

## Saizen Real Estate Investment Trust

(A real estate investment trust constituted on 27 September 2007 under the laws of the Republic of Singapore (as amended))

### Announcement In Relation To The Unaudited Financial Statements For The Third Quarter Ended 31 March 2015

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## **INTRODUCTION**

**Year-on-year revenue and net property income decreased** by 2.0% and 1.4% respectively in the third quarter ended 31 March 2015 (“**3Q FY2015**”), due mainly to the divestment of 3 properties between May 2014 and November 2014 and a decrease in average occupancy rates. On a quarter-on-quarter basis, revenue remained stable while net property income fell by 4.9%, due mainly to seasonal increases in repair and renovation and leasing-related expenses during the leasing season, as well as maintenance and utilities expenses during the winter months.

The average occupancy rate of Saizen Real Estate Investment Trust’s (“**Saizen REIT**”) properties was 90.9% in 3Q FY2015, as compared to 91.1% in the third quarter ended 31 March 2014 (“**3Q FY2014**”) and 90.0% in the preceding second quarter ended 31 December 2014 (“**2Q FY2015**”).

Overall rental reversion of new contracts entered into in 3Q FY2015 was marginally lower by about 0.8% (3Q FY2014 and 2Q FY2015: lower by about 0.7% and 0.3% respectively) from previous contracted rates. Rents in Kitakyushu remained weak in 3Q FY2015, which is reflective of the general state of the local economy. There were also several residential units in other cities which saw relatively larger negative rental reversions as their previous contracts were entered into between 12 and 22 years ago. On the other hand, positive rental reversions had been observed in specific areas and properties; for example, Saizen REIT’s Tokyo properties recorded positive rental reversion of 2.8% on average in 3Q FY2015, while average rents for properties such as Quest Tower Noboricho and Villa Kaita in Hiroshima, Mon Palais Toroku in Kumamoto and Royal Hills Katagiri in Sendai have been on an upward trend in the past year.

**Financial position strengthened with new financing.** Saizen REIT successfully obtained a 20-year loan of JPY 260 million (S\$3.0 million<sup>1</sup>) from The Shonai Bank, Ltd in 3Q FY2015.

The financial year-end of Saizen REIT is 30 June.

### **Summary of results**

**Net asset value attributable to Unitholders decreased** from JPY 28.2 billion as at 30 June 2014 to JPY 27.8 billion as at 31 March 2015, due mainly to the payment of distributions relating to total return of the Group over a period of twelve months, and partially offset by the total return of the Group for the nine-month financial period ended 31 March 2015 (“**YTD Mar 2015**”).

In S\$ terms, net asset value per Unit decreased from S\$1.22 as at 30 June 2014 to S\$1.13 as at 31 March 2015, due mainly to the depreciation of the JPY against the S\$ from JPY81.3/S\$ to JPY87.1/S\$ during this period.

The following is a summary of Saizen REIT’s operating performance for 3Q FY2015, 2Q FY2015, 3Q FY2014.

	<b>3Q FY2015<sup>2</sup></b>	<b>2Q FY2015<sup>3</sup></b>	<b>3Q FY2014<sup>4</sup></b>
<b>Gross revenue</b>			
<b>(S\$’000)</b>	<b>11,030<sup>5</sup></b>	<b>11,050<sup>6</sup></b>	<b>12,196<sup>7</sup></b>
<b>(JPY’000)</b>	<b>969,537</b>	<b>976,850</b>	<b>989,058</b>
<b>Net property income</b>			
<b>(S\$’000)</b>	<b>7,419<sup>5</sup></b>	<b>7,761<sup>6</sup></b>	<b>8,154<sup>7</sup></b>
<b>(JPY’000)</b>	<b>652,110</b>	<b>686,033</b>	<b>661,324</b>
<b>Net income from operations</b>			
<b>(S\$’000)</b>	<b>4,643<sup>5</sup></b>	<b>5,091<sup>6</sup></b>	<b>5,156<sup>7</sup></b>
<b>(JPY’000)</b>	<b>408,089</b>	<b>450,045</b>	<b>418,174</b>

**Notes:**

1. *Based on an exchange rate of JPY87.1/S\$ as at 31 March 2015, which is applied throughout this announcement unless stated otherwise.*
2. *There were 136 properties at the start and at the end of 3Q FY2015.*
3. *There were 137 properties at the start of 2Q FY2015 and 136 properties at the end of 2Q FY2015.*
4. *There were 139 properties at the start and at the end of 3Q FY2014.*
5. *Based on an average exchange rate of JPY87.9/S\$ between 1 January 2015 and 31 March 2015.*
6. *Based on an average exchange rate of JPY88.4/S\$ between 1 October 2014 and 31 December 2014.*
7. *Based on an average exchange rate of JPY81.1/S\$ between 1 January 2014 and 31 March 2014.*

**Background of Saizen REIT**

Saizen REIT, listed on the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 9 November 2007 (the “**Listing**”), is the first REIT listed in Singapore offering exclusive access to Japanese residential real estate.

The principal investment objective of Saizen REIT is to invest in a diversified portfolio of income-producing real estate located in Japan, which is used primarily for residential and residential-related purposes, and real estate-related assets in connection with the foregoing.

Saizen REIT’s portfolio as at 31 March 2015 comprised 136 properties located in 14 cities in Japan, and was valued at approximately JPY 41.7 billion (S\$479 million).

Saizen REIT invests in the properties in Japan via partnership agreements (“**TK agreements**”) with local property holding companies known as *tokumei kumiai* operators (“**TK operators**”). As at the date hereof, Saizen REIT has entered into TK agreements with 14 TK operators, being YK JOF, YK Kokkei, YK Keizan, YK Shintoku, YK Shingen, YK Shinzan, GK Chosei, GK Choan, GK Chogen, GK Gyokou, GK Gyosei, GK Tosei, GK Gytatsu and GK Togen.

The manager of Saizen REIT is Japan Residential Assets Manager Limited (the “**Manager**”) and the asset manager of the TK operators is KK Tenyu Asset Management (the “**Asset Manager**”) (together, the “**Management Team**”).

