

# Corporate Governance

## INTRODUCTION

BHG Retail REIT is a trust constituted by a deed of trust dated 18 November 2015 (the "Trust Deed") entered between BHG Retail Trust Management Pte Ltd (the "Manager"), as manager of BHG Retail REIT, and DBS Trustee Limited (the "Trustee"), as trustee of BHG Retail REIT. The Trust Deed outlines certain circumstances under which the Manager can be removed, including by notice in writing given by the Trustee upon the occurrence of certain events, or by resolution passed by simple majority of unitholder of BHG Retail REIT ("Unitholders") present and voting at a meeting of Unitholders duly convened and held in accordance with the provisions of the Trust Deed.

As an entity regulated by the Securities and Futures Act (Cap 289) ("SFA"), the Code on Collective Investment Schemes ("CIS Code"), the Listing Manual of Singapore Exchange Securities Trading Limited (the "SGX-ST") (the "Listing Manual"), and other regulations, the Manager is committed to upholding good standards of corporate governance.

The Board of Directors (the "Board") of the Manager has ensured corporate governance practices in line with the Code of Corporate Governance 2012 (the "2012 Code") were implemented. The Manager has further ensured that it remains in compliance with the other regulations, notices, circulars and guidelines that may be released by the Monetary Authority of Singapore (the "MAS") from time to time.

## THE MANAGER

The Manager has general powers of management over the assets of BHG Retail REIT, and is responsible for setting the strategic direction of BHG Retail REIT.

The Manager's primary responsibility is to manage the assets and liabilities of BHG Retail REIT for the benefit of the Unitholders of BHG Retail REIT. Broadly, the Manager's strategy is:

- Active Asset Management – Driving organic growth and building long-lasting relationships with tenants;
- Active Asset Enhancement – Implementing enhancement opportunities to enhance cash flow and value of the properties;
- Acquisition Growth – Achieving portfolio growth through acquisition of quality income producing retail properties; and
- Sound Capital and Risk Management – Appropriate mix of debt and equity financing to maintain a strong and robust statement of financial position.

The Manager is a wholly owned subsidiary of Beijing Hualian Department Store Co., Ltd. (the "Sponsor"), an established China-based homegrown retail property operator. The Sponsor has extensive experience and expertise in asset management, which BHG Retail REIT is able to leverage on in order to achieve its objectives.

## BOARD MATTERS

### The Board's Conduct of Affairs

*Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to the Board.*

The Board, which is responsible for the long-term success of the company, is entrusted with overall responsibility for the corporate governance of the Manager. The Board is also responsible for the strategic business direction and risk management of BHG Retail REIT. To this end, the Board has set in place a framework of internal controls for effective management of risks within the business.

Presently, half of the Board consists of Independent Directors, and this meets the requirements in the 2012 Code, which prescribes a minimum of 1/3 of a Board's Directors to be independent. The Directors collectively bring to the Board deep experience in financial services, audit, real estate development, valuations and lease management. This collective expertise allows the Board to lead the company, establishing the long-term strategies and overseeing the management of the REIT.

The Board has authority to approve or endorse certain matters, including:

- Material transactions, such as acquisitions and divestments;
- Annual budgets;
- Quarterly/annual financial reports;
- Appointment of Directors and key management staff.

To facilitate proper discharge of its functions, the Board has established the following committees:

- Audit and Risk Committee;
- Nominating and Remuneration Committee.

Committee members are appointed from within the ranks of the Board, and operate on delegated authority from the Board.

The Board and its committees meet at least once every quarter to review key business activities, and further whenever the Board's involvement is required. Where it is not possible for a Director to attend in person, that Director may participate via teleconferencing, videoconferencing, or other similar means of telecommunication.

Four Board meetings were held during the financial year ended 31 December 2016 ("FY 2016"). The attendance of the Directors at Board meetings and Board committee meetings are set out at page 34.

Updates and changes to regulatory requirements that bear relevance to BHG Retail REIT are monitored and reported to the Board during the meeting. Where necessary and expedient, the Board may be briefed on urgent updates via circulars.

