

## 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 Second Quarter Ended 31 December 2011

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## INTRODUCTION

**Declaration of distribution.** Saizen Real Estate Investment Trust (“**Saizen REIT**”) has declared a distribution of 0.61 Singapore cents (“**cents**”) per Unit for the six-month financial period ended 31 December 2011 (“**YTD Dec 2011**”). This represents increases of 17% and 22% over the distribution per Unit for the six-month financial period ended 31 December 2010 (“**YTD Dec 2010**”) and the six-month financial period ended 30 June 2011 respectively.

**Acquisition of property.** Flour Mansion Jyosei was acquired in December 2011 at a purchase price of JPY 901.7 million (S\$15.1 million<sup>1</sup>). It is currently generating annual revenue and net property income of approximately JPY 99.2 million (S\$1.7 million) and JPY 72.4 million (S\$1.2 million) respectively. Negotiations for the potential acquisition of further properties in, among others, the city of Tokyo are ongoing.

**Financial position strengthened with new loans.** Saizen REIT was successful in building on its existing banking relationships with its lenders by securing 3 new loans, amounting to an aggregate of JPY 2.64 billion (S\$44.3 million) in the second quarter ended 31 December 2011 (“**2Q FY2012**”).

Following a review of Saizen REIT’s capital requirements, a partial repayment of JPY 2.0 billion (S\$33.6 million) was made on the loan of GK Choan in December 2011. Amongst Saizen REIT’s borrowings, the loan of GK Choan has the nearest maturity date (June 2013) and carries the highest interest rate. In connection with the partial repayment, 4 properties of GK Choan will be released from encumbrance under the loan (at a time of GK Choan’s choosing on or before 30 June 2012).

**Revenue and income remained relatively stable** on a quarter-on-quarter basis for 2Q FY2012. On a year-on-year basis, revenue and income decreased due mainly to the sale of 26 properties between October 2010 and June 2011.

The average occupancy rate was 91.0% in 2Q FY2012, as compared to 90.8% in the second quarter ended 31 December 2010 (“**2Q FY2011**”) and in the previous quarter ended 30 September 2011 (“**1Q FY2012**”). Overall rental reversion of new contracts entered into in 2Q FY2012 was marginally lower by about 1.9% (2Q FY2011 and 1Q FY2012: lower by about 3.2% and 2.4% respectively) from previous contracted rates.

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

## Summary of results

**Net asset value increased** from JPY 24.8 billion as at 30 June 2011 to JPY 25.7 billion as at 31 December 2011, attributable mainly to the total return of the Group and the exercise of warrants in YTD Dec 2011. Net asset value per Unit increased from S\$0.32 per Unit as at 30 June 2011 to S\$0.35 per Unit as at 31 December 2011, as the appreciation of the JPY against the S\$ had more than offset the dilutive effects that warrant exercises had on the net asset value per Unit.

The following is a summary of Saizen REIT’s operating performance for 2Q FY2012, 1Q FY2012, 2Q FY2011, YTD Dec 2011 and YTD Dec 2010.

|                                   | 2Q FY2012 <sup>2</sup> | 1Q FY2012 <sup>3</sup> | 2Q FY2011 <sup>4</sup> |
|-----------------------------------|------------------------|------------------------|------------------------|
| <b>Gross revenue</b>              |                        |                        |                        |
| (S\$’000)                         | 14,137 <sup>5</sup>    | 13,346 <sup>6</sup>    | 15,310 <sup>7</sup>    |
| (JPY’000)                         | 849,630                | 848,794                | 970,659                |
| <b>Net property income</b>        |                        |                        |                        |
| (S\$’000)                         | 9,788 <sup>5</sup>     | 8,821 <sup>6</sup>     | 10,484 <sup>7</sup>    |
| (JPY’000)                         | 588,258                | 561,042                | 664,717                |
| <b>Net income from operations</b> |                        |                        |                        |
| (S\$’000)                         | 5,379 <sup>5</sup>     | 5,413 <sup>6</sup>     | 5,031 <sup>7</sup>     |
| (JPY’000)                         | 323,252                | 344,252                | 318,995                |

|   | YTD Dec 2011 <sup>8</sup>                   | YTD Dec 2010 <sup>9</sup>                   |
|---|---|---|
| <b>Distributable income</b><br><b>(S\$'000)</b><br><b>(JPY'000)</b> | <b>8,041<sup>10</sup></b><br><b>497,718</b> | <b>6,055<sup>11</sup></b><br><b>383,858</b> |
| <b>Distribution</b><br><b>(S\$'000)</b><br><b>(JPY'000)</b>         | <b>7,625<sup>12</sup></b><br><b>454,473</b> | <b>6,101</b><br><b>394,805</b>              |
| <b>Distribution per Unit</b><br><b>(cents)</b>                      | <b>0.61</b>                                 | <b>0.52</b>                                 |

**Notes:**

1. Based on S\$ / JPY exchange rate of 59.6 as at 31 December 2011, which is applied throughout this announcement unless stated otherwise.
2. There were 130 properties at the start of 2Q FY2012 and 131 properties at the end of 2Q FY2012.
3. There were 130 properties at the start and end of 1Q FY2012.
4. There were 156 properties at the start of 2Q FY2011 and 149 properties at the end of 2Q FY2011.
5. Based on S\$ / JPY average exchange rate of 60.1 between 1 October 2011 and 31 December 2011.
6. Based on S\$ / JPY average exchange rate of 63.6 between 1 July 2011 and 30 September 2011.
7. Based on S\$ / JPY average exchange rate of 63.4 between 1 October 2010 and 31 December 2010.
8. There were 130 properties at the start of YTD Dec 2011 and 131 properties at the end of YTD Dec 2011.
9. There were 161 properties at the start of YTD Dec 2010 and 149 properties at the end of YTD Dec 2010.
10. Based on S\$ / JPY average exchange rate of 61.9 between 1 July 2011 and 31 December 2011.
11. Based on S\$ / JPY average exchange rate of 63.4 between 1 July 2010 and 31 December 2010.
12. Estimated based on 1,250,062,081 Units in issue as at 8 February 2012, being the market day immediately preceding the date of this announcement.

**Distribution details**

|                           |                                    |
|---------------------------|------------------------------------|
| <b>Distribution type</b>  | <b>Tax-exempt income</b>           |
| <b>Distribution rate</b>  | <b>0.61 cents per Unit</b>         |
| <b>Books closure date</b> | <b>20 February 2012, 5.00 p.m.</b> |
| <b>Date payable</b>       | <b>6 March 2012</b>                |

## 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 access to purely 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.

At the time of the Listing, Saizen REIT’s portfolio comprised 147 properties located in 12 regional cities in Japan. As at 31 December 2011, Saizen REIT’s portfolio comprised 131 properties, with a total appraised value of JPY 34.0 billion (S\$570.5 million) located in 13 regional cities in Japan.

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 eleven TK operators, being YK JOF, YK Kokkei, YK Keizan, YK Shintoku, YK Shingen, YK Shinzan, GK Chosei, GK Choan, GK Chogen, GK Gyokou and GK Gyosei.

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**”).

Saizen REIT conducted a 10-for-11 rights issue in May 2009 (the “**Rights Issue**”). 497,185,362 rights Units were issued at an issue price of S\$0.09 each, together with 497,185,362 detachable warrants. The Rights Issue was concluded in June 2009. Each warrant carries the right to subscribe for one new Unit at an exercise price of S\$0.09. The warrants may be exercised at any time up to 5.00 p.m. on 2 June 2012.

