mapletree
north asia commercial

(Constituted in the Republic of Singapore pursuant to a Trust Deed dated 14 February 2013 (as amended))

ANNOUNCEMENT

RESPONSES TO THE SUBSTANTIAL AND RELEVANT QUESTIONS FROM UNITHOLDERS FOR THE ANNUAL GENERAL MEETING TO BE HELD ON 15 JULY 2021

15 July 2021 – Mapletree North Asia Commercial Trust Management Ltd., as manager (the "**Manager**") of Mapletree North Asia Commercial Trust ("**MNACT**"), wishes to thank all unitholders of MNACT ("**Unitholders**") who have submitted their questions in advance of the 8th Annual General Meeting of MNACT, which will be conducted virtually on Thursday, 15 July 2021 at 2.30 p.m. (Singapore Time) via the live audio-visual webcast or live audio-only stream.

The questions are grouped into the following key topics:

A. COVID-19, Strategy and Outlook
B. Acquisitions and Other Corporate Actions
C. Others

Please refer to Annex A for the list of substantial and relevant questions, and the Manager's responses to these questions.

By Order of the Board

Wan Kwong Weng
Joint Company Secretary
Mapletree North Asia Commercial Trust Management Ltd.
(Company Registration No. 201229323R)
As Manager of Mapletree North Asia Commercial Trust

ANNEX A

A. COVID-19, Strategy and Outlook	
1.	**What are management's plans for growth for MNACT? What is the percentage of rental arrears by tenants for the latest quarter and what is the support given if any?** **What is the pace of recovery in retail sales and footfall at Festival Walk in the past six months and rental rate trend going forward? How would the work from home arrangement impact MNACT's office portfolio?**
	COVID-19 had unleashed unprecedented challenges on MNACT's portfolio, in particular, on our retail asset, Festival Walk in Hong Kong SAR. Prior to the onset of COVID-19, Festival Walk was affected by the social incidents in Hong Kong SAR during the second half of 2019, when the mall was damaged and was temporarily closed from 13 November 2019 to 15 January 2020. To mitigate the impact of COVID-19, we had granted and are still granting rental relief to our tenants (FY20/21: S$49.8 million) and adopting flexible lease structures, to help them tide through the very difficult period. The rental reliefs had impacted MNACT's revenue significantly during the financial year. Recovery works (as a result of the earlier damage incurred) are still not complete and are in progress at the mall. Some tenants' businesses are affected by the hoardings erected for the balustrade recovery works. We have also granted rental reliefs to support the affected tenants. Since April 2021, we have seen a decline in the number of daily infections from 13 on 1 April 2021 to 2 on 30 June 2021[1] in Hong Kong SAR, and a corresponding improvement in footfall and sales at Festival Walk. The quantum of rental reliefs granted to tenants between April and June 2021 were lower, compared to previous quarters, in line with the said improvement. (We will provide further updates in MNACT's 1Q FY21/22 results announcement). When the COVID-19 situation continues to further stabilize or improve, and with progressive completion of the recovery works at the mall (full completion targeted by end 2021), we expect the amount of rental reliefs to be granted and the impact on MNACT's revenue to be further reduced. Our priority has been to keep the mall's occupancy high with the right mix of viable tenants, so as to deliver the maximum revenue under the challenging circumstances and to ensure Festival Walk is well-positioned for growth when the impact of COVID-19 recedes and the Hong Kong SAR economy recovers. At the same time, we continue with the strategy to grow and diversify MNACT's portfolio through accretive acquisition opportunities in China, Japan and South Korea. Over the past three years, MNACT had expanded its investment mandate to include Japan and South Korea (other than Greater China). The strategic intent was to accelerate the growth of MNACT and to achieve further diversification of MNACT's portfolio. We have since grown our portfolio from three assets in Greater China, to a total of 13 assets with acquisitions in Japan (nine office assets) and South Korea (one office asset) to date. Our diversification efforts had enhanced the resilience of MNACT, with three office assets acquired in Greater Tokyo and Seoul (between February and October 2020). These acquisitions had cushioned the impact of COVID-19 on MNACT's distribution to the unitholders in FY20/21. Rental arrears has been very low. For 4Q FY20/21, it was about 1.5% of total portfolio gross rental income and these arrears have been substantially paid.

[1] Source: The COVID-19 Data Repository by the Center for Systems Science and Engineering (CSSE) at Johns Hopkins University.

