

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 Third Quarter Ended 31 March 2014

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INTRODUCTION

Year-on-year revenue and net property income increased by 3.1% and 2.5% respectively in the third quarter ended 31 March 2014 ("**3Q FY2014**") on the back of the acquisitions of 4 properties between February 2013 and June 2013. On a quarter-on-quarter basis, revenue remained stable while net property income fell by 4.1% due mainly to seasonal increases in leasing-related expenses during the leasing season (which nevertheless had contributed to the improvement in the average occupancy rate in 3Q FY2014) as well as maintenance and utilities expenses during the winter months.

The average occupancy rate of Saizen Real Estate Investment Trust's ("**Saizen REIT**") properties was 91.1% in 3Q FY2014, as compared to 92.2% in the third quarter ended 31 March 2013 ("**3Q FY2013**") and 90.6% in the preceding second quarter ended 31 December 2013 ("**2Q FY2014**").

Overall rental reversion of new contracts entered into in 3Q FY2014 was marginally lower by about 0.7% (3Q FY2013 and 2Q FY2014: lower by about 0.3% and 0.5% respectively) from previous contracted rates. Downward reversions were mainly recorded for expired contracts entered into prior to 2008 as the rent of such contracts had not been changed to prevailing market rates during their multiple contract renewals over the years. Meanwhile, upward reversions continued to be generally observed for expired contracts entered into from 2011 onwards.

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

Summary of results

Net asset value attributable to Unitholders decreased from JPY 27.5 billion as at 30 June 2013 to JPY 27.1 billion as at 31 March 2014, due mainly to the payment of distributions relating to total return of the Group over a period of twelve months, and partially offset by the total return of the Group for the nine-month financial period ended 31 March 2014 ("**YTD Mar 2014**").

After taking into account the Unit Consolidation (which was completed on 8 November 2013), the adjusted net asset value per Unit decreased from S\$1.24 as at 30 June 2013 to S\$1.17 as at 31 March 2014, due mainly to the depreciation of the JPY against the S\$ from JPY78.3/S\$ to JPY81.8/S\$.

The following is a summary of Saizen REIT's operating performance for 3Q FY2014, 2Q FY2014, 3Q FY2013.

	3Q FY2014¹	2Q FY2014²	3Q FY2013³
Gross revenue			
(S\$'000)	12,196⁴	12,303⁵	12,877⁶
(JPY'000)	989,058	989,182	959,366
Net property income			
(S\$'000)	8,154⁴	8,576⁵	8,659⁶
(JPY'000)	661,324	689,486	645,074
Net income from operations			
(S\$'000)	5,156⁴	5,588⁵	1,938⁶
(JPY'000)	418,174	449,287	144,363

Notes:

1. *There were 139 properties at the start and at the end of 3Q FY2014.*
2. *There were 139 properties at the start and at the end of 2Q FY2014.*
3. *There were 136 properties at the start of 3Q FY2013 and 137 properties at the end of 3Q FY2013.*
4. *Based on an average exchange rate of JPY81.1/S\$ between 1 January 2014 and 31 March 2014.*
5. *Based on an average exchange rate of JPY80.4/S\$ between 1 October 2013 and 31 December 2013.*
6. *Based on an average exchange rate of JPY74.5/S\$ between 1 January 2013 and 31 March 2013.*

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 exclusive access to Japanese residential real estate.

The principal investment objective of Saizen REIT is to invest in a diversified portfolio of income-producing real estate located in Japan, which is used primarily for residential and residential-related purposes, and real estate-related assets in connection with the foregoing.

Saizen REIT’s portfolio as at 31 March 2014 comprised 139 properties located in 14 cities in Japan, and was valued at approximately JPY 41.3 billion (S\$505 million¹).

Saizen REIT invests in the properties in Japan via partnership agreements (“**TK agreements**”) with local property holding companies known as *tokumei kumiai* operators (“**TK operators**”). As at the date hereof, Saizen REIT has entered into TK agreements with 13 TK operators, being YK JOF, YK Kokkei, YK Keizan, YK Shintoku, YK Shingen, YK Shinzan, GK Chosei, GK Choan, GK Chogen, GK Gyokou, GK Gyosei, GK Tosei and GK Gyotatsu.

The manager of Saizen REIT is Japan Residential Assets Manager Limited (the “**Manager**”) and the asset manager of the TK operators is KK Tenyu Asset Management (the “**Asset Manager**”) (together, the “**Management Team**”).

Note:

1. *Based on an exchange rate of JPY81.8/S\$ as at 31 March 2014, which is applied throughout this announcement unless stated otherwise.*

INFORMATION REQUIRED FOR ANNOUNCEMENTS**1(a) Statement of total return (for the Group) (3Q FY2014 vs 3Q FY2013)**

	3Q FY2014 (JPY'000)	3Q FY2013 (JPY'000)	Increase / (Decrease) %
Gross revenue	989,058	959,366	3.1
Property operating expenses	(327,734)	(314,292)	4.3
Net property income	661,324	645,074	2.5
Manager's management fees	(50,767)	(46,876)	8.3
Asset management fees	(8,396)	(4,539)	85.0
Trustee's fee	(2,567)	(3,425)	(25.1)
Finance costs ¹	(96,198)	(451,090)	(78.7)
Interest income	789	807	(2.2)
Other (expenses)/income ²	(16,591)	83,444	NM ³
Other trust expenses	(25,179)	(23,195)	8.6
Other administrative expenses	(44,241)	(55,837)	(20.8)
Net income from operations	418,174	144,363	>100.0
Gain on divestment of properties	-	8,941	(100.0)
Net fair value loss on financial derivatives			
- fair value through profit or loss ⁴	(99,217)	(82,060)	(20.9)
Net fair value loss on investment properties ⁵	-	(87,340)	(100.0)
Total return/(loss) for the period before income tax⁶	318,957	(16,096)	NM ³
Income tax ⁷	(49,910)	(29,154)	71.2
Total return/(loss) for the period after income tax	269,047	(45,250)	NM ³
Attributable to:			
Unitholders	264,162	(46,210)	NM ³
Non-controlling interests	4,885	960	>100.0
	269,047	(45,250)	NM ³

