



# SpringREIT

Spring Real Estate Investment Trust

春泉產業信託

Stock Code : 01426

Managed by  
Spring Asset Management Limited

2016 Annual Report



## About Spring REIT

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

## About the Manager

Spring REIT is managed by Spring Asset Management Limited, (as manager of Spring REIT, the “**Manager**”) a company incorporated in Hong Kong for the sole purpose of managing Spring REIT. As at 31 December 2016, the Manager is 90.2% owned by Mercuria Investment Co., Limited. (“**Mercuria**”, formerly known as AD Capital Co., Ltd., renamed on 1 January 2016), which is a private equity investment firm listed on the Tokyo Stock Exchange (stock code: 7190) with notable shareholders such as Development Bank of Japan, Itochu Corporation and Sumitomo Mitsui Trust Bank, Limited.

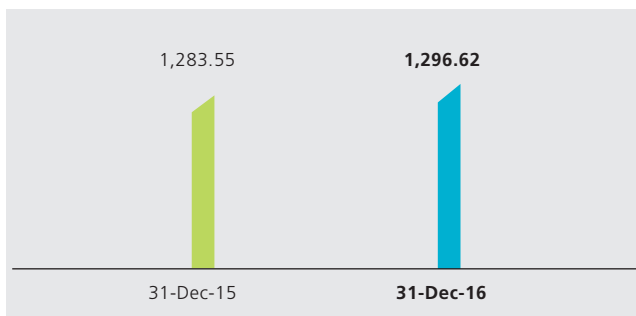


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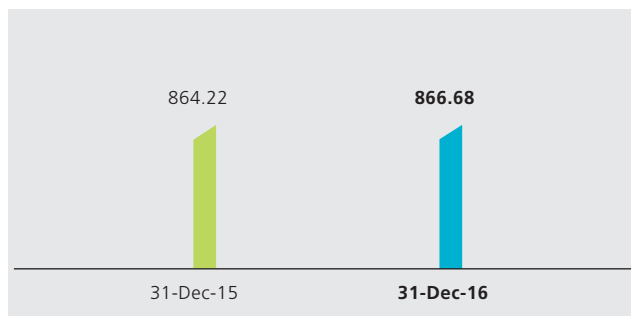
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# Performance Highlights

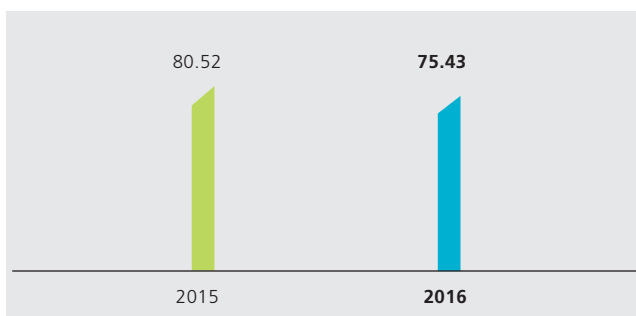
**Appraised Property Value**  
(US\$ million)



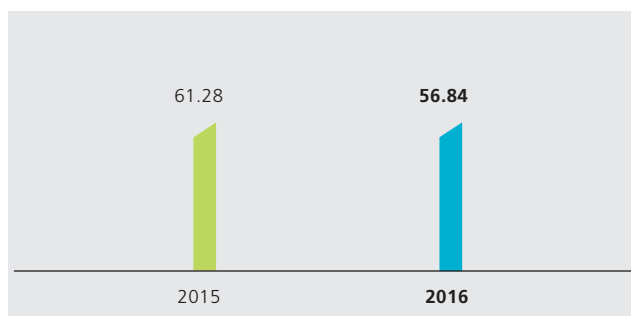
**Net Asset Value**  
(US\$ million)



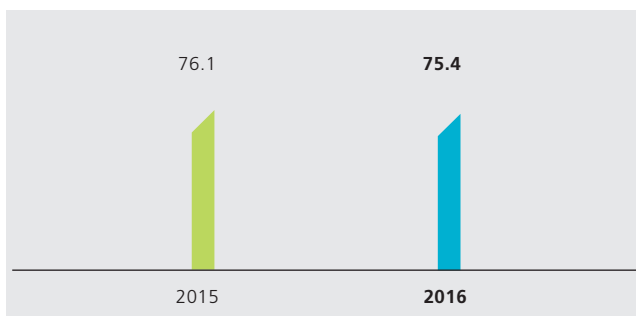
**Total Revenue**  
(US\$ million)



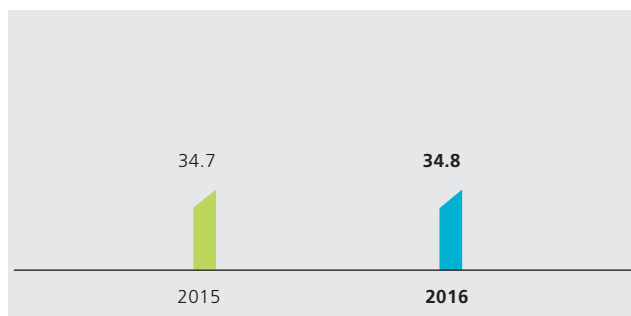
**Net Property Income**  
(US\$ million)



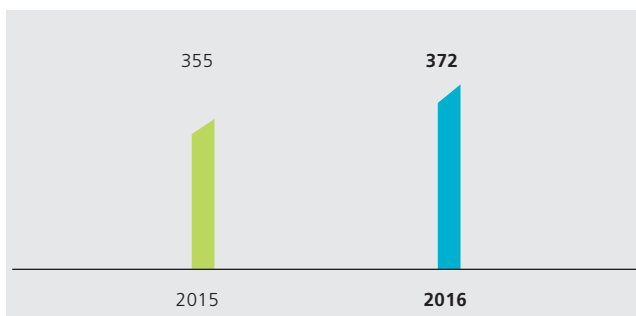
**Net Property Income Margin**  
(%)



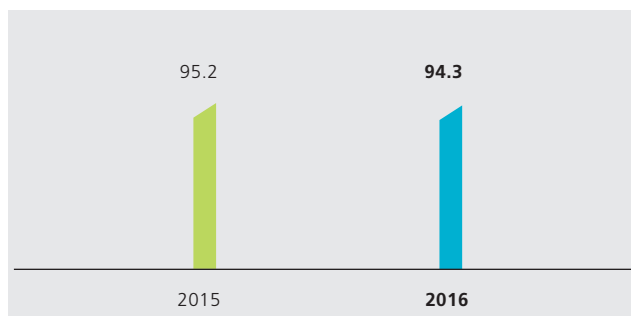
**Gearing Ratio**  
(%)



**Gross Average Monthly Passing Rent**  
(RMB per sqm per month)



**Average Occupancy**  
(%)



## Distribution

Below is the distribution summary of Spring REIT (the “**Group**”) since its listing on the Stock Exchange in 2013 till the year ended 31 December 2016 (the “**Reporting Year**” or “**FY2016**”).

Distributions	Distribution per Unit	Distribution Yield <sup>3</sup>	Annualized Distribution Yield <sup>3</sup>
<b>2016 Final Distribution<sup>1</sup></b>	<b>HK10.0 cents</b>	<b>3.1%</b>	<b>7.1%</b>
2016 Interim Distribution	HK13.0 cents	3.9%	
2015 Final Distribution	HK12.6 cents	4.2%	8.8%
2015 Interim Distribution	HK14.0 cents	4.1%	
2014 Final Distribution	HK12.5 cents	3.4%	7.2%
2014 Interim Distribution	HK13.9 cents	4.4%	
2013 Final Distribution <sup>2</sup>	HK1.6 cents	0.5%	6.8%
2013 Special Distribution	HK7.0 cents	2.2%	N/A

Notes:

1. Final distribution for the year ended 31 December 2016. The record date of which will be 19 April 2017 (the “**Record Date**”) and the payment date is expected to be 28 April 2017.
2. 2013 Final and Special Distributions cover the operating period from 5 December 2013 to 31 December 2013, and was paid on 30 September 2014.
3. Distribution yield and annualized distribution yield are calculated using closing price of the Units at the end of each relevant financial period.

## Total Distributable Income

Total distributable income (“**TDI**”) is the consolidated profit after tax before transactions with the unitholders of Spring REIT (the “**Unitholders**”) as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed). For details of the Adjustments, please refer to the section headed “Statement of Distributions” in the financial statements. TDI to Unitholders for the Reporting Year amounted to approximately USD35.87 million (2015: USD41.23 million).

## Distribution (Continued)

### Distribution

The board of directors (the “**Board**”) of the Manager, for and on behalf of Spring REIT, has resolved to declare a final distribution for the period from 1 July 2016 to 31 December 2016 of HK10.0 cents per Unit (“**2016 Final Distribution**”) to Unitholders on the register of Unitholders on 19 April 2017. Such 2016 Final Distribution, however, may be subject to adjustment in the event of any issuance of new Units between 1 January 2017 and the Record Date. Before such adjustment and together with the interim distribution of HK13.0 cents per Unit, total distribution for the Reporting Year amounts to a total of HK23.0 cents per Unit (2015: HK26.6 cents per Unit), representing a payout ratio of approximately 93%.

All distribution will be paid in Hong Kong dollars. The HKD/US\$ exchange rate adopted for the 2016 Final Distribution by the Manager is 7.7574, which represents the average mid price of the opening indicative counter exchange rate, as published by the Hong Kong Association of Banks, for the five (5) business days immediately preceding 31 December 2016.

The amount of the 2016 Final Distribution does not include any element which is capital in nature. In arriving at the total distributable income for the Reporting Year, adjustments have been made to the consolidated profit after tax before transactions with Unitholders for the Reporting Year to eliminate the effects of certain Adjustments (as defined in the Trust Deed). Please refer to the Statement of Distributions in the consolidated financial statements for further details.

Based on the closing price of HKD3.22 per Unit as at 31 December 2016, distribution per Unit (“**DPU**”) for the Reporting Year represents a distribution yield of 7.1%. For details of the distribution, please refer to the section headed “Statement of Distributions” in the financial statements.

### Distribution Policy

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

### Closure of Register of Unitholders

The Record Date of the 2016 Final Distribution will be 19 April 2017, Wednesday. The register of Unitholders will be closed for the purpose of determining the identity of Unitholders from 18 April 2017, Tuesday to 19 April 2017, Wednesday, both days inclusive, during which period no transfer of Units will be registered. The 2016 Final Distribution is expected to be payable on 28 April 2017, Friday to Unitholders whose names appear on the register of Unitholders on the Record Date.

In order to qualify for the 2016 Final Distribution, all completed transfer forms in respect of transfer of Units (accompanied by the relevant Unit certificates) must be lodged with Spring REIT’s unit registrar in Hong Kong, being Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 13 April 2017, Thursday.



# Chairman's Statement



**Toshihiro Toyoshima**  
*Chairman and Non-executive Director*

# Chairman's Statement

Dear Unitholders,

I am pleased to present the financial results of Spring REIT on behalf of the Board of the Manager for the Reporting Year. Despite a confluence of headwinds, Spring REIT has delivered remarkable results that demonstrate its ability to weather adversities on the back of the solid foundation the Manager has put in place since its IPO in 2013.

## Performance Review

During the Reporting Year, the global economy continued to suffer from weaker growth and unabated geopolitical tension as a flurry of 'black swan' events added to global uncertainty. The market's visibility was diminished by three inextricably intertwined risk factors, namely the path of monetary policy in the US, the repercussions of Britain's exit from the European Union and the policy direction under the administration of the newly elected US president. While a number of unknowns are still on the horizon, it appears to be a bit too early to jump to any conclusion on the trajectory of the global economy and to position ourselves against any unlikely downward surprise. As such, the Manager has remained vigilant and has been closely monitoring the movements in the financial markets, trade dynamics and flow of funds across borders while assessing their potential impacts on Spring REIT.

On the domestic front, the Chinese economy decelerates with GDP growth edging towards the 6% level. While the country's growth momentum remained well supported by both fiscal and monetary stimulus, the downside risk has increased as public and corporate debt continued to build up. Capital outflows have accelerated, leading to a contraction of foreign exchange reserves and renewed depreciation pressure on the currency.

Against the backdrop of anemic global growth, domestic players replaced foreign companies as the major source of demand for office space in Beijing. "Outward migration" continued to dominate the headlines as a growing number of foreign firms turned to submarkets where the rent seemed more affordable, while some resorted to relocating to smaller premises due to downsizing. The rental rate for offices in Beijing, including those in the central business district ("CBD") where Office Tower 1 and Office Tower 2 in China Central Place ("CCP") along with a total of approximately 600 car parking lots (the "Property") are located, saw no significant movement during the Reporting Year. However, the rate on Finance Street bucked the trend as the area remained the most sought-after address for tenants from the domestic finance and insurance sector.

During the Reporting Year, the market condition became more challenging for the Manager amid tax changes. Against this backdrop, the net property income of Spring REIT decreased by 2.0% year-on-year to Renminbi ("RMB", the lawful currency of the People's Republic of China (the "PRC")) 377.21 million (US\$56.84 million), as property performance, though supported by a stable occupancy rate and an improved passing rent, was dragged down by higher property expenditure due to changes in the tax regime. While expenses including finance cost at the trust level remained stable, the volatility in the currency market has also taken its toll and as a result, total distributable income in US dollars' term recorded a year-on-year decrease of 13.0% to US\$35.87 million.

The Board has recommended a final distribution of HK10.0 cents per Unit. Together with an interim distribution of HK13.0 cents per Unit, the DPU for the Reporting Year amounts to HK23.0 cents per Unit. The implied payout ratio is 93%, compared with 93% for the year ended 31 December 2015.

In our property portfolio, we have two Premium Grade A buildings located in the heart of Beijing, contributing to our relatively resilient performance even in a less than conducive environment as they remained attractive for top tier tenants. In the meantime, considering tenant loyalty as an important element in securing stable occupancy and rental income, the Manager and the property management team always worked closely with individual tenants to understand and satisfy their needs. Our effort and success were reflected by an encouraging rental reversion of 7.5% and a steady average occupancy rate of 94.3% throughout the Reporting Year.



## Chairman's Statement (Continued)

The evolving tax and regulatory environment has been a great uncertainty for businesses in China. During the Reporting Year, Spring REIT's operation was affected by two separate amendments to the tax regime. From 1 May 2016, the 5% business tax rate was replaced by Value-Added Tax ("VAT") at a rate of 11% levied on rental revenues ("**B2V Reform**"), subject to applicable input VAT credits. Thanks to the Manager's effort in working with the tenants to mitigate the impact of the changes, we are pleased to report that the B2V Reform did not have a material impact on our overall performance.

The marginal decrease in net property income for the Reporting Year was largely attributable to the revised tax basis for real estate tax promulgated by the Beijing municipal government on 1 July 2016. Under the new regime, real estate tax is levied on the leased portion of the Property at a rate of 12% of the annual rental income of the Property (net of the value-added tax) and on the vacant portion of the Property at a rate of 1.2% of the residual value attributable to such vacant portion. Considering that the original tax rate was set at only 1.2% of the residual value of the Property, the revision, effective as of 1 July 2016, added to the tax burden of the landlords in Beijing.

Continuous upgrade and improvement of the Property is a critical component in our holistic property management approach as we strive to enhance Spring REIT's return for the benefit of our Unitholders. Meanwhile, we care about our stakeholders including our tenants and the community in the CCP proximity and feel obligated to creating a better environment for all the stakeholders that we serve. Towards the end of the Reporting Year, the Manager launched the Engineering Procurement and Construction (EPC) projects with a view to enhancing and upgrading the illuminating system as well as the air conditioning system. We anticipate the enhanced reliability and improved cost efficiency of those systems upon completion of the projects will bring considerable benefits, both financially and environmentally.

Capital management has always been a critical element in the operation of Spring REIT as the Property is located in China being transacted in RMB but financed with offshore capital. In order to alleviate any adverse effect of the mismatch, the Manager would always take timely action to adequately hedge the currency mismatch while being mindful of the cost involved, particularly in the case where a restrictive currency such as RMB is applicable. In 2016, the RMB had its worst year since it was unpegged from the US\$ eleven years ago, reaching an eight-year low in November against the US\$ and losing approximately 6.5% of its value during the Reporting Year as the capital flight persisted.

In dealing with currency mismatch, the Manager sought to protect first and foremost the gearing ratio of Spring REIT, as a depreciating RMB would translate into lower asset value in US\$ term. During the Reporting Year, our asset and liability mismatch was fully covered by an option contract until its out-of-money expiration in December 2016. Currency forwards were then used to cover a position equivalent to 50% of the outstanding borrowings in US\$.

While measures had been taken to protect the balance sheet against currency volatility, the Manager considered it prohibitively costly to protect its operating cash flow against RMB fluctuation using derivatives. An alternative strategy adopted to mitigate such effect was a disciplined approach to making periodical conversion of RMB cash flow to US\$ in order to smooth out the average cost of conversion.

## Outlook

The year of 2016 was a year of geopolitical uncertainties, 2017 will see these changes play out: the Trump presidency, key post-Brexit elections in Europe, volatile currencies and rising interest rates. Closer to home, macro environment seems more upbeat as China's economic growth remains resilient, demonstrated by sustainable economic numbers, and in particular, a robust property market.

## Chairman's Statement (Continued)

In Beijing, the year 2016 marked the beginning of a pipeline of new office supply. However, the Manager understands what differentiates Spring REIT is the quality of its product. We are pleased to witness cases of returning tenants since our inception, evidencing not only our superior property locations but also the quality of service we provide. We are proud to note that out of the 182 tenancies as at 31 December 2016, 127 of them, representing 73.7% of the building's GFA, have remained with us since our listing in December 2013. In view of the potential supply in Beijing, the Manager has begun and will continue to enter into leases with longer duration in order to enhance stability and certainty of future revenue.

In the coming year, lease contracts constituting 28% and 31% of Spring REIT's total GFA and rental income respectively are due for renewal. While we are striving to achieve positive rental reversion for new lettings and renewals, we are also aware that the tax changes introduced during the course of 2016 will have their impact for the full year in 2017. In this regard, in the absence of significant improvement in the office leasing market, we expect a decline in net property income for the Property in 2017.

Going forward, the Manager will continue to devote substantial effort in modifying the capital structure, with a view to enhancing the financial flexibility of Spring REIT. We believe an optimal capital structure should strike a balance among various factors, including an acceptable debt to equity range, a low cost of capital and controlled exposure to interest rate and currency volatility. While the refinancing exercise completed in 2015 has enhanced return to our Unitholders by offering a cheaper source of fund and a longer tenure, we are constantly looking for room for further improvement. We would take action again to finetune the debt profile through diversification in currencies and maturities, and to rebalance the mix of equity and debts as well as fixed and floating rates as and when appropriate.

At Spring REIT, we are always looking for enhancement and expansion opportunities and we believe this can be done through acquisition. While timing, pricing and market conditions are all important factors when assessing a target, accretion and quality of cash flow remain the key considerations for the Manager. At the extraordinary general meeting held on 20 May 2015, we received the Unitholders' support to expand Spring REIT's investment scope to encompass investment opportunities outside Asia. While China is expected to remain as the mainstay, new opportunities to be emerged elsewhere are also what we shall explore from time to time.

In regard to the above, on 17 March 2017, with the support of our sponsor Mercuria and its associated company Itochu Corporation ("**ITOCHU**"), DB Trustee in its capacity as trustee of Spring REIT entered into a share purchase agreement pursuant to which Spring REIT agreed to purchase 84 commercial properties in the United Kingdom. For details, please refer to the announcement dated 17 March 2017 related to the acquisition and the circular dated 21 March 2017 related to continuing connected party transactions at those properties.

To conclude, I would like to express my gratitude to the sponsor, my fellow directors, management and staff for all their contributions and commitment throughout the year. The team has successfully given Spring REIT a solid platform to expedite further growth; now it is time to prepare for opportunities and work out for the best to achieve even more outstanding results for Unitholders.

**Toshihiro Toyoshima**

*Chairman and Non-executive Director*

**Spring Asset Management Limited**

(as manager of Spring REIT)

22 March 2017

Management Discussion & Analysis

# Management Discussion & Analysis





# Overview of Spring REIT's Properties

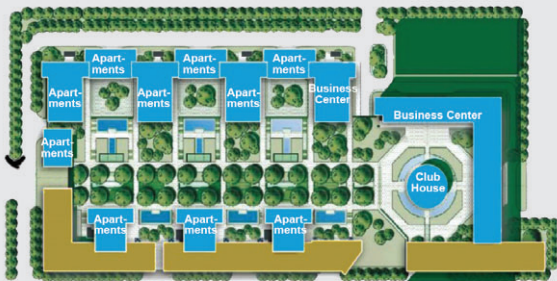
## The Property

Spring REIT currently offers investors exposure to two premium grade office buildings strategically located in the CBD of Beijing, namely Office Tower 1 and Office Tower 2 in China Central Place and a total of approximately 600 car parking lots located in the underground of the two office buildings. The two office buildings have in aggregate a total gross floor area of 120,245 sqm, including 25,127 sqm of car parking space. CCP is strategically located in the southeast corner of Beijing's traditional CBD, which is in the east of the heart of the city in Chaoyang District. Beijing CBD is home to tenants from a wide range of industries, including finance and insurance, professional services, hi-tech and media, among others. Beijing CBD represented the largest Grade-A office stock in Beijing of approximately 1.75 million sqm as at the end of 2016, accounting for 23.8% of the city's total Grade-A office space of 7.36 million sqm.<sup>1</sup>



<sup>1</sup> Source: Jones Lang LaSalle Research, December 2016

# Overview of China Central Place



China Central Place is a prime mixed-use complex in Beijing CBD with well-recognized brand hotels and shopping centers.

## OFFICE

Premium Grade offices

- Awarded as Top 20 Office Buildings in China<sup>1</sup>
- Direct underground connection to Beijing Subway

## SHOPPING

SKP Beijing and other shopping areas

- SKP Beijing – one of the largest department stores in China by sales

## RESIDENTIAL

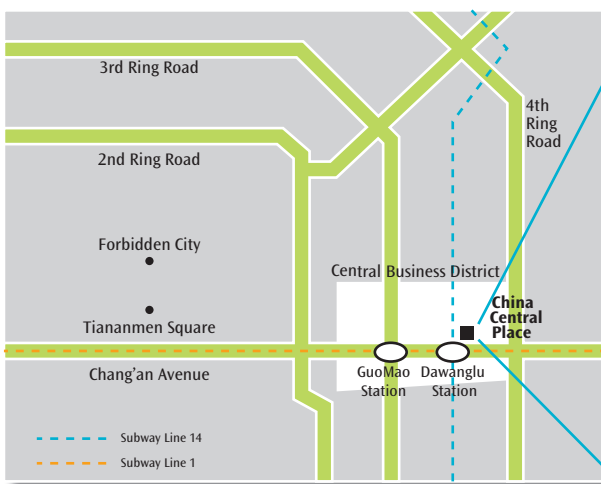
Residential area

- Residential and serviced apartments with a clubhouse

## HOTELS

Five-star luxury hotels

- Ritz-Carlton Hotel Beijing
- JW Marriott Hotel Beijing



1. Awarded jointly by www.funxun.com, China Office Building Industry Association and Nanfeng Think Tank in 2012

## Management Discussion & Analysis (Continued)

### Operation Review

While Spring REIT's operation during the Reporting Year remained supported by healthy operating statistics, its financial performance was held back by adverse changes in the tax regime. Revenue fell 1.0% to RMB500.91 million for the Reporting Year. After deducting operating expenses of RMB123.70 million, net property income stood at RMB377.21 million for the Reporting Year, down 2.0% year-on-year.

While the audited consolidated financial statements were prepared in US\$, the performance of the Property is presented in RMB in order to facilitate meaningful discussion given the Property's location in Mainland China.

(in RMB million unless otherwise specified)

For the Year Ended 31 December	2016	2015	Change %
Revenues			
– Rental income	<b>477.90</b>	486.58	(1.8%)
– Car park income	<b>3.77</b>	4.26	(11.5%)
– Other income (note i)	<b>19.24</b>	15.05	27.8%
	<b>500.91</b>	505.89	(1.0%)
Property Operating Expenses			
– Property management fee	<b>(10.75)</b>	(10.16)	5.8%
– Property tax (note ii)	<b>(42.14)</b>	(24.85)	69.6%
– Business and other tax (note iii)	<b>(15.61)</b>	(28.85)	(45.9%)
– Withholding tax (note iv)	<b>(50.21)</b>	(51.17)	(1.9%)
– Leasing Commission	<b>(4.13)</b>	(5.08)	(18.7%)
– Others	<b>(0.86)</b>	(0.82)	4.9%
	<b>(123.70)</b>	(120.93)	2.3%
Net Property Income	<b>377.21</b>	384.96	(2.0%)

#### Notes:

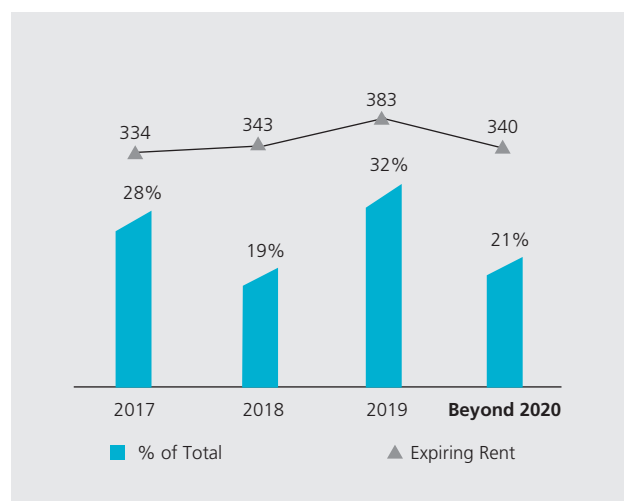
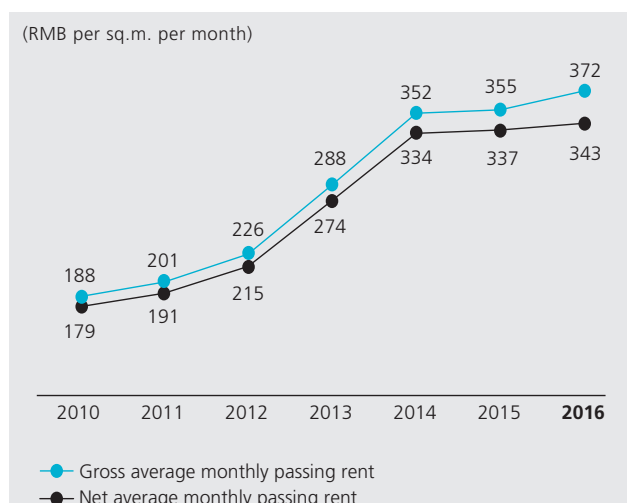
- i Other income mainly represents compensation paid by tenants for early termination of lease.
- ii Property taxes represent real estate tax and land use tax.
- iii Business and other taxes represent business tax, urban construction and maintenance tax, education surcharge and stamp duty.
- iv Withholding tax in the PRC is calculated based on 10% of the revenues received from rental operation.