**INFORMATION REQUIRED FOR ANNOUNCEMENTS****1(a) Statement of total return (for the Group) (2Q FY2012 vs 2Q FY2011)**

|   | 2Q FY2012<br>(JPY'000) | 2Q FY2011<br>(JPY'000) | Increase /<br>(Decrease)<br>% |
|---|------------------------|------------------------|-------------------------------|
| <b>Gross revenue</b>  | 849,630                | 970,659                | (12.5)                        |
| <b>Property operating expenses</b>                                      | (261,372)              | (305,942)              | (14.6)                        |
| <b>Net property income</b>  | 588,258                | 664,717                | (11.5)                        |
| Manager's management fees   | (41,646)               | (49,064)               | (15.1)                        |
| Asset management fees   | (4,866)                | (6,379)                | (23.7)                        |
| Trustee's fee   | (3,089)                | (2,225)                | 38.8                          |
| Finance costs <sup>1</sup>  | (155,647)              | (223,184)              | (30.3)                        |
| Interest income   | 11                     | 4                      | >100.0                        |
| Other trust expenses  | (24,192)               | (24,306)               | (0.5)                         |
| Other administrative expenses   | (35,577)               | (40,568)               | (12.3)                        |
| <b>Net income from operations</b>                                       | 323,252                | 318,995                | 1.3                           |
| Loss on divestment of properties  | -                      | (125,778)              | (100.0)                       |
| Net fair value gain/(loss) on financial derivatives                     |                        |                        |                               |
| - fair value through profit or loss <sup>2</sup>                        | 142,558                | (195,418)              | NM <sup>4</sup>               |
| Net fair value loss on investment properties                            | (31,436)               | (400)                  | >100.0                        |
| <b>Total return/(loss) for the period before income tax<sup>3</sup></b> | 434,374                | (2,601)                | NM <sup>4</sup>               |
| Income tax  | (23,780)               | (46,767)               | (49.2)                        |
| <b>Total return/(loss) for the period after income tax</b>              | 410,594                | (49,368)               | NM <sup>4</sup>               |
| <b>Attributable to:</b>   |                        |                        |                               |
| Unitholders   | 403,923                | (51,684)               | NM <sup>4</sup>               |
| Non-controlling interests   | 6,671                  | 2,316                  | >100.0                        |
|   | 410,594                | (49,368)               | NM <sup>4</sup>               |

**Notes:**

1. Finance costs comprised the following:

|                                      | 2Q FY2012<br>(JPY'000) | 2Q FY2011<br>(JPY'000) | Increase /<br>(Decrease) % |
|--------------------------------------|------------------------|------------------------|----------------------------|
| (i) interest expenses                | (115,873)              | (182,067)              | (36.4)                     |
| (ii) amortisation of loan commission | (17,161)               | (28,646)               | (40.1)                     |
| (iii) cost of refinancing/repayment  | (20,780)               | -                      | NM <sup>4</sup>            |
| (iv) guarantor fee to asset manager  | (3,870)                | (1,967)                | 96.7                       |
| (v) exchange difference              | 2,037                  | (10,504)               | NM <sup>4</sup>            |

The cost of refinancing/repayment in 2Q FY2012 represented breakage costs for the reduction in the notional amount of interest rate swap following the partial repayment of the loan of GK Choan in December 2011.

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

|   | 2Q FY2012<br>(JPY'000) | 2Q FY2011<br>(JPY'000) | Increase /<br>(Decrease) % |
|---|------------------------|------------------------|----------------------------|
| (i) realised loss (payment) on interest rate swap     | (8,939)                | (8,817)                | 1.4                        |
| (ii) unrealised fair value gain on interest rate swap | 28,854                 | 15,689                 | 83.9                       |
| (iii) fair value gain/(loss) on warrants              | 122,643                | (202,290)              | NM <sup>4</sup>            |

3. The Group's total return/(loss) before income tax was arrived at after charging the following:

|   | 2Q FY2012<br>(JPY'000) | 2Q FY2011<br>(JPY'000) | Increase /<br>(Decrease) % |
|---|------------------------|------------------------|----------------------------|
| (i) write back of impairment on trade receivables | 3,433                  | 255                    | >100.0                     |

4. NM denotes not meaningful.

## Statement of total return (for the Group) (YTD Dec 2011 vs YTD Dec 2010)

|   | YTD Dec<br>2011<br>(JPY'000) | YTD Dec<br>2010<br>(JPY'000) | Increase /<br>(Decrease)<br>% |
|---|------------------------------|------------------------------|-------------------------------|
| <b>Gross revenue</b>  | 1,698,424                    | 2,000,788                    | (15.1)                        |
| <b>Property operating expenses</b>  | (549,124)                    | (615,143)                    | (10.7)                        |
| <b>Net property income</b>  | 1,149,300                    | 1,385,645                    | (17.1)                        |
| Manager's management fees   | (83,229)                     | (99,942)                     | (16.7)                        |
| Asset management fees   | (11,129)                     | (12,913)                     | (13.8)                        |
| Trustee's fee   | (5,694)                      | (4,822)                      | 18.1                          |
| Finance costs <sup>1</sup>  | (267,475)                    | (448,983)                    | (40.4)                        |
| Interest income   | 328                          | 624                          | (47.4)                        |
| Other trust expenses  | (39,384)                     | (40,519)                     | (2.8)                         |
| Other administrative expenses   | (75,213)                     | (79,558)                     | (5.5)                         |
| <b>Net income from operations</b>   | 667,504                      | 699,532                      | (4.6)                         |
| Loss on divestment of properties  | (13,617)                     | (182,910)                    | (92.6)                        |
| Net fair value profit/(loss) on financial derivatives<br>- fair value through profit or loss <sup>2</sup> | 257,863                      | (89,914)                     | NM <sup>4</sup>               |
| Net fair value losses on investment properties  | (31,436)                     | (400)                        | >100.0                        |
| <b>Total return for the period before income tax<sup>3</sup></b>  | 880,314                      | 426,308                      | >100.0                        |
| Income tax  | (73,039)                     | (92,926)                     | (21.4)                        |
| <b>Total return for the period after income tax</b>   | 807,275                      | 333,382                      | >100.0                        |
| <b>Attributable to:</b>   |                              |                              |                               |
| Unitholders   | 794,198                      | 326,705                      | >100.0                        |
| Non-controlling interests   | 13,077                       | 6,677                        | 95.9                          |
|   | 807,275                      | 333,382                      | >100.0                        |

**Notes:**

1. Finance costs comprised the following:

|                                      | YTD Dec 2011<br>(JPY'000) | YTD Dec 2010<br>(JPY'000) | Increase /<br>(Decrease) % |
|--------------------------------------|---------------------------|---------------------------|----------------------------|
| (i) interest expenses                | (192,080)                 | (389,333)                 | (50.7)                     |
| (ii) amortisation of loan commission | (35,095)                  | (56,384)                  | (37.8)                     |
| (iii) cost of refinancing/repayment  | (20,780)                  | -                         | NM <sup>4</sup>            |
| (iv) guarantor fee to asset manager  | (5,721)                   | (3,977)                   | 43.9                       |
| (v) exchange difference              | (13,799)                  | 711                       | NM <sup>4</sup>            |

The cost of refinancing/repayment in YTD Dec 2011 represented breakage costs for the reduction in the notional amount of interest rate swap following the partial repayment of the loan of GK Choan in December 2011.

