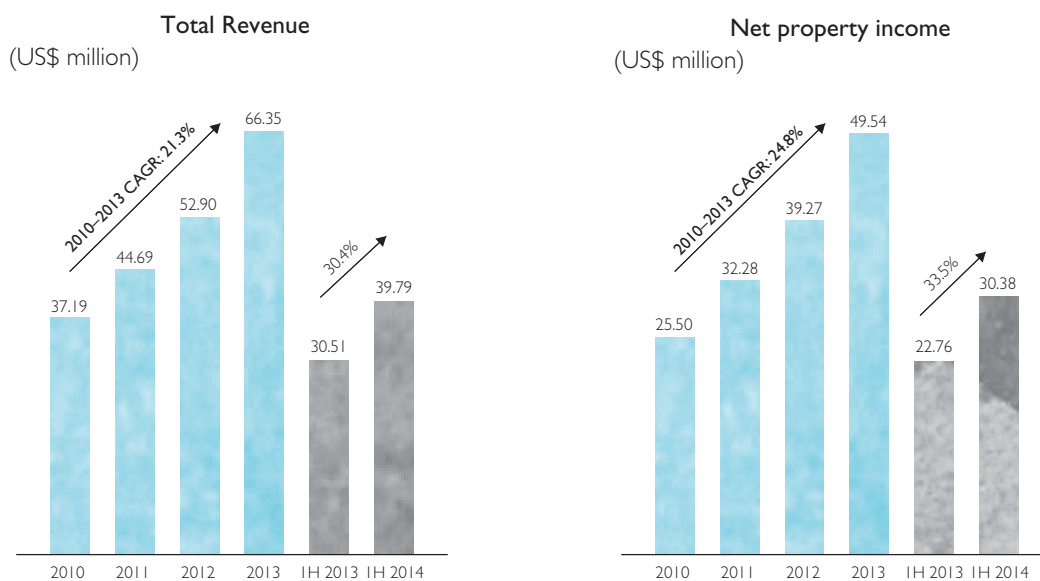
## Business Performance

The Group recorded excellent performance for the six months ended 30 June 2014, as it continued to benefit from positive rental reversions from its premium assets. Total revenue of the Group increased by 30.4% year-on-year for the six months ended 30 June 2014 to an all-time high of US\$39.79 million.

Property operating expenses rose 21.3% year-on-year to US\$9.41 million for the six months ended 30 June 2014. Withholding tax, business and other tax, and property tax accounted for 87.5% of the property operating expenses. Property management fee, payable at 2.0% of total revenue, accounted for 8.5% of the property operating expenses.

Net property income rose 33.5% to US\$30.38 million largely commensurate with the corresponding increase in total revenue. Net property income margin increased by 1.8 percentage points to 76.4% for the six months ended 30 June 2014, compared with 74.6% for the six months ended 30 June 2013, reflecting good cost management and positive operating leverage.

Fair value gain of investment property moderated to US\$24.88 million for the six months ended 30 June 2014, representing a 2.0% increase in fair value in RMB terms as compared with the appraised value as at 31 December 2013. Taking into account of this moderate increase in property value, net asset value per Unit was HK\$6.12, compared to HK\$6.09 per Unit at the end of 2013.



## Finance Costs

Total finance costs on interest-bearing borrowings came in at US\$19.27 million for the six months ended 30 June 2014, comparing with US\$9.39 million recorded in the six months ended 30 June 2013. Excluding certain accounting adjustments (namely gains and losses resulting from the foreign currency translations, and an exceptional derecognition of an unamortized loan arrangement fee in January 2013) totaling US\$7.66 million, the interest expense on bank borrowings decreased 18.0% to US\$11.61 million for the six months ended 30 June 2014, comparing with US\$14.15 million in the six months ended 30 June 2013. This is largely attributable to the early principal repayment of US\$50.00 million in January 2014, which reduced the notional loan principal amount to US\$465.00 million, and lower market interest rates.



## Management Discussion and Analysis (continued)

### Non-cash Financial Impacts From Foreign Exchange Fluctuations

On the back of an approximately 1.74% depreciation in RMB against the USD, the Group recorded a foreign exchange loss of US\$8.07 million during the six months ended 30 June 2014. This is mostly attributable to the foreign currency translation of the USD-denominated term loan facility.

This item is non-cash in nature and has no impact on the TDI of Spring REIT. Excluding this foreign exchange loss and other items that are non-cash in nature, the TDI for the Reporting Period was US\$19.75 million.

Currently, no currency hedge is employed for the Group. The Manager will closely monitor and evaluate the development in the foreign exchange market.

### Underlying Profits

Profit for the six months ended 30 June 2014 (before transactions with Unitholders) was US\$30.65 million, compared with US\$52.27 million in six months ended 30 June 2013. Excluding the above mentioned fair value gains of investment property US\$24.88 million (2013: US\$45.91 million) and the accounting adjustments on finance costs of -US\$7.66 million (2013: US\$4.76 million), underlying profit for the six months ended 30 June 2014 was US\$13.43 million<sup>1</sup>. This compares favorably with the underlying profit of US\$1.60 million for the six months ended 30 June 2013, reflecting the intrinsic growth of the Group's business.

### Debt Positions

On 28 January 2013, Spring REIT, through RCA01 (the special purpose vehicle wholly owned by Spring REIT), entered into a loan agreement with certain lending banks in connection with a three-year floating rate secured term loan facility in the amount of US\$515.00 million to be matured on 27 January 2016 (with an option to extend for a further period of one year) (the "**Term Loan Facility**").

On 28 January 2014, RCA01 made a US\$50.00 million early principal repayment of the Term Loan Facility, reducing the notional principal amount of the Term Loan Facility to US\$465.00 million.

As at 30 June 2014, the Term Loan Facility of US\$465.00 million was recognized to be US\$457.76 million in the financial information as of 30 June 2014, as such bank borrowing was carried at amortized cost in accordance with International Financial Reporting Standards. Bank borrowings are recognized initially at fair value, net of transaction costs incurred. They are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

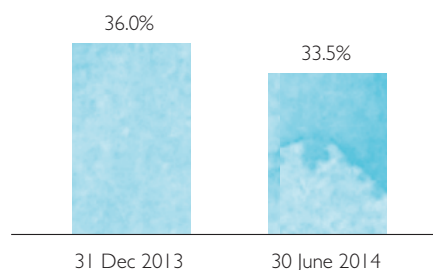
As at 30 June 2014, the gearing ratio (total borrowings to gross assets value) was 33.5%, down from 36.0% as at 31 December 2013.

### Pledged Assets

As at 30 June 2014, Spring REIT's investment property, derivative financial instruments, rent receivables, restricted bank accounts, and RCA01's ordinary shares were pledged to secure the Term Loan Facility.

Throughout the six months ended 30 June 2014, both Spring REIT and RCA01 have in material respects complied with all the terms and provisions of the Term Loan Facility.

Debt to Gross Asset Value



<sup>1</sup> The adjustments made here are different from those for calculating distributable income for Unitholders.



### Cash and Asset Positions

As at 30 June 2014, the Group's unrestricted cash amounted to US\$28.78 million, compared with US\$67.36 million as at 31 December 2013. The cash is generally placed in short-term deposits mostly denominated in US dollar. The Group's liquidity and financing requirements are reviewed regularly.

As at 30 June 2014, the gross asset value of the Group was US\$1,367.13 million, compared with US\$1,403.68 million recorded on 31 December 2013.

The reduction of both the cash and cash equivalents and gross assets was mostly because of the early principal repayment of US\$50.00 million of the Term Loan Facility on 28 January 2014 and the special dividends of US\$9.91 million paid on 16 May 2014.

### Net Assets Attributable to Unitholders

As at 30 June 2014, net assets attributable to Unitholders amounted to US\$870.91 million or HK\$6.12 per Unit.

The net asset value per Unit of HK\$6.12 also represented a 93.7% premium to the closing price of the Units of HK\$3.16 on 30 June 2014.

### New Units Issued

As at 30 June 2014, the total number of issued Units was 1,102,859,141. As compared with the position of 31 December 2013, a total of 4,859,141 new Units were issued during the Reporting Period.

Date	Particulars	No. of Units
31 December 2013	Beginning balance of total number of Units in issue.	1,098,000,000
21 March 2014	Issue of new Units to the Manager at the price of HK\$2.871 per Unit (being the Market Price as defined in the Trust Deed) as payment of 80% of the Manager's fees for the 27 days period from 5 December 2013 (the Listing Date) to 31 December 2013.	+1,164,987
23 May 2014	Issue of new Units to the Manager at the price of HK\$3.049 per Unit (being the Market Price as defined in the Trust Deed) as payment of 80% of the Manager's fees for the 3 months period ended 31 March 2014.	+3,694,154
30 June 2014	Ending balance of total number of Units in issue.	1,102,859,141

### Commitments

As at 30 June 2014, the Group did not have any significant commitments.

