BHG RETAIL REIT

(A real estate investment trust constituted on 18 November 2015
under the laws of the Republic of Singapore)

ANNUAL GENERAL MEETING TO BE HELD ON 27 APRIL 2023 RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

BHG Retail Trust Management Pte. Ltd., as manager of BHG Retail REIT (the "**REIT**", and the manager of the REIT, the "**Manager**"), wishes to thank the Securities Investors Association (Singapore) ("**SIAS**") for submitting questions on the REIT's annual report for the financial year ended 31 December 2022 (the "**Annual Report**") in advance of the Annual General Meeting ("**AGM**") to be held by way of electronic means on 27 April 2023 at 11.00 a.m. (Singapore time).

Please refer to Annex A for the list of questions from SIAS, and the Manager's responses to these questions.

The Chief Executive Officer of the Manager, Ms Chan Iz-Lynn, will deliver a presentation to the unitholders of the REIT (the "**Unitholders**") at the AGM. Please refer to the 2023 AGM Presentation and all AGM-related documents at: http://bhgreit.listedcompany.com/newsroom.html.

Following the conclusion of the AGM, the voting results of the AGM will be uploaded on the SGXNet and made available on the REIT's website. The minutes of the AGM will be published on the REIT's website on or before 26 May 2023.

By Order of the Board
BHG Retail Trust Management Pte. Ltd.
(Company Registration No.: 201504222D)
as Manager of BHG Retail REIT

Chan Iz-Lynn
Chief Executive Officer
26 April 2023

Important Notice

This announcement is for information only and does not constitute an offer, invitation to purchase or subscribe for or solicitation of Units in Singapore or any other jurisdiction nor should it or any part of it form the basis of, or be relied upon in connection with, any contract or commitment whatsoever. The value of the Units and the income derived from them may fall as well as rise. Units are not obligations of, deposits in, or guaranteed by, the Manager, DBS Trustee Limited, as trustee of BHG Retail REIT, Beijing Hualian Department Store Co., Ltd., as the sponsor of BHG Retail REIT or any of their respective affiliates. An investment in the Units is subject to investment risks, including the possible loss of the principal amount invested. Following the listing of the Units on the SGX-ST, investors have no right to request that the Manager redeem or purchase their Units while the Units are listed. It is intended that holders of Units may only deal in their Units through trading on the SGXST. Listing of the Units on the SGX-ST does not guarantee a liquid market for the Units.

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Annex A

Question 1	
(i)	**As mentioned in the letter to unitholders, the REIT's performance in FY 2022 was impacted by disruptions caused by the COVID-19 situation in China, and provision of rental rebates to assist tenants with their business recovery.** **Can the manager provide more insight into the current situation on the ground in China, especially in the cities where the REIT's malls are located, since the easing of COVID-19 restrictions in December 2022?**
	Despite the weaker growth in 2022, China's economy is expected to recover in 2023 due to its lifting of COVID-19 measures and the reopening of its borders. Against this backdrop, the International Monetary Fund (IMF) raised its China's GDP outlook for 2023 from 4.4% to 5.2%. China's shift from its zero COVID-19 policy to the reopening of its borders is also seen as largely beneficial to the real estate sector. The retail sector is expected to be one of the main beneficiaries, with retail activities set to pick up while underpinned by a rising demand for prime retail space and bottoming of rents. We are confident that our quality portfolio of retail malls which are located in high population density neighbourhoods are well-positioned to capitalise on China's recovery, meet the needs of the rising middle-income population, and provide a quality lifestyle experience to our shoppers. Since the easing of COVID-19 restrictions in December 2022, we have seen encouraging consumer sentiments and better shopper traffic and sales.
(ii)	**For the benefit of unitholders, will the manager provide an update on the shopper traffic and tenant sales as a proxy to assess the pace of the recovery?**
	Since the easing of COVID-19 restrictions in China and reopening of its borders in early 2023, we have seen better shopper traffic and tenants' sales at most of our malls. The operational performance of the malls are disclosed in BHG Retail REIT's business updates and results announcements on a quarterly and half-yearly basis.
(iii)	**With the REIT manager being based in Singapore, can the REIT manager help unitholders better understand how it is managing the assets from Singapore? How does the REIT manager work with the property managers who are on the ground? How are decisions being made?**
	The Manager works continually with the property managers on the ground to enhance the malls so as to increase the profitability of the assets. The appointed property managers have a good track record and are also familiar with our properties.

