LIPPO MALLS INDONESIA RETAIL TRUST

(Constituted in the Republic of Singapore pursuant to a Trust Deed dated 8 August 2007 (as amended))

RESPONSE TO SUBSTANTIAL AND RELEVANT QUESTIONS RECEIVED FROM UNITHOLDERS AND THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ("SIAS")

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1. The Board of Directors (the **"Board**") of LMIRT Management Ltd, in its capacity as manager of Lippo Malls Indonesia Retail Trust ("**LMIR Trust**", and as manager of LMIR Trust, the "**Manager**"), refers to:

   (a) the annual report of the LMIR Trust for the financial year ended 31 December 2019 (the "**Annual Report**");

   (b) the notice of annual general meeting ("**AGM**") dated 25 May 2020 informing Unitholders that the Eleventh AGM of LMIR Trust will be convened and held by way of electronic means on Tuesday, 16 June 2020 at 10:00 a.m.; and

   (c) the accompanying general announcement released on 25 May 2020 setting out, *inter alia*, the alternative arrangements relating to attendance at the AGM via electronic means.

2. **Response to questions from Unitholders**. The Manager would like to thank Unitholders for submitting substantial and relevant questions in advance of the AGM. As there was substantial overlap between several questions received from Unitholders, the Manager has summarised and grouped these questions accordingly. The Manager's responses are also outlined in "**Annex A"** of this announcement.

3. **Response to questions from SIAS**. The Manager has received questions from the Securities Investors Association (Singapore) (**"SIAS"**) in relation to the Annual Report. Please refer to the SIAS website at https://sias.org.sg/qa-on-annual-reports/ for the list of questions and the corresponding responses of the Manager is outlined in "**Annex B**" of this announcement.

By Order of the Board

LMIRT MANAGEMENT LTD.
(As manager of Lippo Malls Indonesia Retail Trust)
(UEN/Company registration number: 200707703M)

Liew Chee Seng James
Executive Director and Chief Executive Officer
15 June 2020

RESPONSE TO QUESTIONS RECEIVED FROM UNITHOLDERS (ANNEX A)

Mall Closures / Covid-19-related

1) I note that many of the shopping malls owned by LMIRT are closed, but essentials such as supermarkets are still open. LMIRT will not be collecting rent during this closure. What cost cutting measures have LMIRT undertaken in view of COVID-19?

During the temporary closure period, the Trust has reduced its operating cost by 30-40% with approximately 70% reduction in utilities and 50% reduction in outsourced security and cleaning services. Despite these cost cutting measures, net property income is expected to be significantly impacted in the second quarter due to the mall closures.

2) How long has the malls been shut down and whether the company would pay the tenants for the loss of business? Have all the malls resume operations?
3) Any foreseeable loss of income in 2020?
4) Can update the impact of COVID-19 in regards to the 2Q20 financial results and its long term implication going forward if any?

In line with the Indonesian government's call for large-scale social restrictions ("**PSBB**"), LMIR Trust announced the temporary closure of all its 23 malls and seven retail spaces around the end of March and such closures have been extended in line with Indonesian regulations. Only essential services such as supermarkets, pharmacies and clinics remain operational during this closure period, at shorter operating hours.

Since May, some malls have reopened as restrictions ease in different geographies. As of 15 June 2020, 21 of our Retail Malls and six of our retail spaces have resumed operations. During the reopening of the malls, the health and safety of the Trust's employees, tenants, shoppers and contractors remain the key priority and the property manager will ensure the appropriate precautionary measures such as temperature checks, mandatory use of face masks and provision of hand sanitisers within the premises are implemented.

During this temporary closure period, LMIR Trust will not be receiving rental income from affected tenants and has also offered discounts on service charges due to no retail sales being achieved by the retailers. With the ongoing Covid-19 pandemic, it is difficult to ascertain the full impact of the crisis on the financial performance of the Trust. Nevertheless, the Trust remains in compliance of its debt financial covenants and has adequate financial reserves to fulfil its obligations in the foreseeable future.

