

**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 First Quarter Ended 30 September 2014**

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## **INTRODUCTION**

**In line with Saizen Real Estate Investment Trust's ("Saizen REIT") strategy of enhancing its leverage**, 2 new loans, amounting to an aggregate of approximately JPY 1.2 billion (S\$14.0 million<sup>1</sup>) were obtained in 1Q FY2015. A 30-year loan of JPY 450.0 million (S\$5.2 million) from the Hiroshimashi Credit Cooperative was secured in July 2014 at a loan-to-value ratio of 67%. A 22-year loan of JPY 740.0 million (S\$8.6 million) from the Kitakyushu Bank Ltd was secured in August 2014 at a loan-to-value ratio of 53%.

**Gross revenue and net property income decreased** by 1.6% and 3.7% respectively in the first quarter ended 30 September 2014 ("1Q FY2015") as compared to the first quarter ended 30 September 2013 ("1Q FY2014"). The decrease in gross revenue was due mainly to a year-on-year decrease in occupancy rates and the sale of 2 properties. Higher repair and renovation expenses as well as the increase in consumption tax expenses further contributed to the decrease in net property income. Net income from operations decreased by 5.4%.

On a quarter-on-quarter basis, gross revenue decreased by 1.3%, due mainly to a seasonal decrease in average occupancy rates in 1Q FY2015 and the sale of a property in July 2014. Net property income remained relatively stable. A decrease in asset management fee in 1Q FY2015, due mainly to adjustments recognised in the preceding quarter ended 30 June 2014 ("4Q FY2014") in connection with fair value gains in investment properties, contributed to the quarter-on-quarter increase in net income from operations of 1.9%.

The average occupancy rate of Saizen REIT properties was 90.1% in 1Q FY2015, as compared to 91.2% in 1Q FY2014 and 91.0% in 4Q FY2014. The year-on-year decrease in occupancy rate was mainly attributable to properties in the cities of Kumamoto and Sendai. Saizen REIT's properties in Kumamoto had been facing competition from new buildings. Their occupancy rates have since showed improvements following the end of the mid-year leasing season in August/September. Saizen REIT's properties in Sendai had been experiencing higher occupancy rates in the past few years, in part due to the reconstruction efforts in the city following the March 2011 earthquake. Occupancy rates of the Sendai properties are beginning to moderate to a more normalised level.

Overall rental reversion of new contracts entered into in 1Q FY2015 was marginally lower by about 0.7% (1Q FY2014 and 4Q FY2014: both lower by about 0.3%) from previous contracted rates. Downward rental reversions were mainly recorded for expired contracts previously entered into prior to 2008 as the rent of such contracts had not been changed to prevailing market rates during their multiple contract renewals over the years. Meanwhile, reversions in 1Q FY2015 which involved expired contracts previously entered into from 2009 onwards were mostly transacted at the same or higher rents.

**Saizen REIT divested a property**, namely Sun Port 6, in July 2014 for JPY 168.0 million (S\$2.0 million), which represented a premium of approximately 12.8% to its valuation.

**The weakening of the JPY against the S\$** in 1Q FY2015 had weighed on Saizen REIT's net asset value and income in S\$-terms. Saizen REIT has hedged the distribution payments for the six-month financial period ending 31 December 2014 and for the six-month financial period ending 30 June 2015 at JPY81.9/S\$ and JPY85.6/S\$ respectively. On the other hand, the foreign exchange exposure on Saizen REIT's assets, liabilities and equity capital (which are principally denominated in JPY) will not be hedged.

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

### **Summary of results**

**Net asset value attributable to Unitholder decreased** from JPY 28.2 billion as at 30 June 2014 to JPY 27.9 billion as at 30 September 2014, attributable mainly to the payment of income distributions for the six-month financial period ended 30 June 2014 to Unitholders in September 2014, and partially offset by the total return of the Group for the three-month financial period of 1Q FY2015. Net asset value per Unit decreased from S\$1.22 at 30 June 2014 to S\$1.14 as at 30 September 2014.

The following is a summary of Saizen REIT's operating performance for 1Q FY2015, 1Q FY2014 and 4Q FY2014.