Notes:

1. Finance costs comprised the following:

	3Q FY2014 (JPY'000)	3Q FY2013 (JPY'000)	Increase / (Decrease) %
(i) interest expenses	(89,605)	(93,207)	(3.9)
(ii) amortisation of loan commission	(12,657)	(13,939)	(9.2)
(iii) loan commission written-off	-	(147,995)	(100.0)
(iv) guarantor fee to asset manager	(7,834)	(7,218)	8.5
(v) cost of refinancing/repayment	-	(135,342)	(100.0)
(vi) foreign exchange difference from financing	13,898	(53,389)	NM ³

Loan commission written-off and cost of refinancing/repayment in 3Q FY2013 related to the refinancing of loans. Loan commission written-off is non-cash in nature, while the cost of refinancing/repayment comprised swap breakage costs.

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

3. NM denotes not meaningful.

4. Net fair value loss on financial derivatives comprised the following:

	3Q FY2014 (JPY'000)	3Q FY2013 (JPY'000)	Increase / (Decrease) %
(i) realised loss (payment) on interest rate swap	(19,908)	(16,399)	21.4
(ii) unrealised fair value loss on interest rate swap	(40,613)	(71,366)	(43.1)
(iii) fair value (loss)/gain on forward contract and/or zero cost collar	(38,696)	5,705	NM ³

The unrealised fair value loss on interest rate swap in 3Q FY2013 was mainly due to an interest rate swap arrangement entered into in connection with a new loan obtained in February 2013. Unrealised fair value loss on interest rate swap is non-cash in nature.

5. Net fair value loss on investment properties comprised transaction expenses relating to property acquisitions.

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

	3Q FY2014 (JPY'000)	3Q FY2013 (JPY'000)	Increase / (Decrease) %
(i) impairment on trade receivables	(873)	(472)	85.0
(ii) trade receivables written-off	(53)	(174)	(69.5)

7. Income tax comprised the imputed 20.42% withholding tax payable upon the appropriation of profit to Saizen REIT from Saizen REIT's TK operators. Property depreciation expenses, recognised by these TK operators under the accounting regulations in Japan (ie. Japanese GAAP), are tax deductible for the purpose of computing the withholding tax payable. Property depreciation expenses amounted to JPY 202.2 million and JPY 192.7 million in 3Q FY2014 and 3Q FY2013 respectively.

Statement of total return (for the Group) (YTD Mar 2014 vs YTD Mar 2013)

	YTD Mar 2014 (JPY'000)	YTD Mar 2013 (JPY'000)	Increase / (Decrease) %
Gross revenue	2,967,641	2,831,123	4.8
Property operating expenses	(915,616)	(853,035)	7.3
Net property income	2,052,025	1,978,088	3.7
Manager's management fees	(154,557)	(140,688)	9.9
Asset management fees	(25,674)	(22,150)	15.9
Trustee's fee	(6,673)	(7,827)	(14.7)
Finance costs ¹	(391,890)	(713,617)	(45.1)
Interest income	2,167	1,749	23.9
Other trust expenses	(85,172)	(60,898)	39.9
Other income ²	49,354	188,635	(73.8)
Other administrative expenses	(119,537)	(139,062)	(14.0)
Net income from operations	1,320,043	1,084,230	21.7
Gain on divestment of properties	-	15,807	(100.0)
Net fair value loss on financial derivatives			
- fair value through profit or loss ³	(121,844)	(112,759)	8.1
Net fair value loss on investment properties ⁴	-	(181,371)	(100.0)
Total return for the period before income tax⁵	1,198,199	805,907	48.7
Income tax ⁶	(144,473)	(122,731)	17.7
Total return for the period after income tax	1,053,726	683,176	54.2
Attributable to:			
Unitholders	1,036,993	672,468	54.2
Non-controlling interests	16,733	10,708	56.3
	1,053,726	683,176	54.2

Notes:

1. Finance costs comprised the following:

	YTD Mar 2014 (JPY'000)	YTD Mar 2013 (JPY'000)	Increase / (Decrease) %
(i) interest expenses	(275,305)	(274,427)	0.3
(ii) amortisation of loan commission	(36,876)	(43,314)	(14.9)
(iii) loan commission written-off	-	(147,995)	(100.0)
(iv) guarantor fee to asset manager	(23,874)	(21,212)	12.5
(v) cost of refinancing/repayment	-	(135,913)	(100.0)
(vi) foreign exchange difference from financing	(55,835)	(90,756)	(38.5)

Loan commission written-off and cost of refinancing/repayment in YTD Mar 2013 related primarily to the refinancing of loans. Loan commission written-off is non-cash in nature, while the cost of refinancing/repayment comprised swap breakage costs.

2. Other income comprised mainly unrealised foreign exchange gain on the translation of S\$-denominated bank balances to JPY for the preparation of the Group's financial statements.
3. Net fair value loss on financial derivatives comprised the following:

	YTD Mar 2014 (JPY'000)	YTD Mar 2013 (JPY'000)	Increase / (Decrease) %
(i) realised loss (payment) on interest rate swap	(60,852)	(48,864)	24.5
(ii) unrealised fair value loss on interest rate swap	(95,662)	(69,600)	37.4
(iii) fair value gain on forward contract and zero cost collar	34,670	5,705	>100.0

4. Net fair value loss on investment properties comprised transaction expenses relating to property acquisitions.

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

	YTD Mar 2014 (JPY'000)	YTD Mar 2013 (JPY'000)	Increase / (Decrease) %
(i) write back of impairment on trade receivables	477	2,330	(79.5)
(ii) trade receivables written-off	(893)	(3,105)	(71.2)

6. Income tax comprised the imputed 20.42% (from 1 January 2013; previously 20%) withholding tax payable upon the appropriation of profit to Saizen REIT from Saizen REIT's TK operators. Property depreciation expenses, recognised by these TK operators under the accounting regulations in Japan (ie. Japanese GAAP), are tax deductible for the purpose of computing the withholding tax payable. Property depreciation expenses amounted to JPY 605.7 million and JPY 568.9 million in YTD Mar 2014 and YTD Mar 2013 respectively.