5) I note that Matahari supermarket is owned by Lippo the sponsor (correct me if I am wrong), and they are still operating and presumably thriving (reference to Sheng Siong). Why are we not collecting rent from them? Given the relationship between LMIRT and Matahari (sponsor and REIT), what safeguards are in place to ensure that the non-collection of rent from Matahari is aligned to the interest of LMIRT?
6) Is there a law in place in Indonesia whereby landlords such as LMIRT cannot take action against tenants if tenants were to not pay rent?

The Trust continues to collect rental, pro-rated to account for the shorter mall operating hours, from PT

Matahari Putra Prima – the operator of the Hypermarket and supermarket business located within 17 of our retail malls and five retail spaces as it is considered as an essential service permitted to operate during the PSBB period.

In our lease agreements, there are clauses which allows us to take action against our tenants if they do not pay rent, which includes charging of interest on the late payment amount, temporary disconnection of electrical power, telephone line and water supply connection, unilateral termination of the lease and as a last resort, take legal action against the tenant. In addition, to minimise the risk of tenant default on rental payment, the Manager has put in place standard operating procedures for debt collection and recovery of debts, including the collection of security deposits in the form of cash or bankers guarantee and having a monitoring system and a set of procedures on debt collection.

7) **It is likely that business will not rebound 100% immediately after the lifting of COVID-19 restrictions. Have any tenants feedback or request for a reduction or delay of rent payment after the resumption of business? Any request to give up lease? Any sign of distress? If there are, can you give us an idea of the fraction, and which sector they are in?**

The Manager, along with the Property Manager, are working closely together on proactive retailer engagements with occupancy rate and future collections being the prime focus and rolling out extensive marketing campaigns together with the retailers to drive footfall. Certain business segments such as entertainment remain closed due to Government regulations and rental from such tenants will continue to be waived for such tenants.

Distributions / Gearing

8) **The gearing levels of the REIT is high. It is even higher if perpetuals are taken into account. There are concerns that interest will not be paid to perpetuals, and hence the REIT unitholders cannot receive their distribution as a consequence. Is it true? Will the REIT be stopping distribution to unitholders?**
9) **What is the outlook of dividend payment going forward considering the drastic cut in 1Q20 to save up for Covid-19 impact?**

On 15 June 2020, the Trust deposited S$3.97 million with Citibank, N.A., London Branch as paying agent for its S$120.0 million 6.6% subordinated perpetual securities to satisfy the distribution payment due on 19 June 2020. With respect to distributions to unitholders, the ongoing Covid-19 pandemic has created much uncertainty and has affected LMIR Trust's financial performance and making it necessary for the Trust to deviate from its stated policy of distributing at least 90% of its tax-exempted income. A more modest and prudent distribution strategy will have to be adopted in light of the challenging circumstances in the months ahead

10) **Is the REIT aware or concerned about the high gearing levels? What is the REIT manager doing to address the gearing issue?**
11) **Under the new regulation, the gearing limit had increased from 45% to 50%. What is max gearing level the board comfortable with?**

The higher gearing of 42.1% as at 31 March 2020 compared to 35.9% as at 31 December 2019 was due to the sharp 10.2% depreciation of the Indonesian Rupiah ("**IDR**") to the Singapore Dollar ("**SGD**") which closed at Rp11,369.64 as at 31 March 2020 vs. Rp10,320.74 as at 31 December 2019, as well as the drawdown of S$40.0 million from the Trust's Revolving Credit Facility in 1Q 2020. The IDR to SGD now trades at around Rp10,200 and we expect the gearing level consequently to fall below 40%

The Board aims to maintain an appropriate gearing level that takes into consideration the Trust's investment property valuations, Indonesia's economic environment, investment opportunities available, as well as expected foreign exchange fluctuations in Rupiah under normal business conditions.