2. Fair value profit/(loss) on financial derivatives comprised the following:

|   | YTD Dec 2011<br>(JPY'000) | YTD Dec 2010<br>(JPY'000) | Increase /<br>(Decrease) % |
|---|---------------------------|---------------------------|----------------------------|
| (i) realised loss (payment) on interest rate swap     | (17,723)                  | (17,388)                  | 1.9                        |
| (ii) unrealised fair value gain on interest rate swap | 34,332                    | 8,722                     | >100.0                     |
| (iii) fair value gain/(loss) on warrants              | 241,254                   | (81,248)                  | NM <sup>4</sup>            |

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

|   | YTD Dec 2011<br>(JPY'000) | YTD Dec 2010<br>(JPY'000) | Increase /<br>(Decrease) % |
|---|---------------------------|---------------------------|----------------------------|
| (i) write back of impairment on trade receivables | 357                       | 1,238                     | (71.2)                     |

4. NM denotes not meaningful.

**Statement of distributable income from operations**

|  |                | YTD Dec 2011         | YTD Dec 2010         |
|--|----------------|----------------------|----------------------|
| Total return for the period after income tax before distribution attributable to Unitholders | (JPY'000)      | 794,198              | 326,705              |
| Adjustments <sup>1</sup>   | (JPY'000)      | (173,338)            | 307,364              |
| Adjusted return for the period   | (JPY'000)      | 620,860              | 634,069              |
| Cash deployed for loan principal repayment <sup>2</sup>                                      | (JPY'000)      | -                    | (215,108)            |
| Cash deployed for one-off borrowing costs <sup>3</sup>                                       | (JPY'000)      | (135,072)            | (32,022)             |
| Distributable income generated during the period   | (JPY'000)      | 485,788              | 386,939              |
| Income available for distribution to Unitholders at the beginning of the period              | (JPY'000)      | 401,973              | 176,058              |
| Previous distribution paid during the period <sup>4</sup>                                    | (JPY'000)      | (390,043)            | (179,139)            |
| Distributable income from operations at the end of the period                                | (JPY'000)      | 497,718              | 383,858              |
| Distribution to Unitholders  | (JPY'000)      | 454,473 <sup>5</sup> | 394,805 <sup>6</sup> |
| <b>Distribution per Unit</b>   | <b>(cents)</b> | <b>0.61</b>          | <b>0.52</b>          |

**Notes:**

1. Adjustments comprised mainly non-cash items, namely fair value gain/loss on warrants, unrealised fair value gain/loss on interest rate swap, amortisation of loan commission, loss on divestment of properties, net fair value losses on investment properties and unrealised exchange differences.
2. The amount deployed for loan principal repayment comprised mainly loan amortisation payments. While loan amortisation reduces cash available for distribution, it results in savings on interest expenses going forward.  
  
Loan amortisation in YTD Dec 2011 amounted to JPY 210.5 million, all of which were paid with proceeds from new borrowings rather than cash generated from operations. This is in line with Saizen REIT's intention to utilise, when possible, undeployed loan proceeds to offset loan amortisation, thereby effectively making available cash from operations for distributions. On the other hand, the amount deployed for loan principal repayment in YTD Dec 2010 was from cash generated from operations.
3. The amount deployed for one-off borrowing costs in YTD Dec 2011 comprised one-off costs (eg. upfront loan commissions and legal and professional fees) incurred in respect of the new loans of YK Shintoku, GK Chosei, YK Shingen, YK Keizan, GK Gyokou and GK Gyosei, while the amount deployed in YTD Dec 2010 comprised one-off costs incurred in respect of the refinancing of the loan of GK Choan and YK Shingen.
4. Distribution paid in YTD Dec 2011 related to the distribution declared for the second half of the financial year ended 30 June 2011, while distribution paid in YTD Dec 2010 related to the distribution declared for the financial year ended 30 June 2010.
5. Estimated based on 1,250,062,081 Units in issue as at 8 February 2012, being the market day immediately preceding the date of this announcement.
6. Based on 1,173,218,611 Units in issue as at 21 February 2011, being the book closure day for the distribution.

Income available for distribution to Unitholders is affected by factors including, inter alia, the repayment and the amortisation of loans and the availability of undeployed loan proceeds to offset them. Saizen REIT's distribution policy is to distribute at least 90% of its income available for distribution to Unitholders.

## 1(b)(i) Balance sheet

|   | The Group                         |                                   |
|---|-----------------------------------|-----------------------------------|
|   | As at<br>31 Dec 2011<br>(JPY'000) | As at<br>30 Jun 2011<br>(JPY'000) |
| <b>Current assets</b>   |                                   |                                   |
| Cash and cash equivalents   | 6,432,249                         | 3,032,810                         |
| Deposits with cash management agents <sup>1</sup>                 | 374,536                           | 423,927                           |
| Trade and other receivables                                       | 24,257                            | 28,036                            |
| Other current assets  | 56,963                            | 33,844                            |
|   | <u>6,888,005</u>                  | <u>3,518,617</u>                  |
| <b>Non-current assets</b>   |                                   |                                   |
| Investment properties <sup>2</sup>                                | 33,958,428                        | 32,995,420                        |
|   | <u>33,958,428</u>                 | <u>32,995,420</u>                 |
| <b>Total assets</b>   | <u>40,846,433</u>                 | <u>36,514,037</u>                 |
| <b>Current liabilities</b>  |                                   |                                   |
| Rental deposits   | 470,418                           | 463,390                           |
| Rental received in advance  | 217,163                           | 208,857                           |
| Borrowings  | 549,362                           | 357,187                           |
| Other current liabilities <sup>3</sup>                            | 254,727                           | 603,594                           |
| Current tax liabilities   | 235,823                           | 419,604                           |
| Derivative financial instruments <sup>4</sup>                     | 604,273                           | 1,038,614                         |
|   | <u>2,331,766</u>                  | <u>3,091,246</u>                  |
| <b>Non-current liabilities</b>                                    |                                   |                                   |
| Rental deposits   | 25,694                            | 25,589                            |
| Borrowings  | 12,793,051                        | 8,579,696                         |
| Derivative financial instruments <sup>5</sup>                     | 29,753                            | 64,085                            |
|   | <u>12,848,498</u>                 | <u>8,669,370</u>                  |
| <b>Total liabilities</b>  | <u>15,180,264</u>                 | <u>11,760,616</u>                 |
| <b>Total net assets</b>   | <u>25,666,169</u>                 | <u>24,753,421</u>                 |
| <b>Represented by:</b>  |                                   |                                   |
| Unitholders   | 25,688,531                        | 24,788,797                        |
| Non-controlling Interests   | (22,362)                          | (35,376)                          |
|   | <u>25,666,169</u>                 | <u>24,753,421</u>                 |
| <b>Number of Units in issue ('000)<sup>6</sup></b>                | <u>1,235,177</u>                  | <u>1,182,250</u>                  |
| <b>Net asset value per unit attributable to Unitholders (JPY)</b> | <u>20.80</u>                      | <u>20.97</u>                      |

**Notes:**

1. The cash management agents are professional service providers appointed by lenders to administer cash movements of the TK operators.
2. The increase in investment properties was mainly due to the acquisition of 1 property in December 2011.
3. The decrease in other current liabilities from JPY 0.6 billion as at 30 June 2011 to JPY 0.3 billion as at 31 December 2011 was mainly due to the decrease in consumption tax payable on properties which had been divested in the fourth quarter of the financial year ended 30 June 2011 as payment was made in YTD Dec 2011.
4. The derivative financial instruments (current liabilities) comprised warrants that were outstanding. The decrease in the derivative financial instruments (current liabilities) was mainly due to (i) the decrease in the number of warrants that are outstanding as at 31 December 2011, (ii) the appreciation of the JPY against the S\$, and (iii) the decrease in the market-traded price of the warrants.
5. The derivative financial instruments (non-current liabilities) comprised an interest rate swap used to hedge against fluctuations in interest rates in respect of the loan obtained by GK Choan. The decrease in derivative financial instruments (non-current liabilities) was mainly due to the decrease in the notional amount of interest rate swap following the partial repayment of the loan of GK Choan in December 2011.
6. The number of Units in issue increased from 1,182,249,611 Units as at 30 June 2011 to 1,235,177,081 Units as at 31 December 2011 due to the issue of 52,927,470 new Units pursuant to the exercise of warrants.



