FINANCIAL STATEMENTS

Report of the Trustee

DBS Trustee Limited (the "Trustee") is under a duty to take into custody and hold the assets of BHG Retail REIT (the "REIT") in trust for the Unitholders (the "Unitholders"). In accordance with the Securities and Futures Act (Cap. 289), its subsidiary legislation and the Code on Collective Investment Schemes, the Trustee shall monitor the activities of BHG Retail Trust Management Pte. Ltd. (the "Manager") for compliance with the limitations imposed on the investment and borrowing powers as set out in the trust deed dated 18 November 2015 (the "Trust Deed") between the Manager and the Trustee in each annual accounting period and report thereon to Unitholders in an annual report.

To the best knowledge of the Trustee, the Manager has, in all material respects, managed the Trust during the period covered by these financial statements, set out on pages 74 to 127 in accordance with the limitations imposed on the investment and borrowing powers set out in the Trust Deed.

For and on behalf of the Trustee,
DBS Trustee Limited

Jane Lim
Director

Singapore
28 February 2017

Statement by the Manager

In the opinion of the directors of BHG Retail Trust Management Pte. Ltd. (the "Manager"), the accompanying financial statements set out on pages 74 to 127 comprising the statements of financial position, statements of total return, distribution statements and statements of movements in Unitholders' funds of BHG Retail REIT (the "REIT") and its subsidiaries (the "Group"), the portfolio statement and statement of cash flows of the Group and a summary of significant accounting policies and other explanatory information, are drawn up so as to present fairly, in all material respects, the financial position of the Group and of the REIT and the portfolio of the Group as at 31 December 2016, the total return, distributable income and movements in Unitholders' funds of the Group and of the REIT and cash flows of the Group for the period from 18 November 2015 ("Date of Constitution") to 31 December 2016 in accordance with the recommendations of Statement of Recommended Accounting Practice 7 *Reporting Framework for Unit Trusts* issued by the Institute of Singapore Chartered Accountants and the provisions of the Trust Deed. At the date of this statement, there are reasonable grounds to believe that the Group will be able to meet its financial obligations as and when they materialise.

For and on behalf of the Manager,
BHG Retail Trust Management Pte. Ltd.

Francis Siu Wai Keung
Director

Singapore
28 February 2017

Independent Auditors' Report

UNITHOLDERS BHG RETAIL REIT
(CONSTITUTED UNDER A TRUST DEED DATED 18 NOVEMBER 2015
IN THE REPUBLIC OF SINGAPORE)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of BHG Retail REIT (the "REIT") and its subsidiaries (the "Group"), which comprise the statement of financial position and the portfolio statement of the Group and the statement of financial position of the REIT as at 31 December 2016, the statement of total return, distribution statement, statement of movements in Unitholders' funds and statement of cash flows of the Group and the statement of total return, distribution statement and statement of movements in Unitholders' funds of the REIT for the period from 18 November 2015 ("Date of Constitution") to 31 December 2016, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 74 to 127.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position, statement of total return, distribution statement and statement of movements in Unitholders' funds of the REIT present fairly, in all material respects, the financial position of the Group and the REIT as at 31 December 2016 and the total return, distributable income, movements in Unitholders' funds and cash flows of the Group and the total return, distributable income and movements in Unitholders' funds of the REIT for the period from Date of Constitution to 31 December 2016 in accordance with the recommendations of Statement of Recommended Accounting Practice 7 *Reporting Framework for Unit Trusts* issued by the Institute of Singapore Chartered Accountants.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the '*Auditors' responsibilities for the audit of the financial statements'* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditors' Report

UNITHOLDERS BHG RETAIL REIT
(CONSTITUTED UNDER A TRUST DEED DATED 18 NOVEMBER 2015
IN THE REPUBLIC OF SINGAPORE)