**INFORMATION REQUIRED FOR ANNOUNCEMENTS****1(a) Statement of total return (for the Group) (3Q FY2015 vs 3Q FY2014)**

	3Q FY2015 (JPY'000)	3Q FY2014 (JPY'000)	Increase / (Decrease) %
<b>Gross revenue</b>	969,537	989,058	(2.0)
Property operating expenses	(317,427)	(327,734)	(3.1)
<b>Net property income</b>	652,110	661,324	(1.4)
Manager's management fees	(51,277)	(50,767)	1.0
Asset management fees	(8,207)	(8,396)	(2.3)
Trustee's fee	(3,231)	(2,567)	25.9
Finance costs <sup>1</sup>	(92,851)	(96,198)	(3.5)
Interest income	743	789	(5.8)
Other expenses <sup>2</sup>	(25,973)	(16,591)	56.5
Other trust expenses	(27,333)	(25,179)	8.6
Other administrative expenses	(35,892)	(44,241)	(18.9)
<b>Net income from operations</b>	408,089	418,174	(2.4)
Loss on divestment of properties	(24,587)	-	NM <sup>3</sup>
Net fair value loss on financial derivatives - fair value through profit or loss <sup>4</sup>	(35,765)	(99,217)	(64.0)
Net fair value loss on investment properties	(5,648)	-	NM <sup>3</sup>
<b>Total return for the period before income tax<sup>5</sup></b>	342,089	318,957	7.3
Income tax <sup>6</sup>	(60,968)	(49,910)	22.2
<b>Total return for the period after income tax</b>	281,121	269,047	4.5
<b>Attributable to:</b>			
Unitholders	275,035	264,162	4.1
Non-controlling interests	6,086	4,885	24.6
	281,121	269,047	4.5

**Notes:**

1. Finance costs comprised the following:

	3Q FY2015 (JPY'000)	3Q FY2014 (JPY'000)	Increase / (Decrease) %
(i) interest expenses	(88,060)	(89,605)	(1.7)
(ii) amortisation of loan commission	(13,010)	(12,657)	2.8
(iii) guarantor fee to asset manager	(7,476)	(7,834)	(4.6)
(iv) foreign exchange difference from financing	15,695	13,898	12.9

2. Other expenses comprised mainly unrealised foreign exchange losses on the translation of S\$-denominated bank balances to JPY for the preparation of the Group's financial statements.

3. NM denotes not meaningful.

4. Net fair value loss on financial derivatives comprised the following:

	3Q FY2015 (JPY'000)	3Q FY2014 (JPY'000)	Increase / (Decrease) %
(i) realised loss (payment) on interest rate swap	(20,201)	(19,908)	1.5
(ii) unrealised fair value gain/(loss) on interest rate swap	39,024	(40,613)	NM <sup>3</sup>
(iii) fair value loss on forward contract and/or zero cost collar	(54,588)	(38,696)	41.1

5. The Group's total return before income tax was arrived at after charging the following:

	3Q FY2015 (JPY'000)	3Q FY2014 (JPY'000)	Increase / (Decrease) %
(i) impairment on trade receivables	(248)	(873)	(71.6)
(ii) trade receivables written-off	(252)	(53)	>100.0

6. Income tax comprised the imputed 20.42% withholding tax payable upon the appropriation of profit to Saizen REIT from Saizen REIT's TK operators. Property depreciation expenses, recognised by these TK operators under the accounting regulations in Japan (ie. Japanese GAAP), are tax deductible for the purpose of computing the withholding tax payable. Property depreciation expenses amounted to JPY 202.3 million and JPY 202.2 million in 3Q FY2015 and 3Q FY2014 respectively.

## Statement of total return (for the Group) (YTD Mar 2015 vs YTD Mar 2014)

	YTD Mar 2015 (JPY'000)	YTD Mar 2014 (JPY'000)	Increase / (Decrease) %
<b>Gross revenue</b>	2,920,000	2,967,641	(1.6)
Property operating expenses	(906,522)	(915,616)	(1.0)
<b>Net property income</b>	2,013,478	2,052,025	(1.9)
Manager's management fees	(156,790)	(154,557)	1.4
Asset management fees	(23,679)	(25,674)	(7.8)
Trustee's fee	(10,340)	(6,673)	55.0
Finance costs <sup>1</sup>	(405,482)	(391,890)	3.5
Interest income	1,824	2,167	(15.8)
Other trust expenses	(84,580)	(85,172)	(0.7)
Other income <sup>2</sup>	66,004	49,354	33.7
Other administrative expenses	(113,967)	(119,537)	(4.7)
<b>Net income from operations</b>	1,286,468	1,320,043	(2.5)
Loss on divestment of properties	(1,240)	-	NM <sup>3</sup>
Net fair value gain/(loss) on financial derivatives - fair value through profit or loss <sup>4</sup>	74,631	(121,844)	NM <sup>3</sup>
Net fair value loss on investment properties <sup>5</sup>	(5,648)	-	NM <sup>3</sup>
<b>Total return for the period before income tax<sup>6</sup></b>	1,354,211	1,198,199	13.0
Income tax <sup>7</sup>	(165,667)	(144,473)	14.7
<b>Total return for the period after income tax</b>	1,188,544	1,053,726	12.8
<b>Attributable to:</b>			
Unitholders	1,167,719	1,036,993	12.6
Non-controlling interests	20,825	16,733	24.5
	1,188,544	1,053,726	12.8

## Notes:

1. Finance costs comprised the following:

	YTD Mar 2015 (JPY'000)	YTD Mar 2014 (JPY'000)	Increase / (Decrease) %
(i) interest expenses	(272,163)	(275,305)	(1.1)
(ii) amortisation of loan commission	(38,913)	(36,876)	5.5
(iii) guarantor fee to asset manager	(22,815)	(23,874)	(4.4)
(iv) cost of refinancing/repayment	(5)	-	NM <sup>3</sup>
(v) foreign exchange difference from financing	(71,586)	(55,835)	28.2

2. Other income comprised mainly unrealised foreign exchange gain on the translation of S\$-denominated bank balances to JPY for the preparation of the Group's financial statements.