|   | <b>Saizen REIT</b>                         |  |
|---|--|--|
|   | <b>As at<br/>31 Dec 2011<br/>(JPY'000)</b> | <b>As at<br/>30 Jun 2011<br/>(JPY'000)</b> |
| <b>Current assets</b>   |  |  |
| Cash and cash equivalents   | 169,837                                    | 173,356                                    |
| Distribution receivables  | 1,103,484                                  | 2,008,505                                  |
| Other receivables   | 761  | 855  |
| Other assets  | 2,154                                      | 1,023                                      |
|   | <u>1,276,236</u>                           | <u>2,183,739</u>                           |
| <b>Non-current assets</b>   |  |  |
| Investment in subsidiaries  | 24,554,949                                 | 23,810,325                                 |
|   | <u>24,554,949</u>                          | <u>23,810,325</u>                          |
| <b>Total assets</b>   | <u>25,831,185</u>                          | <u>25,994,064</u>                          |
| <b>Current liabilities</b>  |  |  |
| Other current liabilities   | 54,200                                     | 75,289                                     |
| Current tax liabilities   | 220,697                                    | 403,733                                    |
| Derivative financial instruments <sup>1</sup>                     | 604,273                                    | 1,038,614                                  |
|   | <u>879,170</u>                             | <u>1,517,636</u>                           |
| <b>Total liabilities</b>  | <u>879,170</u>                             | <u>1,517,636</u>                           |
| <b>Total net assets</b>   | <u>24,952,015</u>                          | <u>24,476,428</u>                          |
| <b>Represented by:</b>  |  |  |
| Unitholders   | <u>24,952,015</u>                          | <u>24,476,428</u>                          |
| <b>Number of Units in issue ('000)</b>                            | <u>1,235,177</u>                           | <u>1,182,250</u>                           |
| <b>Net asset value per unit attributable to Unitholders (JPY)</b> | <u>20.20</u>                               | <u>20.70</u>                               |

**Note:**

1. The derivative financial instruments (current liabilities) comprised warrants that were outstanding.

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

|                                       | <b>As at<br/>31 Dec 2011<br/>(JPY'000)</b> | <b>As at<br/>30 Jun 2011<br/>(JPY'000)</b> |
|---------------------------------------|--|--|
| <b>Secured borrowings- Bank loans</b> |  |  |
| Amount repayable in one year or less  | 549,362                                    | 357,187                                    |
| Amount repayable after one year       | 12,793,051                                 | 8,579,696                                  |
|                                       | <u>13,342,413</u>                          | <u>8,936,883</u>                           |

As at 31 December 2011, the above borrowings are secured over the investment properties of Saizen REIT with aggregate value amounting to JPY 34.0 billion.

The increase in borrowings from JPY 8.9 billion as at 30 June 2011 to JPY 13.3 billion as at 31 December 2011 was mainly due to 5 new loans amounting to an aggregate of JPY 6.7 billion which were obtained in YTD Dec 2011, and partially offset by the JPY 2.0 billion repayment on the loan of GK Choan.

## 1(c) Cash flow statement (for the Group) (2Q FY2012 vs 2Q FY2011)

|  | 2Q FY2012<br>(JPY'000) | 2Q FY2011<br>(JPY'000) |
|--|------------------------|------------------------|
| <b>Operating activities</b>                                      |                        |                        |
| Total return/(loss) for the period after income tax              | 410,594                | (49,368)               |
| Adjustments for:   |                        |                        |
| Income tax   | 23,780                 | 46,767                 |
| Interest income  | (11)                   | (4)                    |
| Interest expenses  | 153,814                | 210,713                |
| Net fair value (gain)/loss on financial derivatives              | (142,558)              | 195,418                |
| Loss on divestment of properties                                 | -                      | 125,778                |
| Net fair value losses on investment properties                   | 31,436                 | 400                    |
| Operating profit before working capital changes                  | 477,055                | 529,704                |
| <b>Changes in working capital</b>                                |                        |                        |
| Deposit with cash management agents                              | (10,279)               | 87,222                 |
| Trade and other receivables                                      | 4,742                  | 4,436                  |
| Other current assets   | 4,161                  | (6,046)                |
| Other current liabilities  | (30,265)               | 54,350                 |
| Rental received in advance                                       | 8,793                  | (3,645)                |
| Rental deposits  | 17,063                 | (31,267)               |
| Cash generated from operations                                   | 471,270                | 634,754                |
| Income tax paid  | -                      | (1,886)                |
| Withholding tax paid   | (7,469)                | (2,782)                |
| <b>Cash flows provided by operating activities</b>               | 463,801                | 630,086                |
| <b>Investing activities</b>                                      |                        |                        |
| Capital expenditure/addition of investment properties            | (972,374) <sup>1</sup> | (32,605)               |
| Proceeds from sale of investment properties                      | -                      | 1,009,122 <sup>2</sup> |
| <b>Cash flows(used in)/provided by investing activities</b>      | (972,374)              | 976,517                |
| <b>Financing activities</b>                                      |                        |                        |
| Bank borrowings obtained   | 2,640,000 <sup>3</sup> | -                      |
| Repayment of bank borrowings <sup>4</sup>                        | (2,108,144)            | (1,240,656)            |
| Interest received  | 11                     | 4                      |
| Interest paid  | (186,096)              | (140,800)              |
| Payment of interest rate swap                                    | (8,939)                | (8,817)                |
| Proceeds from exercise of warrants                               | 31,466                 | 67,767                 |
| Bank deposits pledged for bank borrowings                        | -                      | 2,342                  |
| <b>Cash flows provided by/(used in) financing activities</b>     | 368,298                | (1,320,160)            |
| Net (decrease)/increase in cash and cash equivalents             | (140,275)              | 286,443                |
| Cash and cash equivalent at beginning of the period              | 6,372,524              | 2,945,368              |
| <b>Cash and cash equivalent at end of the period<sup>4</sup></b> | 6,232,249              | 3,231,811              |

**Notes:**

1. This related mainly to the acquisition of one property in December 2011.
2. Proceeds from the sale of investment properties in 2Q FY2011 related to the sale of 7 properties in October and November 2010.
3. Proceeds from bank borrowings in 2Q FY2012 comprised (i) a loan of JPY 140 million obtained by GK Gyosei in October 2011, (ii) a loan of JPY 2.0 billion obtained by YK Shintoku and GK Chosei in November 2011 and (iii) a loan of JPY 500 million obtained by GK Gyokou in December 2011.
4. Repayment of bank borrowings in 2Q FY2012 comprised mainly the partial repayment of the loan of GK Choan, while repayment of bank borrowings in 2Q FY2011 comprised mainly the partial repayment of the loan of YK Shintoku.

5. For the purpose of presenting the consolidated cash flow statement, the consolidated cash and cash equivalents comprised the following:

|  | 2Q FY2012<br>(JPY'000) | 2Q FY2011<br>(JPY'000) |
|--|------------------------|------------------------|
| Cash and bank balances (per balance sheet) | 6,432,249              | 3,432,260              |
| Less: Bank deposits pledged                | (200,000)              | (200,449)              |
|  | <u>6,232,249</u>       | <u>3,231,811</u>       |

Bank deposits pledged related to minimum bank balances which had to be maintained by YK JOF in 2Q FY2012 and both in YK JOF and YK Shintoku in 2Q FY2011 under the terms of their respective loans.

