Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: LMIRT Management Ltd

Security: Lippo Malls Indonesia Retail Trust

Meeting details:
Date: 24 April 2019
Time: 9.30 a.m.
Venue: Mandarin Ballroom 3, Level 6, Main Tower, Mandarin Orchard, 333 Orchard Road, Singapore 238867

Company Description

LMIR Trust is a Singapore-based real estate investment trust established with the principal investment objective of owning and investing, on a long-term basis, in a diversified portfolio of income-producing real estate in Indonesia that are primarily used for retail and/or retail-related purposes. LMIR Trust's current asset portfolio comprises 23 retail malls ("Retail Malls") and seven retail spaces located within other retail malls ("Retail Spaces", and collectively with the Retail Malls, the "Properties"). The Properties have a total net lettable area of 910,749 square metres and total valuation of Rp19,514.1 billion as at 31 December 2018, and are strategically located in major cities of Indonesia with large middle-income population. Tenants include leading names such as Matahari Department Store, Zara, M&S, H&M, Sogo, Giant, Hypermart, Carrefour, Ace Hardware, as well as international specialty tenants such as Victoria's Secret, Promod, McDonalds, Pizza Hut, Kentucky Fried Chicken, A&W, Fitness First and Starbucks.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=D5IU)

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1. In the "Letter to unitholders", the chairman and the chief executive officer updated unitholders on the following:

- LMIR Trust reported a distribution per unit ("DPU") of 2.05 Singapore cents for the financial year ended 31 December 2018
- Distributable income dipping to S$58.4 million from S$97.0 million a year ago
- Net property income for the year also saw a 10.5% decline to S$165.0 million
- Against this backdrop, our resilient business model and focus on sustainable long-term growth shone through, as our underlying portfolio turned in a stable operational performance for the year
- … strong demand for our retail spaces which enjoyed a higher than average occupancy rate of 92.9% compared to industry average of 83.2%
- As at 31 December 2018, LMIR Trust's portfolio of 30 properties was valued at Rp19,514.1 billion, with the cumulative value remaining stable from a year ago (FY 2017: Rp19,475.4 billion)

While the chairman and chief executive officer had given a comprehensive 3-page overview of the performance of the REIT in 2018, there are certain metrics and perspectives that are important to unitholders that might have been missed out in the letter although the manager has provided the information in other parts of the annual report.

For instance, in the chairman and the chief executive officer did not clearly state that the DPU of 2.05 Singapore cents was a decrease of ***40.4%*** year-on-year. In addition, while the occupancy rate is high (compare to the industry average), the occupancy rate actually slipped from 93.7% a year ago to 92.9%. While the cumulative value of the portfolio in IDR was said to be "stable", the portfolio value declined from S$1,920.0 million to S$1,840.4 million, in Singapore Dollar ("SGD") terms. For unitholders in Singapore, the REIT's portfolio value declined by $80 million or (4.1)%.

(i) **Would the REIT manager, especially the chairman and the chief executive officer, consider evaluating the performance of the REIT from the perspective of unitholders (who are mostly in Singapore)?**

(ii) **Can the REIT calculate and disclose the Total Unitholder Return (in SGD) in the past 3 years, past 5 years and since the REIT's listing 11 years ago?**

(iii) In the 2017 annual report, the REIT had shown its DPU over the last ten years since its listing under the section titled "Ten years of steady growth" (page 10 of the 2017 annual report). On page 11, the REIT showed the DPU over the years since its listing. The chart has been adapted to include the 2018 DPU and is reproduced below:

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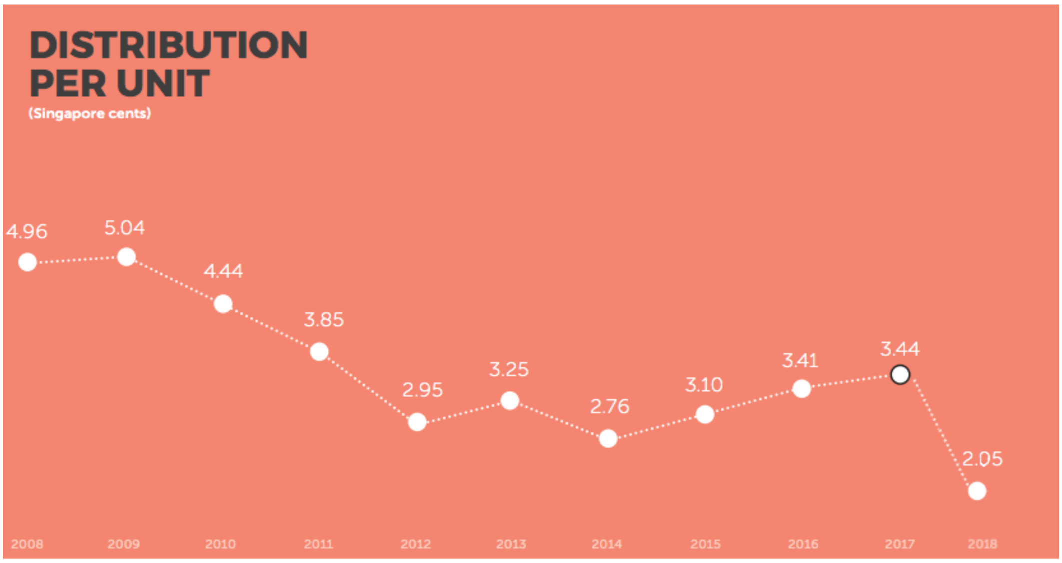