3. NM denotes not meaningful.

4. Net fair value gain/(loss) on financial derivatives comprised the following:

	YTD Mar 2015 (JPY'000)	YTD Mar 2014 (JPY'000)	Increase / (Decrease) %
(i) realised loss (payment) on interest rate swap	(60,637)	(60,852)	(0.4)
(ii) unrealised fair value gain/(loss) on interest rate swap	45,842	(95,662)	NM <sup>3</sup>
(iii) fair value gain on forward contract and zero cost collar	89,426	34,670	>100.0

5. Net fair value loss on investment properties comprised transaction expenses relating to property acquisitions.

6. The Group's total return before income tax was arrived at after charging the following:

	YTD Mar 2015 (JPY'000)	YTD Mar 2014 (JPY'000)	Increase / (Decrease) %
(i) write back of impairment on trade receivables	171	477	(64.2)
(ii) trade receivables written-off	(1,257)	(893)	40.8

7. Income tax comprised the imputed 20.42% withholding tax payable upon the appropriation of profit to Saizen REIT from Saizen REIT's TK operators. Property depreciation expenses, recognised by these TK operators under the accounting regulations in Japan (ie. Japanese GAAP), are tax deductible for the purpose of computing the withholding tax payable. Property depreciation expenses amounted to JPY 606.5 million and JPY 605.7 million in YTD Mar 2015 and YTD Mar 2014 respectively.

**Statement of distributable income from operations**

	3Q FY2015 (JPY'000)	3Q FY2014 (JPY'000)
Total return for the period after income tax before distribution attributable to Unitholders	275,035	264,162
Adjustments <sup>1</sup>	126,157	62,412
Adjusted return for the period	401,192	326,574
Cash deployed for loan principal repayment <sup>2</sup>	(171,186)	(159,136)
Cash deployed for one-off borrowing costs <sup>3</sup>	(4,918)	-
Income generated during the period after adjusting for loan principal repayment and one-off borrowing costs	225,088	167,438
Income available for distribution to Unitholders at the beginning of the period	720,995	752,776
Previous distribution paid during the period <sup>4</sup>	(769,737)	(743,335)
Distributable income/(adjusted loss) from operations at the end of the period	176,346	176,879
Distribution to Unitholders	NA <sup>5</sup>	NA <sup>5</sup>

**Notes:**

- Adjustments comprised mainly non-cash items, namely fair value loss/gain on forward contract and/or zero cost collar, unrealised fair value gain/loss on interest rate swap, amortisation of loan commission, loss on divestment of properties, net fair value loss on investment properties and unrealised foreign exchange differences.*
- The amount deployed for loan principal repayment comprised mainly loan principal amortisation payments. While loan principal amortisation reduces cash available for distribution, it results in savings on interest expenses going forward.*  
  
*It is Saizen REIT's intention to utilise, when possible, undeployed capital resources to offset loan principal amortisation, thereby effectively making available cash from operations for distributions. The decision on such a possible use of capital resources will only be made when future distributions are announced.*
- The amount deployed for one-off borrowing costs in 3Q FY2015 comprised one-off costs (eg. upfront loan commissions and legal and professional fees) incurred in respect of the loan of GK Togen.*
- Distribution previously paid in 3Q FY2015 was related to the distribution declared for the six-month financial period ended 31 December 2014, while distribution previously paid in 3Q FY2014 was related to the distribution declared for the six-month financial period ended 31 December 2013.*
- NA denotes not applicable.*

Saizen REIT's distribution policy is to distribute at least 90% of its income available for distribution to Unitholders.

## 1(b)(i) Balance sheet

	<b>The Group</b>	
	<b>As at 31 Mar 2015 (JPY'000)</b>	<b>As at 30 Jun 2014 (JPY'000)</b>
<b>Current assets</b>		
Cash and cash equivalents	5,257,073	5,162,431
Deposits with cash management agents	399	510
Trade and other receivables	20,827	20,349
Other current assets	66,605	60,212
Derivative financial instruments <sup>1</sup>	12,603	4,386
	<u>5,357,507</u>	<u>5,247,888</u>
<b>Non-current assets</b>		
Investment properties	41,698,719	42,056,200
	<u>41,698,719</u>	<u>42,056,200</u>
<b>Total assets</b>	<u>47,056,226</u>	<u>47,304,088</u>
<b>Current liabilities</b>		
Rental deposits	438,532	447,847
Rental received in advance	254,425	251,926
Borrowings	992,260	1,559,034
Other current liabilities	351,688	293,048
Current tax liabilities	132,999	130,083
Derivative financial instruments <sup>2</sup>	-	7,725
	<u>2,169,904</u>	<u>2,689,663</u>
<b>Non-current liabilities</b>		
Rental deposits	32,503	33,901
Borrowings	16,355,183	15,729,710
Derivative financial instruments <sup>3</sup>	331,501	377,343
Other non-current liabilities	30,335	30,335
Deferred tax liabilities	182,054	182,054
	<u>16,931,576</u>	<u>16,353,343</u>
<b>Total liabilities</b>	<u>19,101,480</u>	<u>19,043,006</u>
<b>Total net assets</b>	<u>27,954,746</u>	<u>28,261,082</u>
<b>Represented by:</b>		
Unitholders	27,824,239	28,151,410
Non-controlling Interests	130,507	109,672
	<u>27,954,746</u>	<u>28,261,082</u>
<b>Number of Units in issue ('000)</b>	<u>283,612</u>	<u>283,612</u>
<b>Net asset value per Unit attributable to Unitholders (JPY)</b>	<u>98.11</u>	<u>99.26</u>

**Notes:**

1. The derivative financial instruments (current assets) as at 31 March 2015 comprised a forward contract entered into for the purpose of hedging the JPY-S\$ exchange rate of Saizen REIT's distribution payment which is expected to be paid in September 2015.