Each newly appointed Director goes through an orientation and induction programme. The aims of the programme are to familiarise the new Director with the law and regulations that govern the operation of a REIT, and to familiarise the new Director with BHG Retail REIT's business and organisation structure.

Following their appointment, Directors are provided with opportunities for continuing education in areas such as Director's duties and responsibilities, changes to laws, regulations, accounting standards, and industry-related matters so as to be updated on matters that may affect or enhance their performance as Directors of the Board, or of the Board's committees.

For FY 2016, Directors were provided with briefings in the business operations of BHG Retail REIT, its corporate governance practices and the statutory duties and responsibilities of Directors.

#### **Board Composition and Guidance**

*There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from Management and 10% Unitholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.*

The Board presently comprises six members: three Non-Executive Directors (Mr Niu Xiaohua, Mr Xiong Zhen and Mr Peng Ge) and three Independent Directors (Mr Francis Siu Wai Keung, Mr Ben Yeo Chee Seong, and Mr Lau Teck Sien). Each Director is a respected individual with the appropriate experience to act as the Directors of the Manager. The profiles of the Directors may be found from page 23 to 25 of the Annual Report.

The Board is headed by Mr Francis Siu Wai Keung, who presides as Chairman.

The Board encompasses a diverse set of skills, experience, and knowledge of the REIT and its portfolio properties. The Board will review the composition of the Board from time to time to ensure that the size of the Board provides effective and efficient decision-making, and that the Board is sufficiently independent.

# Corporate Governance

In addition, The composition of the Board is determined using the following principles:

- The Chairman of the Board should be a Non-Executive Director of the Manager;
- The Board should comprise Directors with a broad range of commercial experience including expertise in fund management, audit and accounting, and the property industry; and
- At least one-third of the Board should comprise Independent Directors.
- Mr Niu, Mr Xiong and Mr Peng are salaried employees of other entities within the Beijing Hualian Group and accordingly are treated as Non-Independent Directors.

The independence of Mr Siu, Mr Yeo and Mr Lau are assessed against the requirements of the 2012 code.

The Board is confident that the Directors act in good faith and exercise due diligence and care in the exercise of their duties, and is presently of an appropriate size.

## Board Committees

The Board is supported by the Audit and Risk Committee ("ARC") and the Nominating and Remuneration Committee ("NRC") in the discharge of its responsibilities.

The ARC is tasked with monitoring and evaluating the effectiveness of the Manager's internal controls. The ARC also reviews the quality and reliability of information prepared for inclusion in financial reports, and is responsible for the nomination of external auditors and reviewing the adequacy of external audits in respect of cost, scope and performance.

The ARC further monitors the procedures established to regulate interested party transactions, with a view towards ensuring compliance with the provisions of the Listing Manual.

The role of the NRC is to make recommendations to the Board on appointment and remuneration matters. The NRC will review and make recommendations on succession plans for the Board and executive officers.

The members of the respective Board Committees are:

Audit and Risk Committee	
Mr Francis Siu Wai Keung	Chairman
Mr Ben Yeo Chee Seong	Member
Mr Lau Teck Sien	Member
Nominating and Remuneration Committee	
Mr Ben Yeo Chee Seong	Chairman
Mr Francis Siu Wai Keung	Member
Mr Lau Teck Sien	Member

## Chairman and Chief Executive Officer

*There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.*

The roles of Chairman and CEO are separate and are held by Mr Francis Siu Wai Keung and Ms Chan Iz-Lynn respectively; both are not immediate family members. This is in line with ensuring an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making.

The Board is led by the Chairman, and he ensures the overall effectiveness and direction of the Board. The Chairman also ensures the Board and Management work constructively together on strategic issues. Further, the Chairman actively promotes high standards of corporate governance.

The CEO works with the Board to determine the strategy for BHG Retail REIT. She also works with the other members of the management team to ensure that BHG Retail REIT operates in accordance with the Manager's stated investment strategy.

