SASSEUR REAL ESTATE INVESTMENT TRUST

(a real estate investment trust constituted on 30 October 2017 under the laws of the Republic of Singapore)

Response to Queries by Securities Investors Association (Singapore)

Sasseur Asset Management Pte. Ltd. (the "**Manager**"), as manager of Sasseur Real Estate Investment Trust ("**Sasseur REIT**"), refers to Sasseur REIT's Annual Report for the financial year ended 31 December 2020. The Manager would like to respond to queries raised by the Securities Investors Association (Singapore) ("SIAS") on 13 April 2021 (each, a "SIAS Question") as follows:

SIAS Question 1

The REIT has just crossed its third year of listing on the Singapore Exchange. As at 31 December 2020, Sasseur REIT's portfolio comprises four outlet malls located in Chongqing, Bishan, Hefei and Kunming, with a total asset value of RMB 8.1 billion. It was disclosed that the REIT's sponsor had added three new projects (Suzhou, Nanjing II and Shijiazhuang), bringing the number of pipeline projects to 12, a significant increase from 3 pipeline properties during IPO. Hefei and Kunming were acquired within 2 years of their opening.

(i) Given the pandemic, how has the REIT manager finetuned its pace of growth (via acquisition)?

(ii) Does the REIT have the mandate to source for third-party assets?

(iii) Has the manager carried out due diligence on the outlet malls in the sponsor's portfolio?

(iv) Can the REIT manager help unitholders understand the REIT's investment criteria if/when it were to make an acquisition?

(v) What is the available debt headroom for the REIT? With effect from 16 April 2020, the aggregate leverage limit was increased by the Monetary Authority of Singapore ("MAS") from 45.0% to 50.0% to provide REITs with greater flexibility to manage their capital structure amid the challenging environment created by the COVID-19 pandemic. As of 31 December 2020, the aggregate leverage of the group was 27.9% (2019: 27.8%).

Manager's response to Question 1

(i) Since IPO, Sasseur REIT's distributable income has continued to grow organically over the past three years. This is due to:

1) the high growth nature of Sasseur Outlets' sales in China. This growth is driven by a combination of factors: a) the rising middle class in China, including an aspirational lifestyle which embraces branded goods and fashion items; b) the REIT's outlets, which feature a strong element of design and art (termed "Art Commerce"), thus creating shopping destinations that continue to draw foot traffic even in the face of rising e-commerce adoption; and c) a strong operational management team which works closely with brand owners and merchants to refresh concepts and merchandise constantly.
2) our Entrusted Management Agreement ("**EMA**") model which allows our income to be largely tied to the sales of our outlets. Combined with our active efforts in managing tenants within the outlets, sales have continued to grow, translating into greater distributable income for Unitholders

The COVID-19 pandemic ("pandemic") affected businesses globally, and Sasseur REIT was no exception; DPU for 1Q & 2Q 2020 were lower than their corresponding periods in 2019 due to the 44 to 49 days of temporary closure of the Group's four outtlets in the early days of the pandemic in China. However, recovery in China's economy, along with domestic consumption, has been robust and our DPU for 3Q & 4Q 2020 were higher than their corresponding periods in 2019.

Sasseur REIT is always on the lookout for good acquisitions to add value for all Unitholders; it had successfully executed a yield-accretive acquisition of additional shopfront units for Hefei Outlet in 2019. We will continue to actively seek for more and larger value-adding acquisitions this year.

(ii) Yes.

(iii) The REIT had been listed for three years and its Sponsor's assets have also been maturing. We have been working with the Sponsor to track the performance of selected Sasseur outlets pipeline projects for possible acquisition, and will continue to do so.

(iv) With regards to any acquisitions, our overarching principle is any asset we acquire should be of good quality and yield accretive. We believe that by doing so, we will be able to create long term and sustainable value for our Unitholders.

(v) Available debt headroom as at 31 December 2020 is S$823 million.

SIAS Question 2

The REIT has reported the following operating performance as at the end of the financial year since FY2018:

	Committed Occupancy	Weighted Average Lease Expiry ("**WALE**")		Contribution of top tenant/top 10 tenants
		By Net Lettable Area	By Gross Revenue	
FY2018	95.1%	3.0 years	1.3 years	5.18% / 17.0%
FY2019	96.0%	3.0 years	1.1 years	7.45% / 18.0%
FY2020	93.5%	2.6 years	1.1 years	5.11% / 15.5%

(Source: company annual reports)

The REIT has a WALE by gross revenue of 1.1 years as at 31 December 2020. On page 72, the manager explained that it has intentionally opted for a shorter lease period to allow it to discontinue under-performing brands, replacing them with brands that are better suited to consumers' trends and renew leases at higher rates for brands that perform well.