	1Q FY2015 <sup>2</sup>	1Q FY2014 <sup>3</sup>	4Q FY2014 <sup>4</sup>
<b>Gross revenue</b>			
(S\$'000)	11,716 <sup>5</sup>	12,685 <sup>6</sup>	12,092 <sup>7</sup>
(JPY'000)	973,613	989,401	986,741
<b>Net property income</b>			
(S\$'000)	8,127 <sup>5</sup>	8,990 <sup>6</sup>	8,270 <sup>7</sup>
(JPY'000)	675,335	701,214	674,868
<b>Net income from operations</b>			
(S\$'000)	5,154 <sup>5</sup>	5,802 <sup>6</sup>	5,149 <sup>7</sup>
(JPY'000)	428,334	452,582	420,199

**Notes:**

1. Based on an exchange rate of JPY85.9/S\$ as at 30 September 2014, which is applied throughout this announcement unless stated otherwise.
2. There were 138 properties at the start of 1Q FY2015 and 137 properties at the end of 1Q FY2015.
3. There were 139 properties at the start and at the end of 1Q FY2014.
4. There were 139 properties at the start of 4Q FY2014 and 138 properties at the end of 4Q FY2014.
5. Based on an average exchange rate of JPY83.1/S\$ between 1 July 2014 and 30 September 2014.
6. Based on an average exchange rate of JPY78.0/S\$ between 1 July 2013 and 30 September 2013.
7. Based on an average exchange rate of JPY81.6/S\$ between 1 April 2014 and 30 June 2014.

**Background of Saizen REIT**

Saizen REIT, listed on the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 9 November 2007, 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 30 September 2014 comprised 137 properties located in 14 cities in Japan, and was valued at approximately JPY 41.9 billion (S\$487.8 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 13 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 and GK Gyotatsu.

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) (1Q FY2015 vs 1Q FY2014)**

	<b>1Q FY2015</b> <b>(JPY'000)</b>	<b>1Q FY2014</b> <b>(JPY'000)</b>	Increase / (Decrease) %
<b>Gross revenue</b>	973,613	989,401	(1.6)
Property operating expenses	(298,278)	(288,187)	3.5
<b>Net property income</b>	675,335	701,214	(3.7)
Manager's management fees	(52,876)	(51,895)	1.9
Asset management fees	(8,918)	(9,024)	(1.2)
Trustee's fee	(3,639)	(1,515)	>100.0
Finance costs <sup>1</sup>	(184,534)	(125,719)	46.8
Interest income	793	1,002	(20.9)
Other income/(expenses) <sup>2</sup>	61,252	(716)	NM <sup>3</sup>
Other trust expenses	(22,970)	(27,595)	(16.8)
Other administrative expenses	(36,109)	(33,170)	8.9
<b>Net income from operations</b>	428,334	452,582	(5.4)
Gain on divestment of property	5,327	-	NM <sup>3</sup>
Net fair value gain/(loss) on financial derivatives - fair value through profit or loss <sup>4</sup>	57,842	(80,749)	NM <sup>3</sup>
<b>Total return for the period before income tax<sup>5</sup></b>	491,503	371,833	32.2
Income tax <sup>6</sup>	(49,936)	(47,728)	4.6
<b>Total return for the period after income tax</b>	441,567	324,105	36.2
<b>Attributable to:</b>			
Unitholders	435,362	319,331	36.3
Non-controlling interests	6,205	4,774	30.0
	441,567	324,105	36.2

**Notes:**

1. Finance costs comprised the following:

	<b>1Q FY2015</b> <b>(JPY'000)</b>	<b>1Q FY2014</b> <b>(JPY'000)</b>	Increase / (Decrease) %
(i) interest expenses	(92,239)	(93,273)	(1.1)
(ii) amortisation of loan commission	(12,886)	(11,148)	15.6
(iii) guarantor fee to asset manager	(7,726)	(8,058)	(4.1)
(iv) cost of refinancing/repayment	(2)	-	NM <sup>3</sup>
(v) foreign exchange difference from financing	(71,681)	(13,240)	>100.0

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

3. NM denotes not meaningful.

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

	<b>1Q FY2015</b> <b>(JPY'000)</b>	<b>1Q FY2014</b> <b>(JPY'000)</b>	Increase / (Decrease) %
(i) realised loss (payment) on interest rate swap	(20,271)	(20,550)	(1.4)
(ii) unrealised fair value gain/(loss) on interest rate swap	14,626	(61,974)	NM <sup>3</sup>
(iii) fair value gain on forward contract	63,487	1,775	>100.0

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

	<b>1Q FY2015</b> <b>(JPY'000)</b>	<b>1Q FY2014</b> <b>(JPY'000)</b>	Increase / (Decrease) %
(i) impairment on trade receivables	(306)	(583)	(47.5)
(ii) trade receivables written-off	(205)	(303)	(32.3)

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 201.6 million and JPY 201.4 million in 1Q FY2015 and 1Q FY2014 respectively.