Further, the CEO is responsible for the future strategic development, overall day-to-day management and operations of BHG Retail REIT, and works with the Manager's investment, asset management, financial and compliance personnel in meeting the strategic, investment and operational objectives of BHG Retail REIT.

### Board Membership

*There should be a formal and transparent process for the appointment and re-appointment of Directors to the Board*

The Board is cognizant of the requirements of the 2012 code transparency, and accordingly has established the NRC, which comprises the Independent Directors of the Board.

The Terms of Reference of the NRC include:

- The appointment and re-appointment of Directors, having regard to the composition and progressive renewal of the Board and each Director's competencies, commitment, contribution and performance including, if applicable, as an Independent Director;
- Deciding if a Director is able to and has been adequately carrying his activities as a Director of the Manager, taking into consideration the Director's principal commitments; and
- Developing a process for evaluation of the performance of the Board, its Board committees, and Directors.

In appointing a new Director to the Board, the Board considers the needs of BHG Retail REIT and the relevant expertise of the candidate. Further, the Board considers the principles stated on page 32 of the Annual Report.

The NRC further reviews the composition of the Board periodically, taking into account the need for progressive renewal of the Board and each Director's competencies, commitment, contribution and performance.

Candidates with the appropriate profile are shortlisted for nomination and are recommended to the Board for approval. The search for candidates is conducted through referrals, and may seek advice from external search consultants where necessary.

The Board does not appoint alternate directors as recommended by the 2012 Code.

For FY 2016, the NRC has recommended the adoption of a performance evaluation form for the assessment of individual Directors, the Board committees, and the Board. This recommendation was approved by the Board. The evaluation is to be performed on or before 21 January for completion by each Director in respect of his performance, the performance of the Board Committees, and the performance of the Board. Upon completion, the forms are compiled by the Company Secretary and the results are discussed at NRC meetings.

Accordingly, for FY 2016, the findings of the Board and NRC are:

- That all performance objectives for FY 2016 have been met for the Board, the Board committees and for each individual Director; and
- That each Independent Director has met and continues to meet the requirements of the 2012 Code.

The 2012 Code further recommends that the Board should determine the maximum number of listed company board representations, which any Director may hold. The Board is of the view that each individual Director should have the discretion to limit their listed company board representations, having in mind their commitment and contribution to the Board.

Although some of the Directors have other listed company board representations and commitments, the Board has determined that each Director has provided sufficient commitment to his role as a Director and to the affairs of BHG Retail REIT and the Manager. For FY 2016, the Directors have attended Board meetings and have participated constructively in discussion of the activities of BHG Retail REIT. The Board is of the view that, despite the external appointments, the Directors are not hindered from carrying out their duties as Directors of the Manager.

### Board Performance

*There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each Director to the effectiveness of the Board*

# Corporate Governance

The Manager believes the Board's performance is best evidenced and reflected through BHG Retail REIT's achievements. For FY 2016, BHG Retail REIT has exceeded the forecast, delivering commendable operational performance. The distribution per unit ("DPU") for the financial period from 11 December 2015 to 31 December 2016 of 5.45 cents has exceeded the forecast by 2.4%.

Similarly, the amount available for distribution to Unitholders was 2.9% higher than the forecast. The net property income in RMB was 4.2% higher compared to the forecast for the corresponding period.

The Board's performance is reviewed once a year by the NRC. Each Director is required to objectively assess his personal performance and collectively, the

performance of the Board as a whole. Factors that are assessed include the contributions of each Director, and the standard of conduct of the Board against set performance benchmarks. Pursuant to the NRC's review, the Board is satisfied that it has achieved its performance objectives for FY 2016.

In instances where a Director has multiple representations on other boards, that Director is evaluated to see if they have devoted sufficient time and attention to the affairs of the Manager and discharged their responsibilities adequately. Each Director, having regard to their multiple representations on other boards, confirmed his ability to devote sufficient time and attention to the affairs of the Manager. The Board, having regard to the contributions of each Director, is satisfied that each Director is able to and has adequately carried out his duties as Director.