Question 1	
	The Manager and the property managers schedule conference calls and video tours of the malls on a regular basis, as well as frequent trips to China to inspect the properties, to ensure timely updates on the performance of the malls. The Manager also works very closely with the property managers to improve operational efficiency and reduce operating costs without compromising the quality of services through cost management initiatives. Some cost management initiatives include: • constant review of workflow processes to boost productivity, lower operational costs and foster close partnerships with service providers to control costs and potential escalation; and • reaping increased economies of scale associated with operating a portfolio of properties by, for example, bulk purchasing supplies and the cross-implementation of successful cost-saving programmes. In this regard, the property managers manage the day-to-day operations of and maintain the properties in accordance with the annual business plan and budget approved by the Manager and the trustee of the REIT.
(iv)	**At Hefei Changjiangxilu, occupancy rates have dropped from 98% to 92.7%, and 58.3% of the leases (by gross rental income) expire in FY2023. What are the challenges faced, if any, at the mall, and what is the manager's strategy to maintain or boost occupancy rates and property income?**
	The REIT's performance in FY2022 was impacted by disruptions caused by the COVID-19 situation in China especially during the second half of the year as China continued with its zero COVID-19 policy. The Manager continuously looks to undertake proactive asset management and enhancement of its assets, including Hefei Changjiangxilu. In order to keep up with the changing consumer patterns of our customers, one of the Manager's strategies is to look at tenant rejuvenation to further meet the demands of the consumers. The tenant selection process will take into consideration, amongst others, consumer demand, the resilience of the tenant company, and the sustainability of the tenant's trade and offerings. Going forward, the Manager's strategy is to bring in suitable and sustainable tenants to serve the needs of our consumers while at the same time maximising the revenue of our space. The Manager will also continue to seek opportunities to improve the overall experience and appeal of our assets to shoppers and tenants through asset enhancement initiatives ("**AEIs**"). As at 31 December 2022, the REIT has a weighted average lease expiry of 3.4 years based on gross rental income and 5.5 years based on net lettable area. Save for our anchor tenants with longer leases, our leases typically range from 1 to 3 years and this provides opportunities for progressive uplifts in rental income and to refresh the tenant mix.

Question 1	
	We have also continued to maintain good working relationships with many of our key tenants who have been with us since the opening of our malls. We have also built up a potential pool of tenants which would lease our properties should there be any vacancies in our malls. As such, we do not foresee non-renewals to be a significant risk. The portfolio retention rate upon lease maturity is expected to remain healthy during the year.
(v)	**At Hefei Mengchenglu, occupancy rates have held steady at 91% despite the REIT's revitalisation efforts. Nearly half of the leases (by gross rental income) expire in FY2023. Can the manager provide insight into the success of the asset enhancement initiative and explain the leasing strategy to maintain or improve the mall's financial performance for unitholders?**
	The AEI at Hefei Mengchenglu where a new entrance linked to basement 1 was created has improved connectivity between ground and the basement levels, as well as greater accessibility and convenience in its revamped layout. Shopper traffic flow has also increased through this upgrade which was completed in 1H 2022. As mentioned in Q1(iv) above, our lease terms typically range from 1 to 3 years, which provides opportunities for progressive uplifts in rental income and to refresh the tenant mix. The Manager will continue to refresh its line-up of tenants with offerings that resonate with our shoppers. while at the same time maximising the revenue of our spaces. The Manager will also continue to seek opportunities to improve the overall experience and appeal of our assets to shoppers and tenants through AEIs which will indirectly improve the mall's financial performance, and allow us to deliver sustainable returns to Unitholders. The portfolio retention rate upon lease maturity is expected to remain healthy during the year.