12) Is the REIT considering DRIP (Dividend Reinvestment Plan) to conserve cash?

Yes, it is an option that we can consider.

Asset Valuations

13) With the improve currency rate of Rp against Sgd recently, can we see some positive valuation going forward in terms of asset valuation and the share price performance?

LMIRT's investment properties are valued by independent valuers using the discounted cashflow methodology, taking into account assumed rental growth rates, vacancy allowances, growth potential as well as an estimate of the Indonesian cost of capital. The derived asset valuation figures are recorded in the financial statements in Indonesian Rupiah and translated into Singapore Dollar using the respective exchange rate as at the end of each period. Given that the potential impact of Covid-19 is constantly evolving, significant market uncertainty exists and consequently the valuations of LMIRT's investment properties could be subject to significant estimation uncertainty

Lippo Mall Puri

14) Why is the REIT still considering and proceeding with the acquisition of Lippo Puri Mall? Should it not be shelved in view of the high gearing levels (currently in excess of 40%)

The Trust's objective is to achieve sustainable long term growth while continuing to identify opportunities that are a strategic fit with our long term strategy. Lippo Mall Puri represents a great strategic fit as one of the largest and leading Indonesian shopping malls in an affluent trade area. It is an opportunity that will expand the value of our portfolio through the acquisition of a high quality retail mall at an attractive price.

The mall is a landmark asset located in an established residential and commercial precinct, and it is part of the largest premium integrated development in West Jakarta, the St. Moritz. It is centrally and conveniently located in a large catchment area comprising middle upper-class families that account for approximately 75% of the 650,000 population and is easily accessible together with great transport connectivity. These attributes makes Lippo Mall Puri an attractive destination of choice especially in a post Covid-19 environment

The proposed acquisition also comes with income support from the Vendor which provides the Trust with a guaranteed level of income and cashflows which mitigates any short-term negative impact on the performance of the asset arising from Covid-19.

Financing

15) Will investors be seeing a rights issue soon?

The Manager is working with its financial advisors on the appropriate acquisition capital structure taking into account the current market environment and available sources of funding. The requisite announcement on the finalised capital structure and fund raising will be made at the appropriate time.

Forex Hedging

16) I note that there were massive forex hedging losses incurred by LMIRT over the past years. These are rather sizeable. Have this been addressed? Have the people who caused LMIRT to make these losses been made accountable?

17) Pg 153, "In management's opinion, the above sensitive analysis is unrepresentative of the foreign currency risk as the historical exposure does not reflect the exposure in future". Could the management justify why they keep dispute this sensitive analysis in this and past AR? In past track record, did the management loss this money base on FX sensitivity analysis. The answer is yes and I did not think 10% movement in analysis is unreasonable.

The Trusts is exposed to foreign exchange exposure and interest rate risks in its business, in particular with rental earnings in IDR as well as floating interest rate loans. The Manager utilises various foreign exchange and interest rate hedging instruments, including currency options, interest rate swaps and cross currency swaps to reduce the exposure to risks of uncertainty and limit losses without significantly reducing the potential rate of return.

Generally, fluctuations in forex rates and interest rates, many of which are unexpected, will affect the performance of these hedging contracts. We will continue to review our model for future interest rate and forex movements in our future hedging contracts.

The purpose of the hypothetical sensitivity analysis on page 153 of the annual report is to show how profit (total return before tax) would change if the respective currencies change in value and 10% is commonly used reference for hypothetical change value to illustrate how profit would shift. It is unrelated to how the currencies actually fluctuated and affected the Trust's performance in FY 2019 and FY 2018. Actual exchange rates used for the financial results for FY 2019 and FY 2018 were Rp10,324 and Rp10,576 respectively, representing a 2.4% appreciation in the Rupiah currency. Extreme foreign exchange fluctuations of 10% per year are rare and caused by unforeseen events like the Covid-19 outbreak.

18) Management did not have a track record of managing FX risk. Why management choose USD bond, which add dimension of FX risk to trust?