For FY 2016, the number of Board, and ARC and NRC meetings attended by each Director is as follows:

	Board Meetings No. of meetings held: 4 Attended	Audit and Risk Committee Meetings No. of meetings held: 9	Nominating and Remuneration Committee Meetings No. of meetings held: 1 Attended
Mr Francis Siu Wai Keung	4	9	1
Mr Ben Yeo Chee Seong	4	9	1
Mr Lau Teck Sien	4	8	1
Mr Niu Xiaohua	3	–	–
Mr Xiong Zhen	4	–	–
Mr Peng Ge	4	–	–

## Access To Information

*In order to fulfil their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an ongoing basis so as to enable them to make informed decisions to discharge their duties and responsibilities.*

The Manager provides the Board with complete, adequate and timely information prior to Board meetings, and on an ongoing basis. This includes quarterly financial reports & financial statements on the Manager. The Manager's executives and external

consultants may also provide presentations on specific business areas. Further, each Director has separate and independent access to members of the Manager, and this ensures that the Directors are not dependent solely on what is volunteered by the Manager.

Board meetings are scheduled in advance to ensure that each Director has sufficient time to arrange his schedule and commitments. Board papers are generally circulated at least two days in advance to allow each Director to be fully prepared for a Board meeting.

During a Board meeting, executives may be invited as attendees in the event the Directors require further clarification on matters being discussed. Further, the Company Secretary, who attends all Board meetings, ensures that all relevant rules, regulations and procedures are complied with. Where requested, Directors may have access to professional advice.

The ARC also meets with internal & external auditors without the presence of management, and has unfettered access to information.

## REMUNERATION MATTERS

### Procedures for Developing Remuneration Policies

*There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in fixing his own remuneration.*

### Level and Mix of Remuneration

*The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.*

### Disclosure on Remuneration

*Every company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.*

While the Manager is not a listed entity, the Board has established the NRC. As regards remuneration policies, the Terms of Reference of the NRC include reviewing and recommending to the Board a general framework of remuneration for the Board and the executive officers. The NRC operates on delegated authority from the Board.

Where necessary, the NRC may engage the service of a remuneration consultant.

The Manager has put in place a remuneration policy with an aim toward retention of talent, building the strength of management, and developing key executives. This ensures that the business of the Manager remains sustainable, and provides a stable environment with room for continual growth and improvement.

The remuneration package of key executives comprises a base fixed cash component, including the base salary and compulsory employer contribution to the key executive's Central Provident Fund ("CPF") account, and a variable cash component.

The variable cash component is linked to whether a key executive meets performance targets, both personal and that of the Manager and REIT. This aligns the achievements of key executives with that of Unitholders.

Key executives do not receive any remuneration in Units.

The Manager believes the current remuneration framework it has in place allows it to attract sufficiently qualified talent. Each employee's salary comprises a fixed and variable component. The fixed component consists of the base salary and compulsory contributions to the employee's CPF account. The variable component consists of an annual bonus plan, which is linked to the performance of the employee across the preceding year. Further, the Manager may grant to each employee an Annual Wage Supplement.

The 2012 Code and the Notice to All Holders of a Capital Markets Service Licence for Real Estate Investment Trust Management require REIT managers to disclose (1) the remuneration of the CEO and each individual director on a named basis, with a break down (in percentage or dollar terms) of each Director's and the CEO's remuneration earned through base/fixed salary, variable or performance-related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards and other long-term incentives, and (2) the remuneration of at least the top five executive officers (other than the CEO and executive officers who are directors), on a named basis, in bands of S\$250,000.

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The Board has assessed and decided against such disclosure of the remuneration of the CEO and top key executive officers for the following reasons:

- Remuneration matters for the CEO and top key executives are sensitive and confidential matters;
- There is competition for talent in the REIT industry, and it is the view of the Manager that it would be in the interests of the Unitholders not to reveal the remuneration in order to maintain continuity of business;
- Remuneration is paid by the Manager, and all fees payable to the Manager have been detailed in full in this Annual Report.