## Rental Income

For the Reporting Year, Spring REIT reported a 1.8% decrease in rental income to RMB477.90 million, affected by the B2V Reform that was put in place in May 2016. Discounting such tax impact, net rental would have grown by approximately 1.1% to RMB463.42 million.

In terms of operating statistics, the Property recorded an average occupancy of 94.3% (2015: 95.2%) for the Reporting Year. A total of 54,658 sqm was leased out, 28.1% of which was attributable to new lettings while the remainder was renewal. The average net passing rent of the Property, where the impact of B2V has been discounted, stood at RMB343 per sqm, up 1.6% year-on-year on the back of a respectable average rental reversions of 7.5% (2015: 8.6%).

For the Year Ended 31 December	2016	2015	Change
Average Monthly Passing Rent (RMB/sqm)			
– Gross passing rent	<b>372</b>	355	+ 4.7%
– Net passing rent	<b>343</b>	337	+ 1.6%
Average Occupancy	<b>94.3%</b>	95.2%	



Note: Gross passing rent represents effective passing rent on a gross basis, inclusive of BT or VAT, as applicable.  
Net passing rent represents effective passing rent on a net basis, exclusive of BT or VAT, as applicable.

As at 31 December 2016, the weighted average lease expiry in terms of GFA was 753 days for the Property. Leases expiring on or before year ending 31 December 2017 and 31 December 2018 accounted for 28% and 19% of the total leased GFA respectively, and the average unit rents for the expiring leases were RMB334 per sqm and RMB343 per sqm respectively.



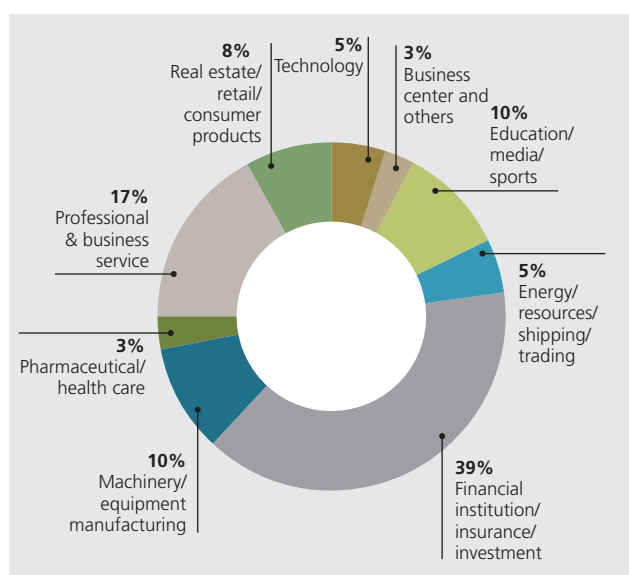
## Tenancy Base

Spring REIT's Property had a total of 182 tenancies as at 31 December 2016. The top five tenants accounted for 22.9% of total revenue for the Reporting Year and occupied 25.4% of total leased GFA as at 31 December 2016. Details of the top five tenants in terms of GFA are set out in the table below.

Tenants	% of total leased office GFA
Deutsche Bank	6.4%
EPSON	6.0%
Conde Nast	4.8%
Zhong De Securities	4.3%
Xinyuan Real Estate	3.9%
<b>Total</b>	<b>25.4%</b>

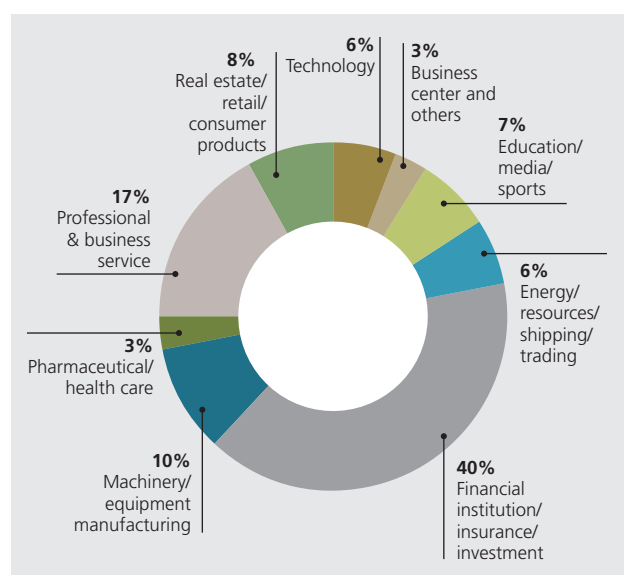
### By Leased Office GFA

(As of 31 December 2016)



### By monthly rental revenue

(For December 2016)



## Carpark Income

For the Reporting Year, car park income amounted to RMB3.77 million, representing 0.8% of total revenue. Car park income declined 11.5% when compared with RMB4.26 million in 2015, and the decrease was partly attributable to the B2V Reform. Unlike office leases, the Manager has not been able to pass on the heavier tax burden by increasing car park rates. Discounting the impact of B2V Reform, car park income would have decreased by 5.6% to RMB4.02 million.

## Cost

Property operating expenses mainly comprise of tax expenses, namely withholding tax, business and other tax (excluding stamp duty), and property tax. Tax expenses in aggregate accounted for 86.3% of the total property operating expenses. Property management fee, payable at 2.0% of total revenue, accounted for 8.7% of the property operating expenses.

The mild increase in property operating expenses of 2.3% year-on-year to RMB123.70 million (2015: RMB120.93 million) was primarily due to the increase in property tax of 69.6% to RMB42.14 million, being partially offset by a fall in business and other tax of 45.9% to RMB15.61 million. Due to the nature of VAT, it is netted off with the rental income and not presented as a separate line item in the income statement.

## Top 5 Real Estate Agents and Contractors for the Reporting Year

Real estate agents and contractors	Nature of services	Value of contract/ commission paid RMB	Relevant percentage
Beijing Hua-re Real Estate Consultancy Co. Ltd. <sup>1</sup>	Property Management	10,748,547	72.2%
升輝置地(北京)房地產經紀有限公司	Leasing	1,003,821	6.7%
北京博睿環球房地產經紀有限公司	Leasing	796,525	5.4%
北京凱利聯行房地產經紀有限公司	Leasing	518,490	3.5%
北京仲量聯行物業管理服務有限公司	Leasing	416,626	2.8%
<b>TOTAL</b>		<b>13,484,008</b>	<b>90.6%</b>

<sup>1</sup> Beijing Hua-re Real Estate Consultancy Co. Ltd is owned as to 40% by Mercuria which in turn holds 90.2% shareholding in the Manager.

## Financial Results Highlight

(in US\$ million unless otherwise specified) For the Year Ended 31 December	2016	2015	Change
Revenue	<b>75.43</b>	80.52	(6.3%)
Property operating expenses	<b>(18.59)</b>	(19.24)	(3.4%)
Net property income	<b>56.84</b>	61.28	(7.2%)
Net property income margin	<b>75.4%</b>	76.1%	
Profit after taxation	<b>91.29</b>	40.37	126.1%
Total distributable income	<b>35.87</b>	41.23	(13.0%)

As at 31 December	2016	2015	Change
Property valuation	<b>1,296.62</b>	1,283.55	1.0%
Total assets	<b>1,381.16</b>	1,377.19	0.3%
Total borrowings	<b>480.50</b>	477.30	0.7%
Net asset value	<b>866.68</b>	864.22	0.3%
Gearing ratio	<b>34.8%</b>	34.7%	

Units Information	2016	2015	Change
DPU (HK cents)	<b>23.0</b>	26.6	(13.5%)
Payout ratio (%)	<b>93%</b>	93%	
Net asset value per Unit (HK\$)	<b>5.95</b>	5.98	(0.5%)
Number of Units outstanding	<b>1,130,562,940</b>	1,120,158,306	+0.9%

## Financial Performance

As RMB continued to weaken during the Reporting Year, the RMB/US\$ monthly average exchange rate adopted was 5.4% lower than that in 2015. As a result, Spring REIT reported a revenue of US\$75.43 million, representing a year-on-year decrease of 6.3%. After deducting property operating expenses of US\$18.59 million, net property income amounted to US\$56.84 million, representing a retreat of 7.2% year-on-year. Net property income margin remained stable at 75.4% for the Reporting Year (2015: 76.1%).

During the Reporting Year, professional fees and administrative expenses remained stable at US\$9.43 million. Total finance costs stood at US\$51.90 million (2015: US\$46.84 million) including a foreign exchange loss of US\$32.16 million (2015: a loss of US\$21.47 million) from translating US\$ bank borrowings to RMB. Cash interest payment for the Reporting Year amounted to US\$16.54 million, which implied an effective interest rate of 3.4%, compared with 3.3% in 2015.

After taking into account the mark-to-market value of foreign currencies hedging instruments which carried a US\$4.45 million loss, profit after taxation for the Reporting Year was US\$91.29 million (2015: US\$40.37 million), principally reflecting a larger increase in fair value of the Property as compared with that of the previous financial year.

## Management Discussion & Analysis (Continued)

Total distributable income of Spring REIT for the Reporting Year was US\$35.87 million, representing a decrease of 13.0% from that of the previous year. The foreign exchange loss and mark to market loss of foreign currencies hedging instrument, both of which are non-cash in nature, have been added back among other adjustments.

### Financial Position

The Property was appraised by Knight Frank Petty Limited (“**Knight Frank**” or the “**Principal Valuer**”) at RMB9,005.00 million (equivalent to US\$1,296.62 million) as at 31 December 2016, represents an approximately 8.0% increase in RMB terms (1.0% in US\$ terms) over the valuation a year ago. The valuation of the Property was arrived at using the income capitalization approach and cross-checked by the direct comparison approach. The increase in valuation was attributable mainly to a reduction in capitalization rate to 5.8% (31 December 2015: 6.5%) with consideration given to the asset performance of the Property and comparable market transactions.

With effect from 1 January 2016, Knight Frank was appointed as the Principal Valuer of Spring REIT by the Trustee pursuant to the REIT Code to succeed Colliers International (Hong Kong) Limited upon its retirement. Knight Frank is an independent qualified professional valuer, which has appropriate professional qualifications and recent experience in the valuation of similar properties in comparable locations.

As at 31 December 2016, Spring REIT had in place total loan facilities of US\$500.00 million, comprising a term loan facility of US\$480.00 million which was fully drawn down and an uncommitted facility of US\$20.00 million that remained undrawn. The amount of total outstanding borrowings remained unchanged from that as at 31 December 2015. The facilities bear an interest margin of 2.75% per annum over 3-month US\$ LIBOR.

The term loan facility of US\$480.00 million was recognized to be US\$480.50 million in the financial results as at 31 December 2016, 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 31 December 2016, the gearing ratio, i.e. total borrowings to gross asset value, was 34.8%, compared with 34.7% as at 31 December 2015.

On 17 December 2015, Spring REIT entered into a US\$ currency option contract to hedge against the potential depreciation of RMB. The currency option has a notional principal amount of US\$480.00 million with a strike rate of US\$1 to RMB7.5 for a period of 1 year, which matured on 19 December 2016. Upon the maturity of the option, Spring REIT entered into two currency forward contracts with average forward rates of US\$1 to RMB7.04 and tenure of three months, on 14 December 2016 and 15 December 2016 respectively. A moderate increase in fair value of US\$2.67 million was recorded for the contracts as at 31 December 2016.

As at 31 December 2016, Spring REIT’s investment property, rent receivables, restricted bank balances, currency forwards, ordinary shares of RCA01 (Spring REIT’s special purpose vehicle, the holding company of Spring REIT’s properties) and all future trade receivables were pledged to secure term loan facilities. In addition, RCA01’s restricted bank balances were charged to, or otherwise subject to the control of, the security agent to secure term loan facilities. Throughout the Reporting Year, both Spring REIT and RCA01 have in material respects complied with all the terms and provisions of the finance and security documents.

## Management Discussion & Analysis (Continued)

As at 31 December 2016, the Group's unrestricted cash amounted to US\$28.83 million, compared with US\$30.86 million as at 31 December 2015. The Group also had an undrawn bank loan facility of US\$20.00 million (2015: US\$20.00 million). With these financial resources, Spring REIT has sufficient liquid assets to satisfy its working capital and operating requirements. The cash is generally placed as short-term deposits mostly denominated in US\$. The Group's liquidity and financing requirements are being reviewed regularly.

As at 31 December 2016, the gross asset value of the Group was US\$1,381.16 million, a slight increase of 0.3% as compared with US\$1,377.19 million recorded on 31 December 2015, attributable to a fair value gain on investment property, partly offset by exchange loss on translation.

### Net Assets Attributable to Unitholders

As at 31 December 2016, net assets attributable to Unitholders increased to US\$866.68 million from US\$864.22 million a year ago.

The net asset value per Unit as at 31 December 2016 was HK\$5.95 (31 December 2015: HK\$5.98). This represented a 84.8% premium to the closing price of the Units of HK\$3.22 as at 30 December 2016, the last trading day in the Reporting Year.

### New Units Issued

As at 31 December 2016, the total number of issued Units was 1,130,562,940, compared with that as at 31 December 2015, a total of 10,404,634 new Units were issued during the Reporting Year.

Date	Particulars	No. of Units
31 December 2015	Beginning balance of total number of Units in issue.	1,120,158,306
21 March 2016	Issue of new Units to the Manager at the price of HK\$3.216 per Unit (being the Market Price as defined in the Trust Deed) as payment of 80% of the Manager's base fee for the 3-month period ended 31 December 2015.	+2,679,924
10 May 2016	Issue of new Units to the Manager at the price of HK\$3.358 per Unit (being the Market Price as defined in the Trust Deed) as payment of 80% of the Manager's base fee for the 3-month period ended 31 March 2016.	+2,532,286
11 August 2016	Issue of new Units to the Manager at the price of HK\$3.501 per Unit (being the Market Price as defined in the Trust Deed) as payment of 80% of the Manager's base fee for the 3-month period ended 30 June 2016.	+2,427,696
8 November 2016	Issue of new Units to the Manager at the price of HK\$3.258 per Unit (being the Market Price as defined in the Trust Deed) as payment of 80% of the Manager's base fee for the 3-month period ended 30 September 2016.	+2,764,728
31 December 2016	Ending balance of total number of Units in issue.	1,130,562,940

### Capital Commitments

On 17 March 2017, DB Trustee in its capacity as trustee of Spring REIT entered into a share purchase agreement pursuant to which Spring REIT agreed to purchase 84 commercial properties in the United Kingdom. For details, please refer to the announcement dated 17 March 2017 related to the acquisition and the circular dated 21 March 2017 related to continuing connected party transactions at those properties.

### Employees

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

# Board of Directors and Senior Management



# Board of Directors and Senior Management

## Directors



### Toshihiro Toyoshima

#### Chairman and Non-executive Director

Mr. Toshihiro Toyoshima, aged 54, was appointed as the Chairman of the Board and a Non-executive Director of the Manager on 29 January 2013. Mr. Toyoshima has been the chief executive officer of Mercuria since October 2008, and has been sitting on its board from its establishment in October 2005. Prior to joining Mercuria, he worked in Development Bank of Japan from April 1985 to October 2008. Between July 2001 and September 2004, Mr. Toyoshima also worked at the World Bank as a senior private sector specialist, in charge of the private sector policies in four African countries.

Mr. Toyoshima graduated from the University of Tokyo with a Bachelor's degree in Law in 1985 and from the Massachusetts Institute of Technology with Master's degrees in Real Estate Development and City Planning in 1992.



### Hideya Ishino

#### Non-executive Director

Mr. Ishino, aged 53, was appointed as a Non-executive Director of the Manager on 10 April 2013. He has been working for Mercuria since June 2008 and has served as the chief operating officer of Mercuria since March 2010. Before joining Mercuria, Mr. Ishino co-founded Sports Vanguard Co., Ltd., a company which provides sports-related internet community services and trading platform, in March 2004. Mr. Ishino had also previously worked in Salomon Brothers (Tokyo) from April 1986 to March 2000.

Mr. Ishino graduated from the University of Tokyo with a Bachelor's degree in Liberal Arts in 1986.



### Lau Jin Tin, Don

#### Executive Director

Mr. Lau, aged 60, was appointed as an Executive Director of the Manager on 10 April 2013 and is one of the Responsible Officers of the Manager. He has extensive experience in corporate finance, risk management and property investment and management. He has also served as an independent non-executive director and a member of the audit, nomination and environmental, social and governance committees of WH Group Limited (a company listed on the Stock Exchange (Stock Code: 0288)) since August 2014. Prior to joining the Manager, he served as a responsible officer and deputy chief executive officer of a REIT listed on the Stock Exchange. He has the appropriate experience in planning the business direction and managing the overall day-to-day operation of a REIT.

Mr. Lau obtained a Master's degree in Applied Finance from Macquarie University.





### Nobumasa Saeki

#### Executive Director

Mr. Saeki, aged 47, was appointed as an Executive Director of the Manager on 10 April 2013 and is one of the Responsible Officers of the Manager. Mr. Saeki is principally responsible for supervising property management for Spring REIT, including: (i) formulating leasing strategy and authorizing all the lease terms to maximize the rental income of the Property; (ii) setting budgets and monitoring of maintenance activities related to the Property; (iii) overseeing day-to-day cash operations of the Property, together with local team members and the Property Manager; and (iv) procuring valuations of the Property and reviewing and analyzing appraisal reports. He was a senior vice president of Mercuria from September 2008 until January 2012 at which time he became a managing director of Mercuria. Prior to that, he was the group head of overseas investment group of Re-Plus Inc., a company listed on the Tokyo Stock Exchange, from July 2007 to September 2008. He was also a vice president of The Tokyo Star Bank, Limited from August 2004 to July 2007, an assistant vice president of GMAC Commercial Mortgage Japan K.K. from July 2002 to August 2004 and an associate director of UBS Warburg Securities Japan Ltd. from March 2000 to July 2002.

Mr. Saeki obtained a Bachelor's degree in Economics from the University of Tokyo in 1993.



### Leung Kwok Hoe, Kevin

#### Executive Director

Mr. Leung, aged 46, joined the Manager in January 2017. He has been one of the Responsible Officers of the REIT Manager since 9 March 2017, and was appointed as an Executive Director of the Manager on 10 March 2017. Mr. Leung has over 22 years of experience in finance and treasury, investment and fund management fields.

Before joining Spring Asset Management Limited, he was the General Manager, Investment and Investor Relations, and a responsible officer of Henderson Sunlight Asset Management Limited that manages Sunlight REIT (Stock Code: 0435). Prior to that, he acted as the investment manager and a responsible officer of The Link Management Limited (now known as Link Asset Management Limited), the manager of The Link Real Estate Investment Trust (Stock Code: 0823, now known as Link Real Estate Investment Trust).

Mr. Leung holds a Bachelor of Economics degree and a Bachelor of Law degree, both from The University of Sydney in Australia. He is a Chartered Financial Analyst.



**Simon Murray**

**Independent Non-executive Director**

Mr. Murray, aged 77, was appointed an Independent Non-executive Director of the Manager on 20 November 2013. He founded and served as the chairman of GEMS (General Enterprise Management Services Limited), a private equity group, in 1998 and changed his role to become the non-executive chairman in July 2015. He has also been serving as an independent non-executive director of: (i) Orient Overseas (International) Limited (Stock Code: 316) since July 1992; (ii) Wing Tai Properties Limited (Stock Code: 369) since March 1994; (iii) Cheung Kong Property Holdings Limited (Stock Code: 1113) since February 2015; (iv) IRC Limited (Stock Code: 1029) since March 2016; and a non-executive director of (v) Greenheart Group Limited (Stock Code: 94) since August 2010; (vi) Compagnie Financiere Richemont SA (a company listed on Swiss Exchange) since October 2003; and (vii) China LNG Group Limited (Stock Code: 0931) since April 2015 (after having been re-designated from the role of independent non-executive director which he was appointed in October 2014).

Mr. Murray was an executive director of Hutchison Whampoa Limited for 10 years. Previously he acted as the vice chairman & independent non-executive director of Essar Energy plc (a company listed on the London Stock Exchange) from 2010 to 2014; the non-executive chairman of Glencore International plc (a company dually listed on the London Stock Exchange and the Hong Kong Stock Exchange (Stock Code: 805) from 2011 to 2013; a non-executive director of Vodafone Group Plc between 2007 and 2010, and an independent director of Sino-Forest Corporation (a company listed on the Toronto Stock Exchange) between 1999 and 2013.

Mr. Murray holds an honorary degree of Doctor of Laws from Bath University.

**Liping Qiu**

**Independent Non-executive Director**

Mr. Qiu, aged 52, was appointed as an Independent Non-executive Director of the Manager on 20 November 2013. Mr. Qiu is a co-founder of Milestone Capital, a China-focused private equity investment company. Since February 2002, he has been the general partner of Milestone China Opportunities Fund I and Fund II, L.P., both being partnerships that invest primarily in high-growth Chinese companies. He has also been a director of Trina Solar Limited, a company listed on the New York Stock Exchange, since 2006. Mr. Qiu has been a director of Qinhuangdao Boostsolar Photovoltaic Equipment Co., Ltd. (which has been quoted on the National Equities Exchange and Quotations system since 18 August 2014).

Mr. Qiu received his Bachelor's degree and Master's degree in Engineering from the National University of Defense Technology of China.





### Lam Yiu Kin

#### Independent Non-executive Director

Mr. Lam, aged 62, was appointed as an Independent Non-executive Director of the Manager on 12 January 2015. Mr. Lam is a fellow member of the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants in England & Wales (ICAEW), Chartered Accountants Australia and New Zealand (CA ANZ), and the Hong Kong Institute of Certified Public Accountants (HKICPA) and an honorary fellow of The Hong Kong Polytechnic University. Mr. Lam has extensive experience in accounting, auditing and business consulting.

Mr. Lam has been serving as an independent non-executive director of (i) Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (Stock Code: 1349) since October 2013; (ii) Vital Mobile Holdings Limited (Stock Code: 6133) since September 2014; (iii) Global Digital Creations Holdings Limited (Stock Code: 8271) since July 2015; (iv) Shougang Concord Century Holdings Limited (Stock Code: 0103) since August 2015; (v) Mason Financial Holdings Limited (Stock Code: 0273) since August 2015; (vi) COSCO Shipping Ports Ltd. (Stock Code: 1199) since August 2015; (vii) Nine Dragons Paper (Holdings) Limited (Stock Code: 2689) since March 2016 and (viii) WWPKG Holdings Company Limited (Stock Code: 8069) since January 2017.

Mr. Lam was previously a member of the Listing Committee and the Financial Reporting Advisory Panel of the Stock Exchange of Hong Kong Limited from 1997 to 2003, a committee member of HKICPA from 1994 to 2009, and a partner of PricewaterhouseCoopers Hong Kong from 1993 to 2013.

Mr. Lam graduated from The Hong Kong Polytechnic University with a higher diploma in 1975.

## Senior Executives



### Chung Wai Fai

#### Senior Vice President

Mr. Chung, aged 35, is a Senior Vice President, one of the Responsible Officers and Head of Investment and Investor Relations of the Manager. He is responsible for identifying and evaluating potential acquisitions or investments and for investor relations activities. Mr. Chung has over 10 years of experience in asset management and investment research in the Asia ex-Japan region. Prior to joining the Manager, Mr. Chung was a senior fund manager and responsible officer of Imperial Capital Limited, where he was involved in launching an absolute-return Asia ex-Japan equity fund and assumed responsibilities in product development and strategy formulation. Previously, Mr. Chung was a fund manager of iVenture Investment Management Limited and was actively involved in investment idea generation, equity research, macroeconomic analysis, and day-to-day portfolio management of its absolute-return Asia ex-Japan equity fund. Mr. Chung started his career at PricewaterhouseCoopers, performing statutory audit works for companies in Hong Kong and mainland China.

Mr. Chung obtained a Bachelor's degree in Business Administration (Finance) from Hong Kong University of Science and Technology in 2003.



**Alice Yu**

**Chief Compliance Officer**

Ms. Yu, aged 52, was appointed the Chief Compliance Officer of the Manager in April 2013 and is the Head of Compliance. Prior to joining the Manager, Ms. Yu acted as a responsible officer in various assignments including: Ohra Capital Partners Limited from 2010 to 2013; FB Investment Management Limited from 2007 to 2009; Qi Yuan Asset Management (H.K.) Limited from 2002 to 2007. She was the investment manager of Hang Seng Investment Management Limited from 1997 to 1999. From 1994 to 1997, she was a portfolio manager of Daiwa International Capital Management (HK) Limited.

Ms. Yu obtained a Bachelor's degree in Arts from the University of Hong Kong in November 1987. She finished the ICA International Diploma in Compliance with merit result in 2012 and has been a professional member of International Compliance Association (MICA) since then. She undertook a corporate governance compliance training program and was awarded a certificate in directorship from the Hong Kong Baptist University in 2007.

Other positions held by each of the above Directors and senior staff in the Manager are set out in the Corporate Governance Report under the section "Organizational and Reporting Structure of the Manager".