# 1 (c) Cash flow statement (for the Group) (YTD Dec 2011 vs YTD Dec 2010)

|  | YTD Dec<br>2011<br>(JPY'000) | YTD Dec<br>2010<br>(JPY'000) |
|--|------------------------------|------------------------------|
| <b>Operating activities</b>                                      |                              |                              |
| Total return for the period after income tax before distribution | 807,275                      | 333,382                      |
| Adjustments for:   |                              |                              |
| Income tax   | 73,039                       | 92,926                       |
| Interest income  | (328)                        | (624)                        |
| Interest expenses  | 247,955                      | 445,717                      |
| Net fair value (profit)/loss on financial derivatives            | (257,863)                    | 89,914                       |
| Loss on divestment of properties                                 | 13,617                       | 182,910                      |
| Net fair value losses on investment properties                   | 31,436                       | 400                          |
| Operating profit before working capital changes                  | <u>915,131</u>               | <u>1,144,625</u>             |
| <b>Changes in working capital</b>                                |                              |                              |
| Deposit with cash management agents                              | 49,391                       | 101,837                      |
| Trade and other receivables                                      | 3,779                        | 6,797                        |
| Other current assets   | (24,890)                     | (17,037)                     |
| Other current liabilities  | (361,775)                    | (52,820)                     |
| Rental received in advance                                       | 8,306                        | (14,333)                     |
| Rental deposits  | 7,133                        | (53,986)                     |
| Cash generated from operations                                   | <u>597,075</u>               | <u>1,115,083</u>             |
| Income tax paid  | (2,780)                      | (2,599)                      |
| Withholding tax paid   | (254,040)                    | (41,265)                     |
| <b>Cash flows provided by operating activities</b>               | <u>340,255</u>               | <u>1,071,219</u>             |
| <b>Investing activities</b>                                      |                              |                              |
| Net cash effect on acquisition of subsidiary                     | (63)                         | -                            |
| Capital expenditure  | (994,444)                    | (34,333)                     |
| Proceeds from sale of investment properties                      | -                            | 1,516,090                    |
| Expenditure on transfer of properties between subsidiary         | (13,617)                     | -                            |
| <b>Cash flows (used in)/provided by investing activities</b>     | <u>(1,008,124)</u>           | <u>1,481,757</u>             |
| <b>Financing activities</b>                                      |                              |                              |
| Bank borrowings obtained   | 6,716,000                    | -                            |
| Repayment of bank borrowings                                     | (2,210,493)                  | (1,807,337)                  |
| Distribution to Unitholders                                      | (390,043)                    | (179,139)                    |
| Interest received  | 328                          | 632                          |
| Interest paid  | (333,254)                    | (442,074)                    |
| Payment of interest rate swap                                    | (17,723)                     | (17,388)                     |
| Proceeds from exercise of warrants                               | 302,493                      | 955,680                      |
| Bank deposits pledged for bank borrowings                        | -                            | 2,068                        |
| <b>Cash flows provided by/(used in) financing activities</b>     | <u>4,067,308</u>             | <u>(1,487,558)</u>           |
| Net increase in cash and cash equivalents                        | 3,399,439                    | 1,065,418                    |
| Cash and cash equivalent at beginning of the period              | 2,832,810                    | 2,166,393                    |
| <b>Cash and cash equivalent at end of the period<sup>1</sup></b> | <u>6,232,249</u>             | <u>3,231,811</u>             |

**Note:**

1. For the purpose of presenting the consolidated cash flow statement, the consolidated cash and cash equivalents comprised the following:

|  | <b>YTD Dec 2011</b><br><b>(JPY'000)</b> | <b>YTD Dec 2010</b><br><b>(JPY'000)</b> |
|--|---|---|
| Cash and bank balances (per balance sheet) | 6,432,249                               | 3,432,260                               |
| Less: Bank deposits pledged                | (200,000)                               | (200,449)                               |
|  | <u>6,232,249</u>                        | <u>3,231,811</u>                        |

Bank deposits pledged related to minimum bank balances which had to be maintained by YK JOF in YTD Dec 2011 and both in YK JOF and YK Shintoku in YTD Dec 2010 under the terms of their respective loans.

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

|  | <b>YTD Dec 2011</b><br><b>(JPY'000)</b> | <b>YTD Dec 2010</b><br><b>(JPY'000)</b> |
|--|---|---|
| <b>OPERATION</b>                             |   |   |
| Balance as at beginning of the period        | (12,920,558)                            | (11,505,071)                            |
| Total return for the period                  | 794,198                                 | 326,705                                 |
| Distribution to Unitholders                  | (390,043)                               | (179,139)                               |
| Balance as at end of period                  | <u>(12,516,403)</u>                     | <u>(11,357,505)</u>                     |
| <b>UNITHOLDERS CONTRIBUTION</b>              |   |   |
| Balance as at beginning of the period        | 37,709,355                              | 35,387,994                              |
| Issue of new units from exercise of warrants | 495,579                                 | 1,693,406                               |
| Balance as at end of period                  | <u>38,204,934</u>                       | <u>37,081,400</u>                       |
| <b>TOTAL ATTRIBUTABLE TO UNITHOLDERS</b>     | <u>25,688,531</u>                       | <u>25,723,895</u>                       |
| <b>NON-CONTROLLING INTERESTS</b>             |   |   |
| Balance as at beginning of the period        | (35,376)                                | 8,391                                   |
| Effect on investment in new TK operator      | (63)                                    | -                                       |
| Total return for the period                  | 13,077                                  | 6,677                                   |
| Balance as at end of period                  | <u>(22,362)</u>                         | <u>15,068</u>                           |
| <b>TOTAL</b>                                 | <u>25,666,169</u>                       | <u>25,738,963</u>                       |

**Saizen REIT**

|  | <b>YTD Dec 2011</b><br><b>(JPY'000)</b> | <b>YTD Dec 2010</b><br><b>(JPY'000)</b> |
|--|---|---|
| <b>OPERATION</b>                             |   |   |
| Balance as at beginning of the period        | (14,487,854)                            | (13,016,678)                            |
| Total return/(loss) for the period           | 370,051                                 | (556,720)                               |
| Distribution to Unitholders                  | (390,043)                               | (179,139)                               |
| Balance as at end of period                  | <u>(14,507,846)</u>                     | <u>(13,752,537)</u>                     |
| <b>UNITHOLDERS CONTRIBUTION</b>              |   |   |
| Balance as at beginning of the period        | 38,964,282                              | 36,642,921                              |
| Issue of new units from exercise of warrants | 495,579                                 | 1,693,406                               |
| Balance as at end of period                  | <u>39,459,861</u>                       | <u>38,336,327</u>                       |
| <b>TOTAL ATTRIBUTABLE TO UNITHOLDERS</b>     | <u>24,952,015</u>                       | <u>24,583,790</u>                       |

**1(d)(ii) Details of changes in the Units and warrants**

|  | <b>2Q FY2012<br/>(Units)</b>    | <b>2Q FY2011<br/>(Units)</b>    |
|--|---------------------------------|---------------------------------|
| Issued Units as at beginning of period                   | 1,229,375,481                   | 1,111,002,712                   |
| Issue of new Units from exercise of warrants             | 5,801,600                       | 11,922,907                      |
| Issued Units as at end of period                         | <u>1,235,177,081</u>            | <u>1,122,925,619</u>            |
|  | <b>2Q FY2012<br/>(Warrants)</b> | <b>2Q FY2011<br/>(Warrants)</b> |
| Number of warrants outstanding as at beginning of period | 216,981,936                     | 335,354,705                     |
| Exercise of warrants                                     | (5,801,600)                     | (11,922,907)                    |
| Number of warrants outstanding as at end of period       | <u>211,180,336</u>              | <u>323,431,798</u>              |

Saizen REIT issued 497,185,362 warrants in June 2009. Each warrant entitles the warrant holder to subscribe for one new Unit in Saizen REIT at an exercise price of S\$0.09.