The fees for Independent Directors for 2016 are stated as follows. Fees received by each Independent Director consists only of Director's Fees component, which is paid in cash. The Non-Executive Directors do not receive any fees as they are salaried employees of other entities of the Beijing Hualian Group. Directors and key executives are not paid in Units.

Director	2016 (\$)
Mr Francis Siu Wai Keung	100,000
Mr Ben Yeo Chee Seong	85,000
Mr Lau Teck Sien	85,000
Mr Niu Xiaohua	–
Mr Peng Ge	–
Mr Xiong Zhen	–

There are no employees who are immediate family members of a Director or the CEO and whose remuneration exceeds S\$50,000 during the year.

## ACCOUNTABILITY AND AUDIT

### Accountability

*The Board should present a balanced and understandable assessment of the company's performance, position and prospects*

The Board keeps Unitholders updated on BHG Retail REIT's financial performance, position and prospects through quarterly and full-year financial reports. In its presentation of the financial results, the Board strives to provide reports that are easily understandable of BHG Retail REIT's financial position, its results, and its prospects.

### Risk Management and Internal Controls

*The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard Unitholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.*

The Manager recognizes the importance of having in place an effective and sound system of risk management and internal control. Accordingly, Deloitte & Touche Enterprise Risk Services Pte Ltd ("Deloitte") was engaged to provide professional input in the assessment of the Manager's existing internal controls.

The Manager has further engaged KPMG Services Pte. Ltd. ("KPMG") to conduct quarterly reviews to mitigate the risk of non-compliance with regulatory requirements.

The ARC is kept updated on findings reported by Deloitte and KPMG, and the ARC takes these findings into consideration when assessing the Manager's risk appetite. The Manager has adopted an Enterprise Risk Management ("ERM") Framework, which formalises the Manager's risk management and internal controls practice. For FY 2016, the Manager has conducted an interim Control Self-Assessment Exercise on itself and on each of the portfolio properties in the REIT to evaluate its ERM Framework. More information on the ERM Framework can be found on page 28 of the Annual Report.

Further, the Manager has established a whistleblowing policy, which is overseen by the ARC. The whistleblowing policy allows for any wrongful act, impropriety or statutory non-compliance by the Manager's Directors, key executives or employees to be reported, and for appropriate follow-up action to be taken.

Based on the internal controls established and maintained by the Manager, work performed by the internal and external auditors, and reviews performed by the Management, the Board with the concurrence of the ARC, are of the opinion that the Manager's risk management and internal controls put in place during the financial year addressing financial, operational, compliance and information technology risks, were adequate.

In addition, the Board has received assurances from the CEO and CFO of the Manager that:

- (a) the financial records of the Group have been properly maintained and the financial statements for FY 2016 give a true and fair view of the Group's operations and finances, and are prepared in accordance with the relevant accounting standards; and
- (b) the Manager's risk management and internal control systems are adequate and effective.

#### Audit and Risk Committee

*The Board should establish an Audit and Risk Committee with written terms of reference which clearly set out its authority and duties.*

The Audit and Risk Committee ("ARC") is established by the Board and comprises three members, all of whom are Independent Directors. The ARC is chaired by Mr Francis Siu Wai Keung, and Mr Ben Yeo Chee Seong and Mr Lau Teck Sien serve as members. The members of the ARC collectively have experience in audit, accounting and fund management experience. Accordingly, they are qualified to discharge the ARC's responsibilities.

The role of the ARC is to monitor and evaluate the effectiveness of the Manager's internal controls. The ARC is further responsible for the reliability of information prepared for inclusion in financial reports. The ARC's terms of reference include:

- Monitoring the procedures in place to ensure compliance with applicable legislation, the Listing Manual and the Property Funds Appendix;

- Monitoring the procedures established to ensure compliance with the provisions of the Listing Manual related to Interested Person Transactions, and the provisions of the Property Funds Appendix relating to Interested Party Transactions (collectively, "Interested Person Transactions");
- Reviewing external audit reports to ensure that where deficiencies in internal controls have been identified, appropriate and prompt remedial action is taken by the management;
- Reviewing internal audit reports to ensure that where deficiencies in internal controls have been identified, appropriate and prompt remedial action is taken by Management; and
- Reviewing the appointment, re-appointment and removal of external auditors.