## Statement of total return (for the Group) (1Q FY2015 vs 4Q FY2014)

	1Q FY2015 (JPY'000)	4Q FY2014 (JPY'000)	Increase / (Decrease) %
<b>Gross revenue</b>	973,613	986,741	(1.3)
<b>Property operating expenses</b>	(298,278)	(311,873)	(4.4)
<b>Net property income</b>	675,335	674,868	0.1
Manager's management fees	(52,876)	(51,320)	3.0
Asset management fees	(8,918)	(22,529)	(60.4)
Trustee's fee	(3,639)	(3,551)	2.5
Finance costs <sup>1</sup>	(184,534)	(104,299)	76.9
Interest income	793	444	78.6
Other income/ (expenses) <sup>2</sup>	61,252	(6,570)	NM <sup>3</sup>
Other trust expenses	(22,970)	(26,628)	(13.7)
Other administrative expenses	(36,109)	(40,216)	(10.2)
<b>Net income from operations</b>	428,334	420,199	1.9
Gain on divestment of property	5,327	4,716	13.0
Net fair value gain/(loss) on financial derivatives - fair value through profit or loss <sup>4</sup>	57,842	(67,731)	NM <sup>3</sup>
Net fair value gain on investment properties	-	838,431	(100.0)
<b>Total return for the period before income tax<sup>5</sup></b>	491,503	1,195,615	(58.9)
Income tax <sup>6</sup>	(49,936)	(117,515)	(57.5)
<b>Total return for the period after income tax</b>	441,567	1,078,100	(59.0)
<b>Attributable to:</b>			
Unitholders	435,362	1,062,886	(59.0)
Non-controlling interests	6,205	15,214	(59.2)
	441,567	1,078,100	(59.0)

**Notes:**

1. Finance costs comprised the following:

	1Q FY2015 (JPY'000)	4Q FY2014 (JPY'000)	Increase / (Decrease) %
(i) interest expenses	(92,239)	(89,332)	3.3
(ii) amortisation of loan commission	(12,886)	(12,657)	1.8
(iii) guarantor fee to asset manager	(7,726)	(7,794)	(0.9)
(iv) cost of refinancing/repayment	(2)	-	NM <sup>3</sup>
(v) foreign exchange difference from financing	(71,681)	5,484	NM <sup>3</sup>

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

3. NM denotes not meaningful.

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

	1Q FY2015 (JPY'000)	4Q FY2014 (JPY'000)	Increase / (Decrease) %
(i) realised loss (payment) on interest rate swap	(20,271)	(20,163)	0.5
(ii) unrealised fair value gain/(loss) on interest rate swap	14,626	(35,911)	NM <sup>3</sup>
(iii) fair value gain/(loss) on forward contract and/or zero-cost collar	63,487	(11,657)	NM <sup>3</sup>

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

	1Q FY2015 (JPY'000)	4Q FY2014 (JPY'000)	Increase / (Decrease) %
(i) impairment on trade receivables	(306)	(165)	85.5
(ii) trade receivables written-off	(205)	(85)	>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 201.6 million and JPY 202.2 million in 1Q FY2015 and 4Q FY2014 respectively.

**Statement of distributable income from operations**

	1Q FY2015 (JPY'000)	1Q FY2014 (JPY'000)
Total return for the period after income tax before distribution attributable to Unitholders	435,362	319,331
Adjustments <sup>1</sup>	(56,492)	79,636
Adjusted return for the period	378,870	398,967
Cash deployed for loan principal repayment <sup>2</sup>	(164,654)	(159,052)
Cash deployed for one-off borrowing costs <sup>3</sup>	(30,338)	-
Distributable income generated during the period	183,878	239,915
Income available for distribution to Unitholders at the beginning of the period	721,077	692,174
Previous distribution paid during the period <sup>4</sup>	(725,153)	(687,669)
Distributable income from operations at the end of the period	179,802	244,420
Distribution to Unitholders	NA <sup>5</sup>	NA <sup>5</sup>

**Notes:**

1. Adjustments comprised mainly non-cash items, namely fair value gain on forward contract, unrealised fair value gain/loss on interest rate swap, amortisation of loan commission, gain on divestment of properties and unrealised exchange differences.
2. 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 cash resources (such as proceeds from new borrowings and/or warrant proceeds) to offset loan principal amortisation, thereby effectively making available cash generated from operations for distributions. The decision on such a possible use of undeployed capital cash resources will only be made when future distributions are announced.*