After 31 December 2011 and following the exercise of an aggregate of 14,885,000 warrants in January 2012 and February 2012, the number of Units in issue and warrants outstanding as at the date of this announcement are 1,250,062,081 and 196,295,336 respectively.

**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 2011.

**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

Diluted EPU amounts are calculated by dividing the profit attributable to the Unitholders of the Group by the weighted average number of Units outstanding during the period plus the weighted average number of Units that would be issued on the exercise of all warrants into potential Units.

|  |         | 2Q FY2012         | 2Q FY2011           | YTD Dec 2011      | YTD Dec 2010      |
|--|---------|-------------------|---------------------|-------------------|-------------------|
| Total return/(loss) for the period attributable to Unitholders for basic and diluted EPU (JPY'000) |         | 403,923           | (51,684)            | 794,198           | 326,705           |
| Basic EPU  | (JPY)   | 0.33              | (0.05)              | 0.43              | 0.31              |
|  | (cents) | 0.55 <sup>1</sup> | (0.08) <sup>2</sup> | 0.69 <sup>3</sup> | 0.49 <sup>4</sup> |
| Diluted EPU  | (JPY)   | 0.31              | (0.05)              | 0.41              | 0.27              |
|  | (cents) | 0.52 <sup>1</sup> | (0.08) <sup>2</sup> | 0.66 <sup>3</sup> | 0.43 <sup>4</sup> |
| Weighted average number of Units   |         | 1,231,616,209     | 1,118,491,103       | 1,832,881,495     | 1,058,023,380     |
| Weighted average number of Units plus dilutive effect  |         | 1,311,660,708     | 1,261,172,944       | 1,922,685,468     | 1,227,036,853     |

**Notes:**

1. Based on S\$ / JPY average exchange rate of 60.1 between 1 October 2011 and 31 December 2011.
2. Based on S\$ / JPY average exchange rate of 63.4 between 1 October 2010 and 31 December 2010.
3. Based on S\$ / JPY average exchange rate of 61.9 between 1 July 2011 and 31 December 2011.
4. Based on S\$ / JPY average exchange rate of 63.4 between 1 July 2010 and 31 December 2010.

## 7. Net asset value ("NAV") per Unit based on issued Units at the end of 31 December 2011 and 30 June 2011

**The Group**

|   |       | As at<br>31 Dec 2011 | As at<br>30 Jun 2011 |
|---|-------|----------------------|----------------------|
| NAV per Unit based on issued Units at the end of financial period | (JPY) | 20.80                | 20.97                |
|   | (S\$) | 0.35 <sup>1</sup>    | 0.32 <sup>2</sup>    |

**Saizen REIT**

|   |       | As at<br>31 Dec 2011 | As at<br>30 Jun 2011 |
|---|-------|----------------------|----------------------|
| NAV per Unit based on issued Units at the end of financial period | (JPY) | 20.20                | 20.70                |
|   | (S\$) | 0.34 <sup>1</sup>    | 0.32 <sup>2</sup>    |

**Notes:**

1. Based on S\$ / JPY exchange rate of 59.6 as at 31 December 2011.
2. Based on S\$ / JPY exchange rate of 65.5 as at 30 June 2011.

## 8. Review of performance

### Income statement: 2Q FY2012 vs 2Q FY2011

|  | 2Q FY2012 <sup>1</sup><br>(JPY'000) | 2Q FY2011 <sup>2</sup><br>(JPY'000) | Increase/<br>(Decrease) % |
|--|-------------------------------------|-------------------------------------|---------------------------|
| Gross revenue                              | 849,630                             | 970,659                             | (12.5)                    |
| Property operating expenses <sup>3</sup>   | (261,372)                           | (305,942)                           | (14.6)                    |
| <b>Net property income</b>                 | <b>588,258</b>                      | <b>664,717</b>                      | (11.5)                    |
| Asset management fees                      | (4,866)                             | (6,379)                             | (23.7)                    |
| Interest expenses <sup>4</sup>             | (124,812)                           | (190,884)                           | (34.6)                    |
| Guarantor fee to asset manager             | (3,870)                             | (1,967)                             | 96.7                      |
| Other administrative expenses              | (27,274)                            | (29,561)                            | (7.7)                     |
| <b>Net income from property operations</b> | <b>427,436</b>                      | <b>435,926</b>                      | (1.9)                     |
| Interest income                            | 11                                  | 4                                   | >100.0                    |
| Other operating expenses <sup>5</sup>      | (113,134)                           | (125,752)                           | (10.0)                    |
| Adjustment <sup>6</sup>                    | 8,939                               | 8,817                               | 1.4                       |
| <b>Net income from operations</b>          | <b>323,252</b>                      | <b>318,995</b>                      | 1.3                       |

#### **Notes:**

1. There were 130 properties at the start of 2Q FY2012 and 131 properties at the end of 2Q FY2012.

2. There were 156 properties at the start of 2Q FY2011 and 149 properties at the end of 2Q FY2011.

3. Property operating expenses comprised the following:

|   | 2Q FY2012<br>(JPY'000) | 2Q FY2011<br>(JPY'000) | Increase /<br>(Decrease) % |
|---|------------------------|------------------------|----------------------------|
| Property tax                                  | 63,485                 | 74,126                 | (14.4)                     |
| Property manager's fees                       | 34,341                 | 38,615                 | (11.1)                     |
| Operation and maintenance expenses            | 40,361                 | 45,276                 | (10.9)                     |
| Repairs and renovations                       | 43,365                 | 59,365                 | (27.0)                     |
| Leasing and marketing expenses                | 24,492                 | 28,498                 | (14.1)                     |
| Utilities charges                             | 38,328                 | 39,244                 | (2.3)                      |
| Insurance expenses                            | 11,261                 | 10,428                 | 8.0                        |
| Write back of impairment on trade receivables | (3,433)                | (255)                  | >100.0                     |
| Trade receivables written-off                 | 1,124                  | 1,047                  | 7.4                        |
| Consumption tax arising from operation        | 8,048                  | 9,598                  | (16.1)                     |

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

5. Other operating expenses comprised Manager's management fees, Trustee's fee, other trust expenses, finance costs (excluding interest expenses and guarantor fee to asset manager) and REIT-level other administrative expenses.

6. 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 12.5% year-on-year in 2Q FY2012, due mainly to the divestment of 26 properties between October 2010 and June 2011 as well as a slight decrease in rental rates of new contracts entered into after 2Q FY2011. Net property income and net income from property operations decreased by 11.5% and 1.9% respectively.

The average occupancy rate in 2Q FY2012 was 91.0% as compared to 90.8% in 2Q FY2011, while overall rental reversion of new contracts entered into in 2Q FY2012 was marginally lower by about 1.9% (2Q FY2011: lower by about 3.2%) from previous contracted rates.

Property operating expenses decreased by 14.6%, in line with the decrease in number of properties. Repair and renovation expenses decreased by 27.0% in 2Q FY2012 as

compared to 2Q FY2011 as major renovations and upgrading works had been conducted on two properties in 2Q FY2011.