The derivative financial instruments (current assets) as at 30 June 2014 comprised the zero cost collar (valued at its maximum strike) entered into for the purpose of hedging the range of JPY-S\$ exchange rate of Saizen REIT's distribution payment which took place in September 2014.

2. The derivative financial instruments (current liabilities) as at 30 June 2014 comprised the zero cost collar (valued at its minimum strike) and a forward contract entered into for the purpose of hedging the range of JPY-S\$ exchange rate of Saizen REIT's distribution payments. The zero-cost collar was related to the distribution payment which took place in September 2014, while the forward contract relates to the distribution payment which took place in March 2015.

3. The derivative financial instruments (non-current liabilities) comprised interest rate swaps used to hedge against fluctuations in interest rates of loans.

	<b>Saizen REIT</b>	
	<b>As at 31 Mar 2015 (JPY'000)</b>	<b>As at 30 Jun 2014 (JPY'000)</b>
<b>Current assets</b>		
Cash and cash equivalents	709,571	1,722,093
Distribution receivables	587,199	633,236
Other receivables	824	782
Other assets	3,844	1,226
Derivative financial instrument	12,603	4,386
	<u>1,314,041</u>	<u>2,361,723</u>
<b>Non-current assets</b>		
Investment in subsidiaries	26,436,922	26,984,688
	<u>26,436,922</u>	<u>26,984,688</u>
<b>Total assets</b>	<u>27,750,963</u>	<u>29,346,411</u>
<b>Current liabilities</b>		
Borrowings <sup>1</sup>	348,280	975,594
Other current liabilities	60,754	76,569
Current tax liabilities	120,027	128,938
Derivative financial instrument	-	7,725
	<u>529,061</u>	<u>1,188,826</u>
<b>Total liabilities</b>	<u>529,061</u>	<u>1,188,826</u>
<b>Total net assets</b>	<u>27,221,902</u>	<u>28,157,585</u>
<b>Represented by:</b>		
Unitholders	<u>27,221,902</u>	<u>28,157,585</u>
<b>Number of Units in issue ('000)</b>	<u>283,612</u>	<u>283,612</u>
<b>Net asset value per Unit attributable to Unitholders(JPY)</b>	<u>95.98</u>	<u>99.28</u>

**Note:**

1. This comprised advances drawn down from credit facilities which are backed by cash deposits.

**1(b)(ii) Aggregate amount of the Group's borrowings and debt securities**

	<b>As at 31 Mar 2015 (JPY'000)</b>	<b>As at 30 Jun 2014 (JPY'000)</b>
<b>Secured borrowings – Bank loans</b>		
Amount repayable in one year or less	992,260	1,559,034
Amount repayable after one year	16,355,183	15,729,710
	<u>17,347,443</u>	<u>17,288,744</u>

Borrowings as at 31 March 2015 were secured over investment properties valued at JPY 40.9 billion in aggregate and bank deposits of JPY 0.3 billion.



## 1(c) Cash flow statement (for the Group) (3Q FY2015 vs 3Q FY2014)

	3Q FY2015 (JPY'000)	3Q FY2014 (JPY'000)
<b>Operating activities</b>		
Total return for the period after income tax	281,121	269,047
Adjustments for:		
Income tax	60,968	49,910
Loss on divestment of properties	24,587	-
Interest income	(743)	(789)
Interest expenses	101,070	102,262
Net fair value loss on financial derivatives	35,765	99,217
Net fair value loss on investment properties	5,648	-
Unrealised foreign exchange gain	(14,376)	(14,679)
Operating profit before working capital changes	494,040	504,968
<b>Changes in working capital</b>		
Deposit with cash management agents	56	15
Trade and other receivables	(3,649)	(2,013)
Other current assets	(25,683)	(18,218)
Other current liabilities	69,358	75,444
Rental received in advance	2,215	(17,525)
Rental deposits	9,053	6,260
Cash generated from operations	545,390	548,931
Withholding tax paid	(82,282)	(88,694)
<b>Cash flows provided by operating activities</b>	<b>463,108</b>	<b>460,237</b>
<b>Investing activities</b>		
Net cash effect on acquisition of subsidiary	10	-
Capital expenditure/addition of investment properties	(35,555)	(10,904)
Expenditure on transfer of properties between subsidiaries	(24,587) <sup>1</sup>	-
<b>Cash flows used in investing activities</b>	<b>(60,132)</b>	<b>(10,904)</b>
<b>Financing activities</b>		
Bank borrowings obtained <sup>2</sup>	260,000	-
Repayment of bank borrowings	(171,186)	(159,136)
Distribution to Unitholders	(769,737)	(743,335)
Interest received	714	775
Interest paid	(94,908)	(90,877)
Net settlement of interest rate swaps and forward contracts	24,079	(24,111)
Bank deposits pledged for bank borrowings	14,376	14,680
<b>Cash flows used in financing activities</b>	<b>(736,662)</b>	<b>(1,002,004)</b>
Net decrease in cash and cash equivalents	(333,686)	(552,671)
Cash and cash equivalents at beginning of the period	5,043,479	4,446,494
<b>Cash and cash equivalents at end of the period<sup>3</sup></b>	<b>4,709,793</b>	<b>3,893,823</b>

**Notes:**

1. This comprised mainly consumption tax expenses incurred in connection with the transfer of 2 properties from GK Choan to GK Togen. These 2 properties were pledged as security for the loan obtained by GK Togen in March 2015.
2. GK Togen obtained a loan in March 2015.

3. For the purpose of presenting the consolidated cash flow statement, the consolidated cash and cash equivalents comprise the following:

	3Q FY2015 (JPY'000)	3Q FY2014 (JPY'000)
Cash and bank balances (per balance sheet)	5,257,073	5,069,901
Less: Bank deposits pledged	(547,280)	(1,176,078)
	4,709,793	3,893,823

Bank deposits pledged related to minimum bank balances which have to be maintained by Saizen REIT, GK Choan, GK Gyotatsu and GK Tosei in 3Q FY2015, and by Saizen REIT, GK Choan and GK Tosei in 3Q FY2014 under the terms of their respective loans or credit facilities.