Statement of distributable income from operations

	3Q FY2014 (JPY'000)	3Q FY2013 (JPY'000)
Total return/(loss) for the period after income tax before distribution attributable to Unitholders	264,162	(46,210)
Adjustments ¹	62,412	307,309
Adjusted return for the period ²	326,574	261,099
Cash deployed for loan principal repayment ³	(159,136)	(93,515)
Cash deployed for one-off borrowing costs ⁴	-	(196,841)
Income/(loss) generated during the period after adjusting for loan principal repayment and one-off borrowing costs	167,438	(29,257)
Income available for distribution to Unitholders at the beginning of the period	752,776	719,895
Previous distribution paid during the period ⁵	(743,335)	(703,802)
Distributable income/(adjusted loss) from operations at the end of the period	176,879	(13,164)
Distribution to Unitholders	NA ⁶	NA ⁶

Notes:

- Adjustments comprised mainly changes to the level of cash reserves held under loan agreements and non-cash items, namely fair value loss/gain on forward contract and/or zero cost collar, unrealised fair value loss on interest rate swap, amortisation of loan commission, loan commission written-off, gain on divestment of properties, net fair value loss on investment properties and unrealised foreign exchange differences.
- The adjusted return of JPY 261.1 million for 3Q FY2013 was affected by one-off swap breakage costs of JPY 135.3 million which was incurred in connection with the refinancing of loans in February 2013 and March 2013.

After adding back the one-off swap breakage costs of JPY 135.3 million, the adjusted return for 3Q FY2013 of JPY 396.4 million would have been higher than that for 3Q FY2014 (JPY 326.6 million). This was mainly attributable to a one-off release of previously accumulated cash reserves (held under loan agreements) following changes to the level of cash reserves being held after the refinancing of loans in 3Q FY2013.
- The amount deployed for loan principal repayment comprised mainly loan principal amortisation payments. While loan principal amortisation reduces cash available for distribution, it results in savings on interest expenses going forward.

It is Saizen REIT's intention to utilise, when possible, undeployed capital resources to offset loan principal amortisation, thereby effectively making available cash from operations for distributions. The decision on such a possible use of capital resources will only be made when future distributions are announced.
- The amount deployed for one-off borrowing costs in 3Q FY2013 comprised one-off costs (eg. upfront loan commissions and legal and professional fees) incurred in respect of the refinancing of loans.
- Distribution previously paid in 3Q FY2014 was related to the distribution declared for the six-month financial period ended 31 December 2013, while distribution previously paid in 3Q FY2013 was related to the distribution declared for the six-month financial period ended 31 December 2012.
- NA denotes not applicable.

Saizen REIT's distribution policy is to distribute at least 90% of its income available for distribution to Unitholders.

1(b)(i) Balance sheet

	The Group	
	As at 31 Mar 2014 (JPY'000)	As at 30 Jun 2013 (JPY'000)
Current assets		
Cash and cash equivalents	5,069,901	5,994,633
Deposits with cash management agents	510	540
Trade and other receivables	20,665	27,829
Other current assets	62,271	62,853
Derivative financial instruments ¹	14,179	31,583
	<u>5,167,526</u>	<u>6,117,438</u>
Non-current assets		
Investment properties	41,255,745	41,177,500
	<u>41,255,745</u>	<u>41,177,500</u>
Total assets	<u>46,423,271</u>	<u>47,294,938</u>
Current liabilities		
Rental deposits	460,304	474,308
Rental received in advance	266,957	306,486
Borrowings	1,565,025	1,519,388
Other current liabilities	320,967	365,124
Current tax liabilities	111,234	177,529
Derivative financial instruments ²	5,861	28,679
	<u>2,730,348</u>	<u>2,871,514</u>
Non-current liabilities		
Rental deposits	31,210	33,828
Borrowings	16,016,555	16,462,821
Derivative financial instruments ³	341,433	245,771
Other non-current liabilities	15,882	15,882
Deferred tax liabilities	104,861	104,861
	<u>16,509,941</u>	<u>16,863,163</u>
Total liabilities	<u>19,240,289</u>	<u>19,734,677</u>
Total net assets	<u>27,182,982</u>	<u>27,560,261</u>
Represented by:		
Unitholders	27,088,524	27,482,536
Non-controlling Interests	94,458	77,725
	<u>27,182,982</u>	<u>27,560,261</u>
Number of Units in issue ('000)	<u>283,612</u>	<u>283,612⁴</u>
Net asset value per Unit attributable to Unitholders (JPY)	<u>95.51</u>	<u>96.90⁴</u>

Notes:

1. The derivative financial instruments (current assets) as at 31 March 2014 comprised the zero cost collar, valued at its minimum strike, entered into for the purpose of hedging the range of JPY-S\$ exchange rate of Saizen REIT's distribution payment which is expected to take place in September 2014.

The derivative financial instruments (current assets) as at 30 June 2013 comprised forward contracts entered into for the purpose of hedging the JPY-S\$ exchange rate of Saizen REIT's distribution payment which was paid in September 2013.

2. The derivative financial instruments (current liabilities) as at 31 March 2014 comprised the zero cost collar, valued at its maximum strike, entered into for the purpose of hedging the range of JPY-S\$ exchange rate of Saizen REIT's distribution payment which is expected to take place in September 2014.