The write-back of impairment on trade receivables in 2Q FY2012 was mainly due to the payment of outstanding rent by the government of the Miyagi prefecture which had rented accommodation for people in Sendai area who were affected by the March 2011 earthquake. There had been an administrative delay in the payment of such rents which resulted in impairments being made on such outstanding amounts in previous quarters.

The decrease in interest expenses of 34.6% in 2Q FY2012 as compared to 2Q FY2011 was mainly due to the decrease in interest expenses attributable to the loan of YK Shintoku, which was fully repaid in May 2011.

Guarantor fees of JPY 3.9 million were paid to the Asset Manager in respect of the loans of YK JOF, YK Shinzan, YK Shingen, YK Keizan, YK Shinoku and GK Chosei. The increase in guarantor fees of 96.7% in 2Q FY2012 was mainly due to a loan secured by YK Shingen and YK Keizan at the end of September 2011 and a loan secured by YK Shintoku and GK Chosei in November 2011.

#### Group-level operations

Net income from operations increased slightly from JPY 319.0 million in 2Q FY2011 to JPY 323.3 million in 2Q FY2012.

Other operating expenses decreased by 10.0% in 2Q FY2012 as compared to 2Q FY2011 due mainly to:

- (a) a foreign exchange gain recognised in 2Q FY2012. Saizen REIT maintains S\$-denominated bank balances. The foreign exchange gain of JPY 2.0 million in 2Q FY2012 comprised mainly unrealised gains arising from the translation of these S\$-denominated bank balances to JPY for the preparation of the Group's financial statements. Comparatively, a foreign exchange loss of JPY 10.5 million had been recognised in 2Q FY2011;
- (b) a decrease in expenses incurred in respect of the amortisation of loan commission of 40.1%, due mainly to the completion of the amortisation of commission on a loan which had been obtained by GK Choan in 2008; and
- (c) a decrease in the Manager's management fee of 15.1%, due mainly to the decrease in the number of properties as well as the decrease in fair value of Saizen REIT's investment property portfolio following the annual valuation as at 30 June 2011.

The decrease in other operating expenses was partially offset by refinancing/repayment costs of JPY 20.8 million which were incurred in 2Q FY2012 in connection with the reduction in the notional amount of interest rate swap following the partial repayment of the loan of GK Choan in December 2011.

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

The fair value gain on financial derivatives of JPY 142.6 million incurred in 2Q FY2012 was mainly due to the fair value gain on warrants of JPY 122.6 million. The fair value gain on warrants arose mainly due to (i) the decrease in the market-traded price of the warrants and (ii) the decrease in the number of warrants that are outstanding as at 31 December 2011 following warrant exercises in 2Q FY2012.

The net fair value loss on investment properties of JPY 31.4 million comprised mainly consumption tax expenses incurred and an acquisition fee paid to the Manager in connection with the acquisition of a property in December 2011.



**Income statement: 2Q FY2012 vs 1Q FY2012**

|  | 2Q FY2012 <sup>1</sup><br>(JPY'000) | 1Q FY2012 <sup>2</sup><br>(JPY'000) | Increase/<br>(Decrease) % |
|--|-------------------------------------|-------------------------------------|---------------------------|
| Gross revenue                              | 849,630                             | 848,794                             | 0.1                       |
| Property operating expenses <sup>3</sup>   | (261,372)                           | (287,752)                           | (9.2)                     |
| <b>Net property income</b>                 | <b>588,258</b>                      | <b>561,042</b>                      | 4.9                       |
| Asset management fees                      | (4,866)                             | (6,263)                             | (22.3)                    |
| Interest expenses <sup>4</sup>             | (124,812)                           | (84,991)                            | 46.9                      |
| Guarantor fee to asset manager             | (3,870)                             | (1,851)                             | >100.0                    |
| Other administrative expenses              | (27,274)                            | (33,846)                            | (19.4)                    |
| <b>Net income from property operations</b> | <b>427,436</b>                      | <b>434,091</b>                      | (1.5)                     |
| Interest income                            | 11                                  | 317                                 | (96.5)                    |
| Other operating expenses <sup>5</sup>      | (113,134)                           | (98,940)                            | 14.3                      |
| Adjustment <sup>6</sup>                    | 8,939                               | 8,784                               | 1.8                       |
| <b>Net income from operations</b>          | <b>323,252</b>                      | <b>344,252</b>                      | (6.1)                     |

**Notes:**

1. There were 130 properties at the start of 2Q FY2012 and 131 properties at the end of 2Q FY2012.

2. There were 130 properties at the start and end of 1Q FY2012.

3. Property operating expenses comprised the following:

|   | 2Q FY2012<br>(JPY'000) | 1Q FY2012<br>(JPY'000) | Increase /<br>(Decrease) % |
|---|------------------------|------------------------|----------------------------|
| Property tax  | 63,485                 | 62,843                 | 1.0                        |
| Property manager's fees                                       | 34,341                 | 33,288                 | 3.2                        |
| Operation and maintenance expenses                            | 40,361                 | 41,207                 | (2.1)                      |
| Repairs and renovations                                       | 43,365                 | 67,605                 | (35.9)                     |
| Leasing and marketing expenses                                | 24,492                 | 26,484                 | (7.5)                      |
| Utilities charges   | 38,328                 | 36,095                 | 6.2                        |
| Insurance expenses  | 11,261                 | 9,467                  | 19.0                       |
| (Write back of)/allowance for impairment on trade receivables | (3,433)                | 3,076                  | NM <sup>7</sup>            |
| Trade receivables written-off                                 | 1,124                  | 259                    | >100.0                     |
| Consumption tax arising from operation                        | 8,048                  | 7,428                  | 8.3                        |

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

5. Other operating expenses comprised Manager's management fees, Trustee's fee, other trust expenses, finance costs (excluding interest expenses and guarantor fee to asset manager) and REIT-level other administrative expenses.

6. 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.

7. NM denotes not meaningful.

**Property-level operations**

Gross revenue remained stable quarter-on-quarter in 2Q FY2012, while net property income increased by 4.9%, due mainly to lower property operating expenses. Net income from property operations decreased by 1.5% in 2Q FY2012, due mainly to an increase in interest expenses.

Property operating expenses decreased by 9.2% from JPY 287.8 million in 1Q FY2012 to JPY 261.4 million in 2Q FY2012. Repair and renovation expenses decreased by 35.9% in 2Q FY2012 as compared to 1Q FY2012, due mainly to a decrease in expenses incurred on rectification work performed on properties affected by the earthquake in March 2011.

Insurance expenses increased by 19.0% in 2Q FY2012, due mainly to the purchase of earthquake-related insurance. Previously, Saizen REIT did not have any earthquake insurance. This is consistent with the industry practice in Japan for residential investment properties. Even if obtained, earthquake insurance in Japan in many cases does not cover the whole damage suffered. Following the earthquake in northeastern Japan in March 2011, the Management Team re-examined the issue of earthquake insurance. While it remains generally in concurrence with the industry practice, it had decided that a limited form of earthquake insurance would be purchased for Saizen REIT's properties to provide certain coverage in a "worst case scenario" event.

The write-back of impairment on trade receivables in 2Q FY2012 was mainly due to the payment of outstanding rent by the government of the Miyagi prefecture which had rented accommodation for people in Sendai area who were affected by the March 2011 earthquake. There had been an administrative delay in the payment of such rents which resulted in impairments being made on such outstanding amounts in previous quarters.

The increase in interest expenses of 46.9% in 2Q FY2012 as compared to 1Q FY2012 was mainly due to 4 new loans obtained between September 2011 and December 2011.