### 1 (c) Cash flow statement (for the Group) (YTD Mar 2015 vs YTD Mar 2014)

	YTD Mar 2015 (JPY'000)	YTD Mar 2014 (JPY'000)
<b>Operating activities</b>		
Total return for the period after income tax before distribution	1,188,544	1,053,726
Adjustments for:		
Income tax	165,667	144,473
Interest income	(1,824)	(2,167)
Interest expenses	311,081	312,181
Net fair value (gain)/loss on financial derivatives	(74,631)	121,844
Loss on divestment of properties	1,240	-
Net fair value losses on investment properties	5,648	-
Unrealised foreign exchange loss	23,082	41,692
Operating profit before working capital changes	1,618,807	1,671,749
<b>Changes in working capital</b>		
Deposit with cash management agents	111	30
Trade and other receivables	(444)	7,148
Other current assets	(4,941)	861
Other current liabilities	59,238	(44,896)
Rental received in advance	2,499	(39,529)
Rental deposits	(10,713)	(16,622)
Cash generated from operations	1,664,557	1,578,741
Income tax paid	(1,145)	(1,140)
Withholding tax paid	(161,606)	(209,629)
<b>Cash flows provided by operating activities</b>	1,501,806	1,367,972
<b>Investing activities</b>		
Net cash effect on acquisition of subsidiary	10	-
Capital expenditure/addition of investment properties	(113,167)	(78,245)
Proceeds from sale of investment properties <sup>1</sup>	488,347	-
Expenditure on transfer of properties between subsidiaries	(24,587)	-
<b>Cash flows provided by/(used in) investing activities</b>	350,603	(78,245)
<b>Financing activities</b>		
Bank borrowings obtained <sup>2</sup>	1,450,000	-
Repayment of bank borrowings <sup>3</sup>	(1,417,321)	(476,083)
Distribution to Unitholders	(1,494,890)	(1,431,005)
Interest received	1,790	2,183
Interest paid	(310,194)	(277,957)
Net settlement of interest rate swaps and forward contracts	12,848	(31,597)
Bank deposits pledged for bank borrowings	623,314	(41,692)
<b>Cash flows used in financing activities</b>	(1,134,453)	(2,256,151)
Net increase/(decrease) in cash and cash equivalents	717,956	(966,424)
Cash and cash equivalents at beginning of the period	3,991,837	4,860,247
<b>Cash and cash equivalents at end of the period <sup>4</sup></b>	4,709,793	3,893,823

**Notes:**

- 2 properties were sold in YTD Mar 2015.
- 3 loans were obtained in YTD Mar 2015.
- Repayment of bank borrowings in YTD Mar 2015 comprised mainly (i) the partial repayments of a loan (following the sales of properties) and credit facilities, and (ii) loan principal amortisation payments. Repayment of bank borrowings in YTD Mar 2014 comprised mainly loan principal amortisation payments.
- For the purpose of presenting the consolidated cash flow statement, the consolidated cash and cash equivalents comprised the following:

	YTD Mar 2015 (JPY'000)	YTD Mar 2014 (JPY'000)
Cash and bank balances (per balance sheet)	5,257,073	5,069,901
Less: Bank deposits pledged	<u>(547,280)</u>	<u>(1,176,078)</u>
	<u>4,709,793</u>	<u>3,893,823</u>

Bank deposits pledged related to minimum bank balances which have to be maintained by Saizen REIT, GK Choan, GK Gyotatsu and GK Tosei in YTD Mar 2015, and by Saizen REIT, GK Choan and GK Tosei in YTD Mar 2014 under the terms of their respective loans or credit facilities.

**1(d)(i) Statement of changes in Unitholders' funds**

<u>The Group</u>	YTD Mar 2015 (JPY'000)	YTD Mar 2014 (JPY'000)
<b>OPERATIONS</b>		
<b>Balance as at beginning of the period</b>	(11,299,035)	(12,242,909)
Total return for the period	1,167,719	1,036,993
Distribution to Unitholders	<u>(1,152,032)</u>	<u>(1,156,005)</u>
<b>Balance as at end of period</b>	<u>(11,283,348)</u>	<u>(12,361,921)</u>
<b>UNITHOLDERS CONTRIBUTION</b>		
<b>Balance as at beginning of the period</b>	39,450,445	39,725,445
Distribution to Unitholders <sup>1</sup>	<u>(342,858)</u>	<u>(275,000)</u>
<b>Balance as at end of period</b>	<u>39,107,587</u>	<u>39,450,445</u>
<b>TOTAL ATTRIBUTABLE TO UNITHOLDERS</b>	<u>27,824,239</u>	<u>27,088,524</u>
<b>NON-CONTROLLING INTERESTS</b>		
<b>Balance as at beginning of the period</b>	109,672	77,725
Effect on investment in new TK operator	10	-
Total return for the period	<u>20,825</u>	<u>16,733</u>
<b>Balance as at end of period</b>	<u>130,507</u>	<u>94,458</u>
<b>TOTAL</b>	<u>27,954,746</u>	<u>27,182,982</u>
<b><u>Saizen REIT</u></b>		
	YTD Mar 2015 (JPY'000)	YTD Mar 2014 (JPY'000)
<b>OPERATIONS</b>		
<b>Balance as at beginning of the period</b>	(12,547,787)	(13,472,346)
Total return for the period	559,207	543,237
Distribution to Unitholders	<u>(1,152,032)</u>	<u>(1,156,005)</u>
<b>Balance as at end of period</b>	<u>(13,140,612)</u>	<u>(14,085,114)</u>
<b>UNITHOLDERS CONTRIBUTION</b>		
<b>Balance as at beginning of the period</b>	40,705,372	40,980,372
Distribution to Unitholders	<u>(342,858)</u>	<u>(275,000)</u>
<b>Balance as at end of period</b>	<u>40,362,514</u>	<u>40,705,372</u>
<b>TOTAL ATTRIBUTABLE TO UNITHOLDERS</b>	<u>27,221,902</u>	<u>26,620,258</u>

**Note:**

- This relates to the utilisation of warrant proceeds to offset loan amortisation for distribution purposes.