The derivative financial instruments (current liabilities) as at 30 June 2013 comprised forward contracts entered into for the purpose of hedging the JPY-S\$ exchange rate of Saizen REIT's distribution payment which was paid in March 2014.

3. The derivative financial instruments (non-current liabilities) comprised interest rate swaps used to hedge against fluctuations in interest rates of loans.

4. The number of Units in issue and net asset value per Unit have been adjusted for the effects of Unit Consolidation which was completed on 8 November 2013.

	Saizen REIT	
	As at 31 Mar 2014 (JPY'000)	As at 30 Jun 2013 (JPY'000)
Current assets		
Cash and cash equivalents	1,817,328	1,054,856
Distribution receivables	441,848	861,502
Other receivables	996	439
Other assets	3,192	1,376
Derivative financial instrument	14,179	31,583
	<u>2,277,543</u>	<u>1,949,756</u>
Non-current assets		
Investment in subsidiaries	25,500,662	26,824,866
	<u>25,500,662</u>	<u>26,824,866</u>
Total assets	<u>27,778,205</u>	<u>28,774,622</u>
Current liabilities		
Borrowings ¹	981,078	939,386
Other current liabilities	81,249	124,953
Current tax liabilities	89,759	173,578
Derivative financial instrument	5,861	28,679
	<u>1,157,947</u>	<u>1,266,596</u>
Total liabilities	<u>1,157,947</u>	<u>1,266,596</u>
Total net assets	<u>26,620,258</u>	<u>27,508,026</u>
Represented by:		
Unitholders	<u>26,620,258</u>	<u>27,508,026</u>
Number of Units in issue ('000)	<u>283,612</u>	<u>283,612²</u>
Net asset value per Unit attributable to Unitholders(JPY)	<u>93.86</u>	<u>96.99²</u>

Notes:

1. This comprised advances drawn down from credit facilities which are backed by cash deposits.
2. The number of Units in issue and net asset value per Unit have been adjusted for the effects of Unit Consolidation which was completed on 8 November 2013.

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

	As at 31 Mar 2014 (JPY'000)	As at 30 Jun 2013 (JPY'000)
Secured borrowings – Bank loans		
Amount repayable in one year or less	1,565,025	1,519,388
Amount repayable after one year	16,016,555	16,462,821
	<u>17,581,580</u>	<u>17,982,209</u>

Borrowings as at 31 March 2014 were secured over investment properties valued at JPY 39.3 billion in aggregate and bank deposits of JPY 1.0 billion.

1(c) Cash flow statement (for the Group) (3Q FY2014 vs 3Q FY2013)

	3Q FY2014 (JPY'000)	3Q FY2013 (JPY'000)
Operating activities		
Total return/(loss) for the period after income tax	269,047	(45,250)
Adjustments for:		
Income tax	49,910	29,154
Gain on divestment of properties	-	(8,941)
Interest income	(789)	(807)
Interest expenses ¹	102,262	390,483
Net fair value loss on financial derivatives	99,217	82,060
Net fair value loss on investment properties	-	87,340
Unrealised foreign exchange gain	(14,679)	(23,119)
Operating profit before working capital changes	504,968	510,920
Changes in working capital		
Deposit with cash management agents	15	83
Trade and other receivables	(2,013)	(5,682)
Other current assets	(18,218)	(9,720)
Other current liabilities	75,444	61,289
Rental received in advance	(17,525)	2,614
Rental deposits	6,260	15,822
Cash generated from operations	548,931	575,326
Income tax	-	64
Withholding tax paid	(88,694)	(96,676)
Cash flows provided by operating activities	460,237	478,714
Investing activities		
Net cash effect on acquisition of subsidiary	-	(40)
Capital expenditure/addition of investment properties	(10,904)	(1,616,772) ²
Proceeds from sale of investment properties	-	49,641
Cash flows used in investing activities	(10,904)	(1,567,171)
Financing activities		
Bank borrowings obtained	-	12,584,168 ³
Repayment of bank borrowings	(159,136)	(8,238,010) ⁴
Distribution to Unitholders	(743,335)	(703,802)
Interest received	775	807
Interest paid ¹	(90,877)	(418,795)
Payment of interest rate swap	(24,111)	(16,399)
Bank deposits pledged for bank borrowings	14,680	200,000
Cash flows (used in)/provided by financing activities	(1,002,004)	3,407,969
Net (decrease)/increase in cash and cash equivalents	(552,671)	2,319,512
Cash and cash equivalents at beginning of the period	4,446,494	3,537,256
Cash and cash equivalents at end of the period ⁵	3,893,823	5,856,768

Notes:

- Interest expenses and interest paid included amortisation of loan commission, loan commission written-off and cost of refinancing/repayment. The decrease was mainly due to loan commission written-off and cost of refinancing/repayment relating to the refinancing of loans in 3Q FY2013.*
- 2 properties were acquired in 3Q FY2013.*
- Proceeds from bank borrowings in 3Q FY2013 comprised (i) a loan of JPY10.38 billion obtained in February 2013 (ii) a loan of JPY1.9 billion obtained in March 2013, and (iii) advances of S\$4 million (JPY 304 million) drawn down from a credit facility.*
- Repayment of bank borrowings in 3Q FY2013 comprised mainly the full repayment of the previous loans of YK JOF, YK Keizan, YK Shintoku, YK Shingen, YK Shinzan and GK Chosei (these were refinanced with 2 new loans in 3Q FY2013).*

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

	3Q FY2014 (JPY'000)	3Q FY2013 (JPY'000)
Cash and bank balances (per balance sheet)	5,069,901	6,963,798
Less: Bank deposits pledged	<u>(1,176,078)</u>	<u>(1,107,030)</u>
	<u><u>3,893,823</u></u>	<u><u>5,856,768</u></u>

Bank deposits pledged related to minimum bank balances which have to be maintained by Saizen REIT, GK Choan and GK Tosei under the terms of their respective loans or credit facilities.