### Employees

Spring REIT is managed by the Manager and did not directly employ any staff as at 30 June 2014.

### Foreign Account Tax Compliance Act ("FATCA")

Hong Kong and the United States ("U.S.") have substantially concluded discussions and agreed in substance on form of a Model 2 inter-governmental agreement ("IGA") which will facilitate compliance by financial institutions in Hong Kong with FATCA. Under the IGA, a Hong Kong "financial institutions" will need to register with U.S. Internal Revenue Service ("IRS"). Hong Kong and the U.S. are expected to formally sign a Model 2 IGA later this year.

As Spring REIT is considered to be a "financial institution" for the purpose of FATCA, the Manager, in its capacity as the "Sponsoring Entity" of Spring REIT, registered with the IRS on 27 June 2014 and the registration was approved on 29 June 2014.





# Corporate Governance

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

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

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

## Authorization Structure

Spring REIT is a collective investment scheme authorized by the Securities and Futures Commission (the "**SFC**") under section 104 of the SFO and regulated by certain laws, regulations and documents including the provisions of the REIT Code. The Manager is licensed by the SFC under section 116 of the SFO to conduct the regulated activity of asset management. As at the date of this report, Mr. Lau Jin Tin, Don (the Executive Director of the Manager), Mr. Nobumasa Saeki (the Executive Director of the Manager) and Mr. Chung Wai Fai (the Senior Vice President of the Manager) are the responsible officers of the Manager pursuant to the requirements under section 125 of the SFO and Paragraph 5.4 of the REIT Code. Mr. Lau Jin Tin, Don (the Executive Director of the Manager) was approved by the SFC as an approved person of the Manager pursuant to section 104(2) and 105(2) of the SFO.

DB Trustees (Hong Kong) Limited, in its capacity as trustee of Spring REIT, is registered as a trust company under section 77 of the Trustee Ordinance (Cap. 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.

## Conflicts of Interest and Business Competitions

AD Capital may influence the affairs of Spring REIT through its control over RCA Fund 01, L.P. ("**RCA Fund**") and the Manager. RCA Fund, a fund managed by AD Capital pursuant to a management agreement between AD Capital and RCA Fund (acting through its general partner, RCAC), held 35.7% interest in Spring REIT as at 30 June 2014. AD Capital will therefore have the ability to influence RCA Fund's right as a Unitholder in respect of the affairs of Spring REIT (in so far as such matters are subject to the vote by the Unitholders and RCA Fund is not required to abstain from voting), including in relation to approval of significant corporate transactions, such as acquisitions and disposals. In addition, the Manager is a wholly-owned subsidiary of AD Capital and some of its Non-Executive Directors are also directors and/or senior executives of AD Capital. AD Capital may exercise influence over the activities of Spring REIT through the Manager.

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





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

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

The Manager has established the following measures to deal with conflicts of interest:

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



### Code Governing Dealings in Units by Directors or the Manager

To monitor and supervise any dealings of Units, the Manager has adopted a personal account dealing policy containing rules on dealings by the Directors or the Manager (the “**Dealings Code**”) on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. The Dealings Code governs dealings by the Manager, all Directors, senior executives, officers or employees of the Manager, subsidiaries of the Manager or the special purpose vehicles of Spring REIT (“**Management Persons**”) who, because of his/her office or employment in the Manager, the relevant subsidiaries of the Manager or the relevant special purpose vehicles, is likely to be in possession of unpublished price sensitive information in relation to the securities of Spring REIT.

On specific enquiries made with each of the Management Persons, all of them confirmed that they have complied with the required standards as set out in the Dealings Code for the six months ended 30 June 2014.

### Review of the Interim Results

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

### Change in Information of Directors of the Manager

During the Reporting Period, the Manager received notification regarding the following change of Director’s information:

Director	Change in Information
Mr. Lau Jin Tin, Don Executive Director of the Manager	— Appointed as a director of RCA01 with effect from 23 May 2014. — Appointed as the independent non-executive director and a member of the audit and nomination committees of WH Group Limited (a company listed on the Stock Exchange (stock code: 0288)) with effect from the listing date of 5 August 2014.
Mr. Simon Murray Independent Non-Executive Director of the Manager	— Resigned as the Vice Chairman and independent non-executive director of Essar Energy plc (a company listed on the London Stock Exchange) on 19 May 2014.

### Purchase, Sale or Redemption of Units

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 during the six months ended 30 June 2014.

### Public Float of the Units

As far as the Manager is aware, Spring REIT has maintained a sufficient public float with more than 25% of the issued and outstanding Units being held by the public as at 30 June 2014.

# Connected Party Transactions

## Connected Party Transactions — Income

The following table sets forth information on connected party transactions (other than those transactions entered into with the Trustee Connected Persons (as defined in the Offering Circular)) from which Spring REIT and/or RCA01 derived its income in the six months ended 30 June 2014:

Name of Connected Party	Relationship with Spring REIT	Nature of Connected Party Transaction	Income for the Reporting Period RMB	Rental Deposit received as at 30 June 2014 RMB
AD Capital (Beijing) Investment Consulting Co., Ltd.	Associated company of the Manager and associate of a director of the Manager <sup>1</sup>	Leasing	343,520	216,244
DBJ-JAIC Investment Consulting (Beijing) Co., Ltd.	Associated company of the Manager <sup>2</sup>	Leasing	434,665	275,856
Wownew (Beijing) Commerce Co. Ltd.	Associate of a director of the Manager <sup>3</sup>	Leasing	142,043	Nil

Notes:

1. AD Capital (Beijing) Investment Consulting Co., Ltd. (formerly known as Asuka DBJ (Beijing) Investment Consulting Co., Ltd.) is wholly owned by AD Capital (a private equity investment firm owned by Development Bank of Japan, Asuka Holdings Co, Ltd. (effective since 10 June 2014), and certain minority management shareholders), which holds 100% shareholding in the Manager. Both Mr. Toshihiro Toyoshima, the Chairman and Non-Executive Director of the Manager, and Mr. Hideya Ishino, Non-Executive Director of the Manager, are also the directors of AD Capital (Beijing) Investment Consulting Co., Ltd.
2. DBJ-JAIC Investment Consulting (Beijing) Co., Ltd. is wholly owned by Development Bank of Japan, which indirectly holds a 44% shareholding in the Manager through AD Capital.
3. Mr. Toshihiro Toyoshima, the Chairman and Non-Executive Director of the Manager, is also a director of Wownew (Beijing) Commerce Co. Ltd. The lease with Wownew (Beijing) Commerce Co. Ltd. has expired in May 2014.

### Connected Party Transactions — Expenses

The following table sets forth information on connected party transactions (other than those transactions entered into with the Trustee Connected Persons) in which Spring REIT and/or RCA01 incurred its expenses in the six months ended 30 June 2014:

Name of Connected Party	Relationship with Spring REIT	Nature of Connected Party Transaction	Expenses for the Reporting Period RMB
Beijing Hua-re Real Estate Consultancy Co., Ltd.	Associated company of the Manager <sup>1</sup>	Property management	4,927,358

Note:

1. Beijing Hua-re Real Estate Consultancy Co., Ltd. is owned as to 40% by AD Capital which holds 100% shareholding in the Manager.

### Connected Party Transactions with Trustee Connected Persons

The following table sets forth information on connected party transactions entered into with the Trustee Connected Persons in the six months ended 30 June 2014:

Name of Connected Party	Relationship with Spring REIT	Nature of Connected Party Transaction	Income for the Reporting Period RMB	Rental Deposit received as at 30 June 2014 RMB
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#### Leasing Transactions

Deutsche Bank AG and its subsidiaries	Trustee Connected Persons	Leasing	12,152,418	884,869 <sup>1</sup>
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#### Ordinary Banking and Financial Services

Deutsche Bank AG, Hong Kong Branch	Trustee Connected Persons	Interest income received/receivable on bank deposits	1,371,357	N/A
Deutsche Bank AG, Hong Kong Branch	Trustee Connected Persons	Bank charges	13,951	N/A

Note:

1. A rental deposit by way of bank guarantee provided by Deutsche Bank (China) Co., Ltd. was held by RCA01 as at 30 June 2014.