The ARC is responsible for the nomination of external and internal auditors. Further, the ARC is empowered to investigate any matters that fall within its terms of reference at any time it deems necessary to do so. Management cooperates fully with the ARC in such circumstances.

The ARC reviewed the nature and extent of non-audit services provided by the external auditors during FY 2016 and the fees paid for such services. The external auditors have also provided confirmation of their independence to the ARC. The aggregate amount of fees paid and payable to the external auditors for audit services is S\$314,000. There are no non-audit fees paid and payable to the external auditors for FY 2016.

The Manager confirms that the appointment of the external auditors is in accordance with rules 712 and 715 of the Listing Manual.

In the review of the Group's financial statements, the ARC discussed with Management the accounting principles that were applied and considered the clarity of key disclosures in the financial statements. In addition, the ARC reviewed, amongst other matters, the key audit matter, as reported by external auditors for the financial period ended 31 December 2016, relating to the valuation of the Group's investment properties.



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The ARC reviewed the outcome of the established valuation process and discussed the details of the valuation with management. The ARC considered the findings of the external auditors, including their assessment of the appropriateness of valuation methodologies and the underlying key assumptions applied in the valuation of investment properties. The ARC is satisfied with the valuation process, the methodologies used and the valuation of the investment properties as adopted and disclosed in the financial statements.

The ARC meets at least once every calendar quarter.

## Internal Audit

*The company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.*

The ARC has appointed Deloitte to perform the internal audit functions. To ensure that it performs its function adequately and effectively, Deloitte employs suitably qualified staff with the requisite skill sets and experience.

Further, the Manager ensures that Deloitte retains independence in exercising their duties. This is evidenced through the unimpeded access to the Manager's documents and records and through meetings held between Deloitte and the ARC without the presence of management.

The internal auditor has provided risk assessment and control assessment services to ensure the Manager is able to review its internal controls and ensure that these controls are aligned to operational efficiency.

The ARC has reviewed the internal audit function and has concluded that the internal audit function was adequately resourced and effective.

## UNITHOLDERS RIGHTS AND RESPONSIBILITIES

### Unitholder Rights

*Companies should treat all Unitholders fairly and equitably, and should recognise, protect and facilitate the exercise of Unitholders' rights, and continually review and update such governance arrangements.*

### Communication with Unitholders

*Companies should actively engage their Unitholders and put in place an investor relations policy to promote regular, effective and fair communication with Unitholders.*

### Conduct of Unitholder Meetings

*Companies should encourage greater Unitholders participation at general meetings of Unitholders, and allow Unitholders the opportunity to communicate their views on various matters affecting the company.*

The Manager notes the importance of timely disclosure of information to Unitholders, and upholds a strong culture of continuous disclosure and transparent communication with Unitholders and the investment community. As such, disclosures are made on a timely basis through SGXNET, and on BHG Retail REIT's updated website.

In addition, where possible, Unitholders are notified in advance of the release of BHG Retail REIT's financial results. The Manager makes an announcement via SGXNET, and the same may also be found on the BHG Retail REIT's website.

The Manager has a dedicated Investor Relations Manager who facilitates communication with Unitholders, members of the investment community and potential investors. In FY 2016, the CEO and Investor Relations Manager have met with potential investors and analysts through meetings and roadshows.

Further, the Manager has established procedures to ensure current Unitholders are informed in advance of meetings. They are encouraged to attend and participate in the process of these meetings, especially if they have questions as regards the resolutions that have been put up to be decided upon. Unitholders who are unable to attend meetings are provided with the option to appoint up to two proxies, who may then vote on behalf of the unitholder.

Members of the Board and Manager are present at these meetings to answer any queries from the Unitholders.