1 (c) Cash flow statement (for the Group) (YTD Mar 2014 vs YTD Mar 2013)

	YTD Mar 2014 (JPY'000)	YTD Mar 2013 (JPY'000)
Operating activities		
Total return for the period after income tax before distribution	1,053,726	683,176
Adjustments for:		
Income tax	144,473	122,731
Interest income	(2,167)	(1,749)
Interest expenses	312,181	601,649 ¹
Net fair value loss on financial derivatives	121,844	112,759
Gain on divestment of properties	-	(15,807)
Net fair value losses on investment properties	-	181,371
Unrealised foreign exchange gain	41,692	14,248
Operating profit before working capital changes	<u>1,671,749</u>	<u>1,698,378</u>
Changes in working capital		
Deposit with cash management agents	30	67
Trade and other receivables	7,148	4,144
Other current assets	861	(43,439)
Other current liabilities	(44,896)	(23,200)
Rental received in advance	(39,529)	10,372
Rental deposits	(16,622)	15,617
Cash generated from operations	<u>1,578,741</u>	<u>1,661,939</u>
Income tax paid	(1,140)	(1,102)
Withholding tax paid	(209,629)	(168,286)
Cash flows provided by operating activities	<u><u>1,367,972</u></u>	<u><u>1,492,551</u></u>
Investing activities		
Net cash effect on acquisition of subsidiary	-	(40)
Capital expenditure/addition of investment properties	(78,245)	(3,046,831)
Proceeds from sale of investment properties	-	129,807
Cash flows used in investing activities	<u>(78,245)</u>	<u>(2,917,064)</u>
Financing activities		
Bank borrowings obtained	-	13,448,463
Repayment of bank borrowings	(476,083)	(8,601,654)
Distribution to Unitholders	(1,431,005)	(1,273,453)
Interest received	2,183	1,702
Interest paid ¹	(277,957)	(606,776)
Payment for Unit buy-back	-	(61,802)
Payment of interest rate swap	(31,597)	(48,865)
Bank deposits pledged for bank borrowings	(41,692)	(642,711)
Cash flows (used in)/provided by financing activities	<u>(2,256,151)</u>	<u>2,214,904</u>
Net (decrease)/increase in cash and cash equivalents	(966,424)	790,391
Cash and cash equivalents at beginning of the period	4,860,247	5,066,377
Cash and cash equivalents at end of the period²	<u><u>3,893,823</u></u>	<u><u>5,856,768</u></u>

Notes:

1. Interest expenses and interest paid in YTD Mar 2013 included amortisation of loan commission, loan commission written-off and cost of refinancing/repayment.
2. For the purpose of presenting the consolidated cash flow statement, the consolidated cash and cash equivalents comprised the followin

	YTD Mar 2014 (JPY'000)	YTD Mar 2013 (JPY'000)
Cash and bank balances (per balance sheet)	5,069,901	6,963,798
Less: Bank deposits pledged	<u>(1,176,078)</u>	<u>(1,107,030)</u>
	<u>3,893,823</u>	<u>5,856,768</u>

Bank deposits pledged related to minimum bank balances which had to be maintained by Saizen REIT, GK Choan and GK Tosei under the terms of their respective loans and credit facilities.

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

<u>The Group</u>	YTD Mar 2014 (JPY'000)	YTD Mar 2013 (JPY'000)
OPERATIONS		
Balance as at beginning of the period	(12,242,909)	(12,623,323)
Total return for the period	1,036,993	672,468
Distribution to Unitholders	<u>(1,156,005)</u>	<u>(1,273,454)</u>
Balance as at end of period	<u>(12,361,921)</u>	<u>(13,224,309)</u>
UNITHOLDERS CONTRIBUTION		
Balance as at beginning of the period	39,725,445	39,796,796
Distribution to Unitholders ¹	(275,000)	-
Cancellation of Units pursuant to Unit buy-back	-	(61,650)
Costs relating to Unit buy-back	-	(152)
Balance as at end of period	<u>39,450,445</u>	<u>39,734,994</u>
TOTAL ATTRIBUTABLE TO UNITHOLDERS	<u>27,088,524</u>	<u>26,510,685</u>
NON-CONTROLLING INTERESTS		
Balance as at beginning of the period	77,725	58,853
Effect on investment in new TK operator	-	(40)
Total return for the period	16,733	10,708
Balance as at end of period	<u>94,458</u>	<u>69,521</u>
TOTAL	<u>27,182,982</u>	<u>26,580,206</u>
<u>Saizen REIT</u>		
	YTD Mar 2014 (JPY'000)	YTD Mar 2013 (JPY'000)
OPERATIONS		
Balance as at beginning of the period	(13,472,346)	(13,976,493)
Total return for the period	543,237	356,959
Distribution to Unitholders	<u>(1,156,005)</u>	<u>(1,273,454)</u>
Balance as at end of period	<u>(14,085,114)</u>	<u>(14,892,988)</u>
UNITHOLDERS CONTRIBUTION		
Balance as at beginning of the period	40,980,372	41,051,723
Distribution to Unitholders	(275,000)	-
Cancellation of Units pursuant to Unit buy-back	-	(61,650)
Costs relating to Unit buy-back	-	(152)
Balance as at end of period	<u>40,705,372</u>	<u>40,989,921</u>
TOTAL ATTRIBUTABLE TO UNITHOLDERS	<u>26,620,258</u>	<u>26,096,933</u>

Note:

1. This relates to the utilisation of warrant proceeds to offset loan amortisation for distribution purposes.

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

	3Q FY2014 (Units)	3Q FY2013 (Units)
Issued Units as at beginning of period	283,611,720	1,418,763,795
Adjustment arising from Unit consolidation ¹	-	(1,135,011,036)
Issued Units as at end of period	<u>283,611,720</u>	<u>283,752,759</u>

Note:

1. *The number of Units has been adjusted for the effects of Unit Consolidation which was completed on 8 November 2013. Please refer to Saizen REIT's circular dated 30 September 2013 for further information on the Unit Consolidation.*

Unitholders approved the renewal of Saizen REIT's Unit buy-back mandate on 30 October 2013.