## Connected Party Transactions — Leasing under Which the Annual Income Exceed HK\$1 Million.

The following table sets forth information on leasing transactions with connected persons with annual income that exceeds HK\$1 million in the six months ended 30 June 2014:

Name of Connected Party	Relationship with Spring REIT	Nature of Connected Party Transaction	Rental income for the Reporting Period RMB
Deutsche Bank (China) Company Ltd.	Trustee connected person	Lease for the whole of 26th, 27th and 28th floors of Tower I, China Central Place and signage income	12,152,418
Zhong De Securities	Trustee connected person	Lease for the whole of 22nd and 23rd floors of Tower I, China Central Place and signage income	10,275,323

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

Both the Manager and the Trustee confirm that there is no corporate finance transaction and other connected party transaction (save and except for those disclosed hereinabove) with the Trustee Connected Persons during the Reporting Period and that the Trustee has not been involved in the making of any decision to enter into any corporate finance transaction on behalf of Spring REIT and/or RCA01 (subject to the Trustee's duties of oversight under the REIT Code and the Trust Deed) including the selection of the financial advisor of the transaction, during the Reporting Period.

## Confirmation by the Independent Non-Executive Directors

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

- (a) in the ordinary and usual course of business of Spring REIT;
- (b) on normal commercial terms (to the extent that there are comparable transactions) or, where there are insufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to Spring REIT and/or RCA01 than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreement and the Manager's internal procedures governing them, if any, on terms that are fair and reasonable and in the interests of the Unitholders as a whole.



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

Pursuant to note 2 to Paragraph 8.10 of the REIT Code, services provided by the Manager, the Trustee and the Principal Valuer to Spring REIT as contemplated under the constitutive documents shall not be deemed connected party transactions. Therefore, such services are not disclosed in the above sections. During the six months ended 30 June 2014, the aggregate amount of fees payable by Spring REIT and/or RCA01 to the Manager, the Trustee and Principal Valuer were RMB22,922,628, RMB734,074 and RMB124,624 respectively. Particulars of services provided by the Manager, the Trustee and the Principal Valuer are set out in notes 8, 11 and 8 respectively of the condensed consolidated financial information of Spring REIT for the six months ended 30 June 2014.

# Disclosure of Interests



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

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

As at 30 June 2014, the interests and short positions held by the Manager, the Directors, senior executives and officers of the Manager in the Units which were required to be disclosed to the Manager and the Stock Exchange pursuant to the provisions of Part XV of the SFO are set out below:

Name	As at 30 June 2014 Number of Units Interested (Long Position)	As at 31 December 2013 Number of Units Interested (Long Position)	Change in interest
The Manager	4,859,141 <sup>1</sup>	–	+4,859,141
Toshihiro Toyoshima	300,000 <sup>2</sup>	–	+300,000
Lau Jin Tin, Don	200,000 <sup>3</sup>	–	+200,000
Hideya Ishino	49,000 <sup>4</sup>	–	+49,000

Notes:

1. For the period from 1 January 2014 to 30 June 2014, the Manager received 4,859,141 new Units as payment of the Manager's fees. The Manager held these Units in the capacity as beneficial owner.
2. These Units represent personal interest held by Mr. Toshihiro Toyoshima, Chairman and Non-Executive Director of the Manager, as beneficial owner.
3. These Units represent personal interest held by Mr. Lau Jin Tin, Don, Executive Director of the Manager, as beneficial owner.
4. These Units represent personal interest held by Mr. Hideya Ishino, Non-Executive Director of the Manager, as beneficial owner.

Save as disclosed above, none of the Manager, the Directors, senior executives and officers of the Manager had beneficially interested (or deemed to be interested) in Units or held any short position in Units as at 30 June 2014 which were required to be notified to the Manager and the Stock Exchange pursuant to Divisions 7, 8 and 9 of Part XV of the SFO or pursuant to the Dealings Code as adopted by the Manager.



### Interests Held by Significant Holders

As at 30 June 2014, each of the following persons was considered as a “significant holder” of Units and hence a “connected person” of Spring REIT within the meaning and for the purpose of the REIT Code. Their interests or short positions in Units which were required to be disclosed to the Manager and the Stock Exchange pursuant to the provisions of Part XV of the SFO are set out below:

Name	As at 30 June 2014		As at 31 December 2013		Change in % interest
	Number of Units Interested (Long Position)	% of Unit Holding <sup>1</sup>	Number of Units Interested (Long Position)	% of Unit Holding <sup>1</sup>	
RCA Fund <sup>2</sup>	393,859,000	35.7	658,500,000	60.0	-24.3
RCAC <sup>2</sup>	393,859,000	35.7	658,500,000	60.0	-24.3
Asuka Asset Management Co., Ltd. <sup>3</sup>	132,890,000	12.0	–	–	+12.0

Notes:

- The percentages expressed are based on the total number of issued Units of 1,102,859,141 as at 30 June 2014 and 1,098,000,000 as at 31 December 2013 respectively.
- Based on the information available to the Manager, as at 30 June 2014, RCA Fund had beneficial interest in 393,859,000 and held these Units in the capacity as beneficial owner.

Based on the information available to the Manager, RCAC is a general partner of RCA Fund. RCAC has the exclusive right on the management, control and operation in RCA Fund and is deemed to have corporate interest in the Units held by RCA Fund. RCAC held the Units through RCA Fund in the capacity as interest of controlled corporation.

Pursuant to the Offering Circular, during the Reporting Period, RCA Fund made distributions in-specie of 264,641,000 Units in aggregate to its limited partners. As a result of such distributions in-specie, Asuka Asset Management Co., Ltd. and HS Securities Co., Ltd. reached or exceeded the notifiable percentage level (as defined in the SFO).

- Based on the information available to the Manager, as at 30 June 2014, Asuka Asset Management Co., Ltd. had other interest in 132,890,000 Units and held these Units in the capacity as investment manager.

Save as disclosed above, no other significant holders had beneficially interested (or deemed to be interested) in Units or held any short position in Units as at 30 June 2014 which were required to be notified to the Manager and the Stock Exchange pursuant to Divisions 7, 8 and 9 of Part XV of the SFO or pursuant to the Dealings Code as adopted by the Manager.



## Interests Held by Substantial Unitholders under the SFO

As at 30 June 2014, the interests and short position in Units held by persons, other than the Manager, its Directors or senior executives and officers of the Manager or significant holders of Spring REIT, who were interested in 5% or more but below 10% of Units which were required to be disclosed to the Manager and the Stock Exchange pursuant to the provisions of Part XV of the SFO are set out below:

Name	As at 30 June 2014		As at 31 December 2013		Change in % interest
	Number of Units Interested (Long Position)	% of Unit Holding <sup>1</sup>	Number of Units Interested (Long Position)	% of Unit Holding <sup>1</sup>	
HS Securities Co., Ltd. <sup>2</sup>	60,465,000	5.5	–	–	5.5
Principal Real Estate Investors, LLC <sup>3</sup>	55,055,000	5.0	–	–	5.0

Notes:

1. The percentages expressed are based on the total number of issued Units of 1,102,859,141 as at 30 June 2014 and 1,098,000,000 as at 31 December 2013 respectively.
2. Based on the information available to the Manager, as at 30 June 2014, HS Securities Co., Ltd. had beneficial interest in 60,465,000 Units and held these Units in the capacity as beneficial owner.
3. Based on the information available to the Manager, as at 30 June 2014, Principal Real Estate Investors, LLC had other interest in 55,055,000 Units and held these Units in the capacity as investment manager.

Save as disclosed above, the Manager is not aware of any other substantial Unitholders under the SFO had beneficially interested (or deemed to be interested) in 5% or more but below 10% of Units or held any short position in Units as at 30 June 2014 which were required to be notified to the Manager and the Stock Exchange pursuant to Divisions 7, 8 and 9 of Part XV of the SFO or pursuant to the Dealings Code as adopted by the Manager.

## Interests Held by Other Connected Persons

As at 30 June 2014, saved as disclosed above, the Manager is not aware of any other connected persons of Spring REIT, including the Trustee and the Principal Valuer, who are interested (or deemed to be interested) in Units which were required to be notified to the Manager and the Stock Exchange pursuant to Divisions 7, 8 and 9 of Part XV of the SFO or pursuant to the Dealings Code as adopted by the Manager.

