PARAGON REIT

PARAGON REIT MANAGEMENT PTE. LTD.
(Registration No: 201305497E)
(Incorporated in the Republic of Singapore)

RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) AND UNITHOLDERS IN ADVANCE OF ANNUAL GENERAL MEETING

PARAGON REIT Management Pte. Ltd. (the "**Manager**"), as manager of PARAGON REIT, wishes to thank Securities Investors Association (Singapore) ("**SIAS**") and the unitholders of PARAGON REIT ("**Unitholders**") for submitting their questions in advance of the Annual General Meeting ("**AGM**"), which will be convened and held on Monday, 17 April 2023 at 3.30pm (Singapore time).

The Manager's responses to the questions received from SIAS and substantial and relevant questions from Unitholders are set out below. Where questions from SIAS or Unitholders overlap or are closely related, they have been merged and rephrased for clarity.

QUESTIONS FROM SIAS

Question No. 1

The REIT was the subject of a mandatory cash offer by Cuscaden Peak Pte Ltd in April 2022. This was a chain offer that was triggered after Cuscaden Peak had taken Singapore Press Holdings (SPH) private.

The new sponsor, Cuscaden Peak Investments Private Limited ("Cuscaden"), is a wholly owned subsidiary of Cuscaden Peak Pte. Ltd. which is a consortium made up of three shareholders – Hotel Properties Limited, Mapletree Investments Pte. Ltd., and CLA Real Estate Holdings Pte. Ltd.

The name of the REIT has also been changed to Paragon REIT which is synonymous with quality and excellence and reflects the REIT's vision and mission to capture unique opportunities in the Asia-Pacific retail landscape.

(i) Can the manager provide an update on the current strategic growth plans of the REIT?

As stated in the Cuscaden's Offeree Circular dated 27 May 2022, it is the intention of the Sponsor for PARAGON REIT to continue with its existing activities and there are no plans to make any material changes to PARAGON REIT's existing business, re-deploy its fixed assets, or to initiate any major changes to the investment policy, except in the ordinary course of business.

(ii) As the board has recently been reconstituted, what are the priorities of the new board in terms of driving the REIT forward?

There was no reconstitution of the Board. The Board has a formal and transparent process for the appointment and re-appointment of directors, which takes into account the need for progressive renewal of the Board.

As part of the Board renewal process, three board members including Mr. Chua Hwee Song, Mr. Soon Tit Koon, and Mr. Ng Yat Chung, retired with effect from 6 July 2022, 15 August 2022, and 1 January 2023, respectively.

Besides replacing the above three board members, two directors were also further introduced to add to the Board's diversity in skills, knowledge, and experience. A total of 5 board members, Ms. Jennie Chua, Mr. Eugene Lai, Mr. Gerald Yong, Mr. Ray Ferguson, and Mr. Bernard Phang, joined the board in FY2022.

(iii) With a current gearing ratio of 29.8%, has the REIT considered any potential acquisitions that would be complementary to the existing portfolio?

Please refer to the Manager's response to Question 1(iv) below.

(iv) Does the REIT plan to leverage its sponsor and expand into new markets beyond the current key markets of Singapore and Australia? If so, what markets have been identified as potential targets?

The Manager is always on the lookout for suitable yield accretive growth opportunities that are primarily retail properties. Considerations include but are not limited to yield accretion, location, sustainability, and the positioning and opportunity to create value.

PARAGON REIT has its own Board and its acquisition strategy, including potential investments and divestments, are evaluated independently by the Board. The Manager will also continue to seek organic growth opportunities through rental reversion and asset enhancement initiatives ("**AEIs**").

Question No. 2

The REIT achieved a high occupancy rate of 98.5%, although rental reversion remained negative at (4.1%) for 16M FY2022. The portfolio also achieved a high tenant retention rate of 80.7%, and the weighted average lease expiry (WALE) remained steady at 5.2 years by net lettable area and 2.8 years by gross rental income. Footfall for the REIT's Singapore assets increased by 23.5% for 16M FY2022 compared to the corresponding 16-month period from 1 September 2020 to 31 December 2021 (CP2021).

(i) Can the manager explain how the REIT is differentiating itself from other malls to capture the expected rebound in tourism and consumer spending?

The Manager seeks to protect the interests of Unitholders, tenants, and shoppers through proactive asset management, while working closely with tenants to understand their needs, and keeping its properties at the forefront of evolving retail mall trends relevant to the changing demands of consumers.

Properties in the portfolio have established clear market positioning. The properties continue to be strongly positioned in each of their market segments and remain in demand.

For example, Paragon reinforced its upscale positioning, with Zegna and Ferragamo investing in a total retrofit to introduce their latest store designs. Swarovski, a premier crystal jewellery retailer, also opened at Paragon. Aigner, a German luxury premium leather goods brand, staged a return to Singapore with the opening of its new flagship store in Paragon. F&B outlets were also curated with a variety of cuisines for shoppers, which saw additional new concepts, brands, and takeaway offerings. This continues to place Paragon well, in tapping into the expected rebound in tourism.

The other remaining four suburban assets in Singapore and Australia remained resilient, also seeing new tenant additions, good demand, and the strengthening of positioning with their local catchment.