Valuation of investment properties
Refer to Note 4 to the financial statements

The key audit matter	*How the matter was addressed in our audit*
The Group has investment properties comprising retail malls in the People's Republic of China. These investment properties represent the single largest category of assets on the statements of financial position, at $810.7 million as at 31 December 2016. These investment properties are stated at their fair values based on independent external valuations. The valuation process involves significant judgement in determining the appropriate valuation methodology, and in estimating the underlying assumptions to be applied. The valuations are sensitive to the key assumptions, including those relating to the discount rates, terminal rates, term yields and revisionary rates and a change in the assumptions will have an impact on the valuation.	We evaluated the qualifications and competence of the external valuers. We also read the terms of engagement of the valuers with the Group to determine whether there were any matters that might have affected their objectivity or limited the scope of their work. We tested the valuation methodologies used, which included the discounted cash flow method and income capitalisation method, against those applied for similar property types by other valuers. We tested the integrity of inputs of the projected cash flows used in the valuation to supporting leases and other documents. We assessed the reasonableness of the discount rates, terminal rates, term yields and revisionary rates used in the valuations by comparing them to available industry data, taking into consideration comparability and market factors. We also considered the adequacy of the disclosures in the financial statements.

Valuation of investment properties
Refer to Note 4 to the financial statements

	Our findings
	The valuers are members of generally-recognised professional bodies for valuers and have considered their own independence in carrying out their work. The valuation methodologies used are comparable to the methods used for similar property types by other valuers and the key assumptions used are within the range of market data. The disclosures in the financial statements are appropriate in their description of the judgement inherent in the key assumptions used in the valuations and the relationships between the key unobservable inputs and fair values.

Independent Auditors' Report

UNITHOLDERS BHG RETAIL REIT
(CONSTITUTED UNDER A TRUST DEED DATED 18 NOVEMBER 2015
IN THE REPUBLIC OF SINGAPORE)

Other Information

BHG Retail Trust Management Pte. Ltd., the Manager of the REIT (the "Manager"), is responsible for the other information. The other information comprises the Overview, Performance Review, Business Highlights, Corporate Social Responsibility and Interested Person Transactions, but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditors' report, and the Statistics of Unitholders (the "Report") which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Manager and take appropriate actions in accordance with SSAs.

Responsibilities of the Manager for the Financial Statements

The Manager is responsible for the preparation and fair presentation of these financial statements in accordance with the recommendations of Statement of Recommended Accounting Practice 7 *Reporting Framework for Unit Trusts* issued by the Institute of Singapore Chartered Accountants, and for such internal controls as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to terminate the Group or to cease operations of the Group, or has no realistic alternative but to do so.

The Manager's responsibilities include overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Independent Auditors' Report

UNITHOLDERS BHG RETAIL REIT
(CONSTITUTED UNDER A TRUST DEED DATED 18 NOVEMBER 2015
IN THE REPUBLIC OF SINGAPORE)

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.

- Conclude on the appropriateness of the use of the going concern basis of accounting by the the Manager and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide the Manager with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Manager, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless the law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Lim Pang Yew, Victor.

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
28 February 2017

Statements of Financial Position

AS AT 31 DECEMBER 2016

	Note	Group 2016 $'000	REIT 2016 $'000
Non-current assets			
Investment properties	4	810,692	–
Plant and equipment	5	733	–
Interests in subsidiaries	6	–	526,707
Trade and other receivables	7	46	–
Deferred tax assets	8	208	–
		811,679	526,707
Current assets			
Trade and other receivables	7	8,279	1,290
Cash and cash equivalents	9	51,669	382
		59,948	1,672
Total assets		871,627	528,379
Non-current liabilities			
Loans and borrowings	10	140,442	70,657
Trade and other payables	11	1,869	–
Security deposits		6,693	–
Deferred tax liabilities	8	22,564	–
		171,568	70,657
Current liabilities			
Loans and borrowings	10	90,020	88,800
Trade and other payables	11	19,169	1,138
Security deposits		7,991	–
Current tax liabilities		1,493	–
		118,673	89,938
Total liabilities		290,241	160,595
Net assets		581,386	367,784
Represented by:			
Unitholders' funds	12	421,177	367,784
Non-controlling interests	13	160,209	–
		581,386	367,784
Units in issue ('000)	14	496,877	496,877
Net asset value per Unit attributable to Unitholders ($)		0.85	0.74

The accompanying notes form an integral part of these financial statements.