# Environmental, Social and Governance Report

In accordance with Appendix 27 of the Listing Rules, the Manager presents this Environmental, Social and Governance Report (the “**ESG Report**”) for the Reporting Year.

This report covers our sustainability policies, performance and initiatives in managing the Property.

The Property is managed by Beijing Hua-re Real Estate Consultancy Co., Ltd. (the “**Property Manager**”). The Property Manager has engaged Beijing CCP & Savills Property Services Management Co., Ltd. (the “**Building Manager**”) to perform general building services.

## Stakeholder engagement and materiality assessment

As part of our Environmental, Social and Governance (“**ESG**”) reporting process, the Manager, Property Manager, and Building Manager have been engaged to identify relevant ESG issues and assess their materiality to Spring REIT as well as its stakeholders. ESG issues which are considered material are listed below, and the respective disclosures have been made in this ESG report.

ESG Aspects	Material ESG issues
<b>A. Environmental</b>	
A1 Emissions	<ul style="list-style-type: none"> <li>• Waste management</li> <li>• Carbon emissions</li> </ul>
A2 Use of resources	<ul style="list-style-type: none"> <li>• Use of energy and water</li> </ul>
A3 The environment and natural resources	<ul style="list-style-type: none"> <li>• Indoor air quality</li> <li>• Construction and renovation</li> </ul>
<b>B. Social</b>	
B1 Employment	<ul style="list-style-type: none"> <li>• Labour practices</li> </ul>
B2 Health and safety	<ul style="list-style-type: none"> <li>• Workplace health and safety</li> </ul>
B3 Development and training	<ul style="list-style-type: none"> <li>• Employee development and training</li> </ul>
B4 Labour standards	<ul style="list-style-type: none"> <li>• Child and forced labour</li> </ul>
B5 Supply chain management	<ul style="list-style-type: none"> <li>• Supplier practices</li> </ul>
B6 Product responsibility	<ul style="list-style-type: none"> <li>• Customer services, responsible investment, and data privacy</li> </ul>
B7 Anti-corruption	<ul style="list-style-type: none"> <li>• Anti-corruption</li> </ul>
B8 Community investment	<ul style="list-style-type: none"> <li>• Community engagement</li> </ul>

## A. Environmental

### A1 Emissions

#### Waste Management

The Manager is committed to environmental conservation and protection. To abate the impact of our business on the environment, we encourage the Property Manager and the Building Manager to manage the waste collected from our tenants and offices through reducing, reusing and recycling. We also comply with the relevant national environmental laws and regulations, and are aware of the latest regulatory changes.

The estimated amount of waste collected from tenants of the Property during the Reporting Year is set out as follows:

Type of waste <sup>1</sup>	Amount
Non-hazardous Waste (includes domestic and general construction waste)	15,120 tonnes
Recyclable Waste (includes paper box, newspaper, magazine, and plastic bottle)	144 tonnes

The following measures have been implemented in the Property to control and manage the waste collected:

- Installation of recycling bins in common areas of the Property to facilitate the collection and classification of recyclable waste
- Employing qualified and licensed collectors to transport the waste to processing plants
- Installation of sewage filtering facilities
- Obtaining Sewage Discharge Permission from the relevant government authorities

During the Reporting Year, the Manager was not aware of any cases of non-compliance with environmental laws and regulations.

#### Carbon Emissions

The major source of carbon emissions from the Property is the use of energy. Carbon emissions during the Reporting Year amounted to 11,907 tonnes of carbon dioxide equivalent (CO<sub>2</sub>-eq)<sup>2</sup>, representing an intensity of 0.082 tonnes of CO<sub>2</sub>-eq per m<sup>2</sup> of floor area. To help relieve global warming, the Manager encourages the Property Manager and the Building Manager to implement various energy-saving measures. Please refer to the section "A2 Use of Resources" below for details.

Notes:

<sup>1</sup> Considering the nature of our principal business, our operations did not generate any significant air emissions or hazardous waste during the Reporting Year.

<sup>2</sup> The amount of carbon emissions was calculated with reference to the emission factors documented in the Greenhouse Gas Protocol, published by World Resources Institute (WRI) and World Business Council on Sustainable Development (WBCSD); 2015 中國區域電網基準線排放因子和溫室氣體排放核算方法和報告指南(試行), published by the Department of Climate Change, National Development and Reform Commission of the People's Republic of China (中國國家發展和改革委員會應對氣候變化司); and the Environmental, Social and Governance Reporting Guide, published by Hong Kong Exchanges and Clearing Limited. Scope 1 and scope 2 carbon emissions were reported.

## A2 Use of Resources

We continuously seek to enhance operational efficiency and achieve more efficient use of resources in our business. The Manager takes an active role to work together with the Building Manager to control electricity and water consumption in the Property through various administrative measures, communications campaigns as well as deployment of resource conservation equipment. The Building Manager is also responsible for monitoring water and energy usage regularly, and performing timely investigations and remediation actions for any abnormal consumptions identified.

### Use of Energy

The energy consumption of the Property comprises electricity used for lighting, air-conditioning, lifts and escalators in the common areas of the Property. Also, heat is purchased during winter to maintain indoor temperature within a comfortable range.

The energy consumption of the Property during the Reporting Year is set out as follows:

Type	Amount	Intensity (per m <sup>2</sup> of gross floor area)
Purchased Electricity	11,794,276 Kilowatt-hours (kWh)	81.13 kWh per m <sup>2</sup>
Purchased Heat	26,776 Gigajoules (GJ)	0.18 GJ per m <sup>2</sup>

To improve energy efficiency, an initiative named “LED Lighting Replacement Scheme” has been implemented since 2015. In 2016, the Property replaced over 1,200 units of LED lights in the public area, including washrooms, passageways and underground car parking spaces, with estimated energy saving reaching 50,000 kWh per annum.

The Property is also equipped with an intelligent lift management system to streamline journeys for all passengers by considering energy and operating efficiency, enabling the reduction of electricity consumption as well as journey time on the lift.

### Use of Water

During the Reporting Year, the amount of water consumed by our tenants and for administrative purposes is set out as follows:

Type	Amount	Intensity (per m <sup>2</sup> of gross floor area)
Purchased Water	167,968 tonnes	1.16 tonnes per m <sup>2</sup>

Various water saving measures have been implemented in the Property, including:

- Installation of sensor taps in public washrooms
- Using reclaimed water for landscape irrigation
- Conducting regular water leakage check
- Displaying signs encouraging water conservation in public areas

### A3 The Environment and Natural Resources

As a responsible corporate citizen, we, together with our Property Manager and Building Manager, uphold green principles and ensure that an adequate environmental control and monitoring system is in place for the Property. During the Reporting Year, the following environmental concerns, on top of those covered in the above sections, were identified and addressed as follows:

#### Indoor Air Quality

We understand that our tenants and visitors are concerned about the air quality in Beijing. To provide them with a comfortable and healthy environment, air purification systems have been installed in the Property. With the use of electrostatic filters and activated charcoal layers, the level of PM2.5 could be significantly reduced, enabling the air quality in our Property to achieve the Grade 1 national standard of 75µg/m<sup>3</sup>.

#### Renovation

The Building Manager has established a Renovation Management Office (“**RMO**”) to control noise, odour and waste generated from renovation works performed in the Property. Written guidelines governing such activities have also been enforced, and tenants must accept our environmental terms before the commencement of renovation works. Our environmental terms include the following:

- Materials used for renovation works should meet our environmental standards, i.e. non-toxic, odourless, and harmless
- Renovation works should only be performed during non-office hours and public holidays
- Flammable materials should not be stored in the office area
- Renovation waste should be packed properly and disposed of in designated areas
- Inspection should be carried out by RMO to assess the impact on public safety

## B. Social

### B1 Employment

Given that Spring REIT is an investment trust, it did not offer employment opportunities during the Reporting Year. Nevertheless, as regards employment practices, the Manager has established a set of comprehensive policies for its own staff covering the following areas:

- Competitive remuneration and welfare packages should be provided to attract and retain talents
- Standard procedures on recruitment, dismissal, and promotion should be strictly followed to ensure fairness and reduce subjectivity
- Regular performance reviews should be performed to provide feedback to staff and offer promotion opportunities
- Employees should be provided with sufficient rest hours



## Environmental, Social and Governance Report (Continued)

The Manager is also committed to promoting equal opportunities, and development prospects should be offered to staff regardless of race, sex, disability, pregnancy, etc.

During the Reporting Year, the Manager was not aware of any cases of non-compliance with employment laws and regulations.

### B2 Health and Safety

We are committed to maintaining a safe and hygienic workplace. We require our Property Manager and Building Manager to be responsible for identifying safety hazards in the Property and performing preventative measures to abate the associated risks. In performing building maintenance works, only qualified and licensed workers or those with relevant certificates should be assigned, and appropriate protective equipment should be provided.

During the Reporting Year, the Manager was not aware of any cases of non-compliance with health and safety laws and regulations.

### B3 Development and Training

We believe that training is the foundation for maintaining operating efficiency and making continuous improvements in our business. The Manager is dedicated to providing every employee with on-going development opportunities for both their career and personal life. The Property Manager and the Building Manager are encouraged to arrange safety and technical training sessions for operational staff working in the Property to ensure they are equipped with appropriate knowledge and skills in performing their duties effectively. Our contractors are also required to offer sufficient training to help their workers acquire qualifications for their engaged tasks in accordance with the relevant laws and regulations.

### B4 Labour Standards

Child labour and forced labour are strictly prohibited in our operations and supply chain. Employment opportunities should be offered based on the principles of fairness, openness and willingness. The Property Manager and the Building Manager are requested to implement appropriate preventive and detective measures to abate the related risks. These measures include signing employment contracts that list the terms and conditions of work explicitly to protect the interests of both parties.

During the Reporting Year, the Manager was not aware of any cases of non-compliance with labour laws and regulations.

### B5 Supply Chain Management

We encourage our suppliers to share our values on environmental and social responsibility through adopting environmentally-friendly measures in their operations and maintaining fair labour practices.

Our Building Manager is certified with the ISO14000 Environmental Management qualification, which demonstrates that it has an up-to-standard environmental management system in place and that it has the ability to manage various environmental issues for the Property.

### B6 Product Responsibility

#### Customer Services and Quality Assurance

We strive to provide a safe and comfortable environment to our tenants. The Property Manager has engaged an experienced property management agent as the Building Manager with certifications including ISO9001 (Quality Management System) and the First Grade Qualification of Realty Management Enterprises (一級資質物業管理企業) issued by the Ministry of Housing and Urban-Rural Development of the People's Republic of China (中華人民共和國住房和城鄉建設部). The Customer Service Department situated inside the Property is dedicated to support our tenants by addressing their concerns or comments in a timely manner. A Tenant Handbook (用戶手冊) is distributed to each tenant to provide comprehensive guidance on the services offered by the Building Manager.

To better understand the performance of the Building Manager, tenant satisfaction surveys are conducted on a semi-annual basis to gather tenants' feedback regarding the quality of our customer services. In the survey conducted in October 2016, the average satisfaction rating given by our tenants was over 93%, with a response rate of 92%.

#### Responsible Investment

We believe that in order to create value in the long run, ESG factors should be taken into consideration for every investment decision. Therefore, we consider ESG factors when we formulate our investment strategy and manage our investment portfolio. Mechanisms have been established to assess the ESG performance of potential investees and continuously monitor ESG issues of the investment Property of Spring REIT.

#### Information Security

The Property Manager has adopted an adequate level of information security, in accordance with all relevant local regulations, and executed proper procedures to ensure confidentiality of tenants' sensitive information. Access to sensitive information is restricted to the relevant personnel on a "need-to-know" basis with physical and system safeguards. Retention periods of confidential documents are clearly set out according to the laws or in the agreement with tenants.

During the Reporting Year, the Manager was not aware of any cases of non-compliance with product responsibility laws and regulations.

### B7 Anti-corruption

We prohibit all forms of bribery and corruption. All management and staff of the Manager are restricted from soliciting, accepting or offering any bribe in conducting the business. They should decline any advantages which could affect the objectivity, or likely lead to perception or allegation of impropriety. The Chief Compliance Officer is appointed to provide guidance and support on anti-corruption related matters. Potential conflicts of interest encountered by the management should also be reported to Chief Compliance Officer immediately.

During the Reporting Year, the Manager was not aware of any cases of non-compliance relating to anti-corruption laws and regulations.

### B8 Community Investment

We aim to achieve sustainable growth by contributing to the community while developing our business. Tenants of the Property were encouraged to participate in various community events hosted by the Building Manager and other institutions, including but not limited to those set out below, during the Reporting Year:

- Environmental Souvenirs Exchange Scheme: The scheme was designed to enhance tenants' awareness of waste reduction, and develop their habits of recycling. Tenants were invited to bring recyclable items to the collection booth for exchanging environmental souvenirs.
- No Smoking Campaign: The campaign was hosted to promote the regulation of indoor smoking prohibition. Participants were encouraged to share anti-smoking slogans and ideas on social media platforms to win gifts. Participants were also invited to test their vital capacity in order for them to understand the adverse health effect of smoking.
- Earth Hour: We supported the Earth Hour 2016 by turning off all non-essential lighting in the Property for an hour during the campaign, and staged an educational video broadcast in the lift lobby of the Property to raise environmental awareness and encourage tenants' participation in the campaign.

# Corporate Governance

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

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

During the Reporting year, both the Manager and Spring REIT have in material terms complied with the provisions of the Compliance Manual including the corporate governance policy set out in Schedule 5 of the Compliance Manual.

## Authorization Structure

Spring REIT is a collective investment scheme constituted as a unit trust and authorized by the Securities and Futures Commission (the “**SFC**”) under section 104 of the Securities and Futures Ordinance (Cap.571) (“**SFO**”) and regulated by the SFC pursuant to the applicable provisions of the SFO, the Code on Real Estate Investment Trusts (the “**REIT Code**”) and the Listing Rules. The Manager has been authorized by the SFC under section 116 of the SFO to conduct the regulated activities of asset management. As at the date of this report, Mr. Lau Jin Tin, Don (an Executive Director of the Manager), Mr. Nobumasa Saeki (an Executive Director of the Manager), Mr. Leung Kwok Hoe, Kevin (an Executive Director of the Manager) and Mr. Chung Wai Fai (the Senior Vice President of the Manager) are the Responsible Officers of the Manager (the “**ROs**”) pursuant to the requirements under section 125 of the SFO and Paragraph 5.4 of the REIT Code. The ROs have completed the Continuous Professional Training as required by the SFO for the Reporting Year. Mr. Lau Jin Tin, Don, an Executive Director, was approved by the SFC as an approved person of the Manager pursuant to sections 104(2) and 105(2) of the SFO.

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

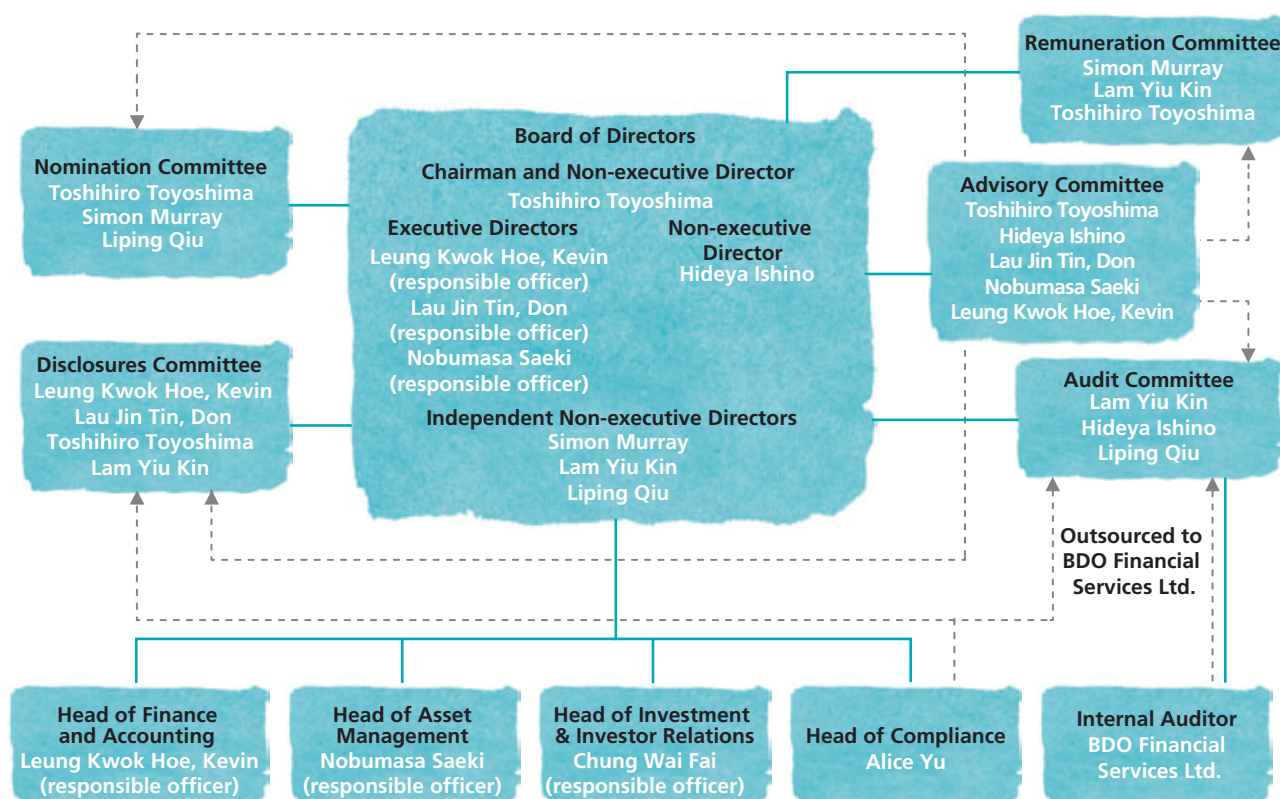
## Roles of the Trustee and the Manager

The Trustee and the Manager are independent of each other. The Trustee is responsible under the Trust Deed for the safe custody of the assets of Spring REIT on behalf of the Unitholders and to oversee the activities of the Manager in accordance with and in compliance with the Trust Deed, and the regulatory requirements applicable to Spring REIT.

The Manager is responsible for managing Spring REIT and its assets in accordance with the Trust Deed and ensuring that the financial and economic aspects of Spring REIT’s assets are managed in the sole interests of the Unitholders.

The relationship among the Trustee, the Manager and the Unitholders is set out in the Trust Deed, as may be amended and supplemented from time to time.

## Organizational and Reporting Structure of the Manager



Dotted lines represent ad hoc reporting on a case by case basis.

## The Board and delegations

The Board principally oversees the day-to-day management and corporate governance of the Manager. The Board and management functions are largely separated; subject to certain matters specifically reserved to the Board itself, the day-to-day management duties are delegated to the management team of the Manager. Meanwhile, various board committees have been established with clear terms of reference, each of which is to assist the Board in supervising specific issues or functions of the Manager.

## Board of Directors of the Manager

The Board of Directors of the Manager currently comprises eight members, including three Executive Directors and five Non-executive Directors (including three Independent Non-executive Directors (“**Independent Non-executive Directors**”). The composition of the Board of Directors of the Manager during the Reporting Year is set out below:

## Corporate Governance (Continued)

### **Non-executive Directors**

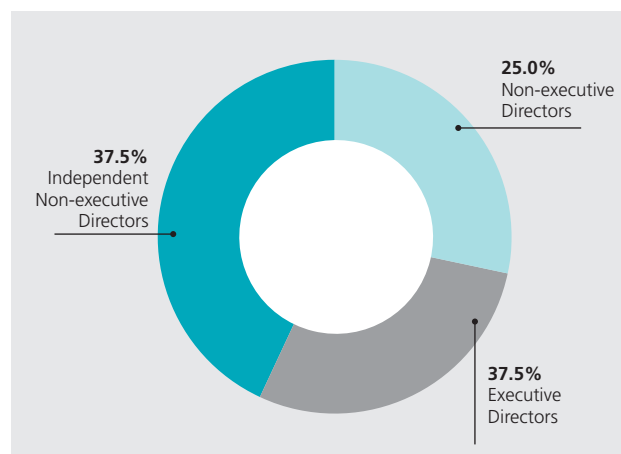
Toshihiro Toyoshima (*Chairman*)  
Hideya Ishino

### **Executive Directors**

Lau Jin Tin, Don  
Nobumasa Saeki  
Leung Kwok Hoe, Kevin (appointed to the Board with effect from 10 March 2017)

### **Independent Non-executive Directors**

Simon Murray  
Lam Yiu Kin  
Liping Qiu



As disclosed in the announcement of Spring REIT dated 10 March 2017, Mr. Leung Kwok Hoe, Kevin was appointed as an Executive Director of the Manager on 10 March 2017 and Mr. Lau Jin Tin, Don has decided that he would retire from his position as an Executive Director with effect from 31 May 2017.

Biographical details of the Directors are set out in the section headed “Board of Directors and Senior Management” and published on Spring REIT’s website at [www.springreit.com](http://www.springreit.com).

## **Board Responsibilities**

The Board is responsible for ensuring that the Manager discharges its duties under the Trust Deed, which include but are not limited to:

- (i) managing Spring REIT in accordance with the Trust Deed in the sole interest of the Unitholders;
- (ii) ensuring sufficient oversight of the daily operations and financial conditions of Spring REIT when managing Spring REIT;
- (iii) ensuring compliance with the licensing and authorization conditions of the Manager and Spring REIT and with any applicable laws, rules, codes and/or guidelines issued by government departments, regulatory bodies, exchanges or any other organizations regarding the activities of Spring REIT or its administration; and
- (iv) reviewing and monitoring the training and continuous professional development of Director, executive officers and senior management.

During the Reporting Year, the Board has considered and reviewed, among other things:

- (i) the impact of the transition from business tax to value-added tax in PRC and the announcements made on 3 May 2016 and 25 July 2016;
- (ii) the impact of the change in calculation basis of real estate tax in Beijing and the announcement made on 8 November 2016;
- (iii) the potential acquisition of properties in the United Kingdom as announced on 6 December 2016.

The Board’s function is largely separated from, and independent of, the executive management function. The Board leads and guides the Manager’s corporate strategy and direction. Subject to the matters specifically reserved to the Board as set out in the Compliance Manual, the Board delegates certain management and supervisory functions to relevant committees of the Board. For more details, please see the section headed “Key Reserved Matters to the Board” below.

## Board Composition

With the aim of creating a board structure that is both effective and balanced, the size of the Board has been set to provide for a minimum of seven Directors and a maximum of nine Directors. Pursuant to the corporate governance policy, set out in Schedule 5 of the Compliance Manual, Independent Non-executive Directors must be individuals who fulfil the independence criteria set out in the Compliance Manual that are no less exacting than those set out in Rule 3.13 of the Listing Rules for assessing the independence of an independent non-executive director. During the Reporting Year, the Manager has received written annual confirmation from each Independent Non-executive Director of his independence pursuant to the “Criteria for Independence of Independent Non-executive Directors” as set out in the Compliance Manual.

The composition of the Board is determined mainly in accordance with the following principles:

- (i) the Chairman of the Board should be a Non-executive Director;
- (ii) the Board should have a balance of skill and experience appropriate for the requirements of Spring REIT’s business and should ensure that changes to its composition can be managed without undue disruption;
- (iii) the Board should have a balance composition of Executive Directors, Non-executive Directors and Independent Non-executive Directors so that there is a strong independent element on the Board which can effectively exercise independent judgement;
- (iv) the Board should include Non-executive Directors of sufficient caliber and number for their views to carry weight; and
- (v) at least one-third, and a minimum of three members, of the Board should be Independent Non-executive Directors and at least one Independent Non-executive Director must have appropriate professional qualifications or accounting or related financial management expertise.

The Board composition is being reviewed regularly to ensure that the Board has the appropriate mix of expertise and experience and that the Directors being appointed have the relevant expertise and experience in discharging their duties.

There is no relationship (including financial business, family or other material/relevant relationships) between Board members and in particular, between the Chairman and the Executive Directors.

## Board Meetings

The Board meets on a regular basis and generally no less than four times in each financial year at approximately quarterly intervals. According to the Compliance Manual, Directors are given written notices of board meetings at least fourteen days in advance of the regular meetings, with suitable arrangements in place to allow Directors to include new items in the agenda. Agenda and accompanying board papers are circulated at least three days before the scheduled date of a board meeting. Board consents are given by votes at board meetings and written resolutions are signed by all Directors from time to time. The Board process is further facilitated by telephone conferences in cases where urgent discussions and decisions are required before the next regular Board meeting or where certain Director(s) is/are out of town.

## Corporate Governance (Continued)

No Board meeting, or any adjourned Board meeting, will be quorate unless a simple majority of Directors for the time being are present at the time when the relevant business is transacted. A Director who, whether directly or indirectly, has a material interest in a contract or proposed transaction, arrangement or contract with the Manager, which is of significance to the Manager's business, must declare the nature and extent of his interest either at the earliest Board meeting or by giving a general notice to the Board before the question of entering into the transaction, arrangement or contract is taken into consideration on behalf of the Manager.

A Director who is prohibited from voting by reason of a conflict of interest is not counted for the purpose of establishing the necessary quorum for the meeting.

Matters to be considered by the Board are to be adopted on the basis of a simple majority of votes.

During the Reporting Year, four physical meetings of the Board were held and 27 separate written resolutions were passed by all members of the Board. The attendance of current individual Directors at such Board meetings was as follows:

Members of the Board	Number of meetings attended/ Number of meetings held	Attendance rate
<b>Chairman and Non-executive Director</b>		
Mr. Toshihiro Toyoshima	4/4	100%
<b>Executive Directors</b>		
Mr. Lau Jin Tin, Don	4/4	100%
Mr. Nobumasa Saeki	4/4	100%
Mr. Leung Kwok Hoe, Kevin (note)	N/A	N/A
<b>Non-executive Director</b>		
Mr. Hideya Ishino	4/4	100%
<b>Independent Non-executive Directors</b>		
Mr. Simon Murray	4/4	100%
Mr. Lam Yiu Kin	4/4	100%
Mr. Liping Qiu	4/4	100%

Note: Mr. Leung Kwok Hoe, Kevin was appointed as an Executive Director of the Manager on 10 March 2017.