The USD bond is a platform for the Trust to gain access to new markets and sources of capital. It allows us to diversify our financing tools and to tap on both a wider institutional base and new currency markets for our funding resources. We received robust response from fixed income investors in Asia and Europe for the notes with a final order book at over US$475 million from 58 investor accounts, demonstrating investors' confidence in the Trust.

The Manager has entered into a few cross-currency swap contracts to swap the USD notes into Singapore Dollars with a weighted average fixed interest rate of 6.71% per annum, thereby reducing the interest rate and the foreign exchange exposure.

Board

19) Are there any plans to have a shares compensation scheme for the managers and directors, especially in such times? And do they intend to hold shares in LMIRT?

There are currently no plans for a share compensation scheme to be implemented for the Manager.

The Board of Directors and Management continue to do their best to enhance the value of LMIRT to all stakeholders. Nevertheless, as there is no legal requirement that a director or management should own LMIRT shares/units, such investment decisions are made on a personal basis, subject to their own financial resources capacity.

RESPONSE TO QUESTIONS RECEIVED FROM SIAS (ANNEX B)

<u>Question 1</u> **Since the outbreak of the COVID-19 pandemic in Indonesia, the REIT has updated the market on its mall closures and re-openings as a result of the large-scale social restrictions ("PSBB" - Pembatasan Sosial Berskala Besar) imposed by the Indonesia Health Ministry across various provinces.** **The trust will not be collecting rental from its tenants that are not operating during this closure period. The manager has stated that the trust remains in compliance of its debt financial covenants and has adequate financial reserves to fulfil its obligations in the foreseeable future.** **i) Can the manager help unitholders understand the level of support given to landlords by the Indonesia/local governments during the closure period?**
<u>Answer</u> The Indonesia government's relief measures have limited positive impact for LMIR Trust as the measures are focused on healthcare, SMEs and low wage earners.
<u>Question 2</u> **In the Letter to unitholders, it was disclosed that the REIT carried out a portfolio optimisation and would be divesting Pejaten Village for Rp997.4 billion and Binjai Supermall for Rp283.3 billion at a premium of 33.3% and 19.3% respectively over their purchase prices back in 2012.** **This would be the first divestment for the REIT since its listing in 2007. The chairman and CEO have stated that the divestment would allow the REIT to unlock capital and increase its financial flexibility to fund growth through reinvestments, make distributions to unitholders or pare down debt.** **i) Would the manager elaborate further on the ongoing portfolio optimisation strategy? The manager has stated that these two malls fall short of the criteria that the mall must be (a) part of an integrated development that would prove resilient over the medium to long term; and/or (b) dominant or have market leading positions within the regions/areas the manager plans to operate in.**
<u>Answer</u> Our ultimate goal is to maximise value and deliver sustainable returns for our unitholders over the long term. We look at a range of criteria and implement various strategies which include rental pattern, market conditions, property specific qualities (e.g. building specs, brands, tenant mix, occupancy, rent reversion, asset management potential, and long-term growth potential. Shopping centres naturally go through asset cycles. Our core strategies are focused on malls in integrated developments or have market leading positions within the markets they operate. Strategically, the Manager believes both assets are at the right stage of their life cycle for divestment. Whilst these

assets have generated income over the years, the Manager believes it is an appropriate time to divest these assets as AEIs have been completed, the age of the malls would require future operational capital expenditure to maintain the properties and their positioning is not aligned to either of the Trust core two strategies. Divestment proceeds could instead be allocated to potential future yield-accretive acquisition opportunities to generate steady and sustainable returns, reward loyal unitholders and/ or partially repay existing debt.

Question 2 (Con't)

ii) Which are the other malls that would be divested given the right opportunity?

Answer

At the moment, the Manager is focusing on completing the divestment of these two assets. Ultimately, the Trust goal is to maximise value and deliver sustainable returns for the unitholders over the long term and that the current portfolio of properties meet the needs in value creation and distribution. Asset recycling is a core strategy for the fund and the Manager will continue to evaluate its portfolio andl remain open to further divestment opportunities to streamline its portfolio should they arise.