# Report on Review of Interim Financial Information

## Introduction

We have reviewed the interim financial information of Spring Real Estate Investment Trust (the “**Spring REIT**”) and its subsidiary (together, the “**Group**”) set out on pages 25 to 50, which comprises the condensed consolidated interim statement of financial position as at 30 June 2014 and the related condensed consolidated interim income statement, condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of changes in equity and net assets attributable to Unitholders and condensed consolidated interim statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Manager are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 18 August 2014

# Condensed Consolidated Interim Income Statement

For the six months ended 30 June 2014

		Six months ended 30 June	
		2014 (Unaudited) US\$'000	2013 (Audited) US\$'000
	Note		
<b>Revenues</b>	6	<b>39,793</b>	30,510
Property operating expenses	7	<b>(9,410)</b>	(7,755)
<b>Net property income</b>		<b>30,383</b>	22,755
General and administrative expenses	8	<b>(4,566)</b>	(2,037)
Increase in fair value of investment property		<b>24,875</b>	45,912
Other losses	9	<b>(994)</b>	(5,158)
<b>Operating profit</b>		<b>49,698</b>	61,472
Finance income		<b>222</b>	188
Finance costs on interest-bearing borrowings	10	<b>(19,270)</b>	(9,394)
<b>Profit for the period, before transactions with Unitholders</b> (note i)		<b>30,650</b>	52,266
Special distribution paid to Unitholders (note ii)		<b>(9,912)</b>	–
		<b>20,738</b>	52,266
Represented by:			
Change in net assets attributable to Unitholders, excluding issuance of new units (note iii)		<b>6,785</b>	–
Amount arising from exchange reserve movement regarding translations of financial statements/profit for the period after transactions with Unitholders		<b>13,953</b>	52,266
		<b>20,738</b>	52,266

Notes:

- (i) Earnings per unit, based upon profit for the period, before transactions with Unitholders and the weighted average number of units in issue, is set out in Note 12.
- (ii) This represents the special distribution of US\$9,912,000 paid during the period. Total distribution for the six months ended 30 June 2014 is determined in the statement of distributions. The interim distribution declared in respect of this financial period is set out in the statement of distributions and is expected to be paid on 30 September 2014.
- (iii) Change in net assets attributable to Unitholders, excluding issuance of new units, represents the profit for the period ended 30 June 2014 net-off of special distribution paid to Unitholders and exchange reserve movement regarding translations of financial statements for the current period.

The notes on pages 34 to 50 are an integral part of these condensed consolidated interim financial information.

# Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2014

	Note	Before transactions with Unitholders (Unaudited) US\$'000	Transactions with Unitholders (Note (i)) (Unaudited) US\$'000	After transactions with Unitholders (Unaudited) US\$'000
<b>For the six months ended 30 June 2014</b>				
Profit for the period		30,650	(16,697)	13,953
Other comprehensive loss:				
<i>Items that may be reclassified subsequently to condensed consolidated interim income statement</i>				
Exchange loss on translation of financial statements		(13,953)	–	(13,953)
<b>Total comprehensive income for the period</b>	ii	<b>16,697</b>	<b>(16,697)</b>	<b>–</b>

		Before transactions with Unitholders (Audited) US\$'000	Transactions with Unitholders (Note (i)) (Audited) US\$'000	After transactions with Unitholders (Audited) US\$'000
<b>For the six months ended 30 June 2013</b>				
Profit for the period		52,266	–	52,266
Other comprehensive income:				
<i>Items that will not be reclassified subsequently to condensed consolidated interim income statement</i>				
Exchange gain on translation of financial statements		10,778	–	10,778
<b>Total comprehensive income for the period</b>		<b>63,044</b>	<b>–</b>	<b>63,044</b>

Notes:

- (i) Transactions with Unitholders comprise special distributions paid to unitholders of US\$9,912,000 and change in net assets attributable to Unitholders, excluding issuance of new units, of US\$6,785,000.
- (ii) In accordance with the Trust Deed, Spring REIT is required to distribute no less than 90% of total distributable income to the Unitholders. In accordance with the offering circular of Spring REIT dated 25 November 2013 (the "Offering Circular"), the Manager's current policy is to distribute to the Unitholders 100% of Spring REIT's total distributable income for the Relevant Period and the financial year ending 31 December 2014, and thereafter at least 90% of total distributable income in each subsequent financial year. Accordingly, the units contain contractual obligations of Spring REIT to pay cash distributions. The Unitholders' funds (which are represented by the net proceeds from the issuance of Units) are therefore classified as a financial liability rather than equity in accordance with International Accounting Standard 32: Financial Instruments: Presentation. Consistent with Unitholders' funds being classified as a financial liability, the distributions to Unitholders and change in net assets attributable to Unitholders, excluding issuance of new units, are part of finance costs which are recognized in the consolidated income statement. Accordingly, the total comprehensive income, before transactions with unitholders, is zero.

The notes on pages 34 to 50 are an integral part of these condensed consolidated interim financial information.

# Statement of Distributions

For the period from 1 January 2014 to 30 June 2014 (The "Period")

	(Unaudited) US\$'000
<b>Profit for the period, before transactions with Unitholders</b>	<b>30,650</b>
Adjustments:	
— Increase in fair value of investment properties	<b>(24,875)</b>
— Fair value losses of derivative financial instruments	<b>580</b>
— The Manager fee payable in units in lieu of cash	<b>2,974</b>
— Amortization of transaction costs for the bank borrowings	<b>2,352</b>
— Unrealized foreign exchange losses	<b>8,067</b>
Distributable income for the six months ended 30 June 2014 (note i)	<b>19,748</b>
Discretionary distribution (note ii)	<b>20</b>
<b>Amount available for distribution for six months ended 30 June 2014</b>	<b>19,768</b>
<b>Amount available for distribution for the period from 5 December 2013 to 31 December 2013</b>	<b>2,248</b>
<b>Total amount available for distribution for the period from 5 December 2013 to 30 June 2014</b>	<b>22,016</b>
Distribution for the six months ended 30 June 2014, to be paid to the Unitholders ("2014 Interim Distribution") (note iii, iv)	<b>19,768</b>
Distribution for the period from 5 December 2013 to 31 December 2013, to be paid to the Unitholders ("2013 Final Distribution") (note iii, iv)	<b>2,248</b>
Total distribution for the period from 5 December 2013 to 30 June 2014, to be paid to the Unitholders ("First Regular Distribution") (note iii, iv)	<b>22,016</b>
2014 Interim Distribution, as a percentage of the amount available for distribution for the six months ended 30 June 2014	<b>100%</b>
2013 Final Distribution, as a percentage of the amount available for distribution for the period from 5 December 2013 to 31 December 2013	<b>100%</b>
Units in issue as at 30 June 2014 (note ii)	<b>1,102,859,141</b>
<b>Distributions per unit to Unitholders</b>	
— 2014 Interim Distribution per unit (note iii, iv, v)	<b>HK\$13.9 cents</b>
— 2013 Final Distribution per unit (note iii, iv, v)	<b>HK\$1.6 cents</b>
	<b>HK\$15.5 cents</b>

The notes on pages 34 to 50 are an integral part of these condensed consolidated interim financial information.

## Statement of Distributions (continued)

For the period from 1 January 2014 to 30 June 2014 (The "Period")

### Notes:

- (i) Under the terms of the Trust Deed, the distributable income for the period represents the profit for the period, before transactions with Unitholders adjusted to eliminate the effects of certain non-cash adjustments which have been recorded in the consolidated income statement for the period.
- (ii) On 28 July 2014, 3,430,494 new Units were issued to the Manager as the Manager's fee. Pursuant to the Trust Deed, the Manager has the discretion to make additional distribution on top of the TDI. During the Reporting Period, the Manager determined to make a discretionary distribution of US\$20,000 which was related to the dilutive effect on DPU upon the abovementioned issuance of new Units to the Manager (2013: Nil).
- (iii) 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 period. Pursuant to the offering circular dated 25 November 2013, it is the Manager's stated policy to distribute 100% of Spring REIT's total distributable income for the period from the Listing Date to 31 December 2013 and the financial year ending 31 December 2014, and thereafter not less than 90% of its total distributable income for each financial period. The Manager also has the discretion to make distributions over and above the minimum 90% of Spring REIT's total distributable income if and to the extent Spring REIT has funds surplus to its business requirements.
- (iv) Pursuant to the terms of the Trust Deed, Spring REIT's distribution for the six months ended 30 June 2014 will cover the total distribution income for the period from 5 December 2013 to 30 June 2014. The distribution is expected to be paid on 30 September 2014.
- (v) The Board of the Manager has, on 18 August 2014, resolved to declare an interim distribution to Unitholders for the six months ended 30 June 2014 and the final distribution to Unitholders for 5 December 2013 to 31 December 2013 of approximately HK\$13.9 cents and HK\$1.6 cents per Unit respectively. Such interim distributions per Unit, however, is subject to adjustment upon the issuance of new Units between 1 July 2014 and 12 September 2014 (the "**record date**"), if any, save for the 3,430,494 units mentioned above.