In addition to the four physical Board meetings mentioned above, certain conference calls were arranged during the year to discuss matters in relation to the management of Spring REIT. All board members attended those conference calls.



## Director's Training

Each newly appointed Director will receive a package of orientation materials on the business and operations of Spring REIT and the legal framework under which Spring REIT is governed. The package includes but is not limited to the REIT Code, Trust Deed and Compliance Manual and recent publications of Spring REIT. Senior executives of the Manager will also provide the Directors with the necessary information in the form of special reports. Also, additional information will always be provided to the Directors upon request.

To keep the Directors abreast of their responsibilities and infuse them with new knowledge relevant to the Group and Spring REIT's business and operating environment, the Manager arranges and provides continuous professional development training and relevant reading materials to Directors to ensure that they are apprised of the latest changes in the commercial, legal and regulatory environment in which Spring REIT conducts its business and to refresh their skills and knowledge on the roles, functions and duties of a Director. In addition, the attendance at external forums or briefing sessions (including delivery of speeches) on the relevant topics also counts towards continuous professional development training.

Based on the training records provided to the Manager by the Directors, the current Directors have participated in the following training during the Reporting Year:

Members of the Board	Types of Training
<b>Chairman and Non-executive Director</b>	
Mr. Toshihiro Toyoshima	A,B
<b>Executive Directors</b>	
Mr. Lau Jin Tin, Don	A,B
Mr. Nobumasa Saeki	A
<b>Non-executive Director</b>	
Mr. Hideya Ishino	A
<b>Independent Non-executive Directors</b>	
Mr. Simon Murray	A,B
Mr. Lam Yiu Kin	A,B
Mr. Liping Qiu	A

Note: Mr. Leung Kwok Hoe, Kevin was appointed as an Executive Director of the Manager on 10 March 2017.

A: Attending corporate events and/or Board visits and/or executive briefings relevant to Spring REIT's business.

B: Reading or attending briefings and/or seminars and/or conferences relevant to regulatory and governance updates.

## Directors' Service Contracts

There is no service contract, which cannot be terminated by the Manager within one year without payment of compensation (other than statutory compensation) in respect of those Directors who are due to retire and offer for re-election at the forthcoming annual general meeting of the Manager.

## Directors' Interests in Transactions, Arrangements or Contracts

Save as disclosed under the "Connected Party Transactions" section on pages 62 to 66 of this report and in Note 21 to the consolidated financial statements of Spring REIT, no transactions, arrangements or contracts of significance in relation to Spring REIT's business and in which a Director is or was materially interested, whether directly or indirectly, subsisted at the end of the Reporting Year or at any time during the Reporting Year.

## Key Reserved Matters to the Board

To maintain appropriate checks and balances on management actions, certain matters which have a critical bearing on Spring REIT are specifically reserved for consideration by the full Board. These mainly include:

- (i) approval of interim, final and special (if any) distributions, interim and annual reports and financial statements and circulars to Unitholders;
- (ii) recommendation to Unitholders on any change of the provisions of the Trust Deed;
- (iii) approval of acquisition and/or disposition of properties;
- (iv) appointment or removal of the Executive Director and any other Directors as well as the company secretary;
- (v) issue of new Units of Spring REIT;
- (vi) approval of any matter which would have a material effect on Spring REIT's financial position, liabilities, future strategy or reputation; and
- (vii) delegation of powers and authority to various Board committees.

## Insurance

During the Reporting Year, appropriate Directors' and officers' liabilities insurance and professional indemnity insurance have been arranged in respect of any legal action against the Directors and officers of the Manager and the provision of professional services by the Manager to Spring REIT.

## Chairman and Executive Directors of the Manager

The positions of Chairman (Mr. Toshihiro Toyoshima, who is a Non-executive Director) and Executive Directors (Mr. Lau Jin Tin, Don, Mr. Leung Kwok Hoe, Kevin (who was appointed after the end of the Reporting Year) and Mr. Nobumasa Saeki) are held by separate persons in order to maintain an effective segregation of duties. The Chairman is mainly responsible for the overall leadership of the Board and for ensuring that the Board functions effectively and acts in the best interests of the Unitholders. He leads Board discussions and deliberations and is also responsible for setting the meeting agenda of Board meetings. He ensures that Board meetings are held when necessary. He promotes high standards of corporate governance and maintains effective communications with Unitholders. Each of the Executive Directors is responsible for the day-to-day operations and management of the Manager and Spring REIT and supervises the Manager's management team to ensure that Spring REIT is operated in accordance with the stated strategy, policies and regulations. Each of the Executive Directors executes the strategic plans set out by the Board and ensures that the Directors are kept updated and informed of Spring REIT's business via management reports. The respective responsibilities of the Chairman and the Executive Directors are clearly established and set out in the Compliance Manual of the Manager.

## Appointment, Re-election and Removal of Directors

The appointment, re-election and removal of Directors (including ROs) is a matter for the Board and the shareholders of the Manager to determine in accordance with the Compliance Manual, the articles of association of the Manager and the applicable laws. As the Manager is licensed by the SFC under Part V of the SFO, the appointment and removal of any of the Executive Directors and the Non-executive Directors (including the Independent Non-executive Directors) and the removal of a RO must be notified to the SFC and the appointment of a RO requires the prior approval of the SFC.

All the Independent Non-executive Directors were appointed on 20 November 2013 (except Mr. Lam Yiu Kin who was appointed on 12 January 2015) for an initial term of three years and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term of appointment, unless and until terminated by not less than three months' notice in writing served by either party.

## Disclosure on Independent Non-executive Director Remuneration Arrangement

Pursuant to the announcement of the Manager dated 24 October 2014, the Manager has adopted an arrangement for the remuneration of Independent Non-executive Directors (the "**Independent Non-executive Director Remuneration Announcement**"). As stated in the Independent Non-executive Director Remuneration Announcement, the Manager is required to disclose the following matters in the interim report and annual report of Spring REIT:

Independent Non-executive Director	Remuneration for the Reporting Year <sup>(i)</sup> (HK\$)	Election for Percentage of fee to be paid in the form of Units during the Reporting Year	Units paid as Remuneration during the Reporting Year <sup>(ii)</sup>
Mr. Simon Murray	360,000	100%	108,000
Mr. Liping Qiu	360,000	100%	108,000
Mr. Lam Yiu Kin	360,000	100%	108,000

Notes:

- (i) Each Independent Non-executive Director's remuneration remained unchanged during the Reporting Year. This fee was determined after arm's length negotiation between each Independent Non-executive Director and the Manager, with reference to market conditions, experience and qualifications of each Independent Non-executive Director.
- (ii) For each Independent Non-executive Director's current beneficial interest in Spring REIT and the change (if any) in their respective beneficial interest in Spring REIT during the Reporting Year, please see the section headed "Disclosure of Interest" below.

## Board Committees

The Board has the power to delegate to committees consisting of such numbers of its body as it thinks fit. Various committees have been established to assist the Board in discharging its responsibilities. The committees of the Board have been set up with clear terms of reference to review specific issues or items and then to submit their findings and recommendations to the full Board for consideration and endorsement. Unless the decision making power has been vested in the relevant committee by the Board, the ultimate responsibility for making final decisions rests with the full Board and not the committees.

The committees of the Board are currently as follows:

### Audit Committee

The members of the Audit Committee of the Manager are appointed by the Board from among the Non-executive Directors only. Majority of the members of the Audit Committee shall be Independent Non-executive Directors and at least one Independent Non-executive Director has appropriate professional qualification or accounting or related financial management expertise. As at the date of this report, the Audit Committee is chaired by an Independent Non-executive Director, namely Mr. Lam Yiu Kin. The other members of the Audit Committee are Mr. Hideya Ishino (a Non-executive Director) and Mr. Liping Qiu (an Independent Non-executive Director).

The Audit Committee is responsible for establishing and maintaining an adequate internal control structure, effective financial reporting and risk management systems and ensuring the quality and integrity of financial statements. The Audit Committee is also responsible for the nomination of independent external auditors and reviewing the adequacy of external audits in respect of cost, scope and performance. The Audit Committee also ensures the existence and working of effective systems of internal control and risk management, in respect of both the Manager and Spring REIT.

The responsibilities of the Audit Committee also include:

- (i) reviewing transactions entered into by the Manager and the Directors on a half-yearly basis;
- (ii) reviewing all financial statements and all external audit reports and developing and implementing a policy on the engagement of external auditors to provide non-audit services;
- (iii) ensuring the internal audit functions are adequately resourced and guiding the management to take appropriate actions to remedy any faults or deficiencies in internal controls which may be identified;
- (iv) assisting the Board in monitoring the overall risk management profile of the entities and setting guidelines and policies for risk assessment and risk management;
- (v) periodically reviewing and monitoring all connected party transactions and related party transactions;
- (vi) reviewing the Manager and Spring REIT's compliance with legal and regulatory requirements on a regular basis; and
- (vii) reviewing and approving the annual internal audit plan and reviewing the internal audit reports and activities.

## Corporate Governance (Continued)

During the Reporting Year, four physical meetings of the Audit Committee were held and seven separate written resolutions were passed by all members of the Audit Committee. The attendance of individual Directors at such Audit Committee meetings is as follows:

Members of the Audit Committee	Number of meetings attended/ Number of meetings held	Attendance rate
Mr. Lam Yiu Kin ( <i>Chairman</i> )	4/4	100%
Mr. Hideya Ishino	4/4	100%
Mr. Liping Qiu	4/4	100%

The following is a summary of the major work performed by the Audit Committee during the Reporting Year:

- (i) reviewed the audited financial statements, the final results announcement and annual report of Spring REIT for the year ended 31 December 2015;
- (ii) reviewed the unaudited financial statements, the interim results announcement and interim report of Spring REIT for the six months period ended 30 June 2016;
- (iii) reviewed the internal control report of Spring REIT prepared by the internal auditor;
- (iv) considered and recommended to the Board on the re-appointment of external auditor of Spring REIT and approved the terms of engagement;
- (v) reviewed the legal and regulatory compliance matters for the year ended 31 December 2015 and for the six months period ended 30 June 2016 which included, among others, the connected party transactions of Spring REIT;
- (vi) reviewed the risk update and risk management system; and
- (vii) reviewed and approved the 2016 and 2017 annual budget of the Group prepared by the Manager.

## Promotional Expenses

Pursuant to the waiver granted by the SFC on 21 November 2013 from strict compliance with the requirements under Paragraph 9.13(b) of the REIT Code, certain expenses relating to marketing, promotion, advertising, roadshows, press conferences, luncheons, presentations, and other public relations-related fees (collectively “**Promotional Expenses**”) are allowed to be paid out of the deposited property (as defined in the Trust Deed) of Spring REIT.

During the Reporting Year, the Promotional Expenses incurred amounted to US\$0.12 million. Pursuant to the conditions of the above-mentioned waiver and having reviewed the supporting evidences as it may reasonably deem necessary, the Audit Committee has confirmed that such Promotional Expenses were incurred (i) in accordance with the internal control procedures of the Manager; and (ii) the nature of these Promotional Expenses was solely for the purposes as set out in the relevant clauses of the Trust Deed.

## Disclosures Committee

The members of the Disclosures Committee are appointed by the Board from among the Directors. Currently, the Disclosures Committee consists of four Directors, one of whom should at all times be an Independent Non-executive Director. The functions of the Disclosures Committee include reviewing matters relating to the disclosure of information to Unitholders and public announcements. The Disclosures Committee also works with the management of the Manager to ensure the information disclosed is accurate, complete and not misleading. As at the date of this report, the members of the Disclosures Committee are Mr. Lau Jin Tin, Don (an Executive Director), Mr. Leung Kwok Hoe, Kevin (an Executive Director), Mr. Toshihiro Toyoshima (a Non-executive Director) and Mr. Lam Yiu Kin (an Independent Non-executive Director). Mr. Leung Kwok Hoe, Kevin has been appointed as the chairman of the Disclosures Committee. As announced on 10 March 2017, Mr. Lau Jin Tin, Don resigned as the chairman of the Disclosures Committee but remains as a member on 10 March 2017 and Mr. Leung Kwok Hoe, Kevin has been appointed as the chairman and a member of the Disclosures Committee on the same day. In addition, Mr. Lau Jin Tin, Don will retire from his membership of the Disclosures Committee with effect from 31 May 2017.

The Disclosures Committee’s responsibilities mainly include:

- (i) reviewing and making recommendations to the Board on matters of corporate disclosure issues and announcements regarding (without limitation) financial reporting, connected party transactions, and potential areas of conflict of interests;
- (ii) overseeing compliance with applicable legal requirements and the continuity, accuracy, clarity, completeness and currency of information disseminated by or on behalf of Spring REIT to the public and applicable regulatory agencies;
- (iii) reviewing and approving all material non-public information and all public regulatory filings of or on behalf of Spring REIT prior to such information being disseminated to the public or filed with applicable regulatory agencies;
- (iv) reviewing periodic and current reports, proxy statements, information statements, registration statements and any other information filed with regulatory bodies;

## Corporate Governance (Continued)

- (v) reviewing press releases containing financial information, information about material acquisitions or dispositions or other information material to Unitholders;
- (vi) reviewing correspondence containing financial information disseminated to Unitholders;
- (vii) selecting, appointing, directing and terminating, where appropriate, outside experts (such as legal advisors or accountants) as the Disclosures Committee deems necessary in the performance of its duties; and
- (viii) maintaining and updating the terms of reference as the Disclosures Committee deems appropriate.

During the Reporting Year, two physical meetings of the Disclosures Committee were held and 19 written resolutions were passed by all members of the Disclosures Committee. The attendance of current individual Directors at such Disclosures Committee meetings is as follows:

Members of the Disclosures Committee	Number of meetings attended/ Number of meetings held	Attendance rate
Mr. Lau Jin Tin, Don ( <i>ex-Chairman</i> ) (note)	2/2	100%
Mr. Leung Kwok Hoe, Kevin ( <i>Chairman</i> ) (note)	N/A	N/A
Mr. Toshihiro Toyoshima	2/2	100%
Mr. Lam Yiu Kin	2/2	100%

Note: Mr. Leung Kwok Hoe, Kevin was appointed as the chairman and a member of the Disclosures Committee on 10 March 2017. Mr. Lau Jin Tin, Don resigned as the chairman but remains as a member of the Disclosures Committee on the same date.

The following is a summary of the major work performed by the Disclosures Committee during the Reporting Year:

- (i) reviewed and recommended to the Board on the disclosure of the final results announcement and the 2015 final distribution, annual report for the year ended 31 December 2015, draft announcements relating to the payment of Manager's fees in cash and in Units;
- (ii) reviewed and recommended to the Board on the disclosure of the interim results announcement and 2016 interim distribution, interim report for the six months period ended 30 June 2016;
- (iii) reviewed and recommended to the Board on the notice convening the annual general meeting;
- (iv) reviewed and recommended to the Board on the draft announcement in relation to unusual volume movement;
- (v) reviewed and recommended to the Board on the draft announcements in relation to transitioning from business tax to value-added tax in China;
- (vi) reviewed and recommended to the Board on the draft announcements in relation to unaudited operating statistics for 31 December 2015, 31 March 2016, 30 June 2016 and 30 September 2016;

## Corporate Governance (Continued)

- (vii) reviewed and recommended to the Board on the draft announcement in relation to the change in real estate tax basis in Beijing;
- (viii) reviewed and recommended to the Board on the draft announcement in relation to a letter of intent in relation to proposed acquisition of 84 separate commercial properties in the United Kingdom; and
- (ix) reviewed and recommended to the Board on the draft announcement in relation to the 2017 election of Manager's fees.

## Remuneration Committee

The members of the Remuneration Committee are appointed by the Board from among the Directors. A majority of the members of the Remuneration Committee shall at all times be Independent Non-executive Directors. The chairman of the Remuneration Committee shall at all times be an Independent Non-executive Director. As at the date of this report, the members of the Remuneration Committee are Mr. Simon Murray, Mr. Lam Yiu Kin (each of whom is an Independent Non-executive Director) and Mr. Toshihiro Toyoshima (a Non-executive Director). Mr. Simon Murray has been appointed as the chairman of the Remuneration Committee.

The Remuneration Committee is responsible for reviewing the terms and conditions of employment of Directors and all senior staff of the Manager (other than the members of Remuneration Committee, whose remuneration is determined by the Board) and recommending an appropriate manpower deployment plan (including the succession plan for the management of the Manager and the Board), remuneration and retirement policies and packages. The Remuneration Committee also ensures that no Director is involved in deciding his own remuneration.

During the Reporting Year, one physical meeting of the Remuneration Committee was held and three separate written resolutions were passed by all members of the Remuneration Committee. The attendance of individual Directors at such Remuneration Committee meeting is as follows:

Members of the Remuneration Committee	Number of meetings attended/ Number of meeting held	Attendance rate
Mr. Simon Murray ( <i>Chairman</i> )	1/1	100%
Mr. Toshihiro Toyoshima	1/1	100%
Mr. Lam Yiu Kin	1/1	100%

During the Reporting Year, the Remuneration Committee reviewed the existing terms and conditions of employment of the Directors and senior staff, terms of services contracts of the Executive Directors, remuneration packages of individual Executive Director and senior staff, remuneration of Independent Non-executive Directors, manpower deployment plan, and remuneration and retirement policies. In addition to the physical meeting mentioned above, a conference call was arranged to discuss the remuneration package of a senior management staff.



### Nomination Committee

The members of the Nomination Committee are appointed by the Board from among the Directors. A majority of the members of the Nomination Committee shall at all times be Independent Non-executive Directors. The chairman of the Nomination Committee shall at all times be an Independent Non-executive Director or the Chairman of the Board. As at the date of this report, the members of the Nomination Committee are Mr. Toshihiro Toyoshima (a Non-executive Director), Mr. Simon Murray and Mr. Liping Qiu (each of whom is an Independent Non-executive Director). Mr. Toshihiro Toyoshima has been appointed as the chairman of the Nomination Committee.

The Nomination Committee is responsible for reviewing the structure, size and composition (including expertise and experience) of the Board and its committees on an ongoing basis and for nominating persons for appointment and the re-appointment or removal of Directors, and providing recommendations thereon.

During the Reporting Year, no physical Nomination Committee meeting was held but a conference call was arranged to discuss the hiring of a senior management staff.

### Advisory Committee

The members of the Advisory Committee are appointed by the Board from among the Directors. As at the date of this report, the members of the Advisory Committee are Mr. Lau Jin Tin, Don, Mr. Leung Kwok Hoe, Kevin and Mr. Nobumasa Saeki (each of whom is an Executive Director), Mr. Toshihiro Toyoshima and Mr. Hideya Ishino (each of whom is a Non-executive Director). Mr. Toshihiro Toyoshima has been appointed as the chairman of the Advisory Committee. The functions of the Advisory Committee include comprehensively reviewing the management services provided by the Manager to Spring REIT, the financial performance of the Manager and Spring REIT, investor relations with respect to Spring REIT and potential acquisition opportunities, as well as supervising the performance of service providers to the Manager and Spring REIT (including the performance of the property manager and the building manager). The Advisory Committee presents information to the Board from time to time between Board meetings as advisable and ensures the smooth co-ordination between the various committees established by the Board. Where appropriate, the Advisory Committee can recommend to the Chairman that a Board meeting shall be convened to discuss any affairs of Spring REIT. Meetings of the Advisory Committee are being held monthly (or more frequently if required) to review management issues of Spring REIT and to make recommendations to the Board. During the Reporting Year, twelve meetings were held by the Advisory Committee. As announced on 10 March 2017, Mr. Leung Kwok Hoe, Kevin has been appointed as a member of the Advisory Committee on 10 March 2017 and Mr. Lau Jin Tin, Don will retire from his membership of the Advisory Committee with effect from 31 May 2017.

### Company Secretary

The Manager has engaged Fair Wind Secretarial Services Limited, an external secretarial services provider, as the company secretary of the Manager (the “**Company Secretary**”). The primary contact person with the Company Secretary of the Manager is Ms. Alice Yu, the Chief Compliance Officer of the Manager. The Company Secretary comprises a team of qualified company secretarial professionals who provide a full range of company secretarial support to the Manager and its Directors. Senior management of the Manager maintains regular contact with the Company Secretary to ensure the latter has knowledge of the affairs of Spring REIT. All Directors have access to the advice and services of the Company Secretary to ensure that the Board procedures and all applicable law, rules and regulations are followed.

## Internal Auditor

The internal audit function of the Manager has been outsourced to BDO Financial Services Limited, an independent third party, and has been carried out in accordance with the instructions of the Manager. The internal auditor (the “**Internal Auditor**”) has been engaged to perform an independent assessment of Spring REIT and the Manager’s internal control systems.

The Internal Auditor reports directly to the Audit Committee on audit matters, and to the Board on administrative matters.

The functions of Internal Auditor include:

- (i) reviewing the accuracy and completeness of records of all operations and transactions of Spring REIT and ensuring that the Manager’s internal control system functions properly;
- (ii) identifying contingency events and escalating them to the appropriate level within the Manager; and
- (iii) reviewing and making recommendations to the Board or the Audit Committee (as the case may be) to ensure effective segregation of duties and operation functions of the Manager and effectiveness and accuracy of reporting of any irregularity and infringement of the Manager’s operational and compliance procedures.

During the Reporting Year, the Internal Auditor has conducted a risk-based review of the policies and procedures described in the Compliance Manual to ensure they have been operated as expected. Based on the results of the internal audit review for the Reporting Year and the assessment of the Audit Committee thereon, the Board considers that the internal control system is effective and adequate. No significant irregularity or deficiency in internal controls that may affect Unitholder’s investment and Spring REIT’s assets was identified.

A separate discussion on Risk Management and Internal Control systems is set out on page 59 of this annual report.

## External Auditor

The Group's external auditor is PricewaterhouseCoopers ("PwC"). The responsibilities of the external auditor with respect to the financial reporting are set out in the Independent Auditor's Report on page 80 of this annual report. PwC has confirmed to the Audit Committee that they are independent with respect to acting as an external auditor to Spring REIT. PwC has been re-appointed for performing the audit for the financial year ending 31 December 2017.

During the Reporting Year, the fees paid/payable to PwC relating to audit and other non-audit services are set out as follows:

Services rendered	Fees paid/ payable US\$'000
— Audit services PwC	182
— Other non-audit services PwC	216

## Risk Management

The Board meets quarterly or more often if necessary to review the financial performance of Spring REIT and the Manager against a previously approved budget. The Board also reviews any risks associated with the management and performance of Spring REIT from time to time, and examines liability management and acts upon any advices or comments from external auditor, where appropriate. In assessing any business risk, the Board considers the economic, environment and risks related to the property market. In respect of risk management, mitigating strategies are formulated by the management team to combat with identified risks and are overseen by the Board on an on-going basis. It reviews management reports periodically and conducts feasibility studies on development projects prior to considering and approving any major transactions.

The Manager has put in place procedures to ensure well defined and accessible channels to report on suspected fraud, corruption, dishonest practices and for carrying out independent investigation of any reported case and for appropriate follow-up actions to be taken. The aim of the whistle-blowing policy is to encourage the reporting of such matters in good faith with the confidence that persons making such reports will be treated fairly and, to the extent possible, protected from reprisal.

During the Reporting Year, the Board has reviewed the key risks identified through the Audit Committee and is generally satisfied with the effectiveness of the Group's risk management system.

A separate discussion on Risk Management and Internal Control systems is set out on page 59 of this annual report.

## Conflicts of Interest and Business Competitions with Mercuria

Mercuria may exercise influence over the affairs of Spring REIT through its control over the Manager and RCA Fund 01, L.P. (“**RCA Fund**”). As at 31 December 2016, issued shares in the Manager were owned by Mercuria as to 90.2% and some of the Non-executive Directors of the Manager were and still are also directors and/or senior executives of Mercuria. Besides, RCA Fund, which is managed by Mercuria pursuant to a management agreement between Mercuria and RCA Fund (acting through its general partner, RCAC), held 30.67% interest in the Units of Spring REIT as at 31 December 2016. Mercuria can therefore exercise influence on RCA Fund and its exercise of rights as a Unitholder in respect of the affairs of Spring REIT (in particular, in relation to matters that are subject to voting by the Unitholders and RCA Fund is not required to abstain from voting), including in relation to the approval of significant corporate transactions, such as acquisitions and disposals. In addition, Mercuria has interest in the Units of Spring REIT directly or through various subsidiaries; including, in particular, the Manager which has received and will continue to receive Units of Spring REIT by virtue of all or part of its entitlement to the fees for asset management services rendered to Spring REIT.

Listed on Tokyo Stock Exchange in October 2016, Mercuria is principally engaged in investing in companies and projects in growth sections in Japan, China and other Asian countries and regions with selective investments in the property market. There may be circumstances where Spring REIT will have to compete directly with Mercuria and/or its subsidiaries or associates for acquisitions or disposals of properties as well as for tenants within the Asian or global markets. There can be no assurance that conflicts of interest will not arise between Spring REIT and Mercuria in the future.

All conflicts of interest are managed by the Board in accordance with the articles of association of the Manager, the Compliance Manual and other relevant policies and guidelines issued for and adopted by Spring REIT. The Manager has also established various procedures to deal with potential conflicts of interest, including but not limited to:

- (i) unless with the approval of the SFC, the Manager will not manage any real estate investment trust other than Spring REIT nor manage other real estate assets other than those in which Spring REIT has an ownership interest or investment;
- (ii) the Manager will ensure that it will be able to function independently from its shareholders, and all executive officers are employed by the Manager on a full time basis and are dedicated to the operations of Spring REIT;
- (iii) the Manager has also appointed Independent Non-executive Directors and set up an Audit Committee to provide independent checks on the performance of the Executive Directors/officers and ensure that the Executive Directors/officers manage and operate Spring REIT independently from Mercuria;
- (iv) the Manager has established procedures in the Compliance Manual to deal with conflicts of interest;
- (v) the Manager has established an internal control system 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 wavier conditions imposed by the SFC) and that other potential conflicts of interest that may arise are monitored;

## Corporate Governance (Continued)

- (vi) 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 Independent Non-executive Directors who, and whose associates, have no material interest in the matter should be present at such Board meeting; and
- (vii) where a Director has material interests, whether direct or indirect, in a matter which is the subject of a resolution proposed at a Board meeting of the Manager, such interested Director is expected to disclose his interest to the Board and shall abstain from voting on the resolution concerned.