**1(d)(ii) Details of changes in the Units and utilisation of warrant proceeds**

	<b>3Q FY2015 (Units)</b>	<b>3Q FY2014 (Units)</b>
Issued Units as at beginning and end of period	<u>283,611,720</u>	<u>283,611,720</u>

Utilisation of warrant proceeds

Total warrant proceeds from warrant exercises amounted to S\$42.8 million, of which approximately S\$1.1 million has been used for Unit buy-backs, S\$0.3 million has been used for working capital purposes (daily operating expenses) and approximately S\$28.1 million had been deployed towards the repayment of borrowings and S\$9.3 million had been deployed for offsetting loan principal repayment in connection with distribution payments. Warrant proceeds have been deployed towards uses as approved by Unitholders. Warrant proceeds amounting to S\$4 million have yet to be deployed.

**2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.**

These figures have neither been audited nor reviewed by our auditors.

**3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).**

Not applicable.

**4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

For the current reporting period, the Group has applied the same accounting policies and methods of computation as those applied in its audited financial statements for the financial year ended 30 June 2014.

**5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

Not applicable.

**6. Earnings per Unit for the financial period (Group)**

Earnings per Unit ("EPU") of the Group for the current financial period reported on, and the corresponding period of the immediately preceding financial year:-

**(a) Basic EPU**

Basic EPU amounts are calculated by dividing the profit attributable to the Unitholders of the Group by the weighted average number of units in issue during the financial period.

**(b) Diluted EPU**

The diluted EPU is the same as the basic EPU as no dilutive instruments were in issue during the financial period.

	3Q FY2015	3Q FY2014	YTD Mar 2015	YTD Mar 2014
Total return for the period attributable to Unitholders for basic and diluted EPU (JPY'000)	275,035	264,162	1,167,719	1,036,993
EPU - basic and diluted (JPY)	0.97	0.93	4.12	3.66
(cents)	1.10 <sup>1</sup>	1.15 <sup>2</sup>	4.77 <sup>3</sup>	4.55 <sup>4</sup>
Weighted average number of Units	283,611,720	283,611,720	283,611,720	283,611,720

**Notes:**

1. Based on an average exchange rate of JPY87.9/S\$ between 1 January 2015 and 31 March 2015.
2. Based on an average exchange rate of JPY81.1/S\$ between 1 January 2014 and 31 March 2014.
3. Based on an average exchange rate of JPY86.4/S\$ between 1 July 2014 and 31 March 2015.
4. Based on an average exchange rate of JPY80.4/S\$ between 1 July 2013 and 31 March 2014.

## 7. Net asset value (“NAV”) per Unit based on issued Units at the end of 31 March 2015 and 30 June 2014

**The Group**

	As at 31 Mar 2015	As at 30 Jun 2014
NAV per Unit based on issued Units at the end of financial period (JPY)	98.11	99.26
(S\$)	1.13 <sup>1</sup>	1.22 <sup>2</sup>

**Saizen REIT**

	As at 31 Mar 2015	As at 30 Jun 2014
NAV per Unit based on issued Units at the end of financial period (JPY)	95.98	99.28
(S\$)	1.10 <sup>1</sup>	1.22 <sup>2</sup>

**Notes:**

1. Based on an exchange rate of JPY87.1/S\$ as at 31 March 2015.
2. Based on an exchange rate of JPY81.3/S\$ as at 30 June 2014.

## 8. Review of performance

**Income statement: 3Q FY2015 vs 3Q FY2014**

	3Q FY2015 <sup>1</sup> (JPY'000)	3Q FY2014 <sup>2</sup> (JPY'000)	Increase/ (Decrease) %
Gross revenue	969,537	989,058	(2.0)
Property operating expenses <sup>3</sup>	(317,427)	(327,734)	(3.1)
<b>Net property income</b>	<b>652,110</b>	<b>661,324</b>	(1.4)
Asset management fees	(8,207)	(8,396)	(2.3)
Interest expenses <sup>4</sup>	(108,261)	(109,513)	(1.1)
Guarantor fee to asset manager	(7,476)	(7,834)	(4.6)
Other administrative expenses	(29,751)	(28,492)	4.4
<b>Net income from property operations</b>	<b>498,415</b>	<b>507,089</b>	(1.7)
Interest income	743	789	(5.8)
Net foreign exchange loss <sup>5</sup>	(10,278)	(2,693)	>100.0
Other operating expenses <sup>6</sup>	(100,992)	(106,919)	(5.5)
Adjustment <sup>7</sup>	20,201	19,908	1.5
<b>Net income from operations</b>	<b>408,089</b>	<b>418,174</b>	(2.4)

**Notes:**

1. There were 136 properties at the start and at the end of 3Q FY2015.
2. There were 139 properties at the start and at the end of 3Q FY2014.
3. Property operating expenses comprised the following:

	3Q FY2015 (JPY'000)	3Q FY2014 (JPY'000)	Increase / (Decrease) %
Property tax	68,343	70,761	(3.4)
Property manager's fees	37,935	38,618	(1.8)
Operation and maintenance expenses	48,238	49,254	(2.1)
Repairs and renovations	57,984	55,142	5.2
Leasing and marketing expenses	33,629	41,787	(19.5)
Utilities charges	46,119	49,050	(6.0)
Insurance expenses	10,564	10,931	(3.4)
Impairment on trade receivables	247	873	(71.7)
Bad debt written-off	252	53	>100.0
Consumption tax arising from operations	14,116	11,265	25.3

4. Interest expenses included the realised loss (payment) on interest rate swap.
5. Net foreign exchange loss comprised mainly unrealised foreign exchange loss on the translation of S\$-denominated bank balances to JPY for the preparation of the Group financial statements and foreign exchange differences from financing.
6. Other operating expenses comprised Manager's management fees, Trustee's fee, other trust expenses, finance costs (excluding foreign exchange differences from financing, interest expenses and guarantor fee to asset manager) and REIT-level other administrative expenses.
7. The adjustment relates to the realised loss (payment) on interest rate swap which is included as an interest expense in this section 8. The realised loss (payment) on interest rate swap is recognised under "Fair value gain/(loss) on financial derivatives – fair value through profit and loss" in the Statement of Total Return of the Group in section 1(a) of this announcement.