The notes on pages 34 to 50 are an integral part of these condensed consolidated interim financial information.



# Condensed Consolidated Interim Statement of Financial Position

As at 30 June 2014

	Note	As at 30 June 2014 (Unaudited) US\$'000	As at 31 December 2013 (Audited) US\$'000
<b>Non-current assets</b>			
Investment property	13	<b>1,275,975</b>	1,272,778
Derivative financial instruments	14	<b>200</b>	780
Total non-current assets		<b>1,276,175</b>	1,273,558
<b>Current assets</b>			
Trade and other receivables	15	<b>3,425</b>	3,156
Restricted bank balances	16	<b>58,749</b>	59,610
Cash and cash equivalents	16	<b>28,780</b>	67,360
Total current assets		<b>90,954</b>	130,126
<b>Total assets</b>		<b>1,367,129</b>	1,403,684
<b>Current liabilities</b>			
Rental deposits	17	<b>22,932</b>	21,913
Trade and other payables	17	<b>15,522</b>	14,728
Total current liabilities		<b>38,454</b>	36,641
<b>Non-current liabilities, excluding net assets attributable to Unitholders</b>			
Interest-bearing borrowings	18	<b>457,761</b>	504,799
<b>Total liabilities, excluding net assets attributable to Unitholders</b>		<b>496,215</b>	541,440
<b>Net assets attributable to Unitholders</b>		<b>870,914</b>	862,244

The notes on pages 34 to 50 are an integral part of these condensed consolidated interim financial information.

# Condensed Consolidated Interim Statement of Financial Position (continued)

As at 30 June 2014

	Note	As at 30 June 2014 (Unaudited) US\$'000	As at 31 December 2013 (Audited) US\$'000
<b>Total assets less current liabilities</b>		<b>1,328,675</b>	1,367,043
<b>Net current assets</b>		<b>52,500</b>	93,485
<b>Net assets attributable to Unitholders</b>		<b>870,914</b>	862,244
Units in issue ('000)	19	<b>1,102,859</b>	1,098,000
Net asset per unit attributable to Unitholders		<b>US\$0.79</b>	US\$0.78

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

**Lau Jin Tin, Don**  
Executive Director  
18 August 2014

**Nobumasa Saeki**  
Executive Director  
18 August 2014

The notes on pages 34 to 50 are an integral part of these condensed consolidated interim financial information.

# Condensed Consolidated Interim Statement of Changes in Equity and Net Assets attributable to Unitholders

For the six months ended 30 June 2014

	Equity			Net assets attributable to Unitholders	Total			
	Pre-listing equity		Reserve			Unitholders	Total	
	Other reserves	Retained earnings		(Unaudited)	(Unaudited)			(Unaudited)
	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)			(Unaudited)
US\$'000	US\$'000	US\$'000	US\$'000	US\$'000				
<b>As at 1 January 2014</b>	-	-	-	<b>862,244</b>	<b>862,244</b>			
Profit for the six months ended 30 June 2014, before transactions with Unitholders	-	-	-	<b>30,650</b>	<b>30,650</b>			
Exchange losses on translation of financial statements	-	-	<b>(13,953)</b>	-	<b>(13,953)</b>			
Amount arising from exchange reserve movement	-	-	<b>13,953</b>	<b>(13,953)</b>	-			
Special distribution paid to Unitholders	-	-	-	<b>(9,912)</b>	<b>(9,912)</b>			
Change in net assets attributable to Unitholders for six months ended 30 June 2014, excluding issues of new units	-	-	-	<b>6,785</b>	<b>6,785</b>			
Issuance of units	-	-	-	<b>1,885</b>	<b>1,885</b>			
<b>As at 30 June 2014</b>	-	-	-	<b>870,914</b>	<b>870,914</b>			

The notes on pages 34 to 50 are an integral part of these condensed consolidated interim financial information.

# Condensed Consolidated Interim Statement of Changes in Equity and Net Assets attributable to Unitholders (continued)

For the six months ended 30 June 2014

	Equity			Net assets attributable to Unitholders (Audited) US\$'000	Total (Audited) US\$'000
	Pre-listing equity		Reserve (Audited) US\$'000		
	Other reserves (Audited) US\$'000	Retained earnings (Audited) US\$'000			
<b>As at 1 January 2013</b>	182,028	584,019	–	–	766,047
Profit for the six months ended 30 June 2013	–	52,266	–	–	52,266
Exchange gains on translation of financial statements	10,778	–	–	–	10,778
<b>Total comprehensive income for the period</b>	10,778	52,266	–	–	63,004
	192,806	636,285	–	–	829,091
Exchange gains on translation of redeemable preference shares	2,752	–	–	–	2,752
Dividend payable to redeemable preference shareholders	–	(28,588)	–	–	(28,588)
<b>As at 30 June 2013</b>	195,558	607,697	–	–	803,255

The notes on pages 34 to 50 are an integral part of these condensed consolidated interim financial information.

# Condensed Consolidated Interim Statement of Cash Flows

For the six months ended 30 June 2014

	Note	Six months ended 30 June	
		2014 (Unaudited) US\$'000	2013 (Audited) US\$'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	20	28,411	26,875
Interest received		222	188
<b>Net cash from operating activities</b>		<b>28,633</b>	27,063
<b>Cash flows from investing activity</b>			
Increase in amount due from preference shareholders		–	(3,234)
<b>Net cash flow used in investing activity</b>		<b>–</b>	(3,234)
<b>Cash flows from financing activities</b>			
Drawdown of borrowings		–	497,006
Repayment of borrowings		(50,000)	(480,000)
Purchase of derivative financial instruments		–	(2,421)
Interest paid		(8,873)	(10,181)
Other incidental borrowing cost		–	(675)
Dividend paid		(9,912)	–
Decrease/(increase) in restricted bank balances		1,020	(18,961)
<b>Net cash used in financing activities</b>		<b>(67,765)</b>	(15,232)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(39,132)</b>	8,597
Cash and cash equivalents at the beginning of the period		67,360	12,076
Exchange gains on cash and cash equivalents		552	2
<b>Cash and cash equivalents at the end of the period</b>		<b>28,780</b>	20,675

The notes on pages 34 to 50 are an integral part of these condensed consolidated interim financial information.

# Notes to the Condensed Consolidated Interim Financial Information

## I General Information

Spring REIT is a Hong Kong collective investment scheme authorized under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). Spring REIT was established on 25 November 2013 and was listed on The Stock Exchange of Hong Kong Limited (the “**HKSE**”). 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, and the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission. The addresses of the registered office of the Manager, Spring Asset Management Limited, and the trustee of the Spring REIT, DB Trustees (Hong Kong) Limited, are 28/F, Man Yee Building, 68 Des Voeux Road Central, Hong Kong and 52/F, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong, respectively.

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

The condensed consolidated interim financial information is presented in United States Dollars (“**US\$**”). The functional currency of Spring REIT is Hong Kong dollar (“**HKD**”).

## 2 Basis of Preparation

The condensed consolidated interim financial information for the six months ended 30 June 2014 has been prepared in accordance with International Accounting Standards (“**IAS**”) 34 “Interim financial reporting” issued by the International Accounting Standards Board. The condensed consolidated interim financial information should be read in conjunction with the Group’s annual financial statements as at 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards.

## 3 Accounting Policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in those annual financial statements.

### New and amended standards adopted by the Group

The Group has adopted, for the first time, the following new and revised standards and amendments issued by the International Accounting Standard Board that are relevant to the Group’s operations and mandatory for annual accounting periods beginning 1st January 2014.

Standards and amendments effective in 2014 which are relevant to the Group’s operations:

IAS 32 Amendments	Financial Instruments: Presentation on Assets and Liabilities Offsetting
IAS 36 Amendments	‘Impairment of assets’ on Recoverable Amount Disclosure
IAS 39 Amendments	‘Financial Instruments: Recognition and Measurement’ Novation of derivatives
IFRS 10, IFRS 12 Amendments and IAS 27	Consolidation for investment entities
IFRIC Interpretation 21	Levies

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

### 3 Accounting Policies *(continued)*

#### New or revised standards and amendments which are not yet effective

The following new or revised standards, amendments to 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 16 and IAS 18 Amendments	Clarification of acceptable methods of depreciation and amortisation	1 July 2016
IAS 19 Amendments	Defined Benefit Plans: Employee Contribution	1 July 2014
IFRS 9	Financial Instruments	Note
IFRS 11 Amendments	Accounting for acquisitions of interests in joint operation	1 July 2016
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IFRS 15	Revenue from Contracts with customers	1 January 2017
Annual Improvements Project	Annual Improvements to IFRSs 2010–2012 cycle	1 July 2014
Annual Improvements Project	Annual Improvements to IFRSs 2011–2013 cycle	1 July 2014

Note:

The mandatory date has not yet been determined.