## Conflicts of Interest and Business Competitions with the Property Manager

Under the Property Management Agreement entered into between RCA01 (a special purpose vehicle of Spring REIT) and Beijing Hua-re Real Estate Consultancy Co., Ltd., (the “**Property Manager**”), the Property Manager provides lease management services, building management services and cash management services for the Property on an exclusive basis subject to the overall management and supervision of the Manager. The Property Manager is currently 40% owned by Mercuria and 60% by third parties. If the Property Manager were to manage also any other property which competes with the Property, there may be potential conflicts of interest between Spring REIT and the Property Manager in respect of the performance of property management services in relation to the Property and such other property.

To eliminate the likelihood of any potential future conflicts of interest, the Property Manager has a team of operational staff dedicated exclusively to providing property management services including lease management services to the Property. Besides, the Property Manager has delegated to Beijing CCP & Savills Property Services Management Co. Ltd., (the “**Building Manager**”) responsibility for the maintenance, repair and upkeep of common areas, common facilities and public structures, operation of the building services systems and maintenance of building security. With respect to property management services, the Manager does not anticipate any significant likelihood of conflicts of interest arising between Spring REIT and the Property Manager.

## Reporting and Transparency

Spring REIT prepares its financial statements in accordance with International Financial Reporting Standards with financial year ending on 31 December of each year and financial half-year ending on 30 June of each year. In accordance with the REIT Code, the annual reports and semi-annual reports for Spring REIT are published and sent to Unitholders and filed with the SFC no later than four months following each financial year-end and no later than two months following each financial half-year end respectively. In addition, Spring REIT also voluntarily publishes announcement for unaudited operating statistics, such as occupancy levels and passing rents of the Property on a quarterly basis.

As required by the REIT Code, the Manager is required to keep Unitholders informed of any material information and developments with respect to Spring REIT in a timely and transparent manner in order to keep Unitholders apprised of the position of Spring REIT. The Manager furnishes Unitholders with notices of meeting of Unitholders, and circulars in respect of transactions that require Unitholders’ approval, and issues announcements relating to Spring REIT, or information that is material in relation to Spring REIT (such as connected party transactions, transactions that exceed a stated percentage threshold, a material change in Spring REIT’s financial forecasts, an issue of new Units or a valuation of real estate held by Spring REIT). These documents are also made available to the public on the designated website of Hong Kong Exchanges and Clearing Limited and the website of Spring REIT.

## Directors' Responsibility for Financial Statements

The Directors acknowledge their responsibility for the preparation of consolidated financial statements of Spring REIT that give a true and fair view in accordance with International Financial Reporting Standards, the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C to the REIT Code.

## Issues of Further Units

To minimize the possible material dilution of holdings of Unitholders, any further issue of Units will need to comply with the pre-emption provisions contained in the REIT Code, the Trust Deed and any other applicable laws and regulations. Such provisions require that further issues of Units be first offered on a pro rata basis to existing Unitholders, except that Units may be issued or agreed (conditionally or unconditionally) to be issued, (whether directly or pursuant to any Convertible Instruments (as defined in the Trust Deed)) otherwise than on a pro rata basis to all existing Unitholders and without the approval of Unitholders if the aggregate number of new Units issued during any financial year does not increase the total number of Units in issue at the end of the previous financial year by more than 20% subject to conditions as more specifically set out in the Trust Deed.

In circumstances where pre-emption rights apply, only to the extent that the Units offered are not taken up by such holders may they be allotted to or issued to other persons or otherwise than pro rata to their existing holdings.

Any issue, grant or offer of Units or Convertible Instruments to a connected person of Spring REIT will require specific prior approval of Unitholders by way of an ordinary resolution in respect of which the connected person shall be prohibited from voting or being counted in the quorum for the meeting of the Unitholders, unless such issue, grant or offer is made under certain circumstances (where, for the avoidance of doubt, no Unitholders' approval will be required) including:

- (i) the connected person of Spring REIT receives a pro rata entitlement to Units and/or Convertible Instruments in his/her/its capacity as a Unitholder; or
- (ii) Units are issued to a connected person of Spring REIT under clauses 11.1.1 and 11.1.2 of the Trust Deed in settlement of the Manager's fees; or
- (iii) Units are issued to a connected person of Spring REIT pursuant to a distribution reinvestment arrangement in accordance with clause 20.9 of the Trust Deed.

Where the issuance of Units would give rise to a conflict of interest on the part of the Manager or its connected persons, the Manager and its connected persons shall abstain from voting in relation to any such issuance of Units.

## Compliance with the Dealings Code

To monitor and supervise any dealing of Units, the Manager has adopted a code containing rules on dealings in the securities of Spring REIT by the Directors and the Manager (the “**Dealings Code**”) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the “**Model Code**”). Pursuant to the Dealings Code, all Directors, the Manager, and the senior executives, officers and employees of the Manager and subsidiaries of the Manager or the special purpose vehicles of Spring REIT (collectively “**Management Persons**”) who wish to deal in the Units and, because of their office or employment with the Manager, the relevant subsidiaries of the Manager or the relevant special purpose vehicles of Spring REIT, are likely to be in possession of unpublished price sensitive information in relation to the securities of Spring REIT, must first have regard to the provisions analogous to those set out in Parts XIII and XIV of the SFO with respect to insider dealing and market misconduct, as if those provisions apply to the securities of Spring REIT. In addition, the Management Persons must not make any unauthorized disclosure of confidential information obtained in the course of their service to any other person or make any use of such information for the benefits of themselves or others.

Specific enquiry has been made with the Management Persons who have confirmed that they have complied with the required standard set out in the Dealings Code throughout the Reporting Year.

Management Persons who are in possession of, aware of or privy to any negotiations or agreements related to intended acquisitions or disposals which are significant transactions or any unpublished inside information must refrain from dealing in the Units as soon as they become in possession of, aware of or privy to such information, until proper disclosure of the information in accordance with the REIT Code and any applicable provisions of the Listing Rules has been made. Management Persons who are privy to relevant negotiations or agreements or any inside information should caution those Management Persons who are not so privy that there may be unpublished inside information and that they must not deal in Spring REIT’s securities until proper disclosure of information has been made.

Management Persons must not deal in any securities of Spring REIT at any time when they are in possession of unpublished price-sensitive information in relation to those securities, or where clearance to deal is not otherwise conferred upon them in the manner as provided in the Dealings Code. In addition, Management Persons must not deal in the securities of Spring REIT on any day on which Spring REIT’s financial results are published and: (a) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the annual results; and (b) during the period of 30 days immediately preceding the publication date of the quarterly results (if any) or half-yearly results or, if shorter, the period from the end of the relevant quarter or half-year period up to the publication date of the relevant results, unless the circumstances are exceptional. In any event, in the case of dealings by a Management Person, the Management Person must comply with the procedures set out in the Dealings Code.

Under the Trust Deed and by virtue of Part XV of the SFO, Unitholders will be deemed to have a notifiable interest if their holdings of Units reach or exceed the notifiable percentage level (as defined in the SFO for the purposes of Part XV of the SFO), i.e. 5.0% of the Units then in issue, and are required to notify the Stock Exchange and the Manager of their holdings in Spring REIT. The Manager keeps a register for these purposes and records in the register, against a person’s name, the particulars provided pursuant to the notification and the date of entry of such record. The said register is available for inspection by the Trustee and any Unitholder at any time during business hours upon reasonable notice to the Manager.

## Communications with Unitholders

The Manager considers that mutual and effective communications with Unitholders and the investment community about corporate strategy, business development and prospects is the key priority for Spring REIT. The Manager also recognizes the importance of transparency and timely disclosure of corporate information, which will enable Unitholders and investors to make informed decisions.

The convening of annual general meetings of Unitholders by the Manager is one of the communication channels between the Board and the Unitholders. It provides an opportunity for Unitholders to obtain a better understanding of and, if necessary, to enquire the Board about Spring REIT's operating performance.

During the Reporting Year, an annual general meeting of Spring REIT was held on 26 May 2016, providing a forum for communications between the Board and the Unitholders. The attendance of existing individual Directors at the annual general meeting is as follows:

Members of the Board	Annual General Meeting
<b>Chairman and Non-executive Director</b>	
Mr. Toshihiro Toyoshima	✓
<b>Executive Directors</b>	
Mr. Lau Jin Tin, Don	✓
Mr. Nobumasa Saeki	✓
Mr. Leung Kwok Hoe, Kevin (note)	N/A
<b>Non-executive Director</b>	
Mr. Hideya Ishino	✓
<b>Independent Non-executive Directors</b>	
Mr. Simon Murray	✓
Mr. Liping Qiu	✓
Mr. Lam Yiu Kin	✓

Note: Mr. Leung Kwok Hoe, Kevin was appointed as an Executive Director of the Manager on 10 March 2017.

Investors and Unitholders may at any time direct their enquiries about Spring REIT to the Board by writing to the Manager's office in Hong Kong at Room 2801, 28th Floor, Man Yee Building, 68 Des Voeux Road Central, Hong Kong or by email to [ir@springreit.com](mailto:ir@springreit.com).



## Convening of a Unitholders' meeting and putting forward of proposals at Unitholders' meeting

The Trustee or the Manager may at any time convene a meeting of Unitholders. Pursuant to the Trust Deed, not less than two Unitholders registered as together holding not less than 10% of the outstanding Units in issue for the time being are entitled to request the Manager in writing to convene a meeting of Unitholders. In addition, Unitholders may send their enquiries to the Board or may put forward proposals at general meeting, in both cases, to the investor relations team of the Manager by email or to the registered office of the Manager by post. Please refer to "Corporate Information" on page 118 for the contact details.

## Notice of Unitholders' Meetings

In accordance with the requirement under the Trust Deed, a notice of at least 21 days or 20 clear business days (whichever is the longer) shall be given to Unitholders for an annual general meeting or for any meeting at which a special resolution is proposed for consideration, and a notice of at least 14 days or 10 clear business days (whichever is the longer) shall be given to Unitholders for all other general meetings of Unitholders. All notices so served to Unitholders are exclusive of the day on which the notice is served or deemed to be served and of the day for which the notice is given.

## Matters to be decided by Unitholders by way of Special Resolution

A meeting of Unitholders when convened may, by way of a special resolution and in accordance with the Trust Deed, among others, consider and approve the following matters:

- (i) change in the Manager's investment policies and objectives of Spring REIT;
- (ii) disposal of any of Spring REIT's investment (which is in the nature of real estate or shares in any special purpose vehicle holding interests in real estate) prior to the expiry of two years from the time of Spring REIT's holding of such investment;
- (iii) any increase in the rate above the permitted limit or change in structure of the Manager's fees (other than any additional fee as allowed under the Trust Deed);
- (iv) any increase in the rate above the permitted limit or change in structure of the Trustee's fees (other than any additional fee as allowed under the Trust Deed);
- (v) any modification, variation, alteration or addition to the Trust Deed which shall be agreed by the Trustee and the Manager as provided in the Trust Deed (save for issues that are required to comply with applicable regulatory requirements);
- (vi) removal of Spring REIT's external auditor and appointment of a new external auditor;
- (vii) removal of the Trustee and appointment of a new Trustee;
- (viii) termination of Spring REIT; and
- (ix) merger of Spring REIT in compliance with applicable provisions of the Takeover Code.

### Quorum

Two or more Unitholders present in person or by proxy registered as holding together not less than 10% of the Units then in issue and outstanding will form a quorum for the transactions of all business, except for the purpose of passing a special resolution. The quorum for passing a special resolution will be two or more Unitholders present in person or by proxy registered as holding together not less than 25% of the Units then in issue and outstanding.

### Voting

For a meeting at which a Unitholder has a material interest in the business to be conducted and such interest is different from those of other Unitholders (as determined by the Manager (where the Unitholder(s) concerned is (are) not connected person(s) of the Manager) or the Trustee (where the Unitholder(s) concerned is (are) connected person(s) of the Manager) in its absolute discretion), where the business to be conducted includes but is not limited to an issue of new Units which will constitute an increase in the holdings of a Unitholder in excess of his/her/its pro rata portion, such Unitholder shall be prohibited from voting with regard to his/her/its Units at such meeting or being counted in the quorum for such meeting.

### Poll Vote

At any meeting, a resolution put to the meeting shall be decided on a poll, except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, and the result of the poll shall be deemed to be the resolution of the meeting. On a poll, every Unitholder who is present in person or by proxy shall have one vote for every Unit of which he/she/it holds in the capacity of a Unitholder, provided that such Units are fully paid up. Votes cast by a Unitholder in contravention of the REIT Code or Listing Rules shall not be counted.

### Investor Relations

The Manager is committed to providing an open and effective communication platform to ensure that Unitholders and the investment community at large are informed of the ongoing developments of Spring REIT. The Manager reinforces this platform by utilizing a variety of interactive means to engage and maintain dialogues with investors and analysts. The Manager believes feedback and comments from the investment community are crucial for shaping the future direction of Spring REIT.

To the extent possible under the current regulatory framework, communications with investors are conducted through:

- (i) direct communications including physical meetings conducted with the senior executives of the Manager, both locally and overseas;
- (ii) guided property tours organized by the Manager and the property management team;
- (iii) provision of regular communication materials; and
- (iv) announcements and press releases posted on Spring REIT's website, including disclosures made pursuant to regulatory requirements or on a voluntary basis.

Other than annual and interim results announcements, the Manager also voluntarily releases the unaudited operational statistics of Spring REIT on a quarterly basis.

## Constitutional Documents

During the Reporting Year, there was no change in the constitutional documents of Spring REIT and the Manager, namely the Trust Deed and the Manager's articles of association.

## Review of Annual Report

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

## Changes in Information of Directors of the Manager

During the Reporting Year and up to the date of this annual report, the Manager received notification regarding the following changes in Directors' information:

Director	Changes in Information
Mr. Simon Murray Independent Non-Executive Director	— Re-designated from a non-executive director to an independent non-executive director of IRC Limited, a company listed on the Stock Exchange (Stock Code: 1029), with effect from 16 March 2016.
Mr. Lam Yiu Kin Independent Non-Executive Director	— Appointed as an independent non-executive director of Nine Dragons Paper (Holdings) Limited, a company listed on the Stock Exchange (Stock Code: 2689), on 3 March 2016.  — Appointed as an independent non-executive director of WWPKG Holdings Limited, a company listed on the Stock Exchange (Stock Code: 8069), on 12 January 2017.
Mr. Liping Qiu Independent Non-Executive Director	— Beijing Kuke Music Co., Ltd. (北京庫客音樂股份有限公司), of which Mr. Qiu is and continues to be a director, was quoted on the National Equities Exchange and Quotations system on 4 August 2016.

Save as disclosed above, as at the date of this annual report, the Manager has not been notified of any change in Director's information.

As announced on 10 March 2017, Mr. Leung Kwok Hoe, Kevin has been appointed as an Executive Director of the Manager on 10 March 2017 and Mr. Lau Jin Tin, Don will retire from his position as an Executive Director with effect from 31 May 2017.

## Purchase, Sale or Redemption of Units

During the Reporting Year, there was no purchase, sale or redemption of the Units by the Manager on behalf of Spring REIT or any of the special purpose vehicle that was owned and controlled by Spring REIT.

## Public Float of the Units

Based on information that is publicly available and within the knowledge of the Directors, Spring REIT maintained a public float of not less than 25% of the issued and outstanding Units as of 31 December 2016.

## Investments in Property Development and Relevant Investments

As at 31 December 2016, Spring REIT did not enter into any (i) Investments in Property Development and Related Activities (as defined in Paragraph 2.16A of the REIT Code); and (ii) Relevant Investments (as defined in Paragraph 7.2B of the REIT Code).

## Foreign Account Tax Compliance Act (“FATCA”)

Spring REIT met the criteria of “regularly traded on a recognized securities market” for the calendar year of 2015 and should therefore be excluded from preparing “financial accounts” under FATCA for the calendar year 2016, and hence was not required to perform account due diligence, reporting or withholding for its account holders under FATCA for the calendar year 2016.

## Common Reporting Standard/Automatic Exchange of Financial Account Information (“CRS/AEOI”)

The Inland Revenue (Amendment) (No. 3) Ordinance 2016 (the “**Ordinance**”), which came into force on 30 June 2016, establishes the legislative framework for the implementation of the Standard for Automatic Exchange of Financial Account Information (“**AEOI**”) or also referred to as the Common Reporting Standard (“**CRS**”) in Hong Kong. AEOI requires reporting financial institutions in Hong Kong to collect and review relevant information relating to their account holders in an effort to identify the jurisdiction(s) in which an account holder is tax resident. Reporting financial institutions must furnish specified account holder information required under the Ordinance to the Hong Kong Inland Revenue Department (“**IRD**”) to the extent the account holder is tax resident in a jurisdiction that has entered into an AEOI agreement with Hong Kong (“**AEOI Partner Jurisdiction**”). The IRD will further exchange such information with the AEOI Partner Jurisdiction.

Spring REIT, being a listed collective investment scheme authorized under the Securities and Futures Ordinance (Cap.571) in Hong Kong, is regarded as a reporting financial institution holding financial accounts as defined in the AEOI, and hence, is required to comply with AEOI requirements as stipulated in the Ordinance. As a result, Spring REIT is required to collect the relevant information relating to Unitholders who are holding physical scripts of Spring REIT directly (i.e. not via certain clearing houses in Hong Kong), and is required to provide certain relevant information of reportable Unitholders (which includes, but not limited to name, address, jurisdiction of residence, taxpayer identification number, the date of birth, etc) and their account information to the IRD, which will further exchange such information with AEOI Partner Jurisdiction(s) in which any Unitholder is a tax resident. Spring REIT has engaged a professional tax advisory firm in advising the collection of the relevant account information from its Unitholders. The relevant self-certification forms will be sent out to Unitholders in due course.

Each Unitholder should consult his/her/its own professional advisor(s) about the administrative and substantive implications of AEOI on its current or contemplated investment in Spring REIT.

## Risk Management and Internal Control

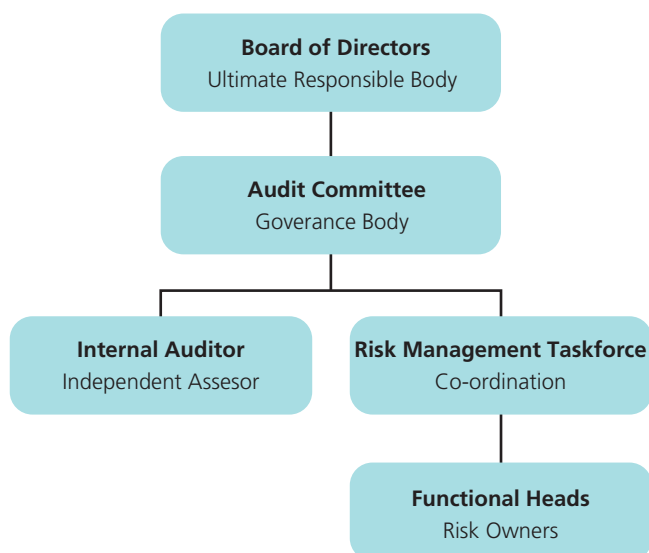
The Group is exposed to various risks in its course of business and the markets in which it operates. The management recognizes that risk management should be of concern to everyone within Spring REIT and is highly aware of the importance of risk management in managing Spring REIT, and thus it is committed to constructing and maintaining a sound risk management framework to ensure business viability and sustainability. To manage and monitor different risk factors which Spring REIT may be exposed to, the Board is responsible for establishing and overseeing Spring REIT's risk management and internal control systems on an ongoing basis, and ensuring the review of the effectiveness of the risk management and internal control systems is properly conducted. The main features of such systems, which will operate continuously, are described in this Corporate Governance Report.

In view of the implementation of the Consultation Conclusions on Risk Management and Internal Control with regard to Appendix 14 to the Listing Rules, which was issued by the Stock Exchange in December 2014, the Group has already reviewed its risk management framework and processes and has subsequently introduced relevant measures with an aim to enhance its framework and processes. In particular, Spring REIT has developed a risk management system, which is defined and supported by its risk management policy (the "**RM Policy**"). The responsibility for maintaining an effective system of internal control and risk management is also included in the terms of reference of the Audit Committee.

A "Top-Down" approach is adopted for the Group's risk management system, which involves strong oversight by the Board, the Audit Committee, the Risk Management Taskforce ("**RM TF**") and senior management throughout the risk management processes. The system helps to identify risks and clarify major risks that may hinder the Group from achieving its objectives. It also supports decision-making at the Board and senior management levels and enhances communications within Spring REIT's management team.

### Risk Governance Structure

Spring REIT's risk governance structure under its risk management system is shown below. Each party is established with distinct and comprehensive role and responsibility.



### Risk Assessment Methodology

The Group's methodology for its risk assessment comprises four core stages (namely, Risk Identification, Risk Assessment, Risk Responses, and Risk Monitoring and Reporting). These processes are performed at least once a year to adapt to changes in the Group's business environment.



It mainly involves:

#### a) Risk Identification

Functional Heads identify risks in the operations they are responsible for as well as risks that they believe to be relevant to the Group as a whole. All the identified risks are consolidated into a risk inventory.

#### b) Risk Assessment

Risks are evaluated by the management using predefined risk assessment criteria. Risk scoring and prioritization process are performed.

#### c) Risk Response

Risk Owners are assigned for each selected risk. Risk Owners also formulate risk mitigation plans for the significant risks identified relating to their areas of responsibility.

When determining appropriate risk mitigation plans, four types of risk response can be adopted in general:

- Acceptance
- Reduction
- Sharing
- Avoidance

#### d) Risk Monitoring and Reporting

Risk Owners are responsible for monitoring the implementation and effectiveness of the risk mitigation plans which they are responsible for. The Risk Owners provide periodic updates to the RMTF regarding the progress of the implementation of the risk mitigation plans and on the performance of these plans.

### Review on the Effectiveness of Risk Management and Internal Control Systems

The Board conducts an annual review on the effectiveness of risk management and internal control systems, covering all material controls such as financial, operational and compliance controls. The Internal Audit function is responsible for performing independent reviews of the risk management system and to report the results to the Audit Committee and the RMTF.

The Internal Audit function verifies the efficient performance of the annual risk assessment exercise and also reviews the effectiveness of the risk mitigation planning process and action plan development.

### Our Responsibility

The Board has the overall responsibility to ensure that effective and sound risk management and internal control systems are maintained, while the management is responsible to design and implement an internal control system to manage risks. The Board is also responsible for reviewing the effectiveness of the Group's risk management and internal control systems.

The risk management and internal control systems can provide reasonable but not absolute assurance against material misstatement or loss, and are designed to manage rather than eliminate the risk of failure in the process of attaining business objectives. Based on the results of the annual review, the Board is satisfied and confident with the effectiveness of the risk management and internal control systems currently put in place for Spring REIT.

### Communications of Risk Events

Where risk events arise, our communications, both within the Group and to external parties, are an integral part of the risk management system. To enable the Group to make appropriate decisions and responses to mitigate or address any risk events, relevant information on the incident needs to be communicated by and to the right functions and individuals, completely and accurately, and in a timely manner.

With respect to procedures and internal controls for handling and dissemination of inside information, Spring REIT:

- has developed written policies and procedures in relation to the handling of inside information under Hong Kong regulatory requirements, including but not limited to maintenance of confidentiality and prohibition of insider dealing by the management;
- is aware of its obligation under the SFO and the Listing Rules;
- conducts its affairs with close reference to the "Guidelines on Disclosure of Inside Information" issued by the SFC;
- has set out rules and procedures in dealing with enquiries from regulatory bodies, trading halt and additional disclosures to correct a false market.

## Connected Party Transactions

The connected party transaction rules of the REIT Code govern transactions between Spring REIT or other parts of the Group and connected persons (as defined in Paragraph 8.1 of the REIT Code) of Spring REIT. Such transactions will constitute connected party transactions for the purposes of the REIT Code.

Connected persons (as defined in Paragraph 8.1 of the REIT Code) of Spring REIT include, among others:

- (a) the Manager of Spring REIT;
- (b) the Principal Valuer of Spring REIT;
- (c) the Trustee of Spring REIT;
- (d) a significant holder;

Notes:

- (1) A holder is a significant holder if he/she/it holds 10% or more of the outstanding Units.
- (2) The following holdings will be deemed holdings of a holder:
  - (i) holdings of the associate of the holder who is an individual; or
  - (ii) holdings of the director, senior executive, officer, controlling entity, holding company, subsidiary or associated company of the holder if the holder is an entity.
- (e) a director, senior executive or an officer of any of the entities in (a), (b), (c) or (d) above;
- (f) an associate of the persons in (d) or (e); and
- (g) a controlling entity, holding company, subsidiary or associated company of any of the entities in (a) to (d).

The terms “controlling entity”, “holder”, “associated company” and “associate” shall have the same meanings as defined under the REIT Code.

Set out below is the information in respect of connected party transactions during the Reporting Year involving Spring REIT and/or RCA01 (on the one hand) and connected persons (as defined in Paragraph 8.1 of the REIT Code) of Spring REIT (on the other hand), which are governed by Chapter 8 of the REIT Code, based on the best knowledge of the Manager.