**Property-level operations**

Gross revenue and net property income in 3Q FY2015 decreased by 2.0% and 1.4% respectively on a year-on-year basis, due mainly to the divestment of 3 properties between May 2014 and November 2014 and a decrease in average occupancy rates. Net income from property operations decreased by 1.7% in 3Q FY2015.

The average occupancy rate was 90.9% in 3Q FY2015 as compared to 91.1% in 3Q FY2014, while overall rental reversion of new contracts entered into in 3Q FY2015 was marginally lower by about 0.8% (3Q FY2014: lower by about 0.7%) from previous contracted rates.

Property operating expenses decreased by 3.1% in 3Q FY2015 as compared with 3Q FY2014. An improvement in tenant turnover rate from 20% in 3Q FY2014 to 18% in 3Q FY2015 contributed to the decrease in leasing and marketing expenses of 19.5%. Higher repairs and renovations expenses, which increased by 5.2%, were incurred to enhance the competitiveness of Saizen REIT's properties.

Guarantor fees of JPY 7.5 million in 3Q FY2015 were paid to the Asset Manager in respect of the loans of 11 TK operators.

Other administrative expenses increased by 4.4%, due mainly to legal and professional fees which were incurred in connection with a loan obtained in 3Q FY2015.

**Group-level operations**

Net income from operations decreased slightly from JPY 418.2 million in 3Q FY2014 to JPY 408.1 million in 3Q FY2015, due mainly to (i) the decrease in net income from property operations, and (ii) the increase in net foreign exchange loss, and partially offset by a decrease in other operating expenses.

The net foreign exchange loss of JPY 10.3 million in 3Q FY2015 was mainly attributable to unrealised foreign exchange losses (on the translation of S\$-denominated bank balances to

JPY for the preparation of the Group's financial statements) which resulted from the depreciation of the S\$ against the JPY in the quarter.

Other Group-level non-operating items

The loss on divestment of properties of JPY 24.6 million in 3Q FY2015 comprised mainly consumption tax expenses incurred in connection with the transfer of 2 properties from GK Choan to GK Togen. The net fair value loss on investment properties of JPY 5.6 million comprised mainly transaction-related expenses (such as professional fees) related to these property transfers. These 2 properties were pledged as security for the loan obtained by GK Togen in March 2015. This loan represented a strategic breakthrough as it was Saizen REIT's first loan from a bank in the northern region of Japan.

The unrealised fair value gain on interest rate swap of JPY 39.0 million in 3Q FY2015 arose mainly due to interest rate swap arrangements entered into in connection with certain loans. Comparatively, an unrealised fair value loss of JPY 40.6 million was recognised in 3Q FY2014.

A fair value loss on forward contract and/or zero cost collar of JPY 54.6 million was recognised in 3Q FY2015 as the S\$ had weakened against the JPY in 3Q FY2015. Comparatively, a fair value loss of JPY 38.7 million was recognised in 3Q FY2014.

**Income statement: 3Q FY2015 vs 2Q FY2015**

	3Q FY2015 <sup>1</sup>	2Q FY2015 <sup>2</sup>	Increase/ (Decrease) %
	(JPY'000)	(JPY'000)	
Gross revenue	969,537	976,850	(0.7)
Property operating expenses <sup>3</sup>	(317,427)	(290,817)	9.2
<b>Net property income</b>	<b>652,110</b>	<b>686,033</b>	(4.9)
Asset management fees	(8,207)	(6,554)	25.2
Interest expenses <sup>4</sup>	(108,261)	(112,027)	(3.4)
Guarantor fee to asset manager	(7,476)	(7,613)	(1.8)
Other administrative expenses	(29,751)	(29,483)	0.9
<b>Net income from property operations</b>	<b>498,415</b>	<b>530,356</b>	(6.0)
Interest income	743	288	>100.0
Net foreign exchange (loss)/gain <sup>5</sup>	(10,278)	15,125	NM <sup>8</sup>
Other operating expenses <sup>6</sup>	(100,992)	(115,888)	(12.9)
Adjustment <sup>7</sup>	20,201	20,164	0.2
<b>Net income from operations</b>	<b>408,089</b>	<b>450,045</b>	(9.3)

**Notes:**

1. There were 136 properties at the start and at the end of 3Q FY2015.
2. There were 137 properties at the start of 2Q FY2015 and 136 properties at the end of 2Q FY2015.
3. Property operating expenses comprised the following:

	3Q FY2015	2Q FY2015	Increase / (Decrease) %
	(JPY'000)	(JPY'000)	
Property tax	68,343	70,376	(2.9)
Property manager's fees	37,935	38,384	(1.2)
Operation and maintenance expenses	48,238	44,798	7.7
Repairs and renovations	57,984	51,949	11.6
Leasing and marketing expenses	33,629	21,030	59.9
Utilities charges	46,119	40,291	14.5
Insurance expenses	10,564	10,670	(1.0)
Impairment/(write back) of impairment on trade receivables	247	(725)	NM <sup>8</sup>
Bad debt written-off	252	799	(68.5)
Consumption tax arising from operations	14,116	13,245	6.6

4. Interest expenses included the realised loss (payment) on interest rate swap.

5. *Net foreign exchange (loss)/gain comprised mainly unrealised foreign exchange (loss)/gain on the translation of S\$-denominated bank balances to JPY for the preparation of the Group financial statements and foreign exchange differences from financing.*
6. *Other operating expenses comprised Manager's management fees, Trustee's fee, other trust expenses, finance costs (excluding foreign exchange differences from financing, interest expenses and guarantor fee to asset manager) and REIT-level other administrative expenses.*
7. *The adjustment relates to the realised loss (payment) on interest rate swap which is included as an interest expense in this section 8. The realised loss (payment) on interest rate swap is recognised under "Fair value gain/(loss) on financial derivatives – fair value through profit and loss" in the Statement of Total Return of the Group in section 1(a) of this announcement.*
8. *NM denotes not meaningful.*

#### Property-level operations

Gross revenue remained relatively stable in 3Q FY2015 as compared with 2Q FY2015. Net property income decreased by 4.9% on the back of higher property operating expenses during the winter months and leasing season. Net income from property operations consequently decreased by 6.0%.

