

Issuer: BHG Retail Trust Management Pte Ltd

Security: BHG Retail REIT

Meeting details:

Date: 20 April 2018

Time: 10.00 a.m.

Venue: Level 2, Conrad Centennial Singapore, Grand Salon, 2 Temasek Boulevard, Singapore 038982

Company Description

BHG Retail REIT is the first pure-play China Retail REIT sponsored by a leading China integrated retail group. The REIT was listed on the Main Board of the Singapore Exchange Securities Trading Limited on 11 December 2015. The principal investment strategy of BHG Retail REIT is to invest, directly or indirectly, in a diversified portfolio of income-producing real estate which is used primarily for retail purposes (whether either wholly or partially), as well as real estate-related assets in relation to the foregoing, with an initial focus on China. Its portfolio comprises five retail properties, Beijing Wanliu (60%), Chengdu Konggang, Hefei Mengchenglu, Xining Huayuan, Dalian Jinsanjiao located in Tier 1, Tier 2 and other cities of significant economic potential in China. As at 31 December 2017, the portfolio gross floor area ("GFA") of about 264,000 sqm, has a committed occupancy of 99.7%. As at 31 December 2017 (date of latest valuation), total appraised value of approximately RMB 3,946 million.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BMGU)

1. Can the manager of the REIT provide unitholders with better clarity on the following operational/financial matters related to the REIT?

- (i) **Lease Expiry:** As shown in the Portfolio Overview (page 50 of the annual report), the REIT has 45.3% (by Gross Rental Income – GRI) of its portfolio leases expiring in FY2018. In the REIT’s largest mall, Beijing Wanliu Mall, 56.7% of the leases (by GRI) will expire in FY2018. **Is there a heightened uncertainty to the REIT’s gross rental income in FY2018? What are the REIT manager’s plans to proactively renew/lease out the expiring leases? What is the target retention rate? Can the REIT manager provide some visibility of the average rate of the expiring leases compared to the market rate?**
- (ii) **Weighted Average Lease Expiry (WALE):** As shown in the portfolio review (page 49), the REIT has a WALE by Net Lettable Area (NLA) of 7.1 years and a WALE by GRI of just 4.0 years. The gap is relatively large. **Can the manager help unitholders understand if this is a deliberate strategy to boost the portfolio return by leasing out more favourable locations at a higher rate on shorter lease?**
- (iii) **Weighted average term to maturity:** The weighted average term to maturity of the REIT’s borrowings stood at just 1.7 years as at 31 December 2017. **Has the REIT manager evaluated how it could diversify its sources of funding, increase the weighted average term to maturity and stagger out the maturity?**

2. Of the RMB3.946 billion total portfolio valuation (as at 31 December 2017), Beijing Wanliu with a valuation of RMB2.287 billion accounts for nearly 60% of the REIT’s entire portfolio.

- (i) **Has the REIT manager actively evaluated the Right of First Refusal or other third-party properties that can be potentially acquired to increase DPU and long term unitholder value?**
- (ii) **Other than finetuning the tenant-mix to cater to changing consumer needs, what are the asset enhancement opportunities for the REIT’s mall?**

3. As noted in the Corporate Governance Report, the base fee payable to the REIT manager is calculated based on a percentage of the distributable income and is payable on a quarterly basis (page 37).

- (i) **Can the board clarify if the base fee is calculated based on distributable income net of the 40% non-controlling interests in Beijing Hualian Wanmao Shopping Mall Management Co., Ltd?**

In addition, in Note 14 (page 123 – Units in issue), detail of the deed of distributions undertaking by the Strategic Investor was disclosed, as follows:

The Strategic Investor has entered into a deed of distributions undertaking (the “Distributions Undertaking”) dated 23 November 2015 with the Trustee and the Manager, pursuant to which the Strategic Investor has irrevocably and unconditionally undertaken and acknowledged that notwithstanding the provisions of the Trust Deed, the following Strategic Investor Units shall not be entitled to any distributions in accordance with the Distributions Undertaking:

Distribution Period	Aggregate number of Strategic Investor Units not entitled to Distributions	% of total number of units on Listing Date
Listing Date – 31 December 2016	147,817,500	30.0
1 January 2017 – 31 December 2017	135,499,375	27.5
1 January 2018 – 31 December 2018	123,181,250	25.0
1 January 2019 – 31 December 2019	73,908,750	15.0
1 January 2020 – 31 December 2020	24,636,250	5.0

(Source: Annual report)

In the Distribution Statements (page 90), the REIT has disclosed that “[t]he amount of distributions waived, attributable to the strategic investor Units, for the year ended 31 December 2017 and for the period from the Listing Date to 31 December 2016 amounted to approximately S\$5.4 million and S\$5.6 million respectively”.

- (ii) **Has the REIT manager provide unitholders with the guidance of the distribution for FY2018?**
- (iii) **Given that an additional 2.5% and 10% of the Strategic Investors Units will start to receive distributions in FY2018 and FY2019 respectively, can the REIT manager show the possible impact on the DPU for unitholders?**