## Connected Party Transactions (Continued)

### Connected Party Transactions — Income

The following table sets forth information on connected party transactions (other than those transactions disclosed under the section headed “Connected Party Transactions with Trustee Connected Persons” below) from which the Group derived its income during the Reporting Year:

Name of Connected Person	Relationship with Spring REIT	Nature of Connected Party Transaction	Income for the Reporting Year RMB	Rental Deposit received as at 31 Dec 2016 RMB
MIBJ Consulting (Beijing) Co., Ltd.	Associated company of the Manager and associate of a director of the Manager <sup>1</sup>	Leasing	966,944	284,809
ITOCHU (China) Holding Co., Ltd.	Associated company of the Manager <sup>2</sup>	Leasing	8,196,366	2,512,205

Notes:

1. MIBJ Consulting (Beijing) Co., Ltd. is wholly-owned by Mercuria, which in turn holds 90.2% shareholding in the Manager. Both Mr. Toshihiro Toyoshima, the Chairman and Non-executive Director of the Manager, and Mr. Hideya Ishino, a Non-executive Director of the Manager, are also directors of MIBJ Consulting (Beijing) Co., Ltd.
2. ITOCHU Corporation holds 23.0% of the total issued share capital of Mercuria which in turn holds 90.2% shareholding in the Manager.

### Connected Party Transactions — Expenses

The following table sets forth information on connected party transactions (other than those disclosed under the section headed “Connected Party Transactions with Trustee Connected Persons” below) in which the Group incurred its expenses during the Reporting Year:

Name of Connected Person	Relationship with Spring REIT	Nature of Connected Party Transaction	Expenses for the Reporting Year RMB
Beijing Hua-re Real Estate Consultancy Co., Ltd.	Associated company of the Manager <sup>1</sup>	Property management	10,748,547

Note:

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

## Connected Party Transactions (Continued)

### Connected Party Transactions with Trustee Connected Persons

The following tables set forth information on connected party transactions entered into between the Group and Trustee Connected Persons (as defined in the offering circular dated 25 November 2013) during the Reporting Year:

Name of Connected Person	Relationship with Spring REIT	Nature of Connected Party Transaction	Income/(Expense) for the Reporting Year RMB
<b>Leasing Transactions</b>			
Deutsche Bank AG and its associated companies	Trustee Connected Persons	Leasing	47,701,052 <sup>1</sup>
<b>Ordinary Banking and Financial Services</b>			
Deutsche Bank AG	Trustee Connected Person	Interest income received/receivable on bank deposits	3,451,427
Deutsche Bank AG	Trustee Connected Person	Loan interest	(9,558,830) <sup>2</sup>
Deutsche Bank AG	Trustee Connected Person	Bank charges	(16,391)

Notes:

- As at 31 December 2016, a rental deposit of RMB6,776,780 was held by the Group from Trustee Connected Persons. A rental deposit by way of bank guarantee provided by Deutsche Bank (China) Co., Ltd. was held by RCA01 (a special purpose vehicle wholly owned and controlled by Spring REIT) as at 31 December 2016.
- On 30 April 2015, RCA01 concluded the US\$500.00 million term loan and revolving facilities with a syndicate of banks. Deutsche Bank AG, London Branch was appointed as one of the mandated lead arrangers, underwriters and bookrunners and acted as one of the lenders for the financing. The outstanding principal balance of these facilities was US\$480.00 million as at 31 December 2016.

During the Reporting Year, RCA01 entered into a vanilla forward contract with Deutsche Bank AG (“DB”), a Trustee Connected Person, with value date on 16 December 2016. As at 31 December 2016, the total notional principal outstanding value in respect of such forward contract with DB was US\$120.00 million.

## Connected Party Transactions (Continued)

### Connected Party Transactions with Trustee Connected Persons Leasing Under which the Annual Rent (per Lease) Exceeds HK\$1 Million

The following table sets forth information on leasing transactions with Trustee Connected Persons with annual rent (per lease) that exceeds HK\$1 million during the Reporting Year.

Name of Connected Person	Relationship with Spring REIT	Nature of Connected Party Transaction	Rental income for the Reporting Year RMB
Deutsche Bank (China) Company Ltd.	Trustee Connected Person	Lease for the whole of 26th, 27th and 28th floors of Tower 1, China Central Place and signage income	26,251,634
Zhong De Securities	Trustee Connected Person	Lease for the whole of 22nd and 23rd floors of Tower 1, China Central Place and signage income	21,449,418

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

Both the Manager and the Trustee confirm that there was no corporate finance transaction and other connected party transaction (save and except for those disclosed hereinabove) between Spring REIT and any Trustee Connected Persons during the Reporting Year.

### Waivers from Strict Compliance

Waivers from strict compliance with the disclosure and approval requirements of Unitholders under Chapter 8 of the REIT Code in respect of certain connected party transactions entered into by Spring REIT and/or RCA01 with their connected persons (the **"Waivers"**) have been granted by the SFC. The Waivers have been granted subject to the relevant waiver terms and conditions including, inter alia, the requirements that the transactions should be entered into on normal commercial terms in the ordinary and usual course of business of Spring REIT, and are to be reviewed by the external auditor of Spring REIT, the Independent Non-executive Directors of the Manager and/or the audit committee of the Manager, and (in respect of certain types of transactions) the transaction amounts shall be within the specified annual caps and shall be disclosed in Spring REIT's semi-annual and annual reports as required under Paragraph 8.14 of the REIT Code (the **"Waiver Conditions"**).

During the Reporting Year, Spring REIT has complied with the requisite Waiver Conditions, where applicable.

An extension of the waiver from strict compliance with the disclosure and approval requirements under Chapter 8 of the REIT Code in respect of certain new and certain existing continuing connected party transactions and new annual caps for certain leasing transactions and property management arrangements between the Group and Manager Connected Persons Group has been granted by the SFC on 20 May 2015 (the **"Waiver Extension"**), subject to annual limitation as to the capped value of such transactions, review to be conducted by the external auditor for each relevant financial period, annual review to be conducted by the Independent Non-executive Directors and other terms and conditions. For detailed terms and conditions of the Waiver Extension, please refer to the announcement of Spring REIT dated 20 May 2015.

## Connected Party Transactions (Continued)

### 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 are satisfied that the 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 than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreements and the Manager's internal procedures governing them, if any, on terms that are fair and reasonable and in the interest of the Unitholders as a whole.

### Report from the Auditor in Relation to Certain Connected Party Transactions

The continuing connected party transactions conducted during the Reporting Year have been reviewed by the external auditor in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The external auditor has issued an unqualified letter containing its findings and conclusions in respect of the connected party transactions including lease transactions, property management transactions and transactions involving ordinary banking and financial services in accordance with the Waivers and the Waiver Extension from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code granted by the SFC. A copy of such report would be issued and provided to the SFC.

### 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 but particulars of such services (except where any services transaction has a value of not more than HK\$1 million), such as terms and remuneration, shall be disclosed in the next published semi-annual report or annual report.

During the Reporting Year, the aggregate amount of fees payable by Spring REIT and/or RCA01 to the Manager was US\$7.26 million. The Manager's fee paid in the form of Units amounted to HK\$34.63 million and the Manager's fee paid in the form of cash amounted to HK\$21.99 million. For the Reporting Year, the Manager had elected for 20% of its base fee to be paid in the form of cash and 80% of its base fee to be paid in the form of Units. During the Reporting Year, variable fee of HK\$13.79 million was also paid to the Manager, such fee being entirely in the form of cash as elected by the Manager for the Reporting Year.

During the Reporting Year, the fee payable to the Trustee under the Trust Deed was US\$0.24 million.

During the Reporting Year, the fees payable to Knight Frank (the new Principal Valuer) and Colliers International (Hong Kong) Ltd. (the retired Principal Valuer) were less than HK\$1 million in each case.

Particulars of services provided by the Trustee, the Manager and the Principal Valuer are set out in notes 7, 10 and 7 to the consolidated financial statements of Spring REIT for the Reporting Year, respectively.

## 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 the 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 and also indirectly to certain persons interested in or holding a short position in the Units.

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

As at 31 December 2016, each of the following was the Manager, a director, senior executive or officer of the Manager and thus each of them is a connected person of Spring REIT under the REIT Code and, so far as the Manager is aware, held or was interested in the Units in Spring REIT as follows:

Name	Capacity/Nature of Interest	As at 31 December 2016		As at 31 December 2015		Change in % of interest
		Number of Units Interested in (Long Position)	Approximate % of interest <sup>5</sup>	Number of Units Interested in (Long Position)	Approximate % of interest <sup>5</sup>	
<b>The Manager</b>						
Spring Asset Management Limited <sup>1</sup>	Beneficial owner/ Beneficial interest	17,045,940	1.51%	11,938,306	1.07%	+0.44%
<b>Directors</b>						
Toshihiro Toyoshima	Beneficial owner/ Personal interest	700,000	0.06%	700,000	0.06%	0.00%
Lau Jin Tin, Don	Beneficial owner/ Personal interest	200,000	0.02%	200,000	0.02%	0.00%
Nobumasa Saeki	Beneficial owner/ Personal interest	400,000	0.04%	400,000	0.04%	0.00%
Hideya Ishino	Beneficial owner/ Personal interest	49,000	0.00%	49,000	0.00%	0.00%
Simon Murray <sup>2</sup>	Beneficial owner/ Personal interest	240,000	0.02%	132,000	0.01%	+0.01%
Liping Qiu <sup>3</sup>	Beneficial owner/ Personal interest	240,000	0.02%	132,000	0.01%	+0.01%
Lam Yiu Kin <sup>4</sup>	Beneficial owner/ Personal interest	213,000	0.02%	105,000	0.01%	+0.01%
<b>Senior Executives</b>						
Alice Yu	Beneficial owner/ Personal interest	170,000	0.02%	170,000	0.02%	0.00%

## Disclosure of Interests (Continued)

### Notes:

- Following the issuance of an aggregate of 10,404,634 new Units to the Manager during the Reporting Year as payment of part of the Manager's fee, the Manager beneficially owned 17,045,940 Units as at 31 December 2016 (2015: 11,938,306).
- Mr. Simon Murray received these Units in lieu of cash pursuant to the announcement made by the Manager on 24 October 2014 regarding the arrangement for remuneration of Independent Non-executive Director paid out of the Manager's own asset (the "INED Remuneration Announcement"). As at 31 December 2016, there had been no change to (i) the Independent Non-executive Director's remuneration; and (ii) the annual election made by this Independent Non-executive Director.
- Mr. Liping Qiu received these Units in lieu of cash pursuant to the INED Remuneration Announcement. As at 31 December 2016, there had been no change to (i) the Independent Non-executive Director's remuneration; and (ii) the annual election made by this Independent Non-executive Director.
- Mr. Lam Yiu Kin received these Units in lieu of cash pursuant to the INED Remuneration Announcement. As at 31 December 2016, there had been no change to (i) the Independent Non-executive Director's remuneration; and (ii) the annual election made by this Independent Non-executive Director.
- The percentages expressed are based on the total number of issued Units of 1,130,562,940 as at 31 December 2016 and 1,120,158,306 as at 31 December 2015 respectively.

Save as disclosed above, none of the Manager, the Directors, senior executives or officers of the Manager had beneficial interest (or deemed to be interested) in any Units or held any short position in the Units as at 31 December 2016 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 to the Manager only pursuant to the dealing policy set out in the Compliance Manual (as the case may be).

## Interests Held by Significant Unitholders

As at 31 December 2016, based on the information available to the Manager, each of the following persons was considered as a "**significant Unitholder**" 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 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	Capacity/Nature of interest	As at 31 December 2016		As at 31 December 2015		Change in % of interest
		Number of Units Interested in (Long Position)	Approximate % of Issued Units <sup>1</sup>	Number of Units Interested in (Long Position)	Approximate % of Issued Units <sup>1</sup>	
RCA Fund <sup>2</sup>	Beneficial owner/ Beneficial interest	345,204,000	30.53	345,204,000	30.82	-0.29%
RCAC <sup>2</sup>	Interest of controlled corporation/ corporate interest	345,204,000	30.53	345,204,000	30.82	-0.29%

### Notes:

- The percentages expressed are based on the total number of issued Units of 1,130,562,940 as at 31 December 2016 and 1,120,158,306 as at 31 December 2015 respectively.
- 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 of RCA Fund and is deemed to have corporate interest in the Units held by RCA Fund.

Save as disclosed above and the information available to the Manager, no other significant Unitholders had beneficial interest (or deemed to be interested) in any Units or held any short position in the Units as at 31 December 2016 which were required to be notified to the Manager and the Stock Exchange pursuant to Divisions 2, 3 and 4 of Part XV of the SFO.

## Disclosure of Interests (Continued)

### Interests Held by Substantial Unitholders under the SFO

As at 31 December 2016, the interests and short position in the Units held by persons, other than the Manager, Directors or senior executives and officers of the Manager or significant Unitholders of Spring REIT, who were interested in 5% or more but below 10% of 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	Capacity/Nature of interest	As at 31 December 2016		As at 31 December 2015		Change in % of interest
		Number of Units Interested in (Long Position)	Approximate % of Issued Units <sup>1</sup>	Number of Units Interested in (Long Position)	Approximate % of Issued Units <sup>1</sup>	
Asuka Asset Management Co., Ltd.	Investment manager/ Other interest	77,861,000	6.89%	77,861,000	6.95%	-0.06%
PAG Holdings Limited <sup>2</sup>	Interest of controlled corporation/ corporate interest	79,210,000	7.01%	–	–	+7.01%
BT Cayman Limited <sup>2</sup>	Beneficial owner/ Beneficial interest	64,010,000	5.66%	–	–	+5.66%
Spirit Cayman Ltd. <sup>2</sup>	Beneficial owner/ Beneficial interest	15,200,000	1.34%	–	–	+1.34%

#### Notes:

1. The percentages expressed are based on the total number of issued Units of 1,130,562,940 as at 31 December 2016 and 1,120,158,306 as at 31 December 2015 respectively.
2. These 79,210,000 Units comprise the interests of (i) 64,010,000 Units held by BT Cayman Limited; and (ii) 15,200,000 Units held by Spirit Cayman Limited. The interest of 64,010,000 Units held respectively by PAG Holdings Limited, PAG Real Estate Limited, PARE (Cayman) Limited, PAG Investment Advisors Pte. Ltd., SCREP V Management, LLC, SCREP V Feeder B L.P. and Secured Capital Real Estate Partners V, L.P. referred to the same parcel of Units held by BT Cayman Limited. The interest of BT Cayman Limited, SCREP V Management, LLC, SCREP V Feeder B L.P. and Secured Capital Real Estate Partners V, L.P. are disclosed in the notice of disclosure of interests of PAG Holdings Limited dated 24 November 2016. The interest of 15,200,000 Units held respectively by PAG Holdings Limited, PAG Real Estate Limited, PARE (Cayman) Limited, PAG Investment Advisors Pte. Ltd. referred to the same parcel of Units held by Spirit Cayman Limited. The interest of Spirit Cayman Limited, SCREP VI Management, LLC, SCREP VI Feeder A L.P. and SCREP VI, L.P. are disclosed in the notice of disclosure of interests of PAG Holdings Limited dated 24 November 2016.

Save as disclosed above and the information available to the Manager, the Manager is not aware of any other substantial Unitholders under the SFO who had beneficial interest (or deemed to be interested) in 5% or more but below 10% of the Units or held any short position in the Units as at 31 December 2016 which were required to be notified to the Manager and the Stock Exchange pursuant to Divisions 2, 3 and 4 of Part XV of the SFO.

### Interests Held by Other Connected Persons

As at 31 December 2016, save as disclosed above and the information available to the Manager, the Manager is not aware of any other connected persons of Spring REIT, including the Trustee and the Principal Valuer, whose interest (or deemed interest) in the Units were required to be notified to the Manager and the Stock Exchange pursuant to the REIT Code or pursuant to the Trust Deed.

# Valuation Report

The Directors  
Spring Asset Management Limited  
(as manager of Spring Real Estate Investment Trust)  
28/F, Man Yee Building  
68 Des Voeux Road, Central, Hong Kong

DB Trustees (Hong Kong) Limited  
(as trustee of Spring Real Estate Investment Trust)  
52/F, International Commerce Centre  
1 Austin Road West, Kowloon, Hong Kong

Australia and New Zealand Banking Group Limited, Singapore Branch  
(as Facility Agent of the syndicated loan to RCA01)  
10 Collyer Quay, #22-0 Ocean Financial Centre

14 March 2017

Dear Sirs

**Valuation of Office Towers 1 & 2 and a total of approximately 600 Underground Car Parking Spaces of China Central Place located at Nos 79 & 81 Jianguo Road, Chaoyang District, Beijing, The People's Republic of China (the "Property")**

In accordance with your instructions for us to value the captioned property interest held by RCA01 ("RCA01") and exhibited to us by Spring Asset Management Limited (the "Company") and DB Trustees (Hong Kong) Limited in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at 31 December 2016 for your accounting and financing purpose.



## Valuation Report (Continued)

### Basis of Valuation

Our valuation is our opinion of the market value of the Property which we would define as intended to mean “the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

### Valuation Methodology

In our course of valuation, we have adopted Income Capitalization Approach and cross-checked by Direct Comparison Approach.

Income Capitalization Approach is a valuation methodology by reference to the capacity of a property to generate benefits (i.e. usually the monetary benefits of income and reversion) and convert these benefits into an indication of present value. It is based on the premise that an investor uses the income capability of an investment as a measure of value. All the things being equal, the basic premise is that the higher the income, the higher the value. The income from a property is usually annual operating income or pre-tax cash flow. The conversion of income into an expression of market value is known as the capitalization process, which is to convert estimated annual income expectancy into an indication of value either by dividing the income estimate by an appropriate yield rate or by multiplying the income estimate by an appropriate factor. The adopted office market rent and the adopted office capitalization rate in the Income Capitalization Approach is RMB450 per square meter per month, inclusive of value-added tax (or RMB405 per square meter per month, exclusive of value-added tax) and 5.8% respectively. The capitalization rate applied to the rental income generated for the remaining land use rights term of the property expiring on 28 October 2053.

Direct Comparison Approach is the most common valuation approach for valuing property by reference to comparable market transactions or listings of similar property. The rationale of this approach is to directly relate the market comparable transactions with the property to determine the market value. Adjustments will be applied to the said comparable transactions to adjust for differences between the property and the comparable transactions. As there were limited en-bloc/bulk transactions available in the market, we have also made reference to strata-titled properties in the vicinity. Such market evidences are collected, analyzed and adjusted to provide a check for the valuation arrived from Income Capitalization Approach.

### Title Documents and Encumbrances

We have been provided with the copies of extracts of sample of title documents relating to the Property. However, we have not examined the original documents to ascertain any amendments which may not appear on the copies handed to us. We have relied on the information given by the Company regarding the titles and other legal matters relating to the Property.

No allowance has been made in our report for any charges, mortgages or amounts owing on the property interest nor for any expenses or taxation which may be incurred in affecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

### Source of Information

In the course of our valuation, we have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, tenancies, completion dates of the buildings, identification of the Property, particulars of occupancy, site areas and floor areas. Dimensions, measurements and areas included in the valuation report attached are based on information provided to us and are therefore only approximations. We have no reason to doubt the truth and accuracy of the information provided to us by the Company which is material to the valuation. We were also advised by the Company that no material facts have been omitted from the information provided.

### Inspection and Measurement

We have inspected the exterior, and where possible, the interior of the Property and the inspection was conducted by Sunny Lee, our Assistant Valuer, in January 2017. However, no structural survey has been made and we are therefore unable to report that the Property is free from rot, infestation or any other structural defects, nor were any tests carried out to any of the services. For the purpose of this valuation, we have assumed that the Property has been maintained in satisfactory condition. Moreover, we have not been able to carry out on-site measurements to verify the site areas and floor areas of the Property and we have assumed that the areas shown on the copies of the documents handed to us are correct.

### Identity of Property to be valued

We exercised reasonable care and skill (but will not have an absolute obligation to you) to ensure that the Property, identified by the property address in your instructions, is the property inspected by us and contained within our valuation report. If there is ambiguity as to the property address, or the extent of the Property to be valued, this should be drawn to our attention in your instructions or immediately upon receipt of our report.

## Valuation Report (Continued)

### Environmental Issues

We are not environmental specialists and therefore we have not carried out any scientific investigations of sites or buildings to establish the existence or otherwise of any environmental contamination, nor have we undertaken searches of public archives to seek evidence of past activities that might identify potential for contamination. In the absence of appropriate investigations and where there is no apparent reason to suspect potential for contamination, our valuation is prepared on the assumption that the Property is unaffected. Where contamination is suspected or confirmed, but adequate investigation has not been carried out and made available to us, then the valuation will be qualified.

### Compliance with Relevant Rules and Regulations

We have assumed that the Property has been constructed, occupied and used in full compliance with, and without contravention of any rules and regulations, statutory requirement and notices except only where otherwise stated. We have further assumed that, for any use of the Property upon which this report are based, any and all required licences, permits, certificates, consents, approvals and authorisation have been obtained, except only where otherwise stated.

### Currency

Unless otherwise stated, all money amounts stated are in Renminbi.

### Remarks

In our valuation, Knight Frank has prepared the valuation based on information and data available to us as at the valuation date. It must be recognised that the real estate market is subject to market fluctuations, while changes in policy direction and social environment could be immediate and have sweeping impact on the real estate market. It should therefore be noted that any market violation, policy and social changes or other unexpected incidents after the valuation date may affect the value of the property.

Our valuation complies with Chapter 6.8 of the Code of Real Estate Investment Trusts (the “**REIT Code**”) issued by the Securities and Futures Commission (the “**SFC**”), the Practice Note on Overseas Investment by SFC – Authorized Real Estate Investment Trusts (forming part of the REIT Code) and the HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors and the RICS Valuation – Professional Standards (January 2014) published by The Royal Institution of Chartered Surveyors.

We hereby confirm that we have neither present nor prospective interests in Spring REIT, the property and/or the Company. Pursuant to Paragraph 6.5 of the REIT Code, we confirm that we are independent to Spring REIT, the Company, DB Trustees (Hong Kong) Limited and each of the significant holders of Spring REIT.

Our executive summary and valuation report are attached.

Yours faithfully

---

**Vincent K F Pang**

*MHKIS MRICS*

*RICS Registered Valuer*

*Director, China Valuation*

For and on behalf of Knight Frank Petty Limited

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**Clement W M Leung**

*MFin MCIREA MHKIS MRICS RPS (GP)*

*RICS Registered Valuer*

*Executive Director, Head of China Valuation*

For and on behalf of Knight Frank Petty Limited

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VC/kl

## Valuation Report (Continued)

### Executive Summary

Property	Office Towers 1 & 2 and a total of approximately 600 Underground Car Parking Spaces of China Central Place located at Nos 79 & 81 Jianguo Road, Chaoyang District, Beijing, The PRC
Description	China Central Place is a mixed use commercial complex comprising a shopping mall, 3 blocks of office towers, 2 blocks of 5-star hotel, various residential buildings, car parking spaces and other ancillary facilities. The Property comprises the 25-storey Office Tower 1 (Level 4 to Level 28), the 29-storey Office Tower 2 (Level 4 to Level 32) and a total of about 600 underground car parking spaces of China Central Place. The Property is also provided with two signage located at the east side and the west side of the roof of Office Tower 1.
Site Area	13,692.99 sq m (Note 1)
Registered Owner	RCA01 (第一瑞中資產管理有限公司)
Gross Floor Area	According to the information provided by the Company, the details of approximate gross floor area of the Property are listed as follows:

Portion	Approximate Gross Floor Area (sq m)
Office Tower 1	56,068.32
Office Tower 2	64,176.87
Car Park	25,127.35
<b>Total:</b>	<b>145,372.54</b>

State-owned Land Use Certificate	Jing Chao Guo Yong (2010 Chu) Di No. 00118 Hao (京朝國用(2010出) 第00118號)
Real Estate Ownership Certificate	X Jing Fang Quan Zheng Chao She Wai Zi Di No. 521508, 521532 – 521537, 521539 – 521542, 521544 – 521545, 521547, 521549 – 521566, 521568 – 521571, 521573 – 521582 and 521584 – 521593 Hao  (X京房權證朝涉外字第521508, 521532 – 521537, 521539 – 521542, 521544 – 521545, 521547, 521549 – 521566, 521568 – 521571, 521573 – 521582 and 521584 – 521593號)
Date of Valuation	31 December 2016
Valuation Methodology	Income Capitalization Approach and Direct Comparison Approach (for counter checking)
Market Value in Existing State	RMB9,005,000,000

## Valuation Certificate

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2016										
Office Towers 1 & 2 and a total of approximately 600 Car Parking Spaces of China Central Place Nos 79 & 81 Jianguo Road Chaoyang District Beijing The PRC	<p>China Central Place is a mixed use commercial complex comprising a shopping mall, 3 blocks of office towers, 2 blocks of 5-star hotel, various residential towers, car parking spaces and other ancillary facilities. It is completed in 2006.</p> <p>The Property comprises the 25-storey Office Tower 1 (Level 4 to Level 28), the 29-storey Office Tower 2 (Level 4 to Level 32) and a total of about 600 underground car parking spaces of China Central Place with a total gross floor area of approximately 145,372.54 sq m. The underground car parking spaces are on the basement of China Central Place. The Property is also provided with two signage located at the east side and the west side of the roof of Office Tower 1.</p> <p>Level 16 of Office Tower 1 and Level 20 of Office Tower 2 are used as refuge floor. The approximate gross floor area of the Property is listed as follows:</p> <table border="1"> <thead> <tr> <th>Portion</th> <th>Approximately Gross Floor Area (sq m)</th> </tr> </thead> <tbody> <tr> <td>Office Tower 1</td> <td>56,068.32</td> </tr> <tr> <td>Office Tower 2</td> <td>64,176.87</td> </tr> <tr> <td>Car Park</td> <td>25,127.35</td> </tr> <tr> <td><b>Total:</b></td> <td><b>145,372.54</b></td> </tr> </tbody> </table> <p>The Property is held under land use rights term expiring on 28 October 2053 for office and car park uses.</p>	Portion	Approximately Gross Floor Area (sq m)	Office Tower 1	56,068.32	Office Tower 2	64,176.87	Car Park	25,127.35	<b>Total:</b>	<b>145,372.54</b>	<p>Portion of the office area of the Property with a total gross floor area of approximately 111,474.61 sq m has been leased under various tenancies with the majority that expires within 3 years, yielding a total monthly rental of approximately RMB42,000,000, exclusive of management fee and value-added tax.</p> <p>The remaining portion of the Office Towers 1 and 2 is currently vacant.</p> <p>The average monthly income generated from the car parking spaces from January 2016 to December 2016 was approximately RMB314,000.</p> <p>The two signage have been leased under a tenancy expiring in April 2021, yielding a total monthly rental of approximately RMB375,000, exclusive of value-added tax.</p>	RMB9,005,000,000 (RENMINBI NINE BILLION AND FIVE MILLION ONLY)
Portion	Approximately Gross Floor Area (sq m)												
Office Tower 1	56,068.32												
Office Tower 2	64,176.87												
Car Park	25,127.35												
<b>Total:</b>	<b>145,372.54</b>												

## Valuation Report (Continued)

### Notes:

- Pursuant to State-owned Land Use Rights Certificate No. Jing Chao Guo Yong (2010 Chu) Di No. 00118 Hao (國有土地使用證京朝國用(2010出)第00118號) dated 21 May 2010, the land use rights of the Property with a site area of 13,692.99 sq m have been granted to RCA01 for a land use term expiring on 28 October 2053 for office and car park uses.
- Pursuant to 56 Real Estate Ownership Certificates Nos. X Jing Fang Quan Zheng Chao She Wai Zi Di No. 521508, 521532 – 521537, 521539 – 521542, 521544 – 521545, 521547, 521549 – 521566, 521568 – 521571, 521573 – 521582 and 521584 – 521593 Hao (X京房權證朝涉外字第521508, 521532 – 521537, 521539 – 521542, 521544 – 521545, 521547, 521549 – 521566, 521568 – 521571, 521573 – 521582 and 521584 – 521593號), the building ownership of the Property with a total gross floor area of 145,372.54 sq m is vested in RCA01.
- As advised by the Company, the Property is subject to a mortgage.
- In accordance with standard terms and conditions of the tenancy agreements, the landlord is responsible for the repair of main building structure and the tenant is responsible for the maintenance of internal non-structural repairs of the Property.
- Our analysis of the existing tenancy profile according to the tenancy information provided by the Company is set out below:

### Occupancy Profile

Type	Approximate Gross Floor Area (sq m)	% of total
Leased	111,474.61	92.7
Vacant	8,770.58	7.3
<b>Total:</b>	<b>120,245.19</b>	<b>100.0</b>

### Tenancy Expiry Profile

Year	Approximate Leased Gross Floor Area (sq m)	% of total	No. of Tenancies	% of total
2017	30,448.17	27.3	53	29.1
2018	21,726.04	19.5	44	24.2
2019 and beyond	59,300.40	53.2	85	46.7
<b>Total:</b>	<b>111,474.61</b>	<b>100.0</b>	<b>182</b>	<b>100.0</b>

### Tenancy Duration Profile

Year	Approximate Leased Gross Floor Area (sq m)	% of total	No. of Tenancies	% of total
Less than 3 years	4,146.34	3.7	13	7.1
3-6 years	27,456.48	24.7	48	26.4
6-9 years	16,521.74	14.8	34	18.7
More than 9 years	63,350.05	56.8	87	47.8
<b>Total:</b>	<b>111,474.61</b>	<b>100.0</b>	<b>182</b>	<b>100.0</b>

## Valuation Report (Continued)

6. We have prepared our valuation based on the following assumptions:
- (i) the property has a proper legal title;
  - (ii) all land premium and costs of resettlement and public utilities services have been fully settled;
  - (iii) the design and construction of the property are in compliance with the local planning regulations and have been approved by the relevant government authorities; and
  - (iv) the property can be freely disposed of to local or overseas purchasers.

