SpringREIT

Spring Real Estate Investment Trust

春泉產業信託

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

(Stock Code: 01426)

Managed by
Spring Asset Management Limited

FURTHER ANNOUNCEMENT ON TRANSITIONING FROM BUSINESS TAX TO VALUE-ADDED TAX IN CHINA

The board of directors (the "**Board**") of Spring Asset Management Limited (the "**Manager**"), in its capacity as manager of Spring Real Estate Investment Trust (the "**Spring REIT**") has recently made further assessment of the potential impact on Spring REIT of the B2V Reform (defined below) adopted by the People's Republic of China (the "**PRC**"), based on the advice of a competent tax advisor.

The Board is pleased to announce that the B2V Reform is not expected to have a material effect to the net property income, net profit, cash flow and the total distributable income of Spring REIT, and Spring REIT as a whole.

This announcement is made pursuant to Paragraph 10.3 of the Code on Real Estate Investment Trusts.

Reference is made to the announcement of Spring REIT dated 3 May 2016 (the "**Announcement**") regarding the transitioning from business tax ("**BT**") to value-added tax ("**VAT**") in the PRC.

As disclosed in the Announcement, on 23 March 2016, the Ministry of Finance and the State Administration of Taxation of the PRC jointly issued Circular Caishui [2016] No. 36 ("**Circular 36**") on the comprehensive rollout of the Business Tax to Value-Added Tax Transformation Pilot Program (the "**B2V Reform**"). Pursuant to Circular 36, with effect from 1 May 2016, the B2V Reform expanded to cover industries including construction, real estate, financial services and lifestyle services.

Based on the advice of a competent tax advisor, as from 1 May 2016, the 5% BT rate formerly applicable to Spring REIT's revenue of leasing of real estate was replaced by VAT at a rate of 11% levied on rental revenues, subject to applicable input VAT credits, if any, and the 5% BT formerly applicable to the total consideration in the event of a direct disposal of real estate property was replaced by VAT at a rate of 11% levied on the total consideration of the disposal, subject to applicable input VAT credits, if any. As RCA01 (a special purpose vehicle wholly owned by Spring REIT), through which the real estate property (the "**Property**") of Spring REIT is owned, is considered a non-resident enterprise in China, it is currently not eligible to utilize input VAT credits to deduct its output VAT liability. Therefore, under the new VAT regime, rental revenues of the Property of Spring REIT is charged a VAT calculated at 11% of the rental revenues if there is no further tax circular to change the current tax position. On the basis that the portfolio of Spring REIT is solely comprised of the Property and that the Manager has no intention to dispose the Property, the Manager is of the view that the VAT impact on property disposal is very remote.

Under the existing PRC Enterprises Income Tax Law (中華人民共和國企業所得稅法) and its implementation rules, the standard income tax rate of 25% applies to PRC domestic enterprises, as well as foreign invested enterprises; while non-resident enterprises (such as RCA01) without an establishment or presence of business in the PRC shall pay enterprise income tax by way of withholding tax at the rate of 10% on various types of incomes, including rental income and capital gains derived from the PRC. Currently, withholding tax at a rate of 10% on rental income is still applicable to RCA01 after the B2V Reform.

To mitigate the effect of the additional tax burden, the property manager of Spring REIT (the "**Property Manager**") initiated negotiations on all leases (including leases with all connected parties of Spring REIT, and the CPT Leases, as defined below) with tenants of the Property (the "**Tenants**") in order to transfer all or a portion of the VAT charged to RCA01, as the majority of the Tenants were eligible to utilize their input VAT credits to deduct their output VAT liability. Such leases include transactions with the Manager Connected Persons Group (as defined in the circular issued on 16 April 2015) and the Trustee Connected Persons Group (as defined in the Offering Circular of Spring REIT dated 25 November 2013) (the "**CPT Leases**"). The Manager has engaged the principal valuer of Spring REIT to review the re-negotiated terms of the CPT Leases, and the principal valuer has confirmed that the re-negotiated terms of the CPT Leases were generally on normal commercial terms under prevailing market conditions and were fair and reasonable. The Manager confirms that there has been no variation to the conditions, including the annual caps, of the waivers granted by the Securities and Futures Commission in relation to the relevant provisions in Chapter 8 of the Code on Real Estate Investment Trusts on connected party transactions.

At this stage, the Property Manager has concluded negotiations with most of the Tenants and has renewed lease agreements or signed supplemental lease agreements with the Tenants. The Board is pleased to report that, in aggregate, the additional tax burden as a result of the B2V Reform has substantially been transferred to the Tenants.

Value-Added Tax is a tax detached from selling price (in the case of Spring REIT, revenue of leasing of real estate) and pursuant to the International Financial Reporting Standards, the revenues will be presented in the financial statements as excluding any VAT collected by Spring REIT on behalf of the relevant tax authorities. The revenue of Spring REIT, after deduction of VAT is expected to be reduced in comparison with the corresponding period in previous year before the implementation of the B2V Reform. However, after the implementation of the B2V Reform, Spring REIT no longer has to pay BT, which is part of the operating expenses of Spring REIT, and hence the operating expenses of Spring REIT is also expected to be reduced in comparison with the corresponding period in previous year before the implementation of the B2V Reform.

In view of the effective transfer of the additional VAT burden to the Tenants, as far as the B2V Reform is concerned, it is not expected to have a material effect to the net property income, net profit, cash flow and the total distributable income of Spring REIT, and Spring REIT as a whole.

Details of the financial results will be disclosed as and when the interim/annual reports of Spring REIT for the relevant periods are available.

Unitholders and potential investors of Spring REIT are advised to exercise caution when dealing in the units of Spring REIT, and are recommended to seek independent professional advice if they are in any doubt about their position and as to the actions that they should take.

This announcement is made pursuant to Paragraph 10.3 of the Code on Real Estate Investment Trusts.

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

Hong Kong, 25 July 2016

As of the date of this announcement, the directors of the Manager are Toshihiro Toyoshima (Chairman and non-executive director); Lau Jin Tin, Don (executive director) and Nobumasa Saeki (executive director); Hideya Ishino (non-executive director); and Simon Murray, Liping Qiu and Lam Yiu Kin (independent non-executive directors).