



(Constituted in the Republic of Singapore pursuant to a trust deed dated 31 March 2006 (as amended))

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**RESPONSE TO QUERIES FROM THE SGX-ST IN RELATION TO  
THE FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020 ("1H2020"),  
ANNOUNCED ON 16 JULY 2020**

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ESR Funds Management (S) Limited, in its capacity as the manager of ESR-REIT (the "**Manager**"), refers to the following queries raised by the Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 3 August 2020, and responds as follows:

**SGX-ST's Query:**

We refer to the change in fair value of financial derivatives from 1H2019 to 1H2020 of S\$(2,930,000) and S\$(22,739,000) respectively.

Note (e) to the Statement of Total Return provides: "The change in fair value of financial derivatives represented the change in fair value of interest rate swaps entered into to hedge against interest rate fluctuations on the floating rate borrowings of the Group. This fair value change is recognised on the Statement of Total Return. It is not tax deductible and has no impact on distributable income."

Please explain the circumstances which led to the "change in fair value of interest rate swaps" in 1H2020.

**Manager's Response:**

The fair values of interest rate swaps are based on the monthly mark-to-market valuation statements provided by the banks that are the counterparties to the interest rate swap contracts. Under the interest rate swaps, ESR-REIT pays interest at fixed rates and receives interest at floating rates based on the 3-month Singapore dollar Swap Offer Rate ("SOR"). The significant increase in the fair value loss on interest rate swaps in 1H2020 was mainly due to the sharp decrease in the 3-month Singapore dollar SOR during 1H2020.

**SGX-ST's Query:**

On Page 3 of ESR-REIT's announced financial results, it is observed that the change in fair value of investment properties amounted to approximately S\$(46,684,000). For the material items in the \$(46,684,000), please disclose which were the properties which made up these fair value losses and explain for the significant assumptions used to derive the fair values and elaborate on the significant factors which caused the decrease in the fair values of these investment properties.

**Manager's Response:**

The fair value loss on investment properties of \$46.7 million in 1H2020, representing a 1.6% decrease as compared to their fair value as at 31 December 2019, was attributable to a combination of the impact arising from (a) reduction in the remaining land leases especially for properties with remaining land tenures of less than 12 years; (b) conversion from single tenancy to multi-tenancies resulting in a decrease in net lettable area ("NLA"); and (c) alignment of market rent and market rent growth assumptions with weaker market conditions due to economic contraction caused by the COVID-19 pandemic.

Below is the list of the key investment properties that accounted for the bulk of the fair value losses of \$46.7 million in 1H2020.

No.	Investment properties with significant decrease in fair value	Key reasons for the significant decrease in fair value	Fair value loss (\$ million)
1	<ul style="list-style-type: none"> <li>750 to 750E Chai Chee Road</li> <li>1 Third &amp; 4 Fourth Lok Yang Road</li> <li>11 Lorong 3 Toa Payoh</li> </ul>	<ul style="list-style-type: none"> <li>Reduction in remaining land leases of less than 12 years.</li> </ul>	14.1
2	<ul style="list-style-type: none"> <li>13 Jalan Terusan</li> <li>19 Tai Seng Avenue</li> <li>30 Teban Gardens Crescent</li> </ul>	<ul style="list-style-type: none"> <li>Full impact of the conversion from single tenancy to multi-tenancies.</li> <li>Decrease in NLA.</li> <li>Lower passing rent and market rent projections.</li> </ul>	12.9
3	<ul style="list-style-type: none"> <li>2 &amp; 4 Changi Business Park Avenue 1 (UE BizHub East - Hotel)</li> </ul>	<ul style="list-style-type: none"> <li>Lower market rent in view of the subdued hotel sector.</li> </ul>	4.0
4	<ul style="list-style-type: none"> <li>7000 Ang Mo Kio Avenue 5</li> </ul>	<ul style="list-style-type: none"> <li>Lower market comparables for the excess land which is planned for redevelopment.</li> </ul>	3.2
5	<ul style="list-style-type: none"> <li>The remaining investment properties in the portfolio</li> </ul>	<ul style="list-style-type: none"> <li>Net fair value loss after netting off the fair value gains and losses attributable to the remaining investment properties in the portfolio.</li> </ul>	12.5
	Total		46.7