Statements of Total Return

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

	Note	Group Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000	REIT Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Gross rental income		59,172	–
Other income		7,062	–
Gross revenue		66,234	–
Business tax		(1,539)	–
Property-related tax		(5,069)	–
Property management fees and reimbursables		(2,182)	–
Other property operating expenses	16	(15,247)	–
Total property operating expenses		(24,037)	–
Net property income		42,197	–
Audit fees		(314)	(145)
Manager's management fees			
– Base fee		(1,904)	(1,904)
– Performance fee		(209)	(209)
Trustee's fees		(144)	(144)
Valuation fee		(60)	(60)
Other income (non–operating)		222	–
Other REIT operating expenses	17	(490)	(395)
Finance income		427	–
Finance costs		(9,177)	(4,778)
Net finance costs	18	(8,750)	(4,778)
Total return before change in fair value of investment properties and unrealised foreign exchange loss		30,548	(7,635)
Change in fair value of investment properties	4	85,966	–
Foreign exchange loss – unrealised		(65)	–
Total return for the period before taxation		116,449	(7,635)
Taxation	19	(28,334)	–
Total return for the period after taxation		88,115	(7,635)
Attributable to:			
Unitholders		58,603	(7,635)
Non–controlling interests	13	29,512	–
Total return for the period after taxation		88,115	(7,635)
Earnings per Unit (cents)	20		
– Basic		11.86	
– Diluted		11.79	

The accompanying notes form an integral part of these financial statements.

Distribution Statements

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

	Note	Group Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000	REIT Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Amount available for distribution to Unitholders at 18 November 2015 ("Date of Constitution")		–	–
Total return for the period attributable to Unitholders		58,603	(7,635)
Distribution adjustments	A	(39,565)	26,673
Income for the period available for distribution to Unitholders	B	19,038	19,038
Distribution to Unitholders during the period:			
– Distribution of 2.85 cents per Unit for the period from 11 December 2015 to 30 June 2016		(9,884)	(9,884)
Amount available for distribution to Unitholders at end of the period		9,154	9,154
Distribution per unit (cents)	*	2.60	

* The distribution per unit relates to the distributions for the period from 1 July 2016 to 31 December 2016. The computation of distribution per unit is based on the number of Units entitled to distribution of 349,060,000 which comprises:

a. the number of Units in issue as at 31 December 2016 of 495,560,000;
b. the Units to be issued to the Manager as satisfaction of Manager's base fee payable of 720,500 Units;
c. the Units to be issued to the Manager as satisfaction of Manager's performance fee payable of 326,000 Units
d. the Units to be issued to the Property Manager as satisfaction of property management fees payable of 271,000 Units; and
e. exclude strategic investor's Units of 147,817,500

The distribution will be paid within 90 days from the end of the distribution period, in accordance with the provisions of the Trust Deed.

The amount of distributions waived, attributable to the strategic investor Units, for the period from the Listing Date to 31 December 2016 amounted to approximately S$5.6 million.

The accompanying notes form an integral part of these financial statements.

Distribution Statements

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

Note A – Distribution adjustments

	Group Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000	REIT Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Distribution adjustment items:		
– Amortisation of debt establishment costs	327	105
– Change in fair value of investment properties [(1)]	(56,597)	–
– Deferred taxation [(1)]	14,700	–
– Manager's management fees paid/payable in Units	2,113	2,113
– Net income of subsidiaries not distributed to the REIT [(1)