3. The amount deployed for one-off borrowing costs in 1Q FY2015 comprised one-off costs (eg. upfront loan commissions and legal and professional fees) incurred in respect of the loans of GK Gyosei and Gytatsu.
4. Distribution paid in 1Q FY2015 related to the distribution declared for the six-month financial period ended 30 June 2014, while distribution paid in 1Q FY2014 related to the distribution declared for the six-month financial period ended 30 June 2013.
5. 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 30 Sep 2014 (JPY'000)</b>	<b>As at 30 Jun 2014 (JPY'000)</b>
<b>Current assets</b>		
Cash and cash equivalents	5,479,492	5,162,431
Deposits with cash management agents	476	510
Trade and other receivables	18,802	20,349
Other current assets	60,549	60,212
Derivative financial instruments <sup>1</sup>	31,308	4,386
	<u>5,590,627</u>	<u>5,247,888</u>
<b>Non-current assets</b>		
Investment properties	41,911,201	42,056,200
	<u>41,911,201</u>	<u>42,056,200</u>
<b>Total assets</b>	<u>47,501,828</u>	<u>47,304,088</u>
<b>Current liabilities</b>		
Rental deposits	442,335	447,847
Rental received in advance	248,837	251,926
Borrowings	1,232,116	1,559,034
Other current liabilities	241,904	293,048
Current tax liabilities	127,442	130,083
Derivative financial instruments <sup>2</sup>	-	7,725
	<u>2,292,634</u>	<u>2,689,663</u>
<b>Non-current liabilities</b>		
Rental deposits	33,653	33,901
Borrowings	16,622,576	15,729,710
Derivative financial instruments <sup>3</sup>	363,080	377,343
Other non-current liabilities	30,335	30,335
Deferred tax liabilities	182,054	182,054
	<u>17,231,698</u>	<u>16,353,343</u>
<b>Total liabilities</b>	<u>19,524,332</u>	<u>19,043,006</u>
<b>Total net assets</b>	<u>27,977,496</u>	<u>28,261,082</u>
<b>Represented by:</b>		
Unitholders	27,861,619	28,151,410
Non-controlling Interests	115,877	109,672
	<u>27,977,496</u>	<u>28,261,082</u>
<b>Number of Units in issue</b>	<b>( '000 )</b>	<u>283,612</u>
		<u>283,612</u>
<b>Net asset value per unit attributable to Unitholders (JPY)</b>	<u>98.24</u>	<u>99.26</u>

**Notes:**

1. The derivative financial instruments (current assets) as at 30 September 2014 comprised forward contracts entered into for the purpose of hedging the JPY-S\$ exchange rate of Saizen REIT's distribution payment which is expected to take place in March 2015.

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

2. The derivative financial instruments (current liabilities) as at 30 June 2014 comprised zero-cost collar (valued at the 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 is expected to take place in March 2015.

3. The derivative financial instruments (non-current liabilities) as at 30 September 2014 comprised (i) forward contracts entered into for the purpose of hedging the JPY-S\$ exchange rate of Saizen REIT's distribution payment which is expected to take place in September 2015, and (ii) interest rate swaps used to hedge against fluctuations in interest rates of loans.

The derivative financial instruments (non-current liabilities) as at 30 June 2014 comprised interest rate swaps used to hedge against fluctuations in interest rates.

	<b>Saizen REIT</b>	
	<b>As at 30 Sep 2014 (JPY'000)</b>	<b>As at 30 Jun 2014 (JPY'000)</b>
<b>Current assets</b>		
Cash and cash equivalents	1,184,424	1,722,093
Distribution receivables	488,037	633,236
Other receivables	909	782
Other assets	1,694	1,226
Derivative financial instrument	31,308	4,386
	<u>1,706,372</u>	<u>2,361,723</u>
<b>Non-current assets</b>		
Investment in subsidiaries	26,750,834	26,984,688
	<u>26,750,834</u>	<u>26,984,688</u>
<b>Total assets</b>	<u>28,457,206</u>	<u>29,346,411</u>
<b>Current liabilities</b>		
Borrowings <sup>1</sup>	601,209	975,594
Other current liabilities	66,054	76,569
Current tax liabilities	99,550	128,938
Derivative financial instrument	-	7,725
	<u>766,813</u>	<u>1,188,826</u>
<b>Non-current liabilities</b>		
Derivative financial instrument	363	-
<b>Total liabilities</b>	<u>767,176</u>	<u>1,188,826</u>
<b>Total net assets</b>	<u>27,690,030</u>	<u>28,157,585</u>
<b>Represented by:</b>		
Unitholders	<u>27,690,030</u>	<u>28,157,585</u>
<b>Number of Units in issue (pre-consolidation) ('000)</b>	<u>283,612</u>	<u>283,612</u>
<b>Net asset value per unit attributable to Unitholders(JPY)</b>	<u>97.63</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 30 Sep 2014 (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	1,232,116	1,559,034
Amount repayable after one year	16,622,576	15,729,710
	<u>17,854,692</u>	<u>17,288,744</u>

Borrowings as at 30 September 2014 were secured over the investment properties valued at JPY 41.2 billion in aggregate and bank deposits of JPY 0.6 billion.

The increase in borrowings from JPY 17.3 billion as at 30 June 2014 to JPY 17.9 billion as at 30 September 2014 was mainly due to 2 new loans obtained in 1Q FY2015, and partially offset by (i) the partial repayment of loan of YK Shintoku (following the sale of a property), (ii) the partial repayment of credit facilities, and (iii) loan principal amortisation payments.