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

### 4 Estimates

The preparation of condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2013.

### 5 Financial Risk and Capital Risk Management

#### 5.1 Financial risk factors

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

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2013.

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



# Notes to the Condensed Consolidated Interim Financial Information (continued)

## 6 Revenues and Segment Information

The Group holds an investment property in the PRC and is principally engaged in property investment. Turnover mainly consists of rental income. Revenues recognized during the period represent rental income from tenants. Management has determined the operating segments based on the reports reviewed by the chief operating decision-maker of the Manager, that are used to make strategic decisions. Given that management review the operating results of the Group on an aggregate basis, no segment information is therefore presented.

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

An analysis of revenues of the Group is as follows:

	Six Months ended 30 June	
	2014 (Unaudited) US\$'000	2013 (Audited) US\$'000
Revenues		
Rental income	38,728	30,221
Car park income	432	243
Other income	633	46
	<b>39,793</b>	<b>30,510</b>

Note:

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

## 7 Property Operating Expenses

	Six Months ended 30 June	
	2014 (Unaudited) US\$'000	2013 (Audited) US\$'000
Property management fee	(799)	(622)
Property tax (note (i))	(1,956)	(1,944)
Business and other tax (note (ii))	(2,267)	(1,815)
Withholding tax (note (iii))	(4,011)	(3,158)
Leasing commission	(310)	(141)
Others	(67)	(75)
	<b>(9,410)</b>	<b>(7,755)</b>

Notes:

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

## 8 General and Administrative Expenses

	Six Months ended 30 June	
	2014 (Unaudited) US\$'000	2013 (Audited) US\$'000
REIT manager fee/asset management fee (note (i))	<b>(3,717)</b>	(1,824)
Trustee fee	<b>(119)</b>	–
Valuation fee	<b>(20)</b>	–
Legal and other professional fee	<b>(605)</b>	(140)
Auditor's remuneration	<b>(80)</b>	(73)
Others	<b>(25)</b>	–
	<b>(4,566)</b>	(2,037)

Note:

- (i) Pursuant to an agreement signed in January 2013 between RCA01 and AD Capital Co., Ltd, an asset management fee would be charged to RCA01 for services such as casualty insurance review, monitoring of the property manager, construction, renovation and leasing of the Group's investment property, financial reporting, financing and business plan preparation. The asset management fee has been terminated from 2 December 2013 onwards and thereafter has been replaced by the Manager's fee on 5 December 2013. For the breakdown of the Manager's fee, please refer note 11.

## 9 Other Losses

	Six months ended 30 June	
	2014 (Unaudited) US\$'000	2013 (Audited) US\$'000
Derivative financial instruments at fair value through income statement:		
Net fair value losses	<b>(580)</b>	(418)
Foreign exchange losses	<b>(411)</b>	(4,735)
Other miscellaneous loss	<b>(3)</b>	(5)
	<b>(994)</b>	(5,158)

# Notes to the Condensed Consolidated Interim Financial Information (continued)

## 10 Finance Costs On Interest-Bearing Borrowings

	Six months ended 30 June	
	2014 (Unaudited) US\$'000	2013 (Audited) US\$'000
Interest expense on bank borrowings (note (i))	<b>(11,614)</b>	(14,153)
Foreign exchange (loss)/gain on bank borrowings (note (ii))	<b>(7,656)</b>	8,558
Other incidental borrowing costs (note (iii))	<b>—</b>	(3,799)
<b>Total</b>	<b>(19,270)</b>	(9,394)

Notes:

- (i) Interest expenses on bank borrowings comprised contractual loan interest and amortized loan arrangement fee, which were recognized using the effective interest rate method.
- (ii) Foreign exchange (loss)/gain on bank borrowings arise upon translating the bank borrowings denominated in foreign currencies to RMB. These items are all non-cash items. The exchange loss on bank borrowings during the six months ended 30 June 2014 were mainly arisen from depreciation of RMB against US\$. The exchange gain on bank borrowings during the six months ended 30 June 2013 were mainly arisen from the appreciation of RMB against US\$.
- (iii) Other incidental borrowing costs comprise bank charges and derecognition of unamortized loan arrangement fee. In January 2013, the Group early repaid a bank borrowing, resulting in a derecognition of unamortized loan arrangement fee of US\$3,124,000 during the six months ended 30 June 2013.

## 11 Manager's Fee

	Six months ended 30 June	
	2014 (Unaudited) US\$'000	2013 (Audited) US\$'000
Base fee	<b>2,807</b>	—
Variable fee	<b>910</b>	—
	<b>3,717</b>	—

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

Base Fee — 0.4% per annum of the value of the Deposited Property.

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

## 12 Earnings Per Unit

	<b>As at 30 June 2014 (Unaudited) US\$'000</b>
Profit for the period, before transactions with Unitholders	<b>30,650</b>
Weighted average number of units for the period for calculating basic earnings per unit	<b>1,099,425,644</b>
Adjustment for dilutive issuable units for the Manager fee	<b>3,430,494</b>
Weighted average number of units for the period for calculating diluted earnings per unit	<b>1,102,822,984</b>
Basic earnings per unit based upon profit before transactions with Unitholders	<b>US\$2.8 cent</b>
Diluted earnings per unit based upon profit for the period before transactions with Unitholders	<b>US\$2.8 cent</b>

## 13 Investment Property

(a) Details of the movements of investment property is as follows:

	<b>For the period ended 30 June 2014 (Unaudited) US\$'000</b>	For the year ended 31 December 2013 (Audited) US\$'000
At beginning of the period/year	<b>1,272,778</b>	1,186,859
Exchange differences recognized in other comprehensive income	<b>(21,678)</b>	36,735
Changes in fair value recognized in income statement	<b>24,875</b>	49,184
At end of the period/year	<b>1,275,975</b>	1,272,778

(b) **Government leases**

The investment property comprises office tower 1 & 2 located at No. 79 and 81 Jianguo Road, Beijing, PRC. Land use rights have been granted to RCA01 for a 50-year term expiring on 28 October 2053.

(c) **Fair values**

The investment property was revalued by Colliers International, an independent qualified valuer. For the valuations as at 30 June 2013, 31 December 2013 and 30 June 2014, the independent qualified valuer used the discounted cash flow method and income capitalization approach.

(d) **Security for the Group's loan facilities**

As at 30 June 2014, the investment property, amounting to approximately US\$1,275,975,000 (31 December 2013: US\$1,272,778,000), were pledged to secure the Group's bank borrowings (note 18(ii)).

# Notes to the Condensed Consolidated Interim Financial Information (continued)

## 13 Investment Property (continued)

### (e) Valuation Methods

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

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

### (f) Fair value hierarchy

Description	Fair value measurements at 30 June 2014 using		
	Quoted prices in active markets for identical assets (Level 1) (Unaudited) US\$'000	Significant other observable inputs (Level 2) (Unaudited) US\$'000	Significant unobservable inputs (Level 3) (Unaudited) US\$'000
Recurring fair value measurements			
investment property	-	-	1,275,975
	Fair value measurements at 31 December 2013		
Description	Quoted prices in active markets for identical assets (Level 1) (Audited) US\$'000	Significant other observable inputs (Level 2) (Audited) US\$'000	Significant unobservable inputs (Level 3) (Audited) US\$'000
Recurring fair value measurements			
investment property	-	-	1,272,778

## 13 INVESTMENT PROPERTY (continued)

### (f) Fair value hierarchy (continued)

There were no transfers between Levels 1, 2 and 3 during the period of 1 January 2014 to 30 June 2014.

Key unobservable inputs used to determine fair values are as follows:

#### (i) Capitalization rate

This is estimated based on the market lease over market value on comparable. The higher the capitalization rates used, the lower the fair values of the investment property. In the 30 June 2014 valuation, a capitalization rate of 7% (31 December 2013: 7%) is used in the income capitalization approach; a terminal capitalization rate of 6% (31 December 2013: 6%) is used in the discounted cash flow method.