## Market Overview

Beijing, as the capital of PRC, is one of the most developed cities in China. As at Q3 of 2016, the GDP of Beijing was recorded RMB1.74 trillion, representing an increase of 6.7 percent. The fixed asset investment grew at 6.2 percent y-o-y, reaching RMB580.6 billion by the end of Q3 of 2016. At the end of November 2016, the total accumulated retail sales of consumer goods of Beijing was RMB990.4 billion. At the end of 2015, the total population of Beijing is approximately 21.7 million.

## Beijing Office Market

### Supply and Demand

Two office buildings, which were estimated to be launched in Q3, rescheduled their openings to the end of 2016, resulting in the absence of new supply in the quarter. Approximate 248,800 sq m of new Grade-A office supply is expected to come online in Q4 2016, provided by Emperor Group Centre (approximate 47,000 sq m) in CBD, Hatamen Square (approximate 85,800 sq m) in East Second Ring Road as well as Radiance (approximate 80,000 sq m) and LSH Plaza Phase II B (36,000 sq m) in Wangjing.

In Q3 2016, the average sales price of Grade-A office properties increased by 1.7% Q-o-Q to RMB54,350 per sq m. An en-bloc office investment transaction was recorded in Q3, involving Legend Holdings Corporation which sold its Beijing Lenovo Research Building to Beijing Haidian State-Owned Capital Operation Management Center for RMB1.78 billion. The Beijing government has announced plans to impose stricter restrictions on commercial-use property purchase. However, primary strata-titled office sales have remained steady so far.

### Market Trend

In Q3, domestic enterprises remained anchor office tenants, while demand from multinational corporations remained stable. Companies from the finance, professional services, information technology and high-tech sectors continued to drive new lease, relocation and expansion activities. In the quarter, due to the absence of new supply and absorptions of vacant space, most prime office submarkets experienced drops in vacancy rates.

Lufthansa took the lead in vacancy rate drops, with a decrease of 0.5 percentage point Q-o-Q to 9.0%. Zhongguancun, Asian-Olympic Area and Wangjing, with an influx of supply in previous quarters, all saw decreases in vacancy rates by 0.4 percentage point Q-o-Q. Beijing Financial Street continued to outperform other submarkets, with rents reaching RMB546 per sq m per month, underpinned by steady demand and slow tenants' turnover. Albeit a lack of supply, rents in CBD averaged RMB432 per sq m per month, a slight drop of 0.5% Q-o-Q.

Other submarkets witnessed minor rental declines in the quarter. Lufthansa and Zhongguancun both recorded a 0.9% rental decrement, while rents in East Second Ring Road, Asian-Olympic Area and Wangjing fell by 0.6-0.7% Q-o-Q. Amidst a slowing economy, tenants' tightened budget and accumulated office inventories, some landlords offered flexible incentives to attract or retain quality tenants. Looking ahead, the city-wide vacancy rate is anticipated to rebound as the market will welcome abundant supply in Q4, which will exert pressure on rents and absorptions.



# Trustee's Report

Spring Asset Management Limited  
(in its capacity as the Manager of Spring REIT)  
Room 2801, 28/F, Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

Dear Sirs,

**Spring Real Estate Investment Trust**  
**Annual Confirmation for the period from 1 January 2016 to 31 December 2016**

We hereby confirm that, in our opinion, the Manager of Spring Real Estate Investment Trust ("**Spring REIT**") has, in all material respects, managed Spring REIT in accordance with the provisions of the Trust Deed dated 14 November 2013 (as amended by the First Supplemental Deed dated 22 May 2015) for the period from 1 January 2016 to 31 December 2016.

**DB Trustees (Hong Kong) Limited**  
*(in its capacity as the Trustee of Spring Real Estate Investment Trust)*

Hong Kong, 25 January 2017

# Independent Auditor's Report



羅兵咸永道

To the Unitholders of

## **Spring Real Estate Investment Trust**

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

## **Report on the Audit of the Consolidated Financial Statements**

### **Opinion**

#### **What we have audited**

The consolidated financial statements of Spring Real Estate Investment Trust (the "Spring REIT") and its subsidiary (together the "Group") set out on pages 85 to 116, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity and net assets attributable to the Unitholders for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the statement of distributions for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### **Our opinion**

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

## Independent Auditor's Report (Continued)

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is summarised as follows:

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><i>Valuation of Investment Property</i></p> <p>Refer to note 2(d), 4(a) and 12 to the consolidated financial statements</p> <p>The valuation of the Group's investment property is a key component of the net asset value attributable to the Unitholders and underpins the Group's result for the year. The valuation of investment property in the consolidated statement of financial position was US\$1,297 million as at 31 December 2016 and the fair value gain of investment property for the year ended 31 December 2016 was US\$100 million.</p> <p>The valuation of the Group's investment property is inherently subjective to, among other factors, the nature of the property, its location and the expected future rentals for the property.</p> <p>The valuation was carried out by a third party valuer (the "Valuer"). Under the REIT Code, the Valuer shall retire after it has conducted valuations for three consecutive years. During the year ended 31 December 2016, a new Valuer was appointed. The Valuer was engaged by the Manager of Spring REIT (the "Manager") and the Trustee. The Valuer has considerable experience of the market in which the Group operates.</p> <p>In determining a property's valuation, the Valuer adopted the income capitalisation approach cross-checked by the direct comparison approach. The Valuer took into account property-specific information such as the current tenancy agreements and rental income in the valuation process. The Valuer applies assumptions for capitalisation rate and market rent, which are influenced by the prevailing market yields and comparable market transactions.</p> <p>The existence of significant estimation uncertainty on the key assumptions warrants specific audit focus in this area.</p>	<p>We read the Valuer's report which confirms that the valuation was prepared in accordance with the HKIS Valuation Standards (2012 Edition), the RICS Valuation – Professional Standards (January 2014) and the REIT Code. We assessed the Valuer's competence and read its terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work. We found no material issues.</p> <p>We checked to supporting evidence, on a sample basis, the data used by the Valuer as key inputs to the valuation. This data included key terms of lease agreements and rental income schedules which we agreed to appropriate supporting documentation.</p> <p>We involved our internal valuation specialists on the audit of this area. We discussed with the Manager and the Valuer the valuation approaches and the key assumptions. We compared the estimates and assumptions used by the Valuer against published industry benchmarks and comparable market transactions. We evaluated whether assumptions were appropriate in light of the evidence provided by the Valuer.</p> <p>We considered that the assumptions used in the valuation were supported by available evidence.</p>

## Independent Auditor's Report (Continued)

### Other Information

Spring Asset Management Limited (the "Manager" of Spring REIT) is responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Manager and Those Charged with Governance for the Consolidated Financial Statements

The Manager is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs, and for such internal control as the Manager determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Manager is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

In addition, the Manager is required to ensure that the consolidated financial statements have been properly prepared in accordance with the relevant provisions of the Trust Deed dated 14 November 2013, as amended by the First Supplemental Deed dated on 22 May 2015 (the "Trust Deed"), and the relevant disclosure requirements of Appendix C of the Code on Real Estate Investment Trusts established by the Hong Kong Securities and Futures Commission (the "REIT Code").

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. In addition, we are required to assess whether the consolidated financial statements of the Group have been properly prepared, in all material aspects, in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix C of the REIT Code.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Independent Auditor's Report (Continued)

### **Report on Matters Under the Relevant Provisions of the Trust Deed and the Relevant Disclosure Provisions of Appendix C of the REIT Code**

In our opinion, the consolidated financial statements have been properly prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix C of the REIT Code.

The engagement partner on the audit resulting in this independent auditor's report is Wong Hung Nam.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 22 March 2017

# Consolidated Income Statement

For the year ended 31 December 2016

	Notes	Year ended 31 December	
		2016 US\$'000	2015 US\$'000
<b>Revenues</b>	5	<b>75,431</b>	80,515
Property operating expenses	6	<b>(18,593)</b>	(19,239)
<b>Net property income</b>		<b>56,838</b>	61,276
General and administrative expenses	7	<b>(9,428)</b>	(9,320)
Fair value gain of investment property	12	<b>100,477</b>	35,543
Other losses, net	8	<b>(5,214)</b>	(854)
<b>Operating profit</b>		<b>142,673</b>	86,645
Finance income		<b>519</b>	559
Finance costs on interest-bearing borrowings	9	<b>(51,898)</b>	(46,837)
<b>Profit for the year, before transactions with Unitholders (note i)</b>		<b>91,294</b>	40,367
Distributions paid to Unitholders:			
— 2014 final distribution		—	(17,931)
— 2015 interim distribution		—	(20,135)
— 2015 final distribution (note ii)		<b>(18,238)</b>	—
— 2016 interim distribution (note ii)		<b>(18,902)</b>	—
		<b>54,154</b>	2,301
Represented by:			
Change in net assets attributable to Unitholders, excluding issuance of new units		<b>(2,004)</b>	(34,791)
Amount arising from exchange reserve movements regarding translations of financial statements		<b>56,158</b>	37,092
		<b>54,154</b>	2,301

Notes:

- (i) Earnings per unit, based upon profit for the year, before transactions with Unitholders and the weighted average number of units in issue, is set out in note 11.
- (ii) 2016 interim distribution and 2015 final distribution of US\$18,902,000 and US\$18,238,000 respectively were paid during the year ended 31 December 2016. Total distribution for the year ended 31 December 2016 is presented in the statement of distributions.

The notes on pages 93 to 116 are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Notes	Before transactions with Unitholders US\$'000	Transactions with Unitholders (note i) US\$'000	After transactions with Unitholders US\$'000
<b>For the year ended 31 December 2016</b>				
Profit for the year		91,294	(35,136)	56,158
Other comprehensive loss:				
<i>Items that may be reclassified to consolidated income statement</i>				
Exchange losses on translation of financial statements		(56,158)	–	(56,158)
<b>Total comprehensive income for the year</b>	ii	<b>35,136</b>	<b>(35,136)</b>	<b>–</b>
<b>For the year ended 31 December 2015</b>				
Profit for the year		40,367	(3,275)	37,092
Other comprehensive loss:				
<i>Items that may be reclassified to consolidated income statement</i>				
Exchange losses on translation of financial statements		(37,092)	–	(37,092)
<b>Total comprehensive income for the year</b>	ii	<b>3,275</b>	<b>(3,275)</b>	<b>–</b>

Notes:

- (i) Transactions with Unitholders comprise the distributions paid to Unitholders of US\$37,140,000 (2015: US\$38,066,000), and change in net assets attributable to Unitholders excluding issuance of new units, which is a decrease of US\$2,004,000 (2015: a decrease of US\$34,791,000).
- (ii) In accordance with the Trust Deed, Spring REIT is required to distribute not less than 90% of total distributable income to Unitholders for each financial year. Accordingly, the units contain contractual obligations of Spring REIT to pay cash distributions. The Unitholders' funds are therefore classified as a financial liability rather than equity in accordance with International Accounting Standard 32: Financial Instruments: Presentation. Consistent with Unitholders' funds being classified as a financial liability, the distributions to Unitholders and change in net assets attributable to Unitholders, excluding issuance of new units, are part of finance costs which are recognized in the consolidated income statement. Accordingly, the total comprehensive income, after transactions with Unitholders is zero.

The notes on pages 93 to 116 are an integral part of these consolidated financial statements.



# Statement of Distributions

For the year ended 31 December 2016

	2016 US\$'000	2015 US\$'000
<b>Profit before transactions with Unitholders</b>	<b>91,294</b>	40,367
Adjustments:		
— Fair value gain of investment property	<b>(100,477)</b>	(35,543)
— Net fair value losses of derivative financial instruments	<b>4,447</b>	72
— Manager's fee expenses in units in lieu of cash	<b>4,506</b>	4,477
— Amortization of transaction cost for the bank borrowings	<b>3,199</b>	7,278
— Derecognition of loan arrangement fee upon early repayment of previous bank borrowings	—	2,358
— Unrealized foreign exchange losses	<b>32,903</b>	22,225
<b>Distributable income for the year (note i)</b>	<b>35,872</b>	41,234
Total distributions of the year (note ii)	<b>33,451</b>	38,389
Represented by:		
Interim distribution, paid (note iii)	<b>18,902</b>	20,135
Final distribution, to be paid	<b>14,549</b>	18,254
Total distributions of the year (note ii)	<b>33,451</b>	38,389
Percentage of total distribution over distributable income for the year	<b>93%</b>	93%
Distributions per unit to Unitholders		
— Interim distribution per unit, paid (note iii)	<b>HK13.0 cents</b>	HK14.0 cents
— Final distribution per unit, to be paid (note iv)	<b>HK10.0 cents</b>	HK12.6 cents
<b>Distribution per unit for the year (note iv)</b>	<b>HK23.0 cents</b>	HK26.6 cents

The notes on pages 93 to 116 are an integral part of these consolidated financial statements.

## Statement of Distributions (Continued)

For the year ended 31 December 2016

### Notes:

- (i) Under the terms of the Trust Deed, the distributable income represents the profit for the year before transactions with Unitholders, adjusted to eliminate the effects of certain non-cash transactions which have been recorded in the consolidated income statement for the year.
- (ii) In accordance with the terms of the Trust Deed, Spring REIT is required to distribute to Unitholders not less than 90% of its total distributable income for each financial year. As disclosed in the offering circular dated 25 November 2013, it is the Manager's intention to distribute 100% of Spring REIT's total distributable income for the period from the Listing Date to 31 December 2014, and thereafter not less than 90% of its total distributable income for each subsequent 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 meet its business requirements.
- (iii) The interim distribution per unit for the six months ended 30 June 2016 was calculated based on the interim distribution of US\$18,902,000 for the period and 1,127,798,212 units in issue. The interim distribution was paid to Unitholders on 23 September 2016.
- (iv) The final distribution per unit of HK10.0 cents for the year ended 31 December 2016 is calculated based on the final distribution to be paid to Unitholders of US\$14,549,000 for the second half of the financial year and 1,130,562,940 units in issue as at 31 December 2016, rounded to the nearest HK\$0.1 cents, without taking into account any consideration or subdivision of units which may have occurred between the dates of declaration of the distribution and 19 April 2017 (the "Record Date"). The final distribution for the year ended 31 December 2016 is expected to be paid to Unitholders on 28 April 2017. Such final distributions per unit, however, may be subject to adjustment upon the issuance of new units between 1 January 2017 and the Record Date, if any.

The final distribution per unit of HK12.6 cents for the year ended 31 December 2015 was calculated based on the final distribution paid to the Unitholders of US\$18,254,000 for the second half of the financial year and 1,120,158,306 units in issue as at 31 December 2015, rounded to the nearest HK0.1 cent. The final distribution for the year ended 31 December 2015 was paid to Unitholders on 20 April 2016.

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

The notes on pages 93 to 116 are an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position

As at 31 December 2016

		As at 31 December	
	Notes	2016 US\$'000	2015 US\$'000
<b>Non-current asset</b>			
Investment property	12	1,296,616	1,283,552
Total non-current asset		1,296,616	1,283,552
<b>Current assets</b>			
Trade and other receivables	14	2,421	1,455
Derivative financial instruments	13	2,670	7,117
Restricted bank balances	15	50,631	54,208
Cash and cash equivalents	15	28,825	30,857
Total current assets		84,547	93,637
<b>Total assets</b>		<b>1,381,163</b>	<b>1,377,189</b>
<b>Current liabilities</b>			
Trade and other payables	16	13,342	13,258
Rental deposits	16	20,640	22,406
Total current liabilities		33,982	35,664
<b>Non-current liabilities, excluding net assets attributable to Unitholders</b>			
Interest-bearing borrowings	17	480,499	477,301
<b>Total liabilities, excluding net assets attributable to Unitholders</b>		<b>514,481</b>	<b>512,965</b>
<b>Net assets attributable to Unitholders</b>		<b>866,682</b>	<b>864,224</b>
Units in issue ('000)	18	1,130,563	1,120,158
Net asset value per unit attributable to Unitholders			
In US\$		0.77	0.77
In HK\$		5.95	5.98

The notes on pages 93 to 116 are an integral part of these consolidated financial statements.

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

**Lau Jin Tin, Don**  
Executive Director

**Nobumasa Saeki**  
Executive Director

# Consolidated Statement of Changes in Equity and Net Assets Attributable to Unitholders

For the year ended 31 December 2016

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

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

The notes on pages 93 to 116 are an integral part of these consolidated financial statements.

**Consolidated Statement of Changes in Equity and Net Assets Attributable to Unitholders (Continued)**  
For the year ended 31 December 2016

	Reserves (note) US\$'000	Net assets attributable to Unitholders US\$'000
As at 1 January 2015	–	894,154
Profit for the year, before transactions with Unitholders	–	40,367
Exchange losses on translation of financial statements	(37,092)	–
Amount arising from exchange reserve movements	37,092	(37,092)
Distributions paid to Unitholders:		
— 2014 final distribution	–	(17,931)
— 2015 interim distribution	–	(20,135)
Change in net assets attributable to Unitholders for the year ended 31 December 2015, excluding issues of new units	–	(34,791)
Issuance of units	–	4,861
As at 31 December 2015	–	864,224

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

The notes on pages 93 to 116 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	Year ended 31 December	
		2016 US\$'000	2015 US\$'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	19	50,883	56,047
Interest received		519	559
<b>Net cash generated from operating activities</b>		<b>51,402</b>	56,606
<b>Cash flows from investing activity</b>			
Additions to investment property		(1,124)	–
<b>Net cash used in investing activity</b>		<b>(1,124)</b>	–
<b>Cash flows from financing activities</b>			
Proceeds from borrowings, net of transaction cost		–	471,924
Repayment of borrowings		–	(465,000)
Interest paid		(16,542)	(15,741)
Decrease in restricted bank balances		1,456	4,959
Distributions to Unitholders		(37,140)	(38,066)
Purchase of derivative financial instrument		–	(7,104)
<b>Net cash used in financing activities</b>		<b>(52,226)</b>	(49,028)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(1,948)</b>	7,578
Cash and cash equivalents at the beginning of the year		30,857	24,286
Exchange loss on cash and cash equivalents		(84)	(1,007)
<b>Cash and cash equivalents at end of year</b>		<b>28,825</b>	30,857

The notes on pages 93 to 116 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 1 General Information

Spring Real Estate Investment Trust ("Spring REIT") is a Hong Kong collective investment scheme authorized under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). Spring REIT was established on 25 November 2013 and its units are listed on the main board of The Stock Exchange of Hong Kong Limited (the "HKSE") on 5 December 2013. Spring REIT is governed by the Trust Deed entered into between Spring Asset Management Limited (the "Manager") and DB Trustees (Hong Kong) Limited (the "Trustee") on 14 November 2013 as amended by First Supplemental Deed dated 22 May 2015 (together the "Trust Deed"), and the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong (the "REIT Code"). The addresses of the registered offices of the Manager and the Trustee are Room 2801, 28/F, Man Yee Building, 68 Des Voeux Road Central, Hong Kong and 52/F, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong, respectively.

The principal activity of Spring REIT and RCA01, its wholly owned subsidiary (together, the "Group") is to own and invest in income-producing real estate assets.

The consolidated financial statements are presented in United States dollars ("US\$"). The functional currency of Spring REIT is Hong Kong dollars ("HK\$"), the distribution of Spring REIT is determined and paid in HK\$.

## 2 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied during the year unless otherwise stated.

### (a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), the requirements of the Trust Deed and the relevant disclosure requirements as set out in Appendix C of the REIT Code issued by the Securities and Futures Commission of Hong Kong.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment property and derivative financial instruments, which are carried at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 2 Summary of Significant Accounting Policies (Continued)

#### (a) Basis of preparation (Continued)

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

The Group has adopted all of the new standards, amendments and improvements to existing standards issued by the International Accounting Standards Board that are relevant to the Group's operations and mandatory for annual accounting periods beginning 1 January 2016.

New standards, amendments and improvements to existing standards effective in 2016 which are relevant to the Group's operations:

IAS 1 Amendments	Disclosure Initiative
IAS 16 and IAS 38 Amendments	Clarification of Acceptable Methods of Depreciation and Amortization
IAS 16 and IAS 41 Amendments	Agriculture: Bearer Plants
IAS 27 Amendments	Equity Method in Separate Financial Statements
IFRS 10, IFRS 12, and IAS 28 Amendments	Investment Entities: Applying the Consolidation Exception
IFRS 11 Amendments	Accounting for Acquisitions of Interests in Joint Operation
IFRS 14	Regulatory Deferral Accounts
Annual Improvements Project	Annual Improvements to IFRSs 2012–2014 cycle

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

##### **New standards and amendments to existing standards not yet adopted**

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

		Effective for accounting periods beginning on or after
IAS 7 Amendments	Disclosure initiative	1 January 2017
IAS 12 Amendments	Recognition of Deferred Tax Assets for Unrealized Loss	1 January 2017
IFRS 2 Amendments	Classification and measurement of Share-based Payment Transactions	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 10 and IAS 28 Amendments	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

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



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 2 Summary of Significant Accounting Policies (Continued)

#### (b) Consolidation

The consolidated financial statements incorporate the assets and liabilities of Spring REIT and its subsidiary as at 31 December 2016 and their results for the year then ended.

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

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

#### (c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, for rental income in the ordinary course of the Group's activities. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

##### (i) Rental and car park income

Operating lease rental income from investment property is recognized in the consolidated income statement on a straight-line basis over the terms of lease agreements. Lease incentives provided, such as rent-free periods, are amortized on a straight-line basis and are recognized as a reduction of rental income over the respective term of the lease.

##### (ii) Interest income

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

#### (d) Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs.

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 2 Summary of Significant Accounting Policies (Continued)

#### (e) Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at its fair value at the end of each reporting year. The change in the fair value is recognized in the consolidated income statement. At the initial recognition of the derivatives financial instrument, the difference between the transaction price and the valuation using valuation technique that applies only the market observable date is not recognized in income statements, such difference will be amortised over the life of the derivatives in a systematic basis.

#### (f) Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the consolidated income statement.

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

#### (g) Cash and cash equivalents

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

#### (h) Interest-bearing borrowings

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

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 2 Summary of Significant Accounting Policies (Continued)

#### (i) Borrowing costs

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

#### (j) Payables and provisions

##### (i) Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

##### (ii) Provisions

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

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

##### (iii) Rental deposit

Rental deposits arise when the Group enters into lease agreement directly with a tenant. Such deposits are included in current liabilities, as they are expected to be realized in the Group's normal business operating cycle.