Question 2 (Con't)

From 2012 to 2020, the Indonesia economy experienced inflation as high as 8.38%. The following table shows the inflation rate recorded by Bank Indonesia.

Year	Inflation Target	Inflation Actual (%, yoy)
2012	4.5±1%	4,30
2013	4.5±1%	8,38
2014	4.5±1%	8,36
2015	4±1%	3,35
2016	4±1%	3,02
2017*	4±1%	3,61
2018*	3,5±1%	3,13
2019*	3,5±1%	2,72
2020*	3±1%	

(Source: adapted from Bank Indonesia; retrieved on 2 June 2020; https://www.bi.go.id/en/moneter/inflasi/bi-dan-inflasi/Contents/Penetapan.aspx)

From the table above, the cumulative effect of inflation from 2012 to 2019 would be 43.1%. As noted in the Letter to unitholders, the REIT will realise premiums of 33.3% and 19.3% over their purchase prices back in 2012.

iii) How did the board evaluate the REIT's investment-to-divestment cycle of the two assets given the inflation has outpaced the valuation?

iv) Has the board evaluated the manager to assess how successful the manager has been at capturing long term value for unitholders?

Answer

Since the acquisition of the two malls in 2012 up till 2019, Pejaten Village had generated net property income totalling Rp673 billion while Binjai Supermall had generated net property income totalling Rp163 billion. Coupled with the divestment values achieved of Rp997 billion and Rp283 bilion for Pejaten and Binjai respectively, the Trust would have generated a total return of 123% for Pejaten and 88% for Binjai. Such returns significantly exceed the cumulative inflation rate of 43.1% experienced over the comparable period of investment.

Question 2 (Con't)

While the chairman and CEO mentioned that the divestments would be carried out at premium of 33.3% and 19.3% over their respective purchase prices, it was not mentioned that the Pejaten Property would be sold at a 4.1% discount to the Rp. 1,040 billion valuation determined by the Pejaten Valuer as at 30 June 2019. In fact, the last formal valuation of Pejaten Village published by the REIT was Rp. 1,157 billion as announced on 22 February 2019. If so, the sale price is in fact 13.8% below the last published valuation.

Similarly, it was not mentioned in the chairman and CEO letter that the sale of Binjai Supermall was carried out at a 8.3% discount to the "interim" valuation (valuation as announced by the REIT on 30 December 2019) and a 6.2% discount to the last available published valuation of Rp. 302 billion.

v) What are the considerations by the REIT/board in deciding to sell the properties at discounts of between 6%-14% of the valuation?

Answer

The Sale Considerations for both Pejaten and Binjai were negotiated on a willing-buyer and willing-seller basis, taking into consideration the growth potential, re-development prospects of both properties as well as the relatively illiquid secondary commercial real estate market in Indonesia with limited foreign investment participation within the retail mall segment. Although the Trust would be divesting both assets at a discount to latest valuations, the Trust similarly was able to purchase Pejaten and Binjai at a 12.6% and 5% discount to valuations respectively back in 2012.

There are several considerations that led to the decision to divest at the appropriate time at the current market rates. Strategically, the Manager believes both assets are at the right stage of their life cycle for divestment. Whilst these assets have generated income over the years, the Manager believes it is an appropriate time to divest these assets as AEIs have been completed, the age of the malls would require future operational capital expenditure to maintain the properties and their positioning is not aligned to either of the Trust core two strategies. Divestment proceeds could instead be allocated to potential future yield-accretive acquisition opportunities to generate steady and sustainable returns, reward loyal unitholders and/ or partially repay existing debt.

Question 2 (Con't)

vi) Would the manager be forgoing its divestment fees, if any?