Below are the significant assumptions used to derive the fair values of the investment properties as at 30 June 2020:

1. Risk-adjusted discount rates ranging from 7.00% to 8.75%
2. Capitalisation rates ranging from 5.00% to 7.50%
3. Terminal yield rates ranging from 5.35% to 7.50%

As mentioned in our "Asset Valuation" announcement dated 16 July 2020, copies of the valuation reports for all of ESR-REIT's investment properties as at 30 June 2020 are available for inspection by prior appointment at the Manager's registered office at 138 Market Street, #26-03/04, CapitaGreen, Singapore 048946 during normal business hours for three months from the date of the aforesaid announcement.

**SGX-ST's Query:**

We note that the Group and Trust has unsecured borrowings of S\$90,000,000 which are payable within one year.

- (a) How does the Group and Trust intend to repay the amount of S\$90,000,000 which are payable within one year?
- (b) Please provide further information as to whether the Company expects cash flow or liquidity issues with regard to the repayment of S\$90,000,000, in light of the COVID-19 situation and its impact on the Company's business operations. Please substantiate the Company's stand with details.

Where applicable, please elaborate on the matters set out in our Regulator's Column "What SGX expects of issuer's disclosures during COVID-19" dated 22 April 2020.

**Manager's Response:**

- (a) The \$90 million of borrowings maturing in June 2021 can be partially refinanced by drawing down \$50 million from an existing unutilised committed revolving credit facility that matures in May 2022 while the remaining balance of \$40 million can be refinanced by obtaining a new loan facility from either HSBC (the lender for the aforesaid \$90 million of borrowings maturing in June 2021) or another lender or by issuing new medium term notes under the \$750 million Multicurrency Debt Issuance Programme.
- (b) Amid the COVID-19 pandemic, ESR-REIT has successfully redeemed \$160 million of its medium term notes upon maturity in 2Q2020 and its rental collections and operating cash flows remain healthy in 1H2020. As further elaborated in our response in (a) above, the Manager does not expect any cash flow or liquidity issues with regard to the repayment and/or refinancing of the \$90 million of borrowings maturing in June 2021 despite the COVID-19 situation and its impact on ESR-REIT's business operations.