#### (ii) Discount rate

This is estimated based on cost of capital of a rate of return used to convert a monetary sum, payable or receivable in the future into present value. The higher the discount rates used, the lower the fair values the of investment property. In the 30 June 2014 valuation, a discount rate of 9% (31 December 2013: 9%) is used in the discounted cash flow method.

#### (iii) Base rent

This is estimated based on the market lease comparable. The higher the base rent used, the higher the fair values of the investment property. In 30 June 2014, the average gross monthly office unit base rent of RMB425 per square meter (31 December 2013: RMB410) is used in the valuation. As at 30 June 2014, if the market value of investment property had been 5% higher/lower with all other variables held constant, the carrying value of the Group's investment property would have been US\$63.8 million higher/lower (31 December 2013: US\$62.7 million).

## 14 Derivative Financial Instruments

	<b>As at 30 June 2014 (Unaudited) US\$'000</b>	As at 31 December 2013 (Audited) US\$'000
Non-current assets		
Interest rate cap contracts	<b>200</b>	780
	<b>200</b>	780

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

The notional principal amount of the outstanding plain vanilla interest rate cap as at 30 June 2014 was US\$515 million (31 December 2013: US\$515 million).

# Notes to the Condensed Consolidated Interim Financial Information (continued)

## 14 Derivative Financial Instruments (continued)

The Group recorded fair value losses on derivative financial instruments for the six months ended 30 June 2014 amounting to US\$580,000 (30 June 2013: US\$418,000) (note 9) which were charged to the consolidated income statement.

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

As at 30 June 2014 and 31 December 2013, the Group's derivative financial instruments were pledged to secure the Group's bank borrowings (note 18(ii)).

## 15 Trade and Other Receivables

	<b>As at 30 June 2014 (Unaudited) US\$'000</b>	As at 31 December 2013 (Audited) US\$'000
Rent receivables	<b>45</b>	–
Deferred rent receivables	<b>3,193</b>	3,147
Prepayment	<b>187</b>	9
	<b>3,425</b>	3,156

Notes:

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

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

- (ii) The group's exposure from outstanding rent receivables is generally fully covered by rental deposits from the corresponding tenants.

- (iii) As at 30 June 2014 and 31 December 2013, the Group's rent receivables and all future rent receivables were pledged to secure the Group's bank borrowing (note 18(ii)).

The aging analysis of rent receivable is as follows:

	<b>As at 30 June 2014 (Unaudited) US\$'000</b>	As at 31 December 2013 (Audited) US\$'000
0–30 days	<b>45</b>	–
Total	<b>45</b>	–

As at 30 June 2014, rent receivables that was past due but not impaired was US\$45,000 (31 December 2013: Nil).

## 15 Trade and Other Receivables (continued)

Notes: (continued)

(iii) (continued)

The ageing analysis of the past due but not impaired rent receivables is as follows:

	<b>As at 30 June 2014 (Unaudited) US\$'000</b>	As at 31 December 2013 (Audited) US\$'000
0–30 days	<b>45</b>	–
Total	<b>45</b>	–

The credit quality of trade receivables has been assessed by reference to the historical information about counterparty default rates. The existing counterparties did not have similar default in the past and trade receivables have not been impaired as at 30 June 2014 and 31 December 2013.

The maximum exposure to credit risk at the reporting date is the carrying value of trade and other receivables.

(iv) No allowance for doubtful debts were made during the six months ended 30 June 2014 (2013: Nil).

## 16 Restricted Bank Balances and Cash and Cash Equivalents

	<b>As at 30 June 2014 (Unaudited) US\$'000</b>	As at 31 December 2013 (Audited) US\$'000
Total time deposits and bank balances		
Restricted	<b>58,749</b>	59,610
Unrestricted	<b>28,780</b>	67,360
	<b>87,529</b>	126,970



# Notes to the Condensed Consolidated Interim Financial Information (continued)

## 16 Restricted Bank Balances and Cash and Cash Equivalents (continued)

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

	<b>As at 30 June 2014 (Unaudited) US\$'000</b>	As at 31 December 2013 (Audited) US\$'000
RMB	<b>32,923</b>	30,803
JPY	–	110
US\$	<b>53,744</b>	49,365
HKD	<b>862</b>	46,692
	<b>87,529</b>	126,970

As at 30 June 2014, the Group's restricted bank accounts were charged to the facility agent of the Group's bank borrowing (note 18(ii)). The restricted bank balances are bank accounts established and restricted under the bank borrowing facility agreements entered in January 2013. Prior consent from facility agent, The Australia and New Zealand Banking Group Limited, must be obtained before transfer and withdrawal of funds in the restricted bank accounts.

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government. Included in the unrestricted bank balances, there is an amount of US\$7,000 which is denominated in RMB for the six months ended 30 June 2014 (31 December 2013: US\$5,000).

	<b>As at 30 June 2014 (Unaudited) US\$'000</b>	As at 31 December 2013 (Audited) US\$'000
Bank balances	<b>87,529</b>	126,860
Short-term bank deposits	–	110
	<b>87,529</b>	126,970

## 17 Rental Deposits and Trade and Other Payables

	<b>As at 30 June 2014 (Unaudited) US\$'000</b>	As at 31 December 2013 (Audited) US\$'000
Rental deposits (note i)	<b>22,932</b>	21,913
Trade and other payables:		
Receipts in advance	<b>8,703</b>	8,639
Provision for withholding tax	<b>724</b>	743
Provision for other taxes (note ii)	<b>402</b>	410
Accrued expenses and other payables	<b>5,693</b>	4,936
	<b>15,522</b>	14,728

Notes:

- (i) Rental deposits are classified as current liabilities so as to follow the Group's rental business operating cycle. The ageing analysis is as follows:

	<b>As at 30 June 2014 (Unaudited) US\$'000</b>	As at 31 December 2013 (Audited) US\$'000
Within 1 year	<b>5,165</b>	5,106
Over 1 year	<b>17,767</b>	16,807
	<b>22,932</b>	21,913

- (ii) Provision for other taxes represents provision for business tax, urban construction and maintenance tax, education surcharge and stamp duty.
- (iii) The carrying amounts of rental deposits and trade and other payables approximate their fair values.

## 18 Interest-Bearing Borrowings

	<b>As at 30 June 2014 (Unaudited) US\$'000</b>	As at 31 December 2013 (Audited) US\$'000
Non-current		
Bank borrowings	<b>457,761</b>	504,799

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

	<b>As at 30 June 2014 (Unaudited) US\$'000</b>	As at 31 December 2013 (Audited) US\$'000
6 months or less	<b>457,761</b>	504,799

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

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

Notes:

- (i) A term loan facility (the "**Term Loan Facility**"), with principal of US\$515 million was drawn on 28 January 2013. The amount is wholly repayable on 27 January 2016. The borrowing bears interest of 3.5% above 3-months LIBOR. On 28 January 2014, RCA01, the special purpose vehicle wholly owned by Spring REIT, made a US\$50,000,000 early principal repayment of the Term Loan Facility. As at 30 June 2014, the notional principal amount of the Term Loan Facility was US\$465 million (31 December 2013: US\$515 million)
- (ii) As at 30 June 2014 and 31 December 2013, the Group's investment property (note 13), derivative financial instruments (note 14), rent receivables and all future rent receivables (note 15), restricted bank accounts (note 16), and the Group's subsidiary's shares were pledged to secure the Group's term loan facilities.

## 19 Units In Issue

	<b>Number of units</b>
Units issued as at 31 December 2013	1,098,000,000
New units issued for settlement of manager fee	4,859,141
Balance as at 30 June 2014	1,102,859,141

Closing price of the units as at 30 June 2014 was HK\$3.16 (31 December 2013: HK\$3.17) per unit. Based on 1,102,859,141 units in issue as at 30 June 2014 (31 December 2013: 1,098,000,000), market capitalization was US\$449.7 million (31 December 2013: US\$448.9 million).

## 20 Notes to Statements of Cash Flows

### Net cash flow from operating activities

	Six months ended 30 June	
	2014 (Unaudited) US\$'000	2013 (Audited) US\$'000
Profit for the period before transactions with Unitholders	30,650	52,266
Changes in fair value of investment property	(24,875)	(45,912)
Net fair value losses on derivative financial instruments	580	378
Interest income	(222)	(188)
Finance costs on interest-bearing borrowings	19,270	9,394
Exchange losses	411	4,342
Increase in trade and other receivables	(379)	(876)
Increase in rental deposits	1,394	2,662
Increase in trade and other payables	1,582	4,809
	<b>28,411</b>	26,875

## 21 Future Minimum Rental Receivables

As at 30 June 2014, the analysis of the Group's aggregate future minimum rental receivable under non-cancellable leases is as follows:

	As at 30 June 2014 (Unaudited) US\$'000	As at 31 December 2013 (Audited) US\$'000
Within 1 year	74,516	60,912
After 1 year, but within 5 years.	79,721	78,246
	<b>154,237</b>	139,158

## 22 Connected Party Transactions and Related Party Transactions and Balances

As at 30 June 2014, RCA Fund 01 L.P. is the immediate and ultimate holding company of the Group.