Question 2	
(i)	**The distribution per unit (DPU) for FY2022 was 1.17 Singapore cents, amounting to $6.0 million in the total income distributed or to be distributed to unitholders. In addition, approximately $0.7 million has been retained for operational expenses and working capital requirements of the REIT.** **The DPU for 1H2022 and 2H2022 decreased by 32% and 61% on a year-on-year basis respectively. The 2H2022 DPU was also 46% lower than the 1H2022 DPU.** **Gross revenue in Chinese Renminbi (“RMB”) and Singapore Dollars (“SGD” or “S$”) was approximately RMB 15.4 million (-4.5%) and S$4.2 million (-6.0%) lower year-on-year respectively. The moderated performance was largely attributed to rental rebates provided to support tenants in FY 2022 due to the COVID-19 situation in China while no rental rebates were given in FY 2021, as well as higher interest expenses, and refinancing expenses incurred during the refinancing exercise completed in March 2022.** **Can the manager provide greater clarity on the total amount of rental rebates given to tenants? What was the basis for providing these rebates, and how were the tenants selected and the amounts determined?**
	Approximately 0.5 month of rental rebates was given to eligible tenants. Please refer to the REIT’s “Unaudited Financial Information For second half and full year ended 31 December 2022” dated 24 February 2023, at footnote 1 of page 28, which has been made available on the SGX-ST’s website at the URL https://www.sgx.com/securities/company-announcements. Rental rebates were provided to eligible tenants who were affected by closures mandated by the local authorities. The Manager also compared the rental rebates with the overall rental rebates given to similar tenants in the market.
(ii)	**It is also noted that the controlling unitholder received rental rebates of $445,000 during the financial year. How were these rental rebates determined, and did the audit committee approve them?**
	As explained in Q2(i) above, the rental rebates were determined by comparing the rebates with the overall rental rebates given to tenants of a similar nature in the market. The Manager also worked closely with the property managers on the negotiation of rental rebates with tenants, to align with market practices. The same bases were applied to the rental rebate to the controlling unitholder. The audit committee has reviewed and approved the rental rebate arrangement, including the rebate to the controlling unitholder.
(iii)	**What was the total amount of fees incurred during the refinancing process? On page 59, it was disclosed that the average cost of debt is 4.4% but this increases to 5.3% per annum if amortisation of loan establishment fee is included. Does the manager optimise the REIT’s financing costs by assessing various options after factoring in the total cost of debt (which includes refinancing fee/loan establishment fee)?**

Question 2	
	The payment of transaction costs related to the refinancing process was S$7.2 million. According to the Singapore Financial Reporting Standards, it has to be amortised into the profit and loss accounts over the loan's duration. Please refer to the Statement of Cash flows on page 120 of the Annual Report. The rationale behind the difference in the average cost of debt was disclosed in page 59 of the Annual Report to provide additional information to Unitholders on the pure interests (which includes both the floating interest expenses and fixed interest expenses) in relation to the average cost of debt. This helps to provide more clarity to Unitholders on the interest expenses actually incurred on the loans for that particular financial year, without including the loan establishment fee, which was previously paid during or before that financial year. The Manager adopts a prudent and proactive capital management strategy and assesses available options to optimise refinancing costs. Through prudent capital management, the Manager successfully completed its refinancing exercise for the loans due in 2022, despite the challenging business environment, which reflects the lenders' confidence and support in the REIT's long-term growth strategy.
(iv)	**In light of the interest coverage ratio decreasing to 2.2 times, what guidance has the board provided to the manager? What strategies can the manager employ to enhance cash flow?**
	The board of directors of the REIT (the "**Board**") has instructed the Manager to monitor the interest coverage ratio (ICR) closely and to ensure that the ICR is kept at a reasonable level. The Board is also aware that with sufficient debt headroom, the gearing ratio would remain well below 45% and thus, the minimum requirement of 2.5 times ICR may not be applicable. The key strategy of the Manager to enhance cash flow of the REIT is to: (a) improve the overall occupancy rates (by marketing and promoting the properties, the Manager can attract new tenants); (b) improve the rental revision of the multi-tenanted malls (by investing in AEIs so that the Manager can negotiate better lease terms with tenants); and (c) implement prudent expenses management (by reducing operating expenses including overhead costs without comprising quality and renegotiating contracts with suppliers).