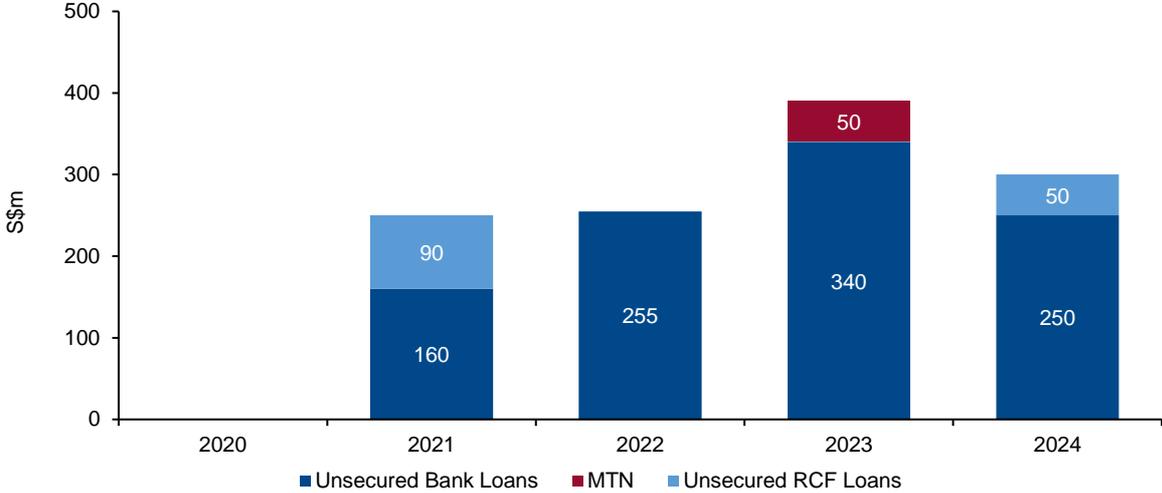
**SGX-ST's Query:**

In respect of the Group and Trust's unsecured borrowings of S\$1,105,000,000 which are repayable after one year, we note that these borrowings relate to the Series 005 Notes issued under its S\$750 million Multicurrency Debt Issuance Programme, as well as loan facilities from CIMB, HSBC, a syndicate of four banks (comprising UOB, HSBC, MBB and RHB), a group of three banks (comprising BNP, ANZ Singapore Branch, CTBC Bank Singapore Branch and SCB Singapore Branch) and a group of two banks (comprising MUFG Bank, Ltd and Sumitomo Mitsui Banking Corporation, Singapore Branch).

Please clarify how the Group and Trust intends to repay this amount.

**Manager’s Response:**

Below is the Group’s debt maturity profile as at 30 June 2020.



% of Debt Expiring	2020	2021	2022	2023	2024
	0	20.9	21.3	32.7	25.1

As shown above, the Group’s existing unsecured borrowings as at 30 June 2020 will mature over the next 4 years from 2021 to 2024. Apart from the \$90 million of borrowings maturing in June 2021 which the Manager has addressed in our response to the SGX-ST’s immediately preceding query above, the Manager will engage with the existing lenders to negotiate the refinancing of the existing loan facilities well in advance before the maturity date of each loan facility. Alternatively, the Manager may engage with new lenders to obtain new loan facilities and issue new medium term notes under the \$750 million Multicurrency Debt Issuance Programme to refinance the maturing loan facilities. The refinancing options could be a combination of loans from existing lenders, new lenders and/or issuance of new medium term notes. The Manager has a broad range of banking relationships from local to regional and international banks and has a track record of issuing bonds under the \$750 million Multi-currency Debt Issuance Programme.

The Manager has demonstrated its ability to obtain new loan facilities despite the COVID-19 situation by securing (a) a \$200 million 4-year unsecured club loan facility from 2 new lenders comprising MUFG Bank, Ltd. and Sumitomo Mitsui Banking Corporation, Singapore Branch on 28 February 2020; and (b) a \$460 million 5-year unsecured term loan facility from a syndicate of 4 lenders as set out in our announcement titled “Entry into S\$460 million unsecured loan facility” dated 16 July 2020.

In addition, given ESR-REIT’s (a) well-spread out debt expiry over the next 4 years; (b) 100% unsecured cashflow-generating investment properties; (c) interest coverage ratio well above its financial covenants; and (d) gearing ratio of 41.8% well below the present regulatory gearing limit for REITs of 50%, the Manager believes that ESR-REIT will be able to refinance the \$1,105,000,000 of unsecured borrowings which are repayable after one year, as and when they fall due.

**BY ORDER OF THE BOARD**

**ESR Funds Management (S) Limited**

As Manager of ESR-REIT

(Company Registration No. 200512804G, Capital Markets Services Licence No.100132)

**Adrian Chui**

Chief Executive Officer and Executive Director

5 August 2020

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## About ESR-REIT

ESR-REIT has been listed on Singapore Exchange Securities Trading Limited since 25 July 2006.

ESR-REIT invests in quality income-producing industrial properties and as at 30 June 2020 holds interest in a diversified portfolio of 57 properties located across Singapore, with a total gross floor area of approximately 15.1 million square feet and an aggregate property value of S\$3.1 billion<sup>1</sup>. The properties are in the following business sectors: Business Park, High-Specs Industrial, Logistics/Warehouse and General Industrial, and are located close to major transportation hubs and key industrial zones island-wide.