For the six months ended 30 June 2014, the Group entered into the following transactions with connected/related parties at mutually agreed terms in the normal course of its business.

After the listing date on 5 December 2013, the transactions with connected parties would be considered as connected party transactions subject to the requirement of REIT Code and the waiver letter by SFC dated 21 November 2013.

### (a) Nature of relationship with connected/related parties

The table set forth below summarizes the names of the connected/related parties and nature of their relationship with the Group as at 30 June 2014:

Connected/related party	Relationship with the Group
DB Trustees (HK) Ltd <sup>#</sup>	The Trustee of Spring REIT
Spring Asset Management Limited*	The Manager of Spring REIT
RCA Fund 01 L.P. (" <b>RCA Fund</b> ")*	Significant Holder of Spring REIT
AD Capital Co., Ltd*	Parent Company of the Manager
Development Bank of Japan, Inc. (" <b>DBJ</b> ")*	An associated company of a significant holder of Spring REIT and a controlling entity of the Manager through AD Capital
Beijing Development Investment Consulting Ltd. (" <b>BDIC</b> ")*	An associate of a director of the Manager
AD Capital (Beijing) Investment Consulting Co. Ltd. (" <b>ADC BJ</b> ")* (formerly known as Asuka DBJ (Beijing) Investment Consulting Co. Ltd.*)	An associate of the Manager
Beijing Hua-re Real Estate Consultancy Co., Ltd. (" <b>HuaRe</b> ")*	An associated company of the Manager
Colliers International (Hong Kong) Ltd. <sup>#</sup>	The Principal Valuer
DBJ-JAIC Investment Consulting (Beijing) Co., Ltd. (" <b>JAIC</b> ")*	An associated company of the Manager
Wownew (Beijing) Commerce Co. Ltd. (" <b>Wownew</b> ")*	An associate of a director of the Manager
Deutsche Bank AG, Hong Kong Branch (" <b>DBHK</b> ")	Trustee Connected Persons
Deutsche Bank (China) Company Ltd. (" <b>DB China</b> ")	Trustee Connected Persons
Zhong De Securities (" <b>ZDS</b> ")	Trustee Connected Persons

\* These connected parties are also considered as related parties.

# These are the connected persons but for transactions which constituted in the Trust Deed are not deemed as connected party transactions in accordance with the REIT code.

## 22 Connected Party Transactions and Related Party Transactions and Balances (continued)

### (b) Income from connected/related parties

	Note	Six months ended 30 June	
		2014 (Unaudited) US\$'000	2013 (Audited) US\$'000
Rental revenue from ADC BJ	(i)	56	56
Rental revenue from BDIC	(i), (ix)	–	23
Rental revenue from JAIC	(i), (viii)	70	–
Rental revenue from Wownew	(i), (viii)	23	–
Rental revenue from DB China	(i), (viii)	1,971	–
Rental revenue from ZDS	(i), (viii)	1,665	–
Interest income from DBHK	(ii), (viii)	220	–

### (c) Expenses to connected/related parties

	Note	Six months ended 30 June	
		2014 (Unaudited) US\$'000	2013 (Audited) US\$'000
Management fees to HuaRe	(iii)	799	622
Asset management fee to AD Capital Co., Ltd	(iv), (ix)	–	1,824
Trustee's fee paid and payable to the Trustee	(v), (viii)	119	–
REIT manger fee to Spring Asset Management Limited	(vi) (viii)	3,717	–
Valuation fee paid to valuer	(vii) (viii)	20	–

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

	As at	
	30 June 2014 (Unaudited) US\$'000	31 December 2013 (Audited) US\$'000
Lease deposit from ADC BJ	35	35
Lease deposit from JAIC	44	45
Lease deposit from Wownew	–	17
Lease deposit from DB China	143	350
Lease deposit from ZDS	954	641

- (i) Rental revenue was charged in accordance with the terms of the relevant agreements with the connected/related parties.
- (ii) Interest income received on bank deposits was charged in accordance with the terms of the relevant agreements with DBHK.
- (iii) Property management services fees were charged based on mutually agreed terms between the parties.
- (iv) Asset management fee was charged based on mutually agreed terms between the parties.

## 22 Connected Party Transactions and Related Party Transactions and Balances (continued)

### (d) Balances with connected/related parties (continued)

- (v) The Trustee is entitled to receive a one-off acceptance fee of US\$23,000 and in each financial period, an ongoing fee of not more than 0.025% of the value of the Deposited Property payable semi-annually or quarterly in arrears, subject to a minimum of US\$9,000 per annum.
- (vi) Fee to the Manager was charged in accordance with the Trust Deed.
- (vii) Valuation fee were charged based on mutually agreed terms between the parties.
- (viii) The amount represented the transactions with those connected/related parties since the relationship of connected/related parties established from the Listing Date.
- (ix) The amount represented the transactions with those connected/related parties before the Listing Date.

No transaction was entered with the directors of the Manager (being the key management personnel) for the period ended 30 June 2014 (2013: Nil).

## 23 Approval of The Condensed Consolidated Interim Financial Information

The condensed consolidated interim financial information was authorized for issue by the Manager on 18 August 2014.

# Performance Table

	<b>For the six months ended 30 June 2014</b>	For the period from 5 December 2013 to 31 December 2013
Net assets attributable to Unitholders	<b>US\$870.91 million</b>	US\$862.20 million
Net assets per Unit attributable to Unitholders	<b>HK\$6.12</b>	HK\$6.09
Highest traded unit price	<b>HK\$3.20</b>	HK\$3.81
Highest premium of the traded unit price to net assets per Unit	<b>N/A</b>	N/A
Lowest traded unit price	<b>HK\$2.78</b>	HK\$2.99
Highest discount of the traded unit price to net assets per Unit	<b>54.6%</b>	50.9%
Distributions per Unit	<b>HK13.9 cents</b>	HK1.6 cents
Net yield per Unit <sup>1</sup>	<b>4.4%</b>	0.5%
Net yield (annualized) per Unit <sup>1</sup>	<b>8.9%</b>	6.8%
Total borrowings as a percentage of gross assets	<b>33.5%</b>	36.0%
Market capitalization <sup>2</sup>	<b>US\$449.66 million</b>	US\$448.90 million
Units issued	<b>1,102,859,141</b>	1,098,000,000

Notes:

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





# Corporate Information

## The Manager

Spring Asset Management Limited  
Room 2801, 28/F, Man Yee Building,  
68 Des Voeux Road Central,  
Hong Kong  
Tel: +852 3100 0300  
Fax: +852 3100 0320

## Board of Directors of the Manager

Chairman and non-executive Director

Mr. Toshihiro Toyoshima

### Executive Directors

Mr. Lau Jin Tin, Don  
Mr. Nobumasa Saeki

### Non-executive Director

Mr. Hideya Ishino

### Independent Non-executive Directors

Mr. Simon Murray  
Dr. Tin Sek Tang  
Mr. Liping Qiu

## Responsible Officers of the Manager

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

## Company Secretary of the Manager

Fair Wind Secretarial Services Limited

## Auditor

PricewaterhouseCoopers

## Internal Auditor

BDO Financial Services Limited

## Trustee

DB Trustees (Hong Kong) Limited

## Principal Valuer

Colliers International (Hong Kong) Limited

## Legal Advisors

As to Hong Kong and United States laws

DLA Piper Hong Kong

As to PRC law

Zhong Lun Law Firm

As to Cayman Islands law

Maples and Calder

## Unit Registrar

Computershare Hong Kong Investor Services Limited  
Shops 1712–1716, 17/F, Hopewell Centre  
183 Queen's Road East  
Wan Chai  
Hong Kong

## Property Manager

Beijing Hua-re Real Estate Consultancy Co., Ltd

## Investor Relations

Mr. Chung Wai Fai  
Email: [ir@springreit.com](mailto:ir@springreit.com)

## Stock Code

1426

## Website

[www.springreit.com](http://www.springreit.com)

# SpringREIT

**Spring Real Estate Investment Trust**  
**春泉產業信託**

Stock Code : 01426

**[www.springreit.com](http://www.springreit.com)**

Managed by  
**Spring Asset Management Limited**