Utilisation of warrant proceeds

Total warrant proceeds from warrant exercises amounted to S\$42.8 million, of which approximately S\$0.9 million has been used for Units buy-backs, S\$0.3 million has been used for working capital purposes (daily operating expenses) and approximately S\$20.1 million had been deployed towards the repayment of the previous loan of YK Shintoku and approximately S\$3.4 million had been deployed for offsetting loan principal repayment under the distribution for six-month period ended 31 December 2013. Warrant proceeds have been deployed towards uses as approved by Unitholders.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

These figures have neither been audited nor reviewed by our auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

For the current reporting period, the Group has applied the same accounting policies and methods of computation as those applied in its audited financial statements for the financial year ended 30 June 2013.

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.

The Group adopted the new and amended FRS and Interpretations to FRS ("INT FRS") that are mandatory for application from 1 July 2013. The adoption of these new or amended FRS and INT FRS do not result in material changes to the Group's accounting policies and has no material effect on the amounts reported for the current financial period.

6. Earnings per Unit for the financial period (Group)

Earnings per Unit (“EPU”) of the Group for the current financial period reported on, and the corresponding period of the immediately preceding financial year:-

- (a) Basic EPU
Basic EPU amounts are calculated by dividing the profit attributable to the Unitholders of the Group by the weighted average number of units in issue during the financial period.
- (b) Diluted EPU
The diluted EPU is the same as the basic EPU as no dilutive instruments were in issue during the financial period.

	3Q FY2014	3Q FY2013	YTD Mar 2014	YTD Mar 2013
Total return /(loss) for the period attributable to Unitholders for basic and diluted EPU (JPY'000)	264,162	(46,210)	1,036,993	672,468
Basic EPU - basic and diluted (JPY)	0.93	(0.16)	3.66	2.37
(cents)	1.15 ¹	(0.21) ²	4.55 ³	3.49 ⁴
Weighted average number of Units ⁵	283,611,720	283,752,759	283,611,720	284,250,854

Notes:

1. Based on an average exchange rate of JPY81.1/S\$ between 1 January 2014 and 31 March 2014.
2. Based on an average exchange rate of JPY74.5/S\$ between 1 January 2013 and 31 March 2013.
3. Based on an average exchange rate of JPY80.4/S\$ between 1 July 2013 and 31 March 2014.
4. Based on an average exchange rate of JPY67.9/S\$ between 1 July 2012 and 31 March 2013.
5. The weighted average number of Units have been adjusted for the effects of Unit Consolidation which was completed on 8 November 2013.

7. Net asset value (“NAV”) per Unit based on issued Units at the end of 31 March 2014 and 30 June 2013

The Group

		As at 31 Mar 2014	As at 30 Jun 2013
NAV per Unit based on issued Units at the end of financial period	(JPY)	95.51	96.90 ³
	(S\$)	1.17 ¹	1.24 ²

Saizen REIT

		As at 31 Mar 2014	As at 30 Jun 2013
NAV per Unit based on issued Units at the end of financial period	(JPY)	93.86	96.99 ³
	(S\$)	1.15 ¹	1.24 ²

Notes:

1. Based on an exchange rate of JPY81.8/S\$ as at 31 March 2014.
2. Based on an exchange rate of JPY78.3/S\$ as at 30 June 2013.
3. NAV per Unit has been adjusted for the effects of Unit Consolidation which was completed 8 November 2013.

8. Review of performance

Income statement: 3Q FY2014 vs 3Q FY2013

	3Q FY2014 ¹ (JPY'000)	3Q FY2013 ² (JPY'000)	Increase/ (Decrease) %
Gross revenue	989,058	959,366	3.1
Property operating expenses ³	(327,734)	(314,292)	4.3
Net property income	661,324	645,074	2.5
Asset management fees	(8,396)	(4,539)	85.0
Interest expenses ⁴	(109,513)	(109,606)	(0.1)
Guarantor fee to asset manager	(7,834)	(7,218)	8.5
Other administrative expenses	(28,492)	(49,653)	(42.6)
Net income from property operations	507,089	474,058	7.0
Interest income	789	807	(2.2)
Net foreign exchange (loss)/gain ⁵	(2,693)	30,055	NM ⁸
Other operating expenses ⁶	(106,919)	(376,956)	(71.6)
Adjustment ⁷	19,908	16,399	21.4
Net income from operations	418,174	144,363	>100.0

Notes:

- There were 139 properties at the start and at the end of 3Q FY2014.
- There were 136 properties at the start of 3Q FY2013 and 137 properties at the end of 3Q FY2013.
- Property operating expenses comprised the following:

	3Q FY2014 (JPY'000)	3Q FY2013 (JPY'000)	Increase / (Decrease) %
Property tax	70,761	64,122	10.4
Property manager's fees	38,618	37,859	2.0
Operation and maintenance expenses	49,254	49,127	0.3
Repairs and renovations	55,142	51,635	6.8
Leasing and marketing expenses	41,787	39,048	7.0
Utilities charges	49,050	47,224	3.9
Insurance expenses	10,931	14,369	(23.9)
Impairment on trade receivables	873	472	85.0
Bad debt written-off	53	174	(69.5)
Consumption tax arising from operations	11,265	10,262	9.8
- Interest expenses included the realised loss (payment) on interest rate swap.
- Net foreign exchange (loss)/gain comprised mainly unrealised foreign exchange (loss)/gain on the translation of S\$-denominated bank balances to JPY for the preparation of the Group financial statements and foreign exchange differences from financing.
- Other operating expenses comprised Manager's management fees, Trustee's fee, other trust expenses, finance costs (excluding foreign exchange differences from financing, interest expenses and guarantor fee to asset manager) and REIT-level other administrative expenses.
- 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.
- NM denotes not meaningful.