The Manager's objective is to provide Unitholders with a stable income stream through the successful implementation of the following strategies:

- Acquisition of value-enhancing properties;
- Pro-active asset management;
- Divestment of non-core properties; and
- Prudent capital and risk management.

ESR Funds Management (S) Limited, the Manager of ESR-REIT, is owned by namely, ESR Cayman Limited ("ESR") (67.3%), Shanghai Summit Pte. Ltd. (25.0%), and Mitsui & Co., Ltd (7.7%).

For further information on ESR-REIT, please visit [www.esr-reit.com.sg](http://www.esr-reit.com.sg).

## About the Sponsor, ESR

ESR is the largest APAC focused logistics real estate platform by gross floor area (GFA) and by value of the assets owned directly and by the funds and investment vehicles it manages. Co-founded by its senior management team and Warburg Pincus, ESR and the funds and investment vehicles it manages are backed by some of the world's preeminent investors including APG, SK Holdings, JD.com, CPP Investments, OMERS, PGGM, Ping An and Allianz Real Estate. The ESR platform spans across the People's Republic of China, Japan, South Korea, Singapore, Australia and India. As of December 31, 2019, the fair value of the properties directly held by ESR and the assets under management with respect to the funds and investment vehicles managed by ESR recorded approximately US\$22.1 billion, and GFA of properties completed and under development as well as GFA to be built on land held for future development comprised over 17.2 million sqm in total. ESR has been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 1 November 2019.

For more information on ESR, please visit [www.esr.com](http://www.esr.com).

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<sup>1</sup> Includes 100% of the valuation of 7000 Ang Mo Kio Avenue 5 and 48 Pandan Road, in which ESR-REIT holds 80% interest in 7000 Ang Mo Kio Avenue 5 and 49% interest in 48 Pandan Road, but excludes the effects arising from the adoption of Financial Reporting Standard (FRS) 116 Leases which became effective on 1 January 2019.

## Important Notice

The value of units in ESR-REIT (“**Units**”) and the income derived from them may fall as well as rise. Units are not investments or deposits in, or liabilities or obligations, of ESR Funds Management (S) Limited (“**Manager**”), RBC Investor Services Trust Singapore Limited (in its capacity as trustee of ESR-REIT) (“**Trustee**”), or any of their respective related corporations and affiliates (individually and collectively “**Affiliates**”). An investment in Units is subject to equity investment risk, including the possible delays in repayment and loss of income or the principal amount invested. Neither ESR-REIT, the Manager, the Trustee nor any of the Affiliates guarantees the repayment of any principal amount invested, the performance of ESR-REIT, any particular rate of return from investing in ESR-REIT, or any taxation consequences of an investment in ESR-REIT. Any indication of ESR-REIT performance returns is historical and cannot be relied on as an indicator of future performance.

Investors have no right to request that the Manager redeem or purchase their Units while the Units are listed. It is intended that investors may only deal in their Units through trading on Singapore Exchange Securities Trading Limited (the “**SGX-ST**”). Listing of the Units on the SGX-ST does not guarantee a liquid market for the Units. This announcement may contain forward-looking statements that involve assumptions, 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 occupancy or property rental income, changes in operating expenses, governmental and public policy changes and the continued availability of financing in amounts and on terms necessary to support ESR-REIT’s future business. You are cautioned not to place undue reliance on these forward-looking statements, which are based on the Manager’s current view of future events.

This announcement is for information purposes only and does not have regard to your specific investment objectives, financial situation or your particular needs. Any information contained in this announcement is not to be construed as investment or financial advice and does not constitute an offer or an invitation to invest in ESR-REIT or any investment or product of or to subscribe to any services offered by the Manager, the Trustee or any of the Affiliates.