(Source: adapted from 2017 annual report)

Would the board help unitholders understand if it has reviewed the DPU trends of the REIT since its listing? Is the board satisfied with the trend of the DPU over the years?

In its mission statement, the REIT has stated that it is committed to "delivering regular and stable distributions to unitholders" and "achieving long-term growth to provide unitholders with capital appreciation".

Does the board consider it opportune to carry out a strategic review of the REIT, its assets and the REIT manager to further finetune its strategies so as to deliver long-term sustainable value to unitholders?

2. On 12 March 2019, the REIT announced the proposed acquisition of Lippo Mall Puri at a purchase consideration of Rp. 3,700.0 billion. The net property income yield (with vendor support) is expected to be 9.41%.

More importantly, the proposed acquisition will increase the assets under management by 19% and increase the REIT's gearing from the current 34.6%.

(i) **Would the independent directors help unitholders understand their individual involvement in the proposed acquisition of Lippo Mall Puri? Did the independent directors approve the proposed acquisition?**

(ii) **What is the level of commercial due diligence carried out by the independent directors?**

(iii) **Given that the mall has an occupancy rate of 89.6% (vs the REIT's 92.9%) and a vendor-supported NPI yield of 9.41% (vs the DPU yield of the REIT at 11.3%), would the independent directors agree that it makes more sense for the REIT manager to carry out a buy back of the REIT's units instead of**

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acquiring Lippo Mall Puri? As the REIT is familiar with its current portfolio, doing so will be less risky than acquiring Lippo Mall Puri.

(iv) What is the projected increase in the manager's base fee and "performance" fee should the REIT acquire Lippo Mall Puri?

(v) If the board is considering a strategic review of the REIT and the manager (as mentioned above), would the REIT put on hold this proposed acquisition until the review is completed?

3. In the "Capital management" section (page 36), the manager has stated that it maintains a policy of prudent and proactive capital management with adequate financial flexibility to facilitate steady growth of REIT and the returns for unitholders.

As part of the REIT's "capital reset strategy" to free up its debt headroom, the REIT issued S$140.0 million 7.0% and $120.0 million 6.6% perpetual securities under its S$1.0 billion Euro Medium Term Securities Programme in September 2016 and in June 2017 respectively.

The REIT has disclosed that it has a gearing of 34.6%.

(i) Can the REIT manager explain in greater detail how it had accounted for the perpetual securities in calculating its gearing of 34.6%?

To manage the foreign exchange exposure associated with the anticipated quarterly cashflows in IDR, the manager has disclosed that it utilises various foreign exchange hedging instruments, including currency options.

(ii) Can the manager disclose in greater detail how this is carried out? Does the board provide oversight of the hedging practices?

The group's total borrowings of S$680 million (as at 31 December 2018) are all denominated in Singapore dollars while all the income generated from the REIT's investments and the value of its investments are all denominated in IDR.

There is a large currency mis-match between the long-term assets (denominated and generating cash flow in IDR) and the liabilities (denominated in SGD).

With such a mis-match, the REIT will be subjected to foreign exchange risks due to changes in foreign exchange rates arising from foreign currency transactions and balances as well as changes in the fair values from its investment in Indonesia.

In times of market upheavals, the REIT may find itself under extraordinary stress to meet all the bank covenants, to refinance its maturing loans and to meet regulatory limit on leverage.

(iii) Can the audit committee explain to unitholders the REIT's approach to dealing with the currency mismatch? Has the audit committee carried out

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any "stress testing" of the current arrangement? With the benefit of hindsight, would the REIT have delivered unitholders with a better total returns had the REIT manager carried out some form of capital hedging or natural hedging?

A copy of the questions for the Annual Report for the financial year ended 31 December 2016 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=Lippo%20Malls%20Indonesia%20Retail%20Trust&cid=6298,4263

The company's response could be found here: -----