Answer

No, given the complexities of investments in Indonesia and the sale to an unrelated party, the Manager would be receiving the divestment fees as permitted under the Trust Deed.

<u>Question 2 (Con't)</u> **vii) Given that the REIT is divesting two assets at a 6-14% discount to its annual appraised value/carrying value, how can unitholders be assured that the overall valuation/carrying value of the REIT's portfolio is not overstated?**
<u>Answer</u> The valuations of our properties are performed by established professional valuers and appraised by the Audit and Risk Committee ("**ARC**"). The ARC was satisfied with the valuation process, the methodologies used and the valuation for investment properties as adopted as at 31 December 2019. According to the independent auditor's report, the auditor assessed several factors in relation to the valuation work done and the credibility of the professional valuers. These include selection processes of the independent professional valuers, determination of the scope of work; review of the valuations reported; the independence, competence and experience of the valuers; alignment with international valuation professional standards. The auditors also tested various assumptions and verified various information to arrive the conclusion that testing performed in relation to the final fair values of the investment properties proved to be satisfactory.
<u>Question 2 (Con't)</u> **In addition, the trust recognised fair value losses in investment properties of S$65.3 million in FY 2019. Prior to the FY, the last appraised portfolio value was S$1840.4 million. The manager has attributed it to a fair value loss in Lippo Mall Kemang as a result of the expiry of its master leases coupled with the challenging car park business environment from increasing usage of ride-hailing services. Lippo Mall Kemang was revalued down from $296.4 million to $258.6 million, a drop of $37.8 million.** **viii) Would the REIT, under the new leadership team, be evaluating its strategy of acquiring assets with master leases that may lead to short-term support of income but unviable in the long run?**
<u>Answer</u> The Manager evaluates any potential acquisition with a range of criteria when considering acquisition assets. These include specifics such as location dynamics (good asset fitting the "Everyday Malls" positioning) and property specific qualities (e.g. building specs, brands, tenant mix, occupancy, rent reversion and asset management potential Any master lease is designed to provide short term income support during the ramp up period as the mall stabilises its operations and occupancy. The level of income support has to be assessed to be sustainable by the independent valuers based on certain assumptions prevailing at that point in time. These assumptions are subject to change with the passage of time, resulting in the risk of underperformance of the mall or business segment, such as the onset of ride-hailing which was not in existence at the point of Kemang acquisition. Over the longer term, the Manager remains guided by the need to sustain long-term growth in order to generate long-term value for our Unitholders and the Manager will continue to refine its assessment models and work with the Board to ensure rigorous evaluations in order to make wise decisions.
<u>Question 3</u> **As disclosed in the Corporate Governance report, the board is aware that two of its independent directors, namely Mr Lee Soo Hoon Phillip and Mr Goh Tiam Lock, would reach**

the nine years tenure during the financial year ending 31 December 2020. **The board has since commenced an identification and selection process of the appropriate individual to join the board.** **In addition, in FY2019, the REIT also appointed a new independent director and chairman of the board, Mr Murray Dangar Bell, on 1 November 2019.** **i) Can the board elaborate further on its search and nominating process for new directors, especially independent directors?** **ii) Can the nominating and remuneration committee help unitholders understand how the current search and nomination process supports the board diversity policy?**
<u>Answer</u> The selection of candidates for appointment takes into account of various factors including the current and mid-term needs and goals of LMIR Trust and the Manager as well as the relevant expertise of the candidates and their potential contributions. Candidates may be put forward or sought through our large network of contacts and through recommendations. We look for individuals from a wide spectrum of background with in-depth experience in their respective fields of expertise that can add value to the Board, such as banking and finance, real estate, legal, etc. to provide the right counsel when appropriate, regardless of race, nationality or gender. Further, we wish to inform you that we have successfully identified two new directors (to replace Mr Lee Soo Hoon, Phillip and Mr Goh Tiam Lock) in accordance with the selection process as earlier mentioned. Their application was submitted to the Monetary of Singapore and will provide further update relating thereto.