Question 2	
(v)	**Despite the commentary in the annual report being repeated several times that the portfolio valuation (in Renminbi) increased by 0.5% year-on-year, the situation is that valuation in Singapore dollar has decreased by 8.1% to $912.2 million.** **Net asset value per unit attributable to unitholders has fallen by 14.1% in 2022, from $0.92 to $0.79. The manager has stated the following:** ***In addition to the natural hedge provided by the Renminbi-denominated debt to the matching revenue stream, as of the date of this report, approximately 50% of the REIT's offshore debt has also been hedged from a floating interest rate to a fixed interest rate via interest rate swap instruments, so as to mitigate the effects of volatility in the interest rates.*** **Can the board help unitholders understand if it has reviewed and is satisfied with the trust's level of natural hedge achieved?**
	The Board has reviewed and is satisfied with the natural hedging strategy of matching the Renminbi-denominated loans (which is nearly 20% of the REIT's total borrowings) against the Renminbi-denominated revenue stream from the malls. In addition, the Manager has hedged the conversion of Renminbi-denominated dividend into Singapore Dollars as and when it deemed fit in order to mitigate the foreign currency risk at the REIT's level. The Board is responsible for overseeing the management and operations of the REIT, including risk management strategies. As part of this responsibility, the Board reviews the REIT's natural hedge and assesses whether it is appropriate for the REIT's objectives and risk tolerance.
(vi)	**What guidance has the board provided to the manager in order to protect and grow the NAV per unit, particularly for the benefit of its unitholders in Singapore?**
	The Board is responsible for overseeing the management and operations of the REIT and has continually provided guidance to the Manager in relation to (a) staying astute in managing its capital, and (b) regularly monitoring the feasibility of engaging in hedging transactions, taking into account the costs associated with such hedging transactions, and the benefits to Unitholders. The Manager actively reviews its hedging strategy with regards to foreign exchange risk on a holistic basis, weighing the costs of hedging against its benefits, and closely monitors the overall macroeconomic environment and currency exchange trends. The Manager is also directed to be prudent in the area of acquisitions, and to acquire properties with the ability to provide attractive long-term cash flows, that are yield-accretive, and with the potential for net asset growth. With these strategies in place, the Manager believes that the NAV per unit and distribution attributable to Unitholders in Singapore will be optimised.
(vii)	**While the manager has disclosed that 50% of the offshore debt has been hedged to a fixed rate via interest rate swap, the onshore facilities are also subject to floating rates.** **Has the board reviewed the trust's overall hedging of its interest rate risks at the group level? Would the manager be disclosing the level of interest rate hedging at the group level**

Question 2	
	The Board has reviewed the REIT's overall hedging strategy and has authorised the Manager to execute the hedging transaction as and when it deems appropriate and beneficial to the Unitholders. Please refer to page 9 and page 147 of the Annual Report for information pertaining to level of interest rate hedging.
(viii)	**With regard to the paragraph shown above relating to the manager's risk management framework, can the manager confirm it is managing both foreign currency risks and interest rate risks to achieve optimised returns for unitholders?**
	The Manager manages both foreign currency risks and interest rates risks to achieve optimised returns for Unitholders which is in line with its prudent capital management strategy.

Question 3	
(i)	**In August 2022, the REIT manager announced the establishment of a distribution reinvestment plan (the "DRP") to provide unitholders with the opportunity to receive distributions in the form of fully-paid new units, instead of cash.** **In September 2022, the REIT disclosed that 4,299,152 new units would be issued at an issue price of S$0.5070 per new unit to unitholders who opted to receive the 1H2022 distribution of 0.76 cents per unit. The issue price represents a discount of approximately 2.5% to the 10-day volume-weighted average traded price per unit.** **Can the manager explain the rationale behind the 2.5% discount?**
	We have taken into consideration the market practice in relation to the discount rates implemented in DRPs. Based on our research, most of the discount rates used by other REITs are between 1% to 3%, and thus we believe that 2.5% is a reasonable rate.
(ii)	**Is the manager satisfied with the level of participation in the DRP by minority unitholders? It is noted that out of the 4.3 million new units created, 2.22 million units were issued to controlling unitholder.**
	The Manager is satisfied with the overall level of participation of 56% of its maiden DRP, taking into consideration that Unitholders could elect between participating in the DRP or receiving their distributions in cash. Minority Unitholders who preferred cash instead continued to receive distributions in cash. The DRP provides an alternative option for Unitholders to achieve their investment objectives.