#### (k) Taxation

The current taxation charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting year in the People's Republic of China ("PRC") where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 2 Summary of Significant Accounting Policies (Continued)

#### (l) Foreign currency translation

##### (a) Functional and presentation currency

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

The Group's functional currency is different from the presentation currency and the results and financial position are translated into the presentation currency as follows:

- (i) assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognized in other comprehensive income.

##### (b) Transactions and balances

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

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

Translation differences on non-monetary financial assets and liabilities such as derivatives held at fair value through profit or loss are recognized in the consolidated income statement as part of the fair value gains or losses. Translation differences on other non-monetary financial assets are included in other comprehensive income.

#### (m) Unitholders' funds as a financial liability

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 3 Financial Risk and Capital Risk Management

#### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

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

##### (a) Market risk

###### (i) Foreign exchange risk

The subsidiary of the Group operates in the PRC with functional currency in Renminbi ("RMB") and is therefore exposed to foreign exchange risk arising from commercial transactions, and from recognized assets and liabilities that are denominated in a currency that is not the functional currency. This is primarily with respect to the US\$.

The Group entered into one plain vanilla foreign exchange option to call US\$ and put RMB with notional principal amounts of US\$480 million in December 2015 to hedge the foreign exchange rate risk arising from the US\$480 million loan denominated in US\$. The foreign exchange option contract had a strike price of US\$1 to RMB7.5 and matured in December 2016.

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

As at 31 December 2016, if RMB had strengthened/weakened by 5% against the US\$ with all other variables held constant, profit for the year would have been increased/decreased by US\$21,627,000 (2015: increased by US\$17,943,000/decreased by US\$15,745,000) respectively, mainly as a result of foreign exchange differences on translation of monetary assets and liabilities being denominated in a currency that is not the functional currency items such as cash and bank balance, derivative financial instruments, other payables and borrowings. Foreign exchange differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration.

###### (ii) Interest rate risk

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

As at 31 December 2016, if interest rates had been 50 basis points higher/lower with all other variables held constant, profit for the year would have been US\$2,003,000 (2015: US\$1,975,000) lower/higher respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 3 Financial Risk and Capital Risk Management (Continued)

#### 3.1 Financial risk factors (Continued)

##### (b) Credit risk

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

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

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

##### (c) Liquidity risk

Cash flow forecasting is performed by the Group's finance function ("Group Finance"). Group Finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its borrowing facilities (note 17) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal financial position ratio targets and, if applicable external regulatory or legal requirements.

Liquidity risk management includes maintaining sufficient cash, the availability of funding from operating cash flow and seeking stable financing activities. The Group will continue to monitor market conditions to assess the possibility of arranging longer term refinancing at favorable rates and extending the maturity profile of its debts.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 3 Financial Risk and Capital Risk Management (Continued)

#### 3.1 Financial risk factors (Continued)

##### (c) Liquidity risk (Continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows which comprise both interest and principal cash flows.

	Within 1 year US\$'000	Between 1 and 2 years US\$'000	Between 2 and 5 years US\$'000	Over 5 years US\$'000
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##### At 31 December 2016

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

	Within 1 year US\$'000	Between 1 and 2 years US\$'000	Between 2 and 5 years US\$'000	Over 5 years US\$'000
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##### At 31 December 2015

Accruals and other payables	2,432	–	–	–
Rental deposit	9,603	6,075	6,715	13
Interest payable on borrowings	17,595	20,584	54,388	–
Interest-bearing borrowings	–	–	480,000	–

#### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for Unitholders.

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

	As at 31 December	
	2016 US\$'000	2015 US\$'000
Total borrowings (note 17)	480,499	477,301
Total assets	1,381,163	1,377,189
Gearing ratio	34.8%	34.7%

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 3 Financial Risk and Capital Risk Management (Continued)

#### 3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

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

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

At 31 December 2016	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
<b>Asset</b>				
<b>Derivative financial instruments</b>	–	<b>2,670</b>	–	<b>2,670</b>

At 31 December 2015	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
Asset				
Derivative financial instruments	–	–	7,117	7,117

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

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

As at 31 December 2016, the level 2 derivative financial instruments represented vanilla forward contracts which are not traded in an active market. The fair values of these derivative financial instruments are based on prices quoted by financial institutions, which are determined using forward prices at the end of the reporting period.

As at 31 December 2015, the level 3 derivative financial instruments represented plain vanilla foreign exchange option which are not traded in an active market. At the initial recognition of the derivatives financial instrument, the difference between the transaction price and the valuation using valuation technique that applies only the data from observable markets will not recognize in income statements, such difference will be amortised over the life of the derivatives in a systematic basis. The valuation using valuation technique that applies only the market observable data is based on prices quoted by financial institutions, which are determined using forward prices at the end of the reporting period.

There were no changes in valuation techniques during the year.

The disclosures of the investment property, that is measured at fair value, are set out in note 12.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 4 Critical Accounting Estimates And Judgements

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

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

#### (a) Estimates of fair value of investment property

The fair value of each investment property is individually determined at each reporting date by independent valuer using valuation techniques. Details of the judgement and assumptions have been disclosed in note 12.

#### (b) Estimates of fair values of derivative financial instruments

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

#### (c) Taxation

The Group is a foreign enterprise established outside the PRC. The Group is subject to various taxes in the PRC. Significant judgement is required in determining the provision for taxation including deferred taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes or writes back liabilities for anticipated tax issues based on estimates of whether additional taxes will be due or reversal to be made. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the taxation and deferred tax.

### 5 Revenue and Segment Information

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

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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 5 Revenue and Segment Information (Continued)

An analysis of revenues of the Group is as follows:

	Year ended 31 December	
	2016	2015
	US\$'000	US\$'000
Revenues		
Rental income (note i)	<b>72,645</b>	78,154
Car park income	<b>566</b>	678
Other income (note ii)	<b>2,220</b>	1,683
	<b>75,431</b>	80,515

Note:

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

### 6 Property Operating Expenses

	Year ended 31 December	
	2016	2015
	US\$'000	US\$'000
Property management fee	<b>1,617</b>	1,618
Property tax (note i)	<b>6,286</b>	3,955
Business and other taxes (note ii)	<b>2,373</b>	4,591
Withholding tax (note iii)	<b>7,564</b>	8,142
Leasing commission	<b>623</b>	803
Others	<b>130</b>	130
	<b>18,593</b>	19,239

Notes:

- (i) Property taxes represent real estate tax and land use tax.
- (ii) Business and other taxes represent business tax, urban construction and maintenance tax, education surcharge and stamp duty. With effect from 1 May 2016, the business tax formerly applicable to the Group was replaced by the VAT.
- (iii) Withholding tax in the PRC is calculated based on 10% of the revenues received from rental operation.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 7 General and Administrative Expenses

	Year ended 31 December	
	2016 US\$'000	2015 US\$'000
Manager's fee (note i)	7,258	7,503
Trustee fee	243	251
Valuation fee	85	48
Auditor's remuneration		
— Audit services	182	175
— Non-audit services	88	87
Legal and other professional fee (note ii)	1,358	1,203
Others	214	53
	<b>9,428</b>	9,320

Notes:

- (i) The breakdown of the Manager's fee was set out in note 10.
- (ii) Legal and other professional fee mainly comprises advisory fees and other professional fees.

### 8 Other Losses, Net

	Year ended 31 December	
	2016 US\$'000	2015 US\$'000
Net fair value losses on derivative financial instruments at fair value through profit or loss (note 13)	4,447	72
Foreign exchange losses	746	756
Other miscellaneous losses	21	26
	<b>5,214</b>	854

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 9 Finance Costs

	Year ended 31 December	
	2016	2015
	US\$'000	US\$'000
Interest expenses on bank borrowings (note i)	<b>19,741</b>	23,010
Foreign exchange losses on bank borrowings (note ii)	<b>32,157</b>	21,469
Other incidental borrowing costs (note iii)	–	2,358
<b>Total</b>	<b>51,898</b>	46,837

Notes:

- (i) Interest expenses on bank borrowings comprised contractual loan interest and amortized loan arrangement fee, which were recognized using the effective interest rate method.
- (ii) Foreign exchange losses on bank borrowings arise upon translating the bank borrowings denominated in foreign currencies to RMB. The exchange losses on bank borrowings during the year ended 31 December 2015 and 2016, were mainly arisen from the depreciation of RMB against US\$.
- (iii) Other incidental borrowing costs in 2015 represent derecognition of unamortized loan arrangement fee. In April 2015, the Group early repaid a bank borrowing, resulting in a derecognition of loan arrangement fee upon early repayment of bank borrowings of US\$2,358,000 during the year ended 31 December 2015.

### 10 Manager's Fee

	Year ended 31 December	
	2016	2015
	US\$'000	US\$'000
Base fee	<b>5,635</b>	5,607
Variable fee	<b>1,623</b>	1,896
	<b>7,258</b>	7,503

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

- (i) Base fee at 0.4% per annum of the value of the Deposited Property ("Base Fee", as defined in the Trust Deed).
- (ii) Variable fee at 3.0% per annum of the Net Property Income ("Variable Fee", as defined in the Trust Deed) (before deduction therefrom of the Base fee and Variable fee).
- (iii) Based on the election made by the Manager dated 9 December 2015 in relation to the Manager's elections for the Base Fee to be paid to the Manager in the form of cash as to 20% and in the form of Units as to 80%, and Variable Fee to be paid to the Manager in the form of cash entirely. Such election is unchanged from the one made for the financial year ended 31 December 2016.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 11 Earnings per unit

	2016 US\$'000	2015 US\$'000
Profit for the year, before transactions with Unitholders	<b>91,294</b>	40,367
Weighted average number of units for the year for calculating basic earnings per unit	<b>1,125,241,731</b>	1,114,844,025
Adjustment for units issuable in respect of the Manager's fee	<b>2,719,873</b>	2,958,587
Weighted average number of units for the year for calculating diluted earnings per unit	<b>1,127,961,604</b>	1,117,802,612
Basic earnings per unit based upon profit before transactions with Unitholders	<b>US8.11 cents</b>	US3.62 cents
Diluted earnings per unit based upon profit before transactions with Unitholders	<b>US8.09 cents</b>	US3.61 cents

### 12 Investment Property

	For the year ended 31 December	
	2016 US\$'000	2015 US\$'000
At beginning of the year	<b>1,283,552</b>	1,306,583
Additions	<b>1,124</b>	–
Exchange differences recognized in other comprehensive income	<b>(88,537)</b>	(58,574)
Changes in fair value recognized in consolidated income statement	<b>100,477</b>	35,543
At end of the year	<b>1,296,616</b>	1,283,552

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

As at 31 December 2016, the Group had no unprovided contractual obligations for future repairs and maintenance of the investment property.

As at 31 December 2015 and 31 December 2016, the investment property was pledged to secure the Group's bank borrowings (note 17).

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 12 Investment Property (Continued)

#### Valuation process

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

The Manager reviewed the valuation performed by the independent valuer for financial reporting purpose. Discussions of valuation processes and results are held between the Manager and the independent valuer at least once every six months, in line with the Group's interim and annual reporting dates. As at 31 December 2016, the fair value of the investment property has been determined by Knight Frank Petty Limited (2015: Colliers International (Hong Kong) Limited). The independent valuer adopted the income capitalization approach and cross-checked by the direct comparison approach (2015: income capitalization approach and discounted cash flow method) for the valuation.

#### Valuation techniques

The income capitalization approach estimates the values of the properties on an open market basis by capitalizing 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 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 independent qualified 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.

The direct comparison approach is based on comparing the properties to be valued directly with other comparable properties which recently changed hands.

#### Fair value hierarchy

	Fair value measurements using		
	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000
<b>Recurring fair value measurements</b>			
<b>As at 31 December 2016</b>	–	–	<b>1,296,616</b>
As at 31 December 2015	–	–	1,283,552

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 12 Investment Property (Continued)

#### Key unobservable inputs used to determine fair values

##### (a) Capitalization rate

This is estimated based on the market lease over market value on comparable. The higher the capitalization rates used, the lower the fair values of the investment property. In the 31 December 2016 valuation, a capitalization rate of 5.8% (2015: 6.5%) is used in the income capitalization approach.

##### (b) Base rent

Base rent is the standard rent payable under the lease exclusive of any other charges and reimbursements. This was estimated based on the market lease comparable. The higher the base rent used, the higher the fair values of the investment property. The average gross monthly office unit base rent of RMB405 per square meter exclusive of VAT is used in the valuation. The corresponding amount inclusive of VAT is RMB450 (2015: RMB430) per square meter.

As at 31 December 2016, 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\$64.8 million (2015: US\$64.2 million) higher/lower.

### 13 Derivative Financial Instruments

	As at 31 December	
	2016	2015
	US\$'000	US\$'000
<b>Current</b>		
Fair value of the currency option (note i)	–	7,117
Fair value of the forward contracts (note ii)	<b>2,670</b>	–
	<b>2,670</b>	7,117

Notes:

- (i) The Group has entered into a currency option as part of its financial risk management but did not account for these as accounting hedges under IAS 39. Plain vanilla currency option is used to hedge the relevant foreign exchange rate risk.

The aggregated notional principal amount of the currency option was US\$480 million and matured in December 2016.

The Group recorded fair value loss on currency option for the year ended 31 December 2016 amounting to US\$7,117,000 (2015: fair value gain of US\$13,000) (note 8) which were charged to the consolidated income statement.

- (ii) The Group has entered into two 3-month vanilla forward contracts as part of its financial risk management but did not account for these as accounting hedges under IAS 39. Vanilla forward contracts are used to hedge the relevant foreign exchange rate risk.

The aggregated notional principal amount of the forward contracts as at 31 December 2016 was US\$240 million (2015: Nil) and were settled in March 2017.

The Group recorded fair value gains on forward contracts for the year ended 31 December 2016 amounting to US\$2,670,000 (2015: Nil) (note 8). The gains were credited to the consolidated income statement.

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 14 Trade and Other Receivables

	As at 31 December	
	2016	2015
	US\$'000	US\$'000
Rent receivables	178	53
Deferred rent receivables	1,871	1,000
Prepayments	372	402
	<b>2,421</b>	<b>1,455</b>

Notes:

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

There are no specific credit terms given to the tenants.

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

- (ii) The Group's exposure from outstanding rent receivables is generally fully covered by the rental deposits from the corresponding tenants (note 16).

- (iii) As at 31 December 2016 and 2015, the Group's rent receivables and all future rent receivables were pledged to secure the Group's bank borrowings (note 17).

### 15 Restricted Bank Balances and Cash and Cash Equivalents

	As at 31 December	
	2016	2015
	US\$'000	US\$'000
Restricted bank balances	50,631	54,208
Cash and cash equivalents	28,825	30,857
	<b>79,456</b>	<b>85,065</b>

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

	As at 31 December	
	2016	2015
	US\$'000	US\$'000
US\$	49,873	51,153
RMB	28,103	32,644
HK\$	1,480	1,268
	<b>79,456</b>	<b>85,065</b>



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 15 Restricted Bank Balances and Cash and Cash Equivalents (Continued)

Restricted bank balances are related to bank accounts restricted under the bank borrowing facility agreements and were charged to the facility agent, The Australia and New Zealand Banking Group Limited, of the Group's bank borrowings (note 17). Prior consent from facility agent 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\$6,000 which is denominated in RMB as at 31 December 2016 (2015: US\$1,000).

### 16 Rental Deposits and Trade and Other Payables

	As at 31 December	
	2016	2015
	US\$'000	US\$'000
<b>Rental deposits (note i)</b>	<b>20,640</b>	22,406
<b>Trade and other payables:</b>		
Rental receipts in advance	<b>7,676</b>	6,870
Provision for withholding tax	–	698
Provision for other taxes (note ii)	<b>15</b>	391
VAT payable	<b>21</b>	–
Accrued expenses and other payables	<b>5,630</b>	5,299
	<b>13,342</b>	13,258

Notes:

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

	As at 31 December	
	2016	2015
	US\$'000	US\$'000
Within 1 year	<b>5,204</b>	9,603
Over 1 year	<b>15,436</b>	12,803
	<b>20,640</b>	22,406

- (ii) Provision for other taxes represents provision for business tax, urban construction and maintenance tax, education surcharge and stamp duty.

The carrying amounts of rental deposits and trade and other payables approximate their fair values and mainly denominated in RMB.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 17 Interest-Bearing Borrowings

	As at 31 December	
	2016	2015
	US\$'000	US\$'000
<b>Non-current</b>		
Bank borrowings	<b>480,499</b>	477,301

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

	As at 31 December	
	2016	2015
	US\$'000	US\$'000
6 months or less	<b>480,499</b>	477,301

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) The term loan facility will be repayable in full on 29 April 2020. The borrowing bears interest of 2.75% above 3-month LIBOR. The Group had also entered into a US\$20 million uncommitted revolving facility, which is to be used to facilitate the general working capital needs of the Group in the future. Both the term loan facility and uncommitted revolving facility are guaranteed by the Trustee. The Group's subsidiary's shares were pledged to secure the Group's term loan facility and uncommitted revolving facility.
- (ii) As at 31 December 2016 and 31 December 2015, the Group's investment property (note 12), derivative financial instruments (note 13), rent receivables and all future rent receivables (note 14), restricted bank accounts (note 15) and subsidiary of the Group's share were pledged to secure the Group's term loan facility.

### 18 Units in Issue

	Number of units
Balance as at 31 December 2015	1,120,158,306
New units issued for Manager's fee	10,404,634
Balance as at 31 December 2016	1,130,562,940

Traded market value of the units as of 31 December 2016 was HK\$3.22 per unit. Based on 1,130,562,940 units, the market capitalization was US\$469.37 million.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 19 Notes to Statements of Cash Flows Cash generated from operating activities

	Year ended 31 December	
	2016	2015
	US\$'000	US\$'000
Profit for the year, before transactions with Unitholders	<b>91,294</b>	40,367
Fair value gain of investment property	<b>(100,477)</b>	(35,543)
Net fair value losses on derivative financial instruments	<b>4,447</b>	72
Manager's fee expenses in units in lieu of cash	<b>4,462</b>	4,861
Interest income	<b>(519)</b>	(559)
Finance costs on interest-bearing borrowings	<b>51,898</b>	46,837
Foreign exchange losses	<b>746</b>	756
Increase in trade and other receivables	<b>(1,058)</b>	(703)
Decrease in rental deposits	<b>(310)</b>	(135)
Increase in trade and other payables	<b>400</b>	94
	<b>50,883</b>	56,047

Material non-cash movements:

- (i) For the year ended 31 December 2015, the unamortized loan arrangement fee upon early termination of the previous term loan was US\$2,358,000 as disclosed in note 9.
- (ii) For the year ended 31 December 2016, the Manager's fee amounting US\$4,462,000 (2015: US\$4,861,000) was settled by issuance of new units.

### 20 Future Minimum Rental Receivables

As at 31 December 2016, the analysis of the Group's aggregate future minimum rental receivable under non-cancellable leases is as follows:

	As at 31 December	
	2016	2015
	US\$'000	US\$'000
Within 1 year	<b>67,519</b>	59,452
After 1 year, but within 5 years	<b>120,201</b>	47,616
After 5 years	<b>3,901</b>	204
	<b>191,621</b>	107,272

Note: Most of the operating leases are on fixed terms and of terms of 3 years (2015: 3 years).

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 21 Connected Party Transactions and Related Party Transactions and Balances

As at 31 December 2016, RCA01 Fund L.P. is the immediate and ultimate holding company of the Group.

For the year ended 31 December 2016, the Group entered into the following transactions with related parties at mutually agreed terms in the normal course of its business.

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

The table set forth below summarizes the names of the connected/related parties, as defined in the REIT Code/IAS 24 (Revised) "Related Party Disclosures", and nature of their relationship with the Group as at 31 December 2016:

Connected/related party	Relationship with the Group
DB Trustees (HK) Ltd.	The Trustee of Spring REIT
Spring Asset Management Limited*	The Manager of Spring REIT
RCA Fund 01 L.P. ("RCA Fund")*	Significant Unitholder of Spring REIT
Mercuria Investment Co., Ltd.*	Parent company of the Manager
ITOCHU (China) Holding Co., Ltd. ("ITOCHU")	An associated company of the Manager
MIBJ Consulting (Beijing) Co., Ltd. ("MIBJ")*	An associated company of the Manager and associate of a director of the Manager
Beijing Hua-re Real Estate Consultancy Co., Ltd. ("HuaRe")	An associated company of the Manager
Colliers International (Hong Kong) Ltd.	The Principal Valuer
Knight Frank Petty Limited	The Principal Valuer
Deutsche Bank AG, Hong Kong Branch ("DBHK")	Trustee Connected Persons
Deutsche Bank (China) Company Ltd. ("DB China")	Trustee Connected Persons
Deutsche Bank AG, London Branch ("DBUK")	Trustee Connected Persons
Zhong De Securities ("ZDS")	Trustee Connected Persons

\* These connected parties are also considered as related parties of the Group.

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

	Note	Year ended 31 December	
		2016 US\$'000	2015 US\$'000
Rental revenue from ITOCHU	(i)	<b>1,233</b>	771
Rental revenue from MIBJ	(i)	<b>145</b>	154
Rental revenue from DB China and ZDS	(i)	<b>7,178</b>	7,277
Interest income from DBHK	(ii)	<b>519</b>	559

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 21 Connected Party Transactions and Related Party Transactions and Balances

(Continued)

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

	Note	Year ended 31 December	
		2016 US\$'000	2015 US\$'000
Management fee to HuaRe	(iii)	<b>1,617</b>	1,618
Trustee's fee paid and payable to the Trustee	(iv)	<b>243</b>	251
Administration fee of the new term loan facility paid to the Trustee		–	8
Manager's fee to Spring Asset Management Limited	(v)	<b>7,258</b>	7,503
Valuation fee to the Principal Valuer	(vi)	<b>85</b>	48
Interest expense to DBUK	(vii)	<b>1,438</b>	1,209
Term loan arrangement and upfront fee to DBUK	(vii)	–	2,880
Bank charges to DBHK	(ii)	<b>2</b>	5

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

	Note	As at 31 December	
		2016 US\$'000	2015 US\$'000
Lease deposit from ITOCHU	(viii)	<b>362</b>	373
Lease deposit from MIBJ	(viii)	<b>41</b>	44
Lease deposit from DB China and ZDS	(viii)	<b>976</b>	1,090
Derivative financial instrument from DBHK	(ix)	<b>1,462</b>	–

Notes:

- (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 and bank charges were 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) The Trustee is entitled to in each financial year, 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.
- (v) Fee to the Manager was charged in accordance with the Trust Deed.
- (vi) Valuation fee were charged based on mutually agreed terms between the parties.
- (vii) Interest expense was charged in accordance with the terms of the relevant agreements with DBUK. No loan arrangement fee to DBUK was charged in 2016 (2015: US\$2,880,000).
- (viii) The lease deposits were received in accordance with the terms of the relevant lease agreements.
- (ix) Fair value of derivative financial instrument was recognised in accordance with bank quote obtained from DBHK (note 13).

No transaction was entered with the directors of the Manager (being the key management personnel) for the year ended 31 December 2016 (2015: Nil).

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

### 22 Subsidiary

Name	Place of establishment and kind of legal entity/ place of operations	Principal activities	Particulars of issued share capital	Interest held
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**Directly held:**

RCA01	Cayman Islands, limited liability	Property investment	1,000 of US\$1 each	100%
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### 23 Capital Commitment

	Year ended 31 December	
	2016	2015
	US\$'000	US\$'000
Capital commitments in respect of the investment property Contracted but not provided for	–	726

### 24 Event after the reporting period

On 17 March 2017, DB Trustee in its capacity as trustee of Spring REIT entered into a share purchase agreement pursuant to which Spring REIT agreed to purchase 84 commercial properties in the United Kingdom. For details, please refer to the announcement dated 17 March 2017 related to the acquisition and the circular dated 21 March 2017 related to continuing connected party transactions at those properties.

### 25 Approval of the Consolidated Financial Statements

The consolidated financial statements were authorized for issue by the Manager on 22 March 2017.

## Performance Table

As at 31 December	2016	2015
Net assets attributable to Unitholders	<b>US\$866.68 million</b>	US\$864.22 million
Net assets per Unit attributable to Unitholders	<b>HK\$5.95</b>	HK\$5.98
Total borrowings as a percentage of gross assets	<b>34.8%</b>	34.7%
Market capitalization <sup>1</sup>	<b>US\$469.37 million</b>	US\$437.91 million
Units issued	<b>1,130,562,940</b>	1,120,158,306

For the year ended 31 December	2016	2015
Highest traded unit price	<b>HK\$3.62</b>	HK\$3.84
Highest premium of the traded unit price to net assets per Unit	<b>N/A</b>	N/A
Lowest traded unit price	<b>HK\$2.65</b>	HK\$2.86
Highest discount of the traded unit price to net assets per Unit	<b>55.5%</b>	52.2%
Distributions per Unit <sup>2</sup>	<b>HK23.0 cents</b>	HK26.6 cents
Net yield per Unit <sup>2</sup>	<b>7.1%</b>	8.8%

Notes:

1 Market capitalization is calculated based on the closing unit price of the period times the unit outstanding as at the end of the period.

2 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

# 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. Leung Kwok Hoe, Kevin  
Mr. Lau Jin Tin, Don  
Mr. Nobumasa Saeki

## Non-executive Director

Mr. Hideya Ishino

## Independent Non-executive Directors

Mr. Simon Murray  
Mr. Liping Qiu  
Mr. Lam Yiu Kin

## Responsible Officers of the Manager

Mr. Leung Kwok Hoe, Kevin  
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

Knight Frank Petty Limited

## Legal Advisors

### As to Hong Kong and United States laws

Baker & McKenzie  
Clifford Chance  
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

Hong Kong: 1426

## Website

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



# SpringREIT

Spring Real Estate Investment Trust

春泉產業信託

Stock Code : 01426

Managed by  
Spring Asset Management Limited

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