Overall, this is reflected by the recovery in portfolio tenant sales and footfall to near pre-pandemic levels. PARAGON REIT also maintained its strong track record with near full committed occupancy at 98.5% as at 31 December 2022, with a tenant retention ratio of 80.7%, demonstrating tenants' confidence in PARAGON REIT's assets.

(ii) What are the challenges that the REIT faces in maintaining rental rates, and what strategies are in place to achieve positive rental reversion?

After close to three years of unprecedented impact on economies and societies around the world, most countries have now shifted into endemicity.

PARAGON REIT's focus on tenant relations has contributed to its strong track record with near full committed occupancy at 98.5% as at 31 December 2022, with a tenant retention ratio of 80.7%, demonstrating tenants' confidence in PARAGON REIT's assets.

PARAGON REIT's rental reversions have continued to improve despite the backdrop of macroeconomic uncertainty, rising inflation, and the high interest rate environment.

The Manager typically leases ahead of expiry to mitigate vacancies, and rental rates are a lagging indicator of retail sentiments.

PARAGON REIT remains well-positioned to capture the rebound in retail sales, and will strive to maintain resilience against potential headwinds.

(iii) Specifically for Paragon, can the manager provide more information to unitholders on whether occupancy costs of 18.6% can be further optimised in a sustainable manner?

With tenant sales recovering to near pre-pandemic levels, the Manager will continue to work closely with tenants to understand their needs, and find a balanced and sustainable approach to rent increments that is beneficial both to tenants and Unitholders.

The Manager looks to continue providing value to all its stakeholders, to deliver high quality service and be the landlord of choice in the retail real estate space.

Separately, on 28 February 2023, the manager announced that, "after due deliberation", the REIT would be changing its distribution frequency from quarterly distributions to half-yearly distributions with effect from the financial year ending 31 December 2023.

(iv) What are the additional compliance costs and administrative expenses associated with the quarterly distribution?

Please refer to the Manager's response to Question 2(v) below.

(v) During the due deliberation process, were the opinions of unitholders, particularly minority unitholders who invested for regular/quarterly cash flow, taken into account? If not, will the REIT solicit feedback at the upcoming AGM? Would the REIT consider conducting an informal poll on the frequency of distributions at the AGM?

The Board had deliberated and also benchmarked against the overall REIT and business trust sector, in which more than 70% of the sector make distributions on half-yearly basis, before proceeding with the change.

Compliance and administrative costs were not the only considerations. There are additional legal, administrative, and processing costs in relation to lawyers, accountants, and other professionals to prepare the necessary documents and filings for the distribution. Other key areas, such as the Management's and Board's time and bandwidth were also considered.

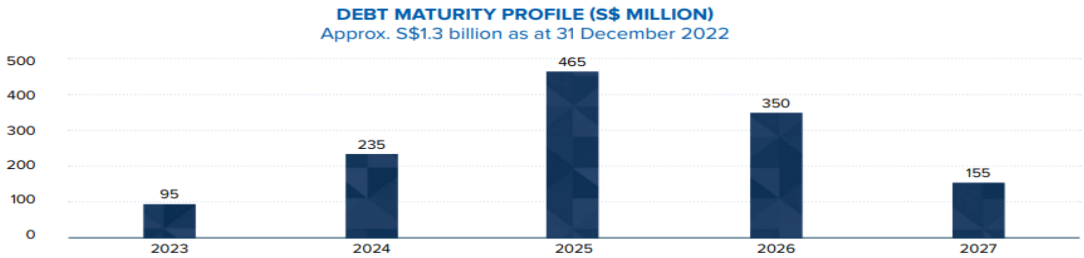
(vi) Can the manager confirm that the REIT will continue to provide quarterly financial reporting?

As announced on 14 May 2020 on SGXNet, the Manager has since adopted the practice of announcing financial statements on a half-yearly basis.

The Manager has and will continue regular engagement with stakeholders through various communication channels, including relevant business updates between the half-yearly financial statement announcements.

Question No. 3

The overview of the REIT's capital management framework is shown on page 41 of the Annual Report (reproduced below).



Key Indicators as at	31 Dec 2022	31 Aug 2021
Gearing ratio	29.8%	30.3%
Interest coverage ratio	6.8 times	7.3 times
Adjusted interest coverage ratio	4.7 times	4.8 times
Weighted average term to maturity	2.8 years	2.9 years
Percentage of Fixed loan	84%	76%
Annualised average all-in interest rate	2.05%	1.84%
Derivative financial instrument[1] as % of NAV	0.33%	0.15%

(Source: Annual Report)

The group has a well-structured capital management strategy with low gearing at 29.8%, a well-staggered debt maturity profile, and an average term to maturity of 2.8 years. The average cost of debt for the financial year ended 31 December 2022 was 2.05% per annum.

As of 31 December 2022, the fair value of derivative financial instruments accounted for 0.33% of the net asset value (NAV), up from 0.15%.

(i) How closely does the audit & risk committee oversee the REIT's use of derivative financial instruments to manage foreign exchange and interest rate risks?