(i) How does the manager balance rental rates/outlet sales and income stability? Short WALE is a double-edged sword that benefits unitholders in times of rising rental rates but introduces significant volatility especially during weaker market.

(ii) Can the manager also help unitholders understand the reasons for the significant differences in WALE by GR and by NLA?

(iii) Would the manager elaborate further on the challenges faced by the Bishan Outlets? The occupancy rate at Bishan has fallen from 92.5% to 81.4%.

As of 31 December 2020, the top three trade sectors of apparels, international brands and sports sectors contributed 44.1%, 22.8% and 12.4% respectively.

(iv) Has the REIT manager evaluated the risks of changing consumer taste and preferences (including brand boycott) to the REIT's business model?

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Manager's response to Question 2

(i) Please refer to page 54 of annual report on EMA Model. Under the EMA model, our REIT is entitled to receive the EMA rental income, which is the sum of a fixed rent (the "**fixed component**") and a variable rent (the "**variable component**") for each Property, plus performance sharing if any. The fixed component for each Property increases at a fixed escalation rate of +3.0% per annum, in line with or above inflationary expectations. The variable component for each Property is pegged to a percentage of each Property's total sales ("**% of Sales**"), ranging between 4.0% to 5.5%. The EMA Resultant Rent is the sum of the fixed component and variable component. Performance sharing is based on the differential between the Gross Revenue and EMA Resultant Rent and after deducting the Entrusted Manager Base Fee ("**EM Base Fee**"). This model aligns the interests of the REIT, the tenant brands and the operator (i.e. the Entrusted Manager). It has also proven resilient, even when faced with big disruptions, as shown in the robust recovery of the REIT after the pandemic occurred.

For Sasseur REIT, outlet sales are the key determinant of the REIT's performance. We do not see a conflict amongst the performance components of rental rates, outlet sales and income stability. This is because the fixed component makes up the majority of the rental received and grows at a fixed +3.0% rate every year.

The minority variable component grows at a much higher rate in normal times but can be lower or negative during big disruptions that affects the sales of our outlets (such as during the pandemic); even then, the eventual impact on our REIT's distributable income would not be so significant as it only comprises a smaller portion of the rental income, as evident from our REIT's performance during and after the pandemic in China.

Hence, this arrangement provides our Unitholders with a stable and growing rental cashflow over time. In short, our REIT's income is stable as the variable component makes up only a minority portion of the income.

The shorter WALE is not a disadvantage; in fact it gives us the additional advantage of being nimble and flexible with tenancies when required, thereby increasing our chances of maximising value creation. One key reason is that there is no shortage of brands that want to be a tenant at Sasseur's outlets; this is a unique feature of the outlets business in China which is still experiencing strong nascent growth. The strong demand, coupled with our active management of our tenants, means that it is more of a "landlord's market", and this mitigates any volatile sensitivity of a shorter WALE for Sasseur REIT. It is also a unique strength and differentiation for Sasseur REIT.

(ii) Around 88% of our tenants pay their rents as a percentage of their sales and they comprise mainly of the top fashion brands ("**brand tenants**"). The remainder are tenants which occupy larger areas with longer leases but whose per unit sales are lower when compared to the brand tenants. These include cinemas, indoor zoos, kids thematic parks, etc. Such tenants use a fixed and/or GTO model[1] ("**fixed rent tenants**"). Hence, the WALE, when computed by Net Lettable Area ("**NLA**") is significantly higher than when computed by Gross Revenue ("**GR**") as the fixed rent tenants have significantly longer leases and larger floor areas, but lower revenues when compared to the brand tenants.

It is also perhaps worthwhile to note that while the WALE by GR is considered short at around 1.1 years, this GR WALE has always been around this figure; our local teams have consistently demonstrated over the years that they are able to secure good tenants when their leases expire. This proven arrangement allows us to discontinue under-performing brands, replacing them with brands better suited to consumers' trends and renew leases at higher rates for brands that perform well. In such a manner, just as design and layout of the outlet malls are constantly refreshed, the

[1] Defined as the higher of a fixed rent or a percentage of the tenant's Gross Turnover ("**GTO**").

tenant profile is also refined to better suit changing trends, thereby helping Sasseur REIT outlets to remain attractive while continuing to sustain and enhance shareholder value.

(iii) The lower occupancy for Bishan Outlet mall can be attributed to three reasons:
   a. Exit of non-performing tenants during the height of the pandemic in 2020.
   b. We took the opportunity during the pandemic period to aggressively adjust the tenant mix.
   c. The adjustment resulted in further downtime due to fit-out periods for the tenants.