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

	1Q FY2015 (JPY'000)	1Q FY2014 (JPY'000)
<b>Operating activities</b>		
Total return for the period after income tax	441,567	324,105
Adjustments for:		
Income tax	49,936	47,728
Interest income	(793)	(1,002)
Interest expenses	105,127	104,421
Net fair value (gain)/loss on financial derivatives	(57,842)	80,749
Gain on divestment of properties	(5,327)	-
Unrealised foreign exchange loss/(gain)	32,113	(121)
Operating profit before working capital changes	564,781	555,880
<b>Changes in working capital</b>		
Deposit with cash management agents	34	(2)
Trade and other receivables	1,618	1,665
Other current assets	1,245	5,687
Other current liabilities	(51,205)	(129,319)
Rental received in advance	(3,089)	(11,205)
Rental deposits	(5,760)	(11,789)
Cash generated from operations	507,624	410,917
Income tax paid	(1,145)	(1,140)
Withholding tax paid	(51,432)	(62,751)
<b>Cash flows provided by operating activities</b>	455,047	347,026
<b>Investing activities</b>		
Capital expenditure/addition of investment properties	(4,001)	(8,636)
Sale of investment property <sup>1</sup>	154,327	-
<b>Cash flows provided by/(used in) investing activities</b>	150,326	(8,636)
<b>Financing activities</b>		
Bank borrowings obtained <sup>2</sup>	1,190,000	-
Repayment of bank borrowings <sup>3</sup>	(638,712)	(159,052)
Distribution to Unitholders	(725,153)	(687,669)
Interest received	721	1,026
Interest paid	(124,101)	(93,022)
Net settlement of interest rate swap and forward contracts	8,933	12,908
Bank deposits pledged for bank borrowings	370,385 <sup>4</sup>	121
<b>Cash flows provided by/(used in) financing activities</b>	82,073	(925,688)
Net increase/(decrease) in cash and cash equivalents	687,446	(587,298)
Cash and cash equivalent at beginning of the period	3,991,837	4,860,247
<b>Cash and cash equivalent at end of the period <sup>5</sup></b>	4,679,283	4,272,949

#### Notes:

1. This was related to the sale of 1 property in July 2014.
2. This was related to 2 news loans obtained in July and August 2014.
3. Repayment of bank borrowings in 1Q FY2015 comprised mainly (i) the partial repayment of loan of YK Shintoku (following the sale of a property), (ii) the partial repayment of credit facilities, and (iii) loan principal amortisation

payments. Repayment of bank borrowings in 1Q FY2014 comprised mainly loan principal amortisation payments.

4. This was related to the bank deposits which were previously pledged as collateral for advances drawn on cash-backed credit facilities. Following the repayment of advances drawn on the credit facilities, the bank deposits had been released from such pledge.
5. For the purpose of presenting the consolidated cash flow statement, the consolidated cash and cash equivalents comprise the following:

	<b>1Q FY2015</b> <b>(JPY'000)</b>	<b>1Q FY2014</b> <b>(JPY'000)</b>
Cash and bank balances (per balance sheet)	5,479,492	5,407,214
Less: Bank deposits pledged	(800,209)	(1,134,265)
	<u>4,679,283</u>	<u>4,272,949</u>

Bank deposits pledged related to minimum bank balances which have to be maintained by Saizen REIT, GK Choan, GK Tosei and GK Gyotatsu in 1Q FY2015 and by Saizen REIT, GK Choan and GK Tosei in 1Q FY2014 under the terms of their respective loans.

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

<b><u>The Group</u></b>	<b>1Q FY2015</b> <b>(JPY'000)</b>	<b>1Q FY2014</b> <b>(JPY'000)</b>
<b>OPERATIONS</b>		
<b>Balance as at beginning of the period</b>	(11,299,035)	(12,242,909)
Total return for the period	435,362	319,331
Distribution to Unitholders	(454,153)	(687,669)
<b>Balance as at end of period</b>	<u>(11,317,826)</u>	<u>(12,611,247)</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>	(271,000)	-
<b>Balance as at end of period</b>	<u>39,179,445</u>	<u>39,725,445</u>
<b>TOTAL ATTRIBUTABLE TO UNITHOLDERS</b>	<u>27,861,619</u>	<u>27,114,198</u>
<b>NON-CONTROLLING INTERESTS</b>		
<b>Balance as at beginning of the period</b>	109,672	77,725
Total return for the period	6,205	4,774
<b>Balance as at end of period</b>	<u>115,877</u>	<u>82,499</u>
<b>TOTAL</b>	<u>27,977,496</u>	<u>27,196,697</u>
<b><u>Saizen REIT</u></b>		
	<b>1Q FY2015</b> <b>(JPY'000)</b>	<b>1Q FY2014</b> <b>(JPY'000)</b>
<b>OPERATIONS</b>		
<b>Balance as at beginning of the period</b>	(12,547,787)	(13,472,346)
Total return for the period	257,598	180,730
Distribution to Unitholders	(454,153)	(687,669)
<b>Balance as at end of period</b>	<u>(12,744,342)</u>	<u>(13,979,285)</u>
<b>UNITHOLDERS CONTRIBUTION</b>		
<b>Balance as at beginning of the period</b>	40,705,372	40,980,372
Distribution to Unitholders <sup>1</sup>	(271,000)	-
<b>Balance as at end of period</b>	<u>40,434,372</u>	<u>40,980,372</u>
<b>TOTAL ATTRIBUTABLE TO UNITHOLDERS</b>	<u>27,690,030</u>	<u>27,001,087</u>