Property-level operations

Gross revenue and net property income in 3Q FY2014 increased by 3.1% and 2.5% respectively on a year-on-year basis, due mainly to the acquisitions of 4 properties between February 2013 and June 2013.

The average occupancy rate was 91.1% in 3Q FY2014 as compared to 92.2% in 3Q FY2013, while overall rental reversion of new contracts entered into in 3Q FY2014 was marginally lower by about 0.7% (3Q FY2013: lower by about 0.3%) from previous contracted rates.

Property operating expenses increased by of 4.3% in 3Q FY2014 as compared with 3Q FY2013 in line with the increase in number of properties. Higher repairs and renovations expenses as well as advertising expenses, which increased by 6.8% and 7.0% respectively, were incurred to enhance the competitiveness of Saizen REIT's properties.

Asset management fees increased from JPY 4.5 million in 3Q FY2013 to JPY 8.4 million in 3Q FY2014, due mainly to under-accruals in 3Q FY2013 (which had been subsequently adjusted in the next quarter).

Guarantor fees of JPY 7.8 million in 3Q FY2014 were paid to the Asset Manager in respect of the loans of 10 TK operators.

Other administrative expenses decreased by 42.6%, due mainly to the non-recurrence of legal and professional fees which were incurred in connection with the refinancing of loans in 3Q FY2013.

Net income from property operations increased by 7.0% in 3Q FY2014, due mainly to the increase in net property income and the decrease in other administrative expenses.

Group-level operations

Net income from operations increased from JPY 144.4 million in 3Q FY2013 to JPY 418.2 million in 3Q FY2014, due mainly to (i) the increase in net income from property operations, and (ii) the non-recurrence of refinancing-related costs incurred in 3Q FY2013, namely swap breakage costs (JPY 135.5 million) and loan commission written-off (JPY 148.0 million).

This was partially offset by the recognition of a net foreign exchange loss of JPY 2.7 million in 3Q FY2014 as compared to a net foreign exchange gain of JPY 30.1 million in 3Q FY2013. The net foreign exchange loss in 3Q FY2014 was mainly due to the depreciation of the S\$ against the JPY in the quarter.

Other Group-level non-operating items

The unrealised fair value losses on interest rate swap of JPY 40.6 million and JPY 71.4 million in 3Q FY2014 and 3Q FY2013 respectively arose mainly due to interest rate swap arrangements entered into in connection with certain loans.

A fair value loss on forward contract and/or zero cost collar of JPY 38.7 million was recognised in 3Q FY2014 as S\$ had weakened against the JPY in 3Q FY2014. Comparatively, a fair value gain of JPY 5.7 million was recognised in 3Q FY2013.

Income statement: 3Q FY2014 vs 2Q FY2014

	3Q FY2014 ¹	2Q FY2014 ²	Increase/ (Decrease) %
	(JPY'000)	(JPY'000)	
Gross revenue	989,058	989,182	(0.0)
Property operating expenses ³	(327,734)	(299,696)	9.4
Net property income	661,324	689,486	(4.1)
Asset management fees	(8,396)	(8,254)	1.7
Interest expenses ⁴	(109,513)	(112,820)	(2.9)
Guarantor fee to asset manager	(7,834)	(7,983)	(1.9)
Other administrative expenses	(28,492)	(25,953)	9.8
Net income from property operations	507,089	534,476	(5.1)
Interest income	789	376	>100.0
Net foreign exchange (loss)/gain ⁵	(2,693)	10,170	NM ⁸
Other operating expenses ⁶	(106,919)	(116,129)	(7.9)
Adjustment ⁷	19,908	20,394	(2.4)
Net income from operations	418,174	449,287	(6.9)

Notes:

1. There were 139 properties at the start and at the end of 3Q FY2014.

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

3. Property operating expenses comprised the following:

	3Q FY2014 (JPY'000)	2Q FY2014 (JPY'000)	Increase / (Decrease) %
Property tax	70,761	70,684	0.1
Property manager's fees	38,618	39,206	(1.5)
Operation and maintenance expenses	49,254	45,318	8.7
Repairs and renovations	55,142	58,826	(6.3)
Leasing and marketing expenses	41,787	24,170	72.9
Utilities charges	49,050	41,592	17.9
Insurance expenses	10,931	11,029	(0.9)
Impairment/(write back) of impairment on trade receivables	873	(1,932)	NM ⁸
Bad debt written-off	53	537	(90.1)
Consumption tax arising from operations	11,265	10,266	9.7

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

5. Net foreign exchange (loss)/gain comprised mainly unrealised foreign exchange (loss)/gain on the translation of S\$-denominated bank balances to JPY for the preparation of the Group financial statements and foreign exchange differences from financing.

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

7. The adjustment relates to the realised loss (payment) on interest rate swap which is included as an interest expense in this section 8. The realised loss (payment) on interest rate swap is recognised under "Fair value gain/(loss) on financial derivatives – fair value through profit and loss" in the Statement of Total Return of the Group in section 1(a) of this announcement.

8. NM denotes not meaningful.

Property-level operations

On a quarter-to-quarter basis, the number of properties in Saizen REIT's portfolio had remained the same and gross revenue had remained stable in 3Q FY2014 as compared with 2Q FY2014.

The average occupancy rate was 91.1% in 3Q FY2014 as compared to 90.6% in 2Q FY2014, while overall rental reversion of new contracts entered into in 3Q FY2014 was marginally lower by about 0.7% (2Q FY2014: lower by about 0.5%) from previous contracted rates.