It is worthwhile to note that we consider sales equally or even more important than occupancy rates as it directly impacts our property rents as well as how well our tenants fare. On this basis, Sasseur Bishan Outlets has performed well as its recent 4Q2020 sales grew significantly compared with 4Q2019 and the preceding 3Q2020 period.

(iv) Even before the pandemic, our Entrusted Manager ("**EM**") has been consistently evaluating consumer tastes and preferences which change rapidly within the huge Chinese consumer market. Our EM has also been sensitive to both international and local issues which may affect our tenants' sales and continues to work actively to improve sales, by keeping a close tap on all tenants' sales targets, and carrying out frequent reviews to switch out non-performing tenants quickly.

During the early days of the pandemic, we watched closely for changes in the preferences and characteristics of our target customers (middle class Chinese) to assess if the pandemic had led to any important changes. Our conclusion was that fundamental positioning of our Sasseur Outlet malls as a value-for-money and lifestyle/experiential double shopping destination continues to remain attractive and relevant.

SIAS Question 3

On page 125, the audit and risk committee (ARC) has disclosed that it reviewed the nature and extent of non-audit services provided by the external auditors in FY2020 and the fees paid for such services. The non-audit fees incurred was a one-time non-recurring tax advisory fee, and do not affect the independence and the objectivity of EY.

The audit and non-audit fees paid to the external auditor in the past 3 years is shown below:

	Audit Fees	Non-audit fees	Total
FY2018	$428,600	$215,800 (and IPO fees of $748,000)	$644,400 (and IPO fees of $748,000)
FY2019	$440,800	$312,300	$753,100
FY2020	$374,815	$503,651	$878,466

(Source: annual reports)

(i) What was the nature and range of non-audit services provided by the external auditors in FY2019?

(ii) Can the ARC explain how it carried out the review of the external auditors?

(iii) On what basis did it determine that the independence and the objectivity of the external auditor was not affected?

Without considering the IPO fees, the non-audit fees as a percentage of audit fees paid to the external auditors averaged 82% for the past 3 years. The Code of Professional Conduct and Ethics for public accountants, under the purview of the Accounting and Corporate Regulatory Authority, sets a 50 per cent threshold for the percentage of non-audit fees to audit fees for public company clients.

(iv) Given that the percentage of non-audit fees to audit fees exceeds 80% and is beyond the threshold recommended by the Code, can the ARC elaborate further on the extra steps taken by the ARC to safeguard the independence of the auditors?

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Manager's response to Question 3 Finance

(i) The non-audit services provided by the external auditors relate to recurring tax returns compliance services and non-recurring tax advisory fees.

The one-off non-recurring tax advisory fees were mainly incurred for the purpose of obtaining preferential tax rate on dividend received from the People's Republic of China ("PRC") Property Companies under the Singapore – PRC Double Tax Agreement, which resulted in favourable tax consequences for Sasseur REIT and the Unitholders. Refer to Sasseur REIT Prospectus dated 21 March 2018 (Page 110), one of the risk factors disclosed in the Prospectus is that "The HK Holding Companies may not be able to benefit from the reduced dividend withholding tax rate provided under the tax treaty between the PRC and Singapore or the tax treaty between the PRC and Hong Kong." for further details

(ii) The ARC has conducted a review of non-audit services provided by the external auditors to have an overall understanding of the nature and extent of all non-audit services provided by the external auditors and ensure that the conduct of these services is complied with Code of Professional Conduct and Ethics for public accountants.

(iii) The ARC has reviewed the nature and range of non-audit services provided by the external auditors and the extent of fees paid for such services. These services are permissible under the Code of Professional Conduct and Ethics for public accountants and is satisfied with the independence and objectivity of the external auditors.

(iv) The ARC has reviewed and considered the following safeguards as required by the Code of Professional Conduct and Ethnics for public accountants:

- The nature of the non-audit tax advisory fees is more efficient and cost effective for auditors to be appointed due to their knowledge and understanding of the related matters
- The team rendering the tax advisory services is a completely different team from the audit team
- The ARC has received representation from the external auditors that they have policies and procedures in place to safeguard their independence and complied with the fundamental principles of independence in accordance with Code of Professional Conduct and Ethics for Public Accountants.

Having considered the above, the ARC is satisfied that these one-off non-recurring tax advisory fees would not affect the independence of the auditors.

By Order of the Board
Sasseur Asset Management Pte. Ltd.
(Company registration no. 201707259N)
(as Manager of Sasseur Real Estate Investment Trust)

Anthony Ang Meng Huat
Chief Executive Officer
16 April 2021

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