Festival Walk (Hong Kong SAR)
In line with the progressive easing of restrictive COVID-19 measures, Hong Kong SAR retail sales from October 2020 to March 2021 (2H FY20/21) declined by 1.3% year-on-year, an improvement compared to the 24.7% year-on-year decrease in retail sales from April 2020 to September 2020 (1H FY20/21). Retail sales at Festival Walk have also shown a year-on-year improvement of 6.4% during the second half of FY20/21, compared to a year-on-year decline of 36.2% in the first half of FY20/21. For footfall, the second half of FY20/21 saw a year-on-year improvement of 2.5%, compared to a year-on-year decline of 45.5% in the first half of FY20/21. A sustained recovery in footfall and retail sales is largely dependent on the pace of improvement in the COVID-19 situation, the consequential relaxation of restrictive measures and the pace of economic recovery. We will continue to support our tenants through extending rental reliefs where necessary.

The recovery works arising from the damage incurred at the mall during the social incidents in Hong Kong SAR, are still not complete. The process of replacing as well as strengthening the affected structures, including adding metal vertical supports to enhance the overall structure of the balustrades along the shopping aisle, and installing aluminum protective layers to certain sections of the mall façade is ongoing.

Due to the prolonged impact of COVID-19 on retail tenants, as well as recovery works taking place within Festival Walk mall (expected to be completed by end 2021), the average renewal or re-let rental rate at Festival Walk mall is expected to be lower in FY21/22, compared to FY20/21.

The office tower at Festival Walk (which contributes to less than 10% of the gross revenue of the property) remains at full occupancy, with stable revenue contribution. There is only one office lease (contributing ~0.3% of Festival Walk's monthly gross rental income in March 2021) that is expiring within the current financial year (FY21/22). Demand for the office spaces remains resilient, with its excellent location (integrated with the mall and atop a MTR station) and competitive rental rates.

Festival Walk (Hong Kong SAR), Gateway Plaza and Sandhill Plaza (China), Japan Properties (Tokyo) and The Pinnacle Gangnam (South Korea)
For the offices in China, Hong Kong SAR, Japan and South Korea, continued efforts will be made in marketing and leasing to maintain high occupancy levels. We will target and capture demand from growth industries and from sectors less affected by COVID-19 (e.g. Technology, Media and Telecommunications ("TMT"), information technology, financial services and bio-medical sectors).

While remote working has risen during the COVID-19, we have observed that in all the markets that we operate in, when restrictive measures eased and infection cases subsided, a large proportion of tenants' employees would return to work at their offices. Even as more firms incorporate satellite offices as part of their business continuity planning or shift away from centralised offices to more affordable locations outside of the city centre, MNACT will be in a good position to meet their requirements. This is because most of our properties are located in the fringe office areas or suburban office markets, and are expected to be able to capture potential demand from this trend.

2.	**Has Management considered to position MNACT as a focused play into growth sectors (logistics, data centres, healthcare etc) in a growth region (North Asia), although other Mapletree REITs are in some of these sectors, instead of just commercial properties which are badly affected by e-commerce and Covid-19?** **How will e-commerce and COVID-19 affect the long-term prospects of the Hong Kong SAR retail market and Festival Walk?**
	Each of the Mapletree REITs focuses on different asset classes and/or geographies, with different return and risk profile. There is clear distinction in terms of value proposition offered by each REIT. MNACT's investment mandate is to invest in a diversified portfolio of income-producing real estate used primarily for commercial purposes located in North Asia, namely Greater China, Japan and South Korea. Over the medium to longer term, we remain positive on the continued prospects of Hong Kong SAR and the outlook of the retail market in Hong Kong SAR. For the offices in Hong Kong SAR, China, Japan and South Korea, we continue to see opportunities for growth. <u>Prospects for the office market in Hong Kong SAR, China, Japan and South Korea</u> The office properties in Hong Kong SAR, China, Japan and South Korea have been largely stable and resilient. Please refer to question 1 for the outlook of the office properties in the markets we operate in and how we can capitalise on the growth opportunities. <u>Prospects of Hong Kong SAR retail market and Festival Walk</u> While there has been an increase in the adoption of e-commerce, the e-commerce penetration rate in Hong Kong SAR remained low at 7.4% of total retail sales in May 2021. E-commerce will likely be more popular in cities where shopping malls are not easily accessible by transportation networks. As the residential apartment sizes are relatively small in Hong Kong SAR, and shopping malls are generally well-connected to transportation nodes and/or within residential catchments, the locals would typically socialize with friends outside of their homes. Retail malls where shoppers can shop, eat and enjoy different forms of entertainment (eg. watch a movie in the cinema or skate with friends at the ice rink) are expected to remain integral to their lifestyles. Prior to the impacts of the social incidents in Hong Kong SAR and the COVID-19, Festival Walk's performance was robust, with revenue having grown from S$189.1 million in FY13/14 to S$254.0 million in FY18/19. However, Festival Walk mall was severely affected by the recent unfortunate events. The temporary mall closure due to extensive damage incurred during the social incidents in FY19/20 and the impacts of COVID-19, led to the decline in Festival Walk's revenue to S$195.1 million in FY19/20 and S$185.2 million in FY20/21. We will continue to strengthen Festival Walk mall positioning as the preferred social gathering venue for families and friends and its attraction as a community asset. New concepts have been brought in and will continue to be brought in to cater to the evolving needs of the shoppers. Brands from resilient sectors such as food and beverage ("F&B"), services and lifestyle will be brought in to drive higher shopper traffic and rental revenue, complemented by interesting and fresh marketing promotions that would be rolled out at the mall. As a mall well-located above the MTR station in Kowloon Tong and nestled within an established residential hub, Festival Walk will remain relevant both to the local community and shoppers in general. We believe that Festival Walk would be well-positioned to recover from COVID-19, although the pace of its recovery will depend on the progress of recovery from COVID-19.