## ADDITIONAL INFORMATION

### Dealings in BHG Retail REIT Units

The Manager has adopted an internal compliance standard operating policy to provide guidance to its Directors, key officers and employees in respect of dealings in BHG Retail REIT's units. ("Units")

The policy permits the Directors and the Manager's key officers and employees to purchase Units, but sets clear limits on the transaction:

- Any officer or employee who wishes to purchase Units must complete a Staff Dealing Application Form and obtain approval from the Compliance Manager, CEO and Chairman of the Manager;
- A blackout period is imposed two weeks prior to quarterly announcements of BHG Retail REIT's results and one month prior to the annual announcement of BHG Retail REIT's results. During the blackout period, Directors, key officers, employees and related companies of the Beijing Hualian Group are strictly prohibited from dealing in Units;
- Directors, key officers and employees are further prohibited from dealing in Units if they are in possession of insider information.
- Directors, officers and employees should not deal in Units on short-term considerations.
- In respect of matters in which a Director or his associates (as defined in the Listing Manual) has an interest, direct or indirect, such Director will abstain from voting. In such matters, the quorum must comprise a majority of the Directors (excluding such Interested Directors);
- All resolutions in writing of the Directors in relation to matters concerning BHG Retail REIT must be decided by at least a majority vote of the Directors (excluding any Interested Director), including at least one Independent Director;
- At least one-third of the Board shall comprise Independent Directors;
- In respect of matters in which the Sponsor and/or its subsidiaries have an interest, direct or indirect, any nominees appointed by the Sponsor and/or its subsidiaries to the Board to represent their interest will abstain from deliberation and voting on such matters. In such matters the quorum must comprise a majority of the Independent Directors and must exclude Nominee Directors of the Sponsor and/or its subsidiaries. The Manager is an indirect wholly owned subsidiary of the Sponsor.
- The Manager will ensure that the Property Manager Group puts in place the necessary procedures to prevent the unauthorised disclosure of confidential information relating to BHG Retail REIT.

### Conflicts of Interests

The Manager has established the following controls to deal with potential conflicts of interest:

- The Manager will not manage any other REIT which invests in the same type of properties as BHG Retail REIT;
- All key executive officers will work exclusively for the Manager and will not hold other executive positions in other entities;

It is also provided in the Trust Deed that if the Manager is required to decide whether or not to take any action against any person in relation to any breach of any agreement entered into by the Trustee for and on behalf of BHG Retail REIT with a related party of the Manager, the Manager shall be obliged to consult with a reputable law firm (acceptable to the Trustee) who shall provide legal advice on the matter. If the said law firm is of the opinion that the Trustee has a prima facie case against the party allegedly in breach under such agreement, the Manager shall be obliged to take appropriate action in relation to such agreement. The Directors of the Manager (including its Independent Directors) will have a duty to ensure that the Manager so complies.

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Further, the Manager shall inform the Trustee as soon as it becomes aware of any breach of any agreement entered into by the Trustee for an on behalf of BHG Retail REIT with a related party of the Manager and the Trustee may take such action as it deems necessary to protect the rights of Unitholders and/or which is in the interests of Unitholders. Any decision by the Manager not to take action against a related party of the Manager shall not constitute a waiver of the Trustee's right to take such action as it deems fit against such related party.

## Interested Party Transactions

The Manager has established controls and reporting measures for handling Interested Party Transactions. These ensure that such transactions are conducted on normal commercial terms and do not prejudice the interest of Unitholders.

Further, the Manager maintains a register to record all transactions which may be considered as Interested Party Transactions. The register is subject to regular review by the ARC in ensuring that the Manager conducts itself in accordance with the Listing Manual and the Property Funds Appendix of the CIS Code.

Transactions (whether a single transaction or a series of transactions involving the same Interested Party calculated together in aggregate over the course of the financial year) which exceed \$100,000 in value but are below 3% of BHG Retail REIT's net tangible assets are subject to review by the ARC and the Trustee.

