



FIRST REAL ESTATE INVESTMENT TRUST

(Constituted in the Republic of Singapore pursuant to a trust deed dated 19 October 2006 (as amended))

RESPONSE TO SGX QUERIES

First REIT Management Limited, in its capacity as manager of First Real Estate Investment Trust (“**First REIT**”, and as manager of First REIT, the “**Manager**”), sets out its response to the queries raised by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 7 August 2020 in relation to First REIT’s 2020 Half Year unaudited financial statements for financial period from 1 January 2020 to 30 June 2020 (“**1H 2020**”) and distribution for the second quarter 2020 (“**2Q 2020**”) announcement dated 22 July 2020, as follows:

Question 1:

It is provided at page 6 under Note 1 of the Statements of Financial Position:-

“1) The carrying amounts of the investment properties were based on valuations, using discounted cash flow or income capitalisation methods, performed by independent valuers in December 2019. The Managers will be engaging independent valuers soon to perform a full valuation of the Group’s investment properties by December 2020, in accordance with Appendix 6 of the Code of Collective Investment Scheme which stipulates that a full valuation of each of the property fund’s real estate should be conducted by a valuer at least once a financial year.

The carrying values of the investment properties were maintained based on the independent valuation as at 31 December 2019 without any recognition of the COVID-19 impact or the one-off two-month rental relief extended to the tenants to cushion the impact caused by COVID-19 pandemic.” (emphasis added)

Our Regulator's Column of 27 July 2020 titled “What SGX RegCo expects of financial reports amid COVID-19” dated 27 July 2020 provides amongst others that:-

“Boards and management should carefully assess if asset values are appropriately reported in the interim financial statements. They should review whether the effects of COVID-19 present any indication that the asset values as at the previous financial year-end have changed significantly. The assessment of the impact and its associated uncertainties should be clearly explained.

Disclosures are expected to be entity-specific, relevant and useful to investors. Issuers must eschew boilerplate disclosures, such as broad or generic statements that COVID-19 have negatively impacted the valuation measurements, without elaborating on the effects on each business segment. Disclosures must also be balanced and fair and avoid omission of important unfavourable facts.

Financial statements should provide comparable and relevant information that adequately reflects the impact of COVID-19 on the issuer. Timely disclosure of any changed circumstances will enable investors to make an informed investment decision.”

- (a) Given the significant change in the economic, operating and business conditions caused by the COVID-19 pandemic which would be prevailing as at 1H2020, please state whether and how First REIT would have disclosed all material information relating to the value of its investment properties to enable investors to make informed investment decisions;
- (b) Please explain whether and how the Board of Directors has addressed its mind to the carrying amounts of First REIT’s investment properties for 1H2020 and decided if any material change is required, in view of the current COVID-19 situation;
- (c) Please provide the assessment by the Board of Directors as to whether it is possible and if so, please quantify any impact on the carrying amounts of First REIT’s investment properties for 1H2020. If no, please provide the bases for the Board of Directors’ view(s); and
- (d) Taking into consideration the responses of First REIT to the above queries (a) to (c), please clarify whether the Board of Directors have considered if the interim financial statements provide a balanced and fair view of any material factors that have affected the issuer’s business conditions and financial position, including the impact of COVID-19.

Manager’s Response:

- (a) As stated in the financial results announcement dated 22 July 2020, “2020 Half Year Unaudited Financial Statements & Second Quarter Distribution Announcement”, First REIT conducts property valuations on an annual basis in December in accordance with Appendix 6 of the Code of Collective Investment Scheme. There may be uncertainty relating to the carrying amounts of First REIT’s investment properties as at 30 June 2020 as the carrying amounts are based on the independent valuations as at 31 December 2019, and have not taken into account the impact of the COVID-19 pandemic, which may be significant. The Manager will be engaging independent valuers to perform a full valuation of the investment properties as at 31 December 2020, and disclosure of all material information relating to the value of First REIT’s investment properties will be made subsequently.
- (b) The Board of Directors are of the view that there is no material change to the carrying amounts of First REIT’s investment properties for 1H2020 necessary at this stage.

The value of First REIT’s properties are supported by master leases. While the Manager has extended rental relief to assist its tenants in coping with the impact of Covid-19 on their businesses, these are short-term measures and the Manager is of the view that such relief alone is not expected to have a material impact on the value of the properties. Accordingly, the Manager is of the view that it is not an efficient use of unitholders’ funds to commission an ad hoc valuation of the properties at this stage.

Potential adjustments to the valuation of First REIT's properties may arise from restructuring of the master leases. While the Manager had on 1 June 2020 announced that PT Lippo Karawaci Tbk wishes to initiate a rental restructuring process, no agreement has been reached and the existing terms will continue to apply between the parties. Therefore, until parties can agree on new definitive terms, there is no basis for the Manager to re-assess the valuation of the properties at this stage.

- (c) Please see the responses to question (b) above.
- (d) Given the rapidly evolving situation and uncertain business outlook, there is lack of visibility on tenants' businesses as a result of the COVID-19 pandemic. The Board of Directors believes that it has provided a balanced and fair view of the material factors that affect the REIT's business conditions and financial position, including the impact of COVID-19. In addition to the commentary on the competitive conditions of the industry in the financial results announcement dated 22 July 2020, the Manager has also provided an update on the operational impact of COVID-19 on tenants' business and the tenant support measures extended to all tenants due to COVID-19 in the accompanying financial results presentation slides.

Question 2:

It is noted on page 3 of the announced financial results that the net fair value losses of derivative financial instruments increased from approximately S\$(541,000) in 1H2019 to S\$(3,646,000) in 1H2020.

At pg 11, it was disclosed that *"Net change in fair value of derivative financial instruments for 1H 2020 relates to the revaluation of interest rate swap contracts."*

Please explain the circumstances which led to the *"revaluation of interest rate swap contracts"* in 1H2020.

Manager's Response:

The REIT has entered into interest rate swaps ("**IRS**") to manage and mitigate its exposure to adverse fluctuations in interest rates for its loan facilities. The revaluation of the interest rate swaps represents fair value movement for the period from 31 December 2019 to 30 June 2020. The fair value movements are a result of movements in interest rates from the time that the REIT entered into the respective IRS.

By Order of the Board

Tan Kok Mian Victor
Executive Director and Chief Executive Officer
First REIT Management Limited
(Company registration no. 200607070D)
As Manager of First Real Estate Investment Trust

11 August 2020

Important Notice

The value of units in First REIT ("**Units**") and the income derived from them may fall as well as rise. The Units are not obligations of, deposits in, or guaranteed by, the Manager or any of its affiliates. An investment in Units is subject to investment risks, including the possible loss of the principal amount invested. Investors have no right to request the Manager to redeem their Units while the Units are listed. It is intended that Unitholders may only deal in their Units through trading on Singapore Exchange Securities Trading Limited ("**SGX-ST**"). Listing of the Units on the SGX-ST does not guarantee a liquid market for the Units.

This announcement is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Units. The past performance of First REIT is not necessarily indicative of the future performance of First REIT.

This announcement may contain forward-looking statements that involve risks and uncertainties. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements as a result of a number of risks, uncertainties and assumptions. Representative examples of these factors include (without limitation) general industry and economic conditions, interest rate trends, cost of capital and capital availability, competition from similar developments, shifts in expected levels of property rental income, changes in operating expenses (including employee wages, benefits and training costs), property expenses and governmental and public policy changes. Investors are cautioned not to place undue reliance on these forward-looking statements, which are based on the Manager's view of future events.