3.	**Beijing and Shanghai properties don't seem to be doing well. Demand and competition may be the issue. Will you plan to divest these two properties or turn them around? If it's the latter, what will make the properties different & better than the other buildings?**
	Gateway Plaza Gateway Plaza is a Grade-A office building in Beijing, with various asset enhancement initiatives implemented in recent years that have reinforced its competitiveness. It has a strong presence in the Lufthansa commercial hub and is home to a diverse group of well-known multinationals and local companies including BASF, BMW, Bank of China and Doosan. For FY20/21, the property registered a resilient occupancy of 92.9%, compared to the higher citywide office vacancy rate of 16.6% in Beijing[1]. The average rental reversion was negative 7%, as the prevailing market rental rates are significantly lower than rental rates achieved in the market in previous years. This is due to the weak business outlook affecting demand for office space, and the influx of supply from new office buildings particularly from the city centre. As a result, leasing conditions have been challenging, with slower take-up and some existing tenants either exiting from or downsizing their requirements at Gateway Plaza. There were some expansion requests from existing tenants and new demand from prospects seeking relocation to a well-managed building near the city, but with lower rental budget in line with prevailing market conditions. We are focusing leasing efforts on maintaining high occupancy levels of 90% or more to minimize down time and maximize revenue from the asset. Given the challenging conditions, the average renewal or re-let rental rate for FY21/22 is expected to be lower than FY20/21. *Sandhill Plaza* Sandhill Plaza is a business park located in Zhangjiang Science City, in Shanghai. It is a relatively new building completed in 2012 and has high-quality building specifications. It continues to maintain a competitive edge over comparable buildings in the vicinity. In terms of rental rates, the business park office space in Shanghai is also more affordable compared to that in the city centre. The property has registered a resilient performance in FY20/21 with an average rental reversion of 5% and a high occupancy rate of 97.9%, compared to the average business park vacancy rate of 22.8% in Shanghai[2]. Demand for office space at business parks continues to be underpinned by the TMT and biomedical sectors, which are relatively less impacted by the COVID-19 situation. For FY21/22, Sandhill Plaza's performance is expected to remain resilient. There are currently no plans to divest these two properties but to be responsible, we are open to consider any proposal that makes sense to the REIT.

[1] Savills, Beijing Office (April 2021).
[2] Colliers, Shanghai Business Park, 1Q 2021.