Transactions (whether a single transaction or a series of transactions involving the same Interested Party calculated together in aggregate over the course of a financial year) which are valued between 3% - 5% of BHG Retail REIT's net tangible assets are subject to an announcement by the Manager on SGXNET, and are further subject to review by the ARC and the Trustee prior to the Manager undertaking the transaction.

Transactions (whether a single transaction or a series of transactions involving the same Interested Party calculated together in aggregate over the course of a financial year) which are valued at 5% and above of BHG Retail REIT's net tangible assets are subject to an announcement by the Manager on SGXNET, approval from Unitholders prior to the transaction being entered to, and are further subject to review by the ARC, the trustee, and an independent financial adviser.

The Interested Party Transactions undertaken by the Manager are set out at page 128 of this Annual Report.

## Fees Payable to the Manager

Under the revised CIS Code, the Manager must justify the fees that are payable out of the deposited property of the fund, detailing the methodology and justification of each type of fee. The methodology for computing each type of fee is documented under [Section 1] of the Notes to Financial Statements.

The Manager earns a management fee for the management of BHG Retail REIT's portfolio. For FY 2016, the Manager has elected to receive 100.0% of its management fee in the form of Units. The fee comprises two components: the base fee and performance fee, which are detailed as follows:

### Base Fee

The base fee is calculated as a percentage of the distributable income and is payable on a quarterly basis. This fee allows the Manager to cover administrative and operation overheads.

The Manager is entitled to receive a base fee not exceeding 10.0% per annum (or such lower percentage as the Manager may determine in its absolute discretion) of the annual distributable income.

The Manager may elect to receive the fee in cash, Units, or a combination of cash and Units in any proportion it may determine, and the base fee shall be payable quarterly in arrears.

### Performance Fee

The performance fee is calculated based on an objective which aligns with the interest of Unitholders as a whole – it is payable only if the DPU in any financial year exceeds the DPU in the preceding financial year.

The Manager may elect to receive the fee in cash, Units, or a combination of cash and Units in any proportion it may determine, and the performance fee shall be payable annually.

For the purpose of computation of the performance fee, the DPU is calculated based on all income arising from the operations of BHG Retail REIT. These include, but are not limited to, rentals, interest, dividends and other similar payments and income arising from the authorised investments of BHG Retail REIT, but exclude one-off income such as income arising from any sale or disposal of real estate (whether directly or indirectly through one or more SPVs) or any part thereof, and any investments forming part of the deposited property or any part thereof.

For the purpose of computation of the performance fee for FY 2016, the DPU for 2016 (being 1 January 2016 to 31 December 2016, both dates inclusive) is compared against the projected DPU set out in the Prospectus.

This method of computation is provided for in the Trust Deed.

### Other Fees – Acquisition Fee

The Manager is also entitled to an acquisition fee under clause 15.2 of the Trust Deed. This is earned upon the completion of an acquisition. The acquisition fee serves as an incentive and motivation for the Manager, as the Manager will expend a substantial amount of time, effort and resources in locating, reviewing and completing the acquisition process with the aim of growing BHG Retail REIT's portfolio and providing Unitholders with regular and stable distributions.

The fee is equivalent to 0.75% for acquisitions from Interested Parties and 1.0% for all other cases. In accordance with the Property Funds Appendix, where the Manager receives a percentage-based fee when BHG Retail REIT acquires real estate from, an Interested Party, the acquisition fee should be in the form of Units issued by BHG Retail REIT, and these Units may not be sold within one year from the date of their issuance.

### Other Fees – Divestment Fee

The Manager is entitled to a divestment fee under clause 15.2 of the Trust Deed, and is earned upon the completion of a divestment. The payment of the fee seeks to incentivise and motivate the Manager in actively seeking to maximise the value of BHG Retail REIT by optimizing its portfolio.

The fee is equivalent to 0.50% for divestments. In accordance with the Property Funds Appendix, where the manager receives a percentage-based fee when BHG Retail REIT divests real estate to an Interested Party, the divestment fee should be in the form of Units issued by BHG Retail REIT, and these Units should not be sold within one year from the date of their issuance.