Guarantor fees of JPY 3.9 million were paid to the Asset Manager in respect of the loans of YK JOF, YK Shinzan, YK Shingen, YK Keizan, YK Shinoku and GK Chosei. The increase in guarantor fees in 2Q FY2012 was mainly due to a loan secured by YK Shingen and YK Keizan at the end of September 2011 and a loan secured by YK Shintoku and GK Chosei in November 2011.

Other administrative expenses decreased by 19.4% in 2Q FY2012, due mainly to fees which were incurred in 1Q FY2012 in connection with the incorporation of the TK operator GK Gyosei.

#### Group-level operations

Net income from operations decreased from JPY 344.3 million in 1Q FY2012 to JPY 323.3 million in 2Q FY2012.

Other operating expenses increased by 14.3 % in 2Q FY2012, due mainly to:

- (a) refinancing/repayment costs of JPY 20.8 million which represented breakage costs for the reduction in the notional amount of interest rate swap following the partial repayment of the loan of GK Choan in December 2011; and
- (b) an increase in valuation fee expenses in 2Q FY2012. Valuation fees of JPY 9.8 million which were recognised in 2Q FY2012 comprised accruals of JPY 3.28 million per month. Valuation fees of JPY 3.2 million which were recognised in 1Q FY2012 comprised accruals of JPY 9.8 million which were partially offset by a write-back of JPY 6.6 million for over-accruals in the previous financial year.

The increase in other operating expenses was partially offset by a foreign exchange gain recognised in 2Q FY2012. Saizen REIT maintains S\$-denominated bank balances. The foreign exchange gain of JPY 2.0 million in 2Q FY2012 comprised mainly unrealised gains arising from the translation of these S\$-denominated bank balances to JPY for the preparation of the Group's financial statements. Comparatively, a foreign exchange loss of JPY 15.8 million had been recognised in 1Q FY2012.

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

The loss incurred on the divestment of properties of JPY 13.6 million in 1Q FY2012 arose from consumption tax expenses incurred in connection with the transfer of 2 properties from YK Shingen to GK Gyosei. No loss on divestment of properties was recognised in 2Q FY2012.

The fair value gain on financial derivatives of JPY 142.6 million incurred in 2Q FY2012 was mainly due to the fair value gain on warrants of JPY 122.6 million. The fair value gain on warrants arose mainly due to (i) the decrease in the market-traded price of the warrants and

(ii) the decrease in the number of warrants that are outstanding as at 31 December 2011 following warrant exercises in 2Q FY2012.

The net fair value loss on investment properties of JPY 31.4 million comprised mainly consumption tax expenses incurred and an acquisition fee paid to the Manager in connection with the acquisition of a property in December 2011. No net fair value losses on investment properties were recognised in 1Q FY2012.

## 9. Outlook and prospects

### Capital structure

Since the beginning of the current financial year, the TK operators of Saizen REIT have obtained new loans amounting to an aggregate of JPY 6.7 billion (S\$112.4 million), comprising 2 loans from the Tokyo Star Bank Ltd, 2 loans from the Hiroshimashi Credit Cooperative and 1 loan from the Kumamoto Dai-ichi Shinkin Bank.

Thus far, the above-mentioned loan proceeds have been deployed for the following purposes:

- (a) approximately JPY 1 billion (S\$16.8 million) have been applied towards the acquisition of Flour Mansion Jyosei and related costs;
- (b) approximately JPY 2 billion (S\$33.6 million) have been used for the partial repayment of the loan of GK Choan and related costs; and
- (c) approximately JPY 210.5 million (S\$3.5 million) have been used to offset loan amortisation in YTD Dec 2011.

It is intended that a portion of the undeployed loan proceeds will be used for property acquisitions in the near future. The Management Team is currently in negotiations for the potential acquisition of properties in, among others, the city of Tokyo.

In connection with the partial repayment of the loan of GK Choan (as stated above), 4 properties of GK Choan will be released from encumbrance under the loan (at a time of GK Choan's choosing on or before 30 June 2012). The Management Team is looking into possible financing opportunities for these 4 properties.

The utilisation of undeployed loan proceeds to offset loan amortisation is expected to continue, subject to Saizen REIT's capital requirements.

### Property operations and distributions

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.

**10. Distributions****10(a) Current financial period**

|  |  |
|--|--|
| Any distributions declared for the current financial period? | Yes  |
| Distribution name  | Distribution for the six-month financial period ended 31 December 2011   |
| Distribution type  | Tax-exempt income  |
| Distribution rate  | 0.61 cents per Unit  |
| Tax rate   | <p>(a) Tax-exempt income distribution<br/>Tax-exempt income includes rental and other related income derived from Japanese real estate properties received in Singapore by Saizen REIT in the form of profit allocation (TK distributions) from Japan under a TK agreement. Such income received from Japan will be exempt from tax for Saizen REIT.<br/>Tax-exempt income distributed by Saizen REIT will not be subject to any further Singapore tax in the hands of all Unitholders.</p> <p>(b) Other income distribution<br/>Other income derived by Saizen REIT (including interest earned from fixed deposits) will be taxable in Singapore at the corporate tax rate. There is no distribution in respect of such income for YTD Dec 2011.</p> <p>(c) Any subsequent distributions made by Saizen REIT out of income which has been taxed at the REIT level will be exempt from Singapore tax for all Unitholders. There is no distribution in respect of such income for YTD Dec 2011.</p> |

**10(b) Corresponding period of the immediately preceding financial year**

|   |   |
|---|---|
| Any distributions declared for the corresponding period of the immediately preceding financial year | Yes   |
| Distribution name   | Distribution for the six-month financial period ended 31 December 2010  |
| Distribution type   | Tax-exempt income   |
| Distribution rate   | 0.52 cents per Unit   |
| Tax rate  | <p>(d) Tax-exempt income distribution<br/>Tax-exempt income includes rental and other related income derived from Japanese real estate properties received in Singapore by Saizen REIT in the form of profit allocation (TK distributions) from Japan under a TK agreement. Such income received from Japan will be exempt from tax for Saizen REIT.<br/>Tax-exempt income distributed by Saizen REIT will not be subject to any further Singapore tax in the hands of all Unitholders.</p> |

|  |  |
|--|--|
|  | <p>(e) Other income distribution<br/>Other income derived by Saizen REIT (including interest earned from fixed deposits) will be taxable in Singapore at the corporate tax rate. There is no distribution in respect of such income for YTD Dec 2010.</p> <p>(f) Any subsequent distributions made by Saizen REIT out of income which has been taxed at the REIT level will be exempt from Singapore tax for all Unitholders. There is no distribution in respect of such income for YTD Dec 2010.</p> |
|--|--|

**10(c) Date payable**

6 March 2012

**10(d) Books closure date**

20 February 2012, 5.00 p.m.

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

Not applicable.

**12. Interested person transactions**

An acquisition fee of JPY 9.0 million (\$0.15 million) was paid to the Manager in respect of the acquisition of the property Flour Mansion Jyosei in December 2011.

Guarantor fees amounting to an aggregate of JPY 3.9 million (S\$0.06 million) were paid to the Asset Manager in 2Q FY2012 in respect of the loans of YK JOF, YK Keizan, YK Shintoku, YK Shingen, YK Shinzan and GK Chosei.

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

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

**14. Update on utilisation of warrant proceeds**

Since the issue of warrants by Saizen REIT in June 2009, a total of 300,890,026 warrants have been exercised as at the date of this announcement.

Such warrant exercises have raised proceeds of approximately S\$27.1 million, of which approximately S\$0.3 million has been used for working capital purposes and approximately S\$20.1 million have been deployed towards loan repayment. The balance of S\$6.7 million in warrant proceeds remain unutilised.

**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 December 2011 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

9 February 2012