B. Acquisitions and Other Corporate Actions	
1.	**What are the potential acquisitions in the pipeline (if any) to further reduce the concentration of revenue contribution on Festival Walk? Will the emphasis of MNACT continue to be on retail and commercial properties and if so, which part of Asia will be looked at? How would these acquisitions be funded?**
	We continue to actively explore accretive acquisition opportunities, both from third parties as well as from the Sponsor, to accelerate the growth of MNACT and to achieve further diversification of MNACT's portfolio. MNACT has been granted a right of first refusal ("ROFR") to some of the Sponsor's properties, including an office property in Tokyo, a retail property in Osaka, and the Sponsor's stake in The Pinnacle Gangnam located in Seoul (which was acquired in October 2020 via a co-investment between MNACT and the Sponsor). Over the last three years, with the acquisitions of a total of nine office properties in Greater Tokyo and Seoul, the percentage contribution of portfolio revenue and asset value from Festival Walk has declined from 62% and 66% respectively for FY18/19 to 47% and 57% respectively for FY20/21. We remain focused on accretive acquisitions of commercial properties (both office and retail) in China, Japan, and South Korea, and expect a more balanced contribution from the various markets that we operate in. The speed of acquisitions and diversification will depend on availability in the market and whether our strict criteria for acquisition can be met. Should there be an acquisition, we will consider all funding options, including a combination of debt and equity, to achieve an optimum capital structure. In arriving at the decision to fund the acquisition, we will take into account a number of factors such as the size of the acquisition, the available funding options including the cost of each funding option, the impact on the DPU and leverage as well as the market conditions at that point of time.

2.	**What is MNACT's criteria for acquisitions? How different is the required hurdle rate/capitalization rate for the REIT's acquisitions in Japan and South Korea?**
	We consider various factors when evaluating potential acquisitions, such as the depth and scale of the property market where the asset is located in, yield thresholds, DPU accretion, location, asset enhancement potential, building and facilities specifications, tenant mix and occupancy levels. Our cap rate requirement for each market is based on several key factors, including the prevailing cap rates from recent market transactions; the funding or financing cost available in the market; the yield spread against local risk-free financial instruments such as government bond yields; and the resultant distribution per unit (DPU) accretion to the portfolio. The acquisition cap rates of MNACT's properties in Japan (that were acquired between May 2018 and June 2021) ranged from mid-3% to mid-4%. For the acquisition of The Pinnacle Gangnam in Seoul, the cap rate was about 3.2%.

3.	**What is the dividend policy going forward?**
	MNACT's distribution policy is to distribute at least 90.0% of its distributable income on a semi-annual basis. Since IPO, 100% of distributable income have been paid out to Unitholders. However, in view of the rapidly evolving COVID-19 situation and with the significant uncertainty over its duration and severity, the Manager may use its discretion to amend the distribution policy. With effect from 7 February 2020, Rule 705(2) of the Listing Manual of the Singapore Exchange Securities Trading Limited on the quarterly reporting framework was amended, taking into account the evolving business landscape and to allow companies to take a long-term perspective on growth, while communicating meaningfully with unitholders. Following the change, MNACT adopted the announcement of financial statements on a half-yearly basis with effect from FY20/21. Consequently, MNACT also amended its distribution policy to make distributions on a half-yearly basis.

4.	**Portfolio valuation has declined by 8.1% yoy as of 31 March 2021 vs 31 March 2020. Consequently, aggregate leverage ratio has crept up marginally to 41.5%. Would the Manager be able to: i) Provide any indication with respect to portfolio valuation going forward (though in part will be market driven), and plans to arrest that ii) Indicate how this would impact on leverage and plans for further growth.**
	The independent valuation of MNACT's 11 properties (Festival Walk, Gateway Plaza, Sandhill Plaza and the eight Japan Properties) was S$7,674.1 million as of 31 March 2021, 8.1% lower compared to 31 March 2020. This was largely due to lower market rents assumed by the valuers for Festival Walk and Gateway Plaza as a result of the impact of COVID-19 on the properties' performance, as well as the net translation loss (against SGD) of S$212.0 million from the weaker HKD and JPY against SGD partially offset by the stronger RMB. As the COVID-19 situation is still evolving, valuations and cap rates may be subjected to more fluctuations than during normal market conditions. The full impact of COVID-19 on the portfolio's performance for FY21/22 and the asset valuations or cap rates cannot be ascertained at this point of time. On our part, we continue to focus on executing our strategies (please refer to our answer to question 1 on page 1) to deliver long-term sustainable value to unitholders. Improving performance of the portfolio will drive the value of the underlying assets, all other things being equal. As at 31 March 2021, MNACT's aggregate leverage ratio[1] was 41.5%. Assuming the acquisition of Hewlett-Packard Japan Headquarters ("HPB") was completed as at 31 March 2021, the aggregate leverage would have been 41.9% on a pro forma basis. The increase in the aggregate leverage ratio was largely due to the lower portfolio value and additional borrowings to fund the acquisitions of The Pinnacle Gangnam and HPB. The leverage ratio of 41.9% does not constrain further acquisitions by MNACT, and is not expected to have a significant impact on MNACT's risk profile. When we make an acquisition, we will consider