Net property income decreased by 4.1% in 3Q FY2014 as compared to 2Q FY2014 on the back of higher property operating expenses during the winter months and leasing season. Net income from property operations decreased by 5.1%.

Property operating expenses increased by 9.4%, due mainly to seasonal expenses. The increases in operation and maintenance expenses and utilities charges were mainly due to snow clearing and heating costs during the winter season. Leasing and marketing expenses rose during the leasing season.

Group-level operations

Net income from operations decreased from JPY 449.3 million in 2Q FY2014 to JPY 418.2 million in 3Q FY2014, due mainly to (i) the decrease in net income from property operations and (ii) a net foreign exchange loss of JPY 2.7 million in 3Q FY2014 as compared to a net foreign exchange gain of JPY 10.2 million in 2Q FY2014.

This was partially offset by a decrease in other trust expenses of 22.3% in 3Q FY2014, due mainly to lower audit fee expenses. Audit fee expenses decreased in 3Q FY2014 due mainly to the non-recurrence of adjustments made in 2Q FY2014 for under-accruals relating to fees previously recognised during the financial year.

Other Group-level non-operating items

A fair value loss on forward contract and/or zero cost collar of JPY 38.7 million was recognised in 3Q FY2014 as S\$ had weakened against the JPY in 3Q FY2014. Comparatively, a fair value gain of JPY 71.6 million was recognised in 2Q FY2014.

9. Variance between previous forecast or prospect statement and actual results

Saizen REIT has not disclosed any forecast to the market, and its results for the current financial period reported on were in line with its commentary under the section "Outlook and prospects" in the previous quarter's results announcement.

10. Outlook and prospects

The Bank of Japan expects Japan's economy to continue to recover moderately, although there may be some fluctuations caused by the increase in consumption tax from 5% to 8% which took effect from 1 April 2014.

The consumer price index for March 2014 showed a year-on-year increase of 1.6% and a month-on-month increase of 0.3%. Active job openings-to-applicants ratio has been above 1.0x for 3 months since December 2013, similar to the high levels of 2007. The new jobs openings-to-applicants ratio was 1.67 in February 2014, which is the highest level since 1992. Overall business sentiment across all industries, as measured by the Bank of Japan's Tankan diffusion index, is also at the highest level since 1991. These indicators do point toward an economic recovery that is on-track and gaining momentum.

The Management expects property operations to remain stable, generating steady cash flow to enable Saizen REIT to continue paying out semi-annual distributions in accordance with its distribution policy

Hedging of foreign exchange exposure

Saizen REIT has entered into a hedge for the distribution payment for the six-month financial period ending 30 June 2014 (the "2H FY2014 Distribution"), which is expected to be paid in September 2014. This hedge restricts the range of the JPY/S\$ rate to be applied to that distribution to a cap of JPY82.00/S\$ and a floor of JPY76.18/S\$. If the S\$ appreciates against

the JPY to a rate that is at or above JPY82.00/S\$, the 2H FY2014 Distribution will be converted at JPY82.00/S\$. If the S\$ depreciates against the JPY to a rate that is at or below JPY76.18/S\$, the 2H FY2014 Distribution will be converted at JPY76.18/S\$. If the exchange rate is between JPY76.18/S\$ and JPY82.00/S\$ when the 2H FY2014 Distribution is due, the distribution payment will be converted from JPY to S\$ via a spot trade at the prevailing exchange rate.

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

Management will look into further hedging for the distribution payment for the six-month financial period ending 30 June 2015 in due course.

Strategic review

Saizen REIT had appointed Deloitte & Touche Corporate Finance Pte Ltd as the independent adviser to assist the Board with a strategic review of options to enhance Unitholder value. This strategic review has reached an advanced stage, and an announcement is expected to be made as to its outcome by the first half of June 2014.

11. Distributions

11(a) Current financial period

Any distributions declared for the current financial period?

No.

11(b) Corresponding period of the immediately preceding financial year

Any distributions declared for the corresponding period of the immediately preceding financial year?

No.

11(c) Date payable

Not applicable.

11(d) Books closure date

Not applicable.

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

The Board does not propose to declare any distribution for 3Q FY2014.

13. Interested person transactions

Guarantor fees paid to the Asset Manager amounted to an aggregate of JPY 7.8 million (S\$0.1 million) in 3Q FY2014.

Property management and maintenance fees payable/paid to a related company of the Asset Manager amounted to an aggregate of JPY 6.3 million (S\$0.1 million) in 3Q FY2014.

Fees paid to the Asset Manager for the rental of office premises amounted to JPY 61,200 (S\$748) in 3Q FY2014.

14. General mandate for interested person transactions

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

15. Confirmation by Directors pursuant to Clause 705(5) of the Listing Manual of the SGX-ST

The Board of Directors of the Manager has confirmed that, to the best of their knowledge, nothing has come to their attention which may render the financial results for the quarter ended 31 March 2014 to be false or misleading in any material respect.

This release may contain forward-looking statements that involve risks and uncertainties. Future performance, outcomes and results may differ materially from those expressed in forward-looking statements as a result of a number of risks, uncertainties and assumptions. Representative examples of these factors include (without limitation) general industry and economic conditions, interest rate trends, cost of capital and capital availability, competition from other companies, shifts in tenant demands, changes in operating expenses, governmental and public policy changes and the continued availability of financing in the amounts and the terms necessary to support future business. You are cautioned not to place undue reliance on these forward looking statements, which are based on the current view of Management Team on future events.

BY ORDER OF THE BOARD

Chang Sean Pey
Co-Chief Executive Officer
Japan Residential Assets Manager Limited
(Company Registration No. 200712125H)
As Manager of Saizen Real Estate Investment Trust

8 May 2014