The ARC provides strategic direction on key financial, audit, and risk related matters. As part of the overall risk management approach, the Manager provides recommendation on the use of derivative financial instruments to the ARC, and the ARC sets strategic perimeters for the Manager to execute its plans.

In addition, the Manager seeks competitive bids for all derivative financial instruments before proceeding with the most competitive bid.

(ii) Does the board approve all swaps used by the REIT?

Please refer to the Manager's response to Question 3(i) above.

(iii) What is the outstanding tenure of the swaps?

The Manager monitors the portfolio exposure to interest rate fluctuations arising from floating rate borrowings, and considers key factors such as loan tenures and market outlook when hedging its exposure by way of interest rate swaps and fixed rate loans.

(iv) **Regarding the interest-rate swaps, the current ones with a notional amount of $425 million have a fair value of $3.15 million, while the non-current ones with a notional amount of $608 million have a negative fair value of $(3.3) million (see extract below).**

What is the reason for the positive and negative fair values of the swaps? Could the manager clarify if these swaps are plain vanilla swaps or exotic swaps?

10. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Trust	
	Contract notional amount S$'000	Fair value amount* S$'000	Contract notional amount S$'000	Fair value amount* S$'000
2022				
Non-current assets				
– Cross currency interest-rate swaps	48,248	3,021	48,248	3,021
Cash flow hedge – Interest-rate swaps	462,660	6,602	280,000	3,092
Current assets Cash flow hedge – Interest-rate swaps	425,000	3,150	425,000	3,150
Non-current liabilities Cash flow hedge – Interest-rate swaps	608,248	(3,294)	608,248	(3,294)

The fair value of an interest rate swap is dependent on when the interest rate swap is entered, and represents the estimated value of the swap at a given point in time, based on the difference in the swap rates and the prevailing interest rates. The positive fair value swaps are typically swaps that were earlier entered in previous financial years when the overall interest rate environment was lower.

The interest rate swaps are simple financial contracts used to swap floating interest rates to fixed rates for stability in distribution income.

FURTHER QUESTIONS FROM UNITHOLDERS

Question No. 1

Finance costs increased by 48.2% for FY2022. What is the impact to the top and bottom line for each quarter percent increase in interest rate?

The increase of 48.2% is a comparison between 16 months ended 31 December 22 and 12 months ended 31 August 22.

For a calendar year 12 months "CY" comparison, finance costs increased 21% as stated at page 6 of the CY22 vs CY21 financial statements posted on SGXNet (refer to link CY22 vs CY21).

PARAGON REIT has entered into interest rate swaps, and as at 31 December 2022, 84% of the Group's debt is at fixed rates, which mitigates the impact of the rising interest rate environment.

Separately, on page 184 of the annual report (refer to link Annual Report), it is estimated that if interest rates increased 0.50% with all other variables held constant, finance costs will increase by approximately S$1.0 million. Correspondingly, increase of interest rates by 0.25% is estimated to increase finance costs by approximately S$0.5 million.

Question No. 2

PARAGON REIT's Annual Report (page 105) indicated solar panels as one of the asset enhancement initiatives (AEIs). What is the level of solar photovoltaics (PV) adoption for the five properties?

For the Australian assets, Westfield Marion Shopping Centre located in South Australia has had solar panels installed since 2016. Figtree Grove Shopping Centre, located in New South Wales is currently undergoing feasibility studies for the adoption of solar PVs.

For the Singapore assets, a consultant was appointed, and feasibility studies have been completed.

PARAGON REIT is currently evaluating the implementation of the solar PVs at the assets. PARAGON REIT remains committed to minimising emissions and incorporating sustainability in its business practices.

<u>Question No. 3</u>

The REIT remained the same size, but the number of Board members has expanded from 7 to 10. What is the rationale for the increase? What is the increase in cost to unitholders?

Currently, the Board comprises nine Directors, of whom six are Independent Directors and three are Non-Independent Non-Executive Directors.

The Board considers that its present size is appropriate to facilitate effective decision making, a balanced exchange of views, and effective oversight of the management.

The Manager recognises the benefits of having a Board with diverse backgrounds, perspectives, skills, and experience, in enhancing the Board’s ability to provide strategic direction.

There is no cost to Unitholders. PARAGON REIT has no personnel of its own. The Manager hires qualified staff to manage the operations of the Manager and PARAGON REIT, and the remuneration of Directors and staff of the Manager is paid by the Manager.

Issued by PARAGON REIT Management Pte. Ltd.
As manager of PARAGON REIT

13 April 2023

IMPORTANT NOTICE

This announcement is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for Units.

The value of Units and the income derived from them, if any, may fall or rise. Units are not obligations of, deposits in, or guaranteed by the Manager or any of its affiliates. An investment in Units is subject to investment risks, including the possible loss of the principal amount invested.

Investors should note that they will have no right to request the Manager to redeem or purchase their Units for so long as the Units are listed on Singapore Exchange Securities Trading Limited (the "**SGX-ST**"). It is intended that Unitholders may only deal in their Units through trading on the SGX-ST. The listing of the Units on the SGX-ST does not guarantee a liquid market for the Units.