The average occupancy rate was 90.9% in 3Q FY2015 as compared to 90.0% in 2Q FY2015, while overall rental reversion of new contracts entered into in 3Q FY2015 was marginally lower by about 0.8% (2Q FY2015: lower by about 0.3%) from previous contracted rates.

Property operating expenses increased by 9.2%, due mainly to seasonal expenses. The increases in operation and maintenance expenses and utilities charges were mainly due to snow clearing and heating costs during the winter season. Leasing and marketing expenses as well as repair and renovation expenses rose during the leasing season which started in February 2015.

#### Group-level operations

Net income from operations decreased by 9.3% from JPY 450.0 million in 2Q FY2015 to JPY 408.1 million in 3Q FY2015, due mainly to:

- (i) a net foreign exchange loss of JPY 10.3 million in 3Q FY2015 which arose due to the depreciation of the S\$ against the JPY in the quarter. Comparatively, a net foreign exchange gain of JPY 15.1 million was recorded in 2Q FY2015; and
- (ii) the decrease in net income from property operations.

This was partially offset by an decrease in other operating expenses, which included a decrease in audit fee expenses. Audit fee expenses were higher in 2Q FY2015 due to additional accruals made for under-accruals in the previous financial year.

#### Other Group-level non-operating items

The transfer of 2 properties from GK Choan to GK Togen contributed a loss on divestment of properties of JPY 24.6 million and a net fair value loss on investment properties of JPY 5.6 million in 3Q FY2015. In 2Q FY2015, a gain of JPY 18.0 million was recognised on the disposal of 1 property.

### **9. Variance between previous forecast or prospect statement and actual results**

Saizen REIT has not disclosed any forecast to the market, and its results for the current financial period reported on were in line with its commentary under the section "Outlook and prospects" in the previous quarter's results announcement.



## 10. Outlook and prospects

Property operations are expected to remain stable, generating steady cash flow to enable Saizen REIT to continue paying out semi-annual distributions in accordance with its distribution policy.

Having successfully obtained Saizen REIT's first loan from a bank in the northern region of Japan in March 2015, the Management Team will continue to seek opportunities to increase Saizen REIT's gearing level (from 37% currently to between 40% and 45%) and to expand its property portfolio with yield-accretive acquisitions.

The Management Team has commenced due diligence on an acquisition target in Fukuoka, and barring unforeseen circumstances, hopes to complete the transaction by July 2015. Meanwhile, the Management Team continues to observe an improvement in market conditions and sentiment, which should be reflected in a positive impact on property valuations to be conducted for the financial year ending June 2015.

### *Distribution reinvestment plan*

The Board of Directors of the Manager plans to establish a distribution reinvestment plan ("DRP") to provide unitholders of Saizen REIT with an option to receive distributions either in the form of units in Saizen REIT or cash or a combination of both.

It is intended that the DRP shall apply to the distribution for the 6-month financial period ending 30 June 2015, which is expected to be paid in September 2015, subject to relevant regulatory approvals.

Further details on the DRP will be announced in due course.

### *Hedging of foreign exchange exposure*

Saizen REIT has hedged the distribution payment for the six-month financial period ending 30 June 2015, which is expected to be paid in September 2015, at an average rate of JPY85.6/S\$.

The distribution payment for the six-month financial period ending 31 December 2015, which is expected to be paid in March 2016, has been hedged using forward contracts at an average rate of JPY87.0/S\$.

While Saizen REIT may enter into hedging transactions for its distributable income, the foreign exchange exposure on Saizen REIT's assets, liabilities and equity capital (which are principally denominated in JPY) will not be hedged. A weakening of the JPY against the S\$ will have a negative impact on the net asset value of Saizen REIT in S\$-terms.

## 11. Distributions

### 11(a) Current financial period

Any distributions declared for the current financial period?

No.

### 11(b) Corresponding period of the immediately preceding financial year

Any distributions declared for the corresponding period of the immediately preceding financial year?

No.

**11(c) Date payable**

Not applicable.

**11(d) Books closure date**

Not applicable.

**12. If no distribution has been declared/ recommended, a statement to that effect.**

The Board does not propose to declare any distribution for 3Q FY2015.

**13. Interested person transactions**

Guarantor fees paid to the Asset Manager amounted to an aggregate of JPY 7.5 million (S\$0.1 million) in 3Q FY2015.

Property management and maintenance fees payable/paid to a related company of the Asset Manager amounted to an aggregate of JPY 6.1 million (S\$0.1 million) in 3Q FY2015.

Fees paid to the Asset Manager for the rental of office premises amounted to JPY 61,500 (S\$700) in 3Q FY2015.

**14. General mandate for interested person transactions**

Saizen REIT has not obtained a general mandate from Unitholders for interested person transactions.

**15. Confirmation by Directors pursuant to Clause 705(5) of the Listing Manual of the SGX-ST**

The Board of Directors of the Manager has confirmed that, to the best of their knowledge, nothing has come to their attention which may render the financial results for the quarter ended 31 March 2015 to be false or misleading in any material respect.

This release may contain forward-looking statements that involve risks and uncertainties. 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 other companies, shifts in tenant demands, changes in operating expenses, governmental and public policy changes and the continued availability of financing in the amounts and the terms necessary to support future business. You are cautioned not to place undue reliance on these forward looking statements, which are based on the current view of Management Team on future events.

**BY ORDER OF THE BOARD**

Chang Sean Pey  
Co-Chief Executive Officer  
Japan Residential Assets Manager Limited  
(Company Registration No. 200712125H)  
As Manager of Saizen Real Estate Investment Trust

12 May 2015