**Note:**

1. This was related to the utilisation of warrant proceeds to offset loan amortization for distribution purposes.

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

	<b>1Q FY2015</b>	<b>1Q FY2014</b>
	<b>(Units)</b>	<b>(Units)</b>
Issued Units as at beginning of period	283,611,720	1,418,058,795
Adjustment arising from Unit Consolidation	-	(1,134,447,075)
Issued Units as at end of period	<u>283,611,720</u>	<u>283,611,720</u>

The Unit Consolidation, which was approved by Unitholders on 30 October 2013, was completed on 8 November 2013.

Unitholders approved the renewal of Saizen REIT's Unit buy-back mandate on 21 October 2014.

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 has been deployed towards the repayment of borrowings and S\$8.5 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.

**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.

		<u>1Q FY2015</u>	<u>1Q FY2014</u>
Total return for the period attributable to Unitholders for basic and diluted EPU	(JPY'000)	435,362	319,331
EPU – basic and diluted	(JPY) (cents)	1.54 1.85 <sup>1</sup>	1.13 1.45 <sup>2</sup>
Weighted average number of Units		283,611,720	283,611,759

**Notes:**

1. Based on an average exchange rate of JPY83.1/S\$ between 1 July 2014 and 30 September 2014.
2. Based on an average exchange rate of JPY78.0/S\$ between 1 July 2013 and 30 September 2013.

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

### The Group

		<b>As at 30 Sep 2014</b>	<b>As at 30 Jun 2014</b>
NAV per Unit based on issued Units at the end of financial period	(JPY) (S\$)	98.24 1.14 <sup>1</sup>	99.26 1.22 <sup>2</sup>

### Saizen REIT

		<b>As at 30 Sep 2014</b>	<b>As at 30 Jun 2014</b>
NAV per Unit based on issued Units at the end of financial period	(JPY) (S\$)	97.63 1.14 <sup>1</sup>	99.28 1.22 <sup>2</sup>

**Notes:**

1. Based on an exchange rate of JPY85.9/S\$ as at 30 September 2014.
2. Based on an exchange rate of JPY81.3/S\$ as at 30 June 2014.

## 8. Review of performance

**Income statement: 1Q FY2015 vs 1Q FY2014**

	1Q FY2015 <sup>1</sup> (JPY'000)	1Q FY2014 <sup>2</sup> (JPY'000)	Increase/ (Decrease) %
Gross revenue	973,613	989,401	(1.6)
Property operating expenses <sup>3</sup>	(298,278)	(288,187)	3.5
<b>Net property income</b>	<b>675,335</b>	<b>701,214</b>	<b>(3.7)</b>
Asset management fees	(8,918)	(9,024)	(1.2)
Interest expenses <sup>4</sup>	(112,510)	(113,823)	(1.2)
Guarantor fee to asset manager	(7,726)	(8,058)	(4.1)
Other administrative expenses	(29,114)	(26,725)	8.9
<b>Net income from property operations</b>	<b>517,067</b>	<b>543,584</b>	<b>(4.9)</b>
Interest income	793	1,002	(20.9)
Net foreign exchange loss <sup>5</sup>	(10,429)	(13,956)	(25.3)
Other operating expenses <sup>6</sup>	(99,368)	(98,598)	0.8
Adjustment <sup>7</sup>	20,271	20,550	(1.4)
<b>Net income from operations</b>	<b>428,334</b>	<b>452,582</b>	<b>(5.4)</b>

**Notes:**

1. There were 138 properties at the start of 1Q FY2015 and 137 properties at the end of 1Q FY2015.
2. There were 139 properties at the start and at the end of 1Q FY2014.
3. Property operating expenses comprised the following:

	1Q FY2015 (JPY'000)	1Q FY2014 (JPY'000)	Increase / (Decrease) %
Property tax	70,630	70,684	(0.1)
Property manager's fees	38,374	39,463	(2.8)
Operation and maintenance expenses	45,832	46,634	(1.7)
Repairs and renovations	54,047	48,392	11.7
Leasing and marketing expenses	22,308	21,091	5.8
Utilities charges	40,502	40,450	0.1
Insurance expenses	10,657	11,050	(3.6)
Impairment on trade receivables	306	583	(47.5)
Trade receivable written-off	205	303	(32.3)
Consumption tax arising from operations	15,417	9,537	61.7

4. Interest expenses included the realised loss (payment) on interest rate swap.
5. Net foreign exchange loss comprised mainly unrealised foreign exchange gain/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 1Q FY2015 decreased by 1.6% and 3.7% respectively. The decrease in gross revenue was due mainly to a year-on-year decrease in occupancy rates.

Average occupancy rates in 1Q FY2015 was 90.1% as compared to 91.2% in 1Q FY2014, while overall rental reversion of new contracts entered into in 1Q FY2015 was marginally lower by about 0.7% (1Q FY2014: lower by about 0.3%) from previous contracted rates.

Property operating expenses increased by 3.5% in 1Q FY2015, due mainly to an increase in repair and renovation expenses as well as consumption tax arising from operations. Upgrading works were carried out in 1Q FY2015 on a number of properties, such as Chalet Kanda II, in order to enhance the competitiveness of these properties and to seize opportunities in an improving leasing market. Such upgrading works include waterproofing works and wall repairs. The increase in consumption tax arising from operations was mainly due to the increase in consumption tax from 5% to 8% in April 2014.

The decrease in guarantor fees of 4.1% in 1Q FY2015 was mainly due to a decrease in the amount of borrowings.

The increase in other administrative expenses of 8.9% was mainly due to a increase in legal and professional fees incurred in connection with financing activities.

Net income from property operations decreased by 4.9% in 1Q FY2015, due mainly to the decrease in net property income and an increase in other administrative expenses.

Group-level operations

Net income from operations decreased by 5.4% from JPY 452.6 million in 1Q FY2014 to JPY 428.3 million in 1Q FY2015, due mainly to a decrease in net income from property operations and partially offset by lower a foreign exchange loss in 1Q FY2015.

Trustee's fee expenses increased from JPY 1.5 million in 1Q FY2014 to JPY 3.6 million in 1Q FY2015, due mainly to an adjustment of JPY 1.9 million in 1Q FY2014 for over-accruals in previous periods.

Other trust expenses decreased by 16.8%, due mainly to lower valuation fee expenses. Valuation fees of JPY 7.5 million which were recognised in 1Q FY2015 comprised accruals of JPY 9.7 million which were partially offset by a write-back of JPY 2.2 million for over-accruals in the previous periods. Comparatively, valuation fees of JPY 14.1 million which were recognised in 1Q FY2014 comprised accruals of JPY 10.3 million and additional accruals of JPY 3.8 million for under-accruals in the previous financial year.

Other Group-level non-operating items

1 property was divested in 1Q FY2015, resulting in a gain on disposal of JPY 5.3 million. Comparatively, no property was divested in 1Q FY2014.

The unrealised fair value gain on interest rate swap of JPY 14.6 million in 1Q FY2015 arose mainly due to interest rate swap arrangements entered into to fix the interest rates of loans.

A fair value gain on forward contract of JPY 63.5 million was recognised in 1Q FY2015 as JPY had weakened against the S\$ in 1Q FY2015. Comparatively, a fair value gain on forward contract of JPY 1.8 million was recognised in 1Q FY2014.

**Income statement: 1Q FY2015 vs 4Q FY2014**

	1Q FY2015 <sup>1</sup> (JPY'000)	4Q FY2014 <sup>2</sup> (JPY'000)	Increase/ (Decrease) %
Gross revenue	973,613	986,741	(1.3)
Property operating expenses <sup>3</sup>	(298,278)	(311,873)	(4.4)
<b>Net property income</b>	<b>675,335</b>	<b>674,868</b>	0.1
Asset management fees	(8,918)	(22,529)	(60.4)
Interest expenses <sup>4</sup>	(112,510)	(109,495)	2.8
Guarantor fee to asset manager	(7,726)	(7,794)	(0.9)
Other administrative expenses	(29,114)	(27,191)	7.1
<b>Net income from property operations</b>	<b>517,067</b>	<b>507,859</b>	1.8
Interest income	793	444	78.6
Net foreign exchange loss <sup>5</sup>	(10,429)	(1,086)	>100.0
Other operating expenses <sup>6</sup>	(99,368)	(107,181)	(7.3)
Adjustment <sup>7</sup>	20,271	20,163	0.5
<b>Net income from operations</b>	<b>428,334</b>	<b>420,199</b>	1.9