[1] Pursuant to the revision of Appendix 6 of the Code on Collective Investment Schemes (Property Funds Appendix) issued by the Monetary Authority of Singapore ("MAS") on 16 April 2020, the regulatory aggregate leverage limit under the Property Funds Appendix has been increased to 50.0% up to (and including) 31 December 2021. On or after 1 January 2022, the aggregate leverage of a property fund may exceed 45% of the fund's deposited property (up to a maximum of 50.0%) only if the property fund has a minimum adjusted interest coverage ratio of 2.5 times after taking into account the interest payment obligations arising from the new borrowings.

	the existing leverage ratio and all options, including a combination of debt and equity, to achieve an optimum capital structure. With the higher gearing cap at 50.0% set by MAS, the Manager is comfortable with an aggregate leverage ratio for MNACT of not more than 45%, with an interest cover ratio of at least 2.5 times. At an aggregate leverage ratio of 41.9%, there is debt headroom for further acquisitions of approximately S$470 million, before reaching the aggregate leverage ratio of 45%. The Manager had continued with the distribution reinvestment plan (“DRP”) for FY20/21. The issue of units in lieu of cash distributions under the DRP will strengthen MNACT’s balance sheet and lower the gearing level progressively.

5.	**In view of impending and possible rate hikes, what are the strategies with respect to debt refinancing? For the S$199 million notes/debt due by March 2022, is the Manager seeing upward pressure in rates? For the 40% of debt due by March 2023/ 2024 (totaling S$1.395 billion), what would the plans be for these?**
	As part of our prudent capital management, we actively manage our refinancing activities, and will balance the cost of refinancing with the average term to maturity. We always monitor the markets and undertake necessary hedging strategies to mitigate exposure to interest rate risks, including fixing the interest cost for a substantial portion of our debt and refinancing expiring debt with lower cost of borrowings where possible. As at 31 March 2021, the percentage of our debt with fixed interest cost was about 73% and only 6% of total debt is due by end March 2022. Notwithstanding the incremental finance costs on borrowings to partially fund the acquisitions of MBP, Omori and The Pinnacle Gangnam (S$3.3 million), net finance costs in FY20/21 decreased by 4.5% or S$3.2 million, mainly due to lower benchmark interest rates (S$6.9 million) and interest savings from the refinancing of borrowings at a lower cost of debt (S$0.5 million).

C. Others	
1.	**How deep is the collective real estate knowledge of the independent directors, especially of the new key markets of Japan and South Korea?**
	The profiles of the Independent Directors are set out in pages 66 to 69 of the Annual Report. The Board comprises business leaders and distinguished professionals with banking, legal, retail, real estate, strategic planning, management and accounting experience. The diverse professional backgrounds of the Directors enable Management to benefit from their external, varied and objective perspectives on issues brought before the Board for discussion and deliberation. Each Director is appointed on the strength of his or her calibre, experience, stature and potential to give proper guidance to Management on the business of the Group. The Board is kept updated on relevant industry matters and any material change to relevant laws, regulations and accounting standards by way of briefings from professionals or updates provided by Management. In addition, the Independent Directors are able to and have benefited from the experience of the Sponsor who have invested in China, Japan and South Korea for many years.

	To assess the performance of the Board and the Board committees, the Manager conducts annual confidential board effectiveness surveys. The evaluation results will be reviewed by the nominating and remuneration committee ("**NRC**") and then shared with the Board. As part of the assessment, the NRC considers the adequacy of Board composition, Board's performance and areas of improvement, level of strategic guidance to Management and the overall effectiveness of the Board, as well as each individual Director's attendance, contribution and participation at the Board and Board committee meetings.

Important Notice

This announcement is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for units in MNACT ("**Units**"). This announcement is not for release, publication or distribution, directly or indirectly, in or into the United States and should not be distributed, forwarded to or transmitted in or into any jurisdiction where to do so might constitute a violation of applicable securities laws or regulations.

The value of Units and the income derived from them may fall as well as 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 have no right to request the Manager to redeem their Units while the Units are listed. It is intended that Unitholders of MNACT may only deal in their Units through trading on the SGX-ST. Listing of the Units on the SGX-ST does not guarantee a liquid market for the Units.

The past performance of MNACT and the Manager is not necessarily indicative of the future performance of MNACT and the Manager.