**Notes:**

1. There were 138 properties at the start of 1Q FY2015 and 137 properties at the end of 1Q FY2015.

2. There were 137 properties at the start of 4Q FY2014 and 139 properties at the end of 4Q FY2014.

3. Property operating expenses comprised the following:

	1Q FY2015 (JPY'000)	4Q FY2014 (JPY'000)	Increase / (Decrease) %
Property tax	70,630	73,000	(3.2)
Property manager's fees	38,374	38,641	(0.7)
Operation and maintenance expenses	45,832	45,443	0.9
Repairs and renovations	54,047	55,295	(2.3)
Leasing and marketing expenses	22,308	33,696	(33.8)
Utilities charges	40,502	41,662	(2.8)
Insurance expenses	10,657	11,299	(5.7)
Impairment on trade receivables	306	166	84.3
Trade receivables written-off	205	85	>100.0
Consumption tax arising from operations	15,417	12,586	22.5

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

5. Net foreign exchange loss comprised mainly unrealised foreign exchange gain/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 decreased by 1.3% in 1Q FY2015 as compared with 4Q FY2014, due mainly to a decrease in occupancy rates in 1Q FY2015 and the sale of a property in July 2014.

The average occupancy rate was 90.1% in 1Q FY2015 as compared to 91.0% in 4Q FY2014, while overall rental reversion of new contracts entered into in 1Q FY2015 was marginally lower by about 0.7% (4Q FY2014: lower by about 0.3%) from previous contracted rates.

Property operating expenses decreased by 4.4% in 1Q FY2015 as compared to 4Q FY2014, due mainly to a decrease in leasing and marketing expenses following the end of the main leasing season in April 2014.

Consequently, net property income in 1Q FY2015 remained relatively stable.

Asset management fees (which are computed as 3% of the property business profits prepared under Japanese GAAP) decreased from JPY 22.5 million in 4Q FY2014 to JPY 8.9 million in 1Q FY2015, due mainly to the non-recurrence of provisions of asset management fees of JPY 14.5 million in 4Q FY2014 in connection with the fair value gain in investment properties (as any gains on the disposal of properties could increase property business profits).

Net income from property operations increased by 1.8% in 1Q FY2015, due mainly to the decrease in asset management fees.

#### Group-level operations

Net income from operations increased by 1.9% from JPY 420.2 million in 4Q FY2014 to JPY 428.3 million in 1Q FY2015, in line with the increase in net income from property operations.

The decrease in other operating expenses of 7.3% in 1Q FY2015 as compared to 4Q FY2014 was mainly due to:

- (a) a decrease in other trust expenses of 13.7% due to lower valuation fee accruals as well as a write-back in 1Q FY2015 of JPY 2.2 million for over-accruals in the previous periods; and
- (b) a decrease in other administrative expenses due to lower legal and professional fee expenses.

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

A fair value gain on forward contract of JPY 63.5 million was recognised in 1Q FY2015 as the JPY had weakened against the S\$ in 1Q FY2015. Comparatively, a fair value loss on forward contract and/or zero-cost collar of JPY 11.7 million was recognised in 4Q FY2014.

### **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**

Saizen REIT intends to continue to focus on its strategy of capital structure enhancement, in particular, its cash management and optimal levels of leverage. There is headroom to increase the gearing level from 38% currently to between 40% and 45%. Saizen REIT's ability to operate under higher gearing is supported by stable rental cashflow and long-term nature of loans, with the nearest maturity obligation due in March 2020.

The Management Team will also continue to seek opportunities to expand the Saizen REIT's property portfolio with yield-accretive acquisitions.

Meanwhile, 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.

*Hedging of foreign exchange exposure*

As Saizen REIT's distributable income from operations is generated in JPY, its S\$-denominated distributions are dependent on the JPY-S\$ cross rates.

Saizen REIT has hedged the distribution payment for the six-month financial period ending 31 December 2014, which is expected to be paid in March 2015, at an average rate of JPY81.9/S\$.

Saizen REIT has also 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\$.

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 1Q FY2015.

**13. Interested person transactions**

Guarantor fees paid to the Asset Manager amounted to an aggregate of JPY 7.7 million (S\$0.1 million) in 1Q FY2015.

Divestment fees paid to the Manager for the sale of 1 property amounted to JPY 0.5 million (approximately S\$5,900) in 1QFY2015.

Property management and maintenance fees payable/paid to a related company of the Asset Manager amounted to an aggregate of JPY 6.3 million (S\$0.1 million) in 1Q FY2015.

Fees paid to the Asset Manager for rental of office premises amounted to approximately JPY 61,000 (approximately S\$1,000) in 1Q 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 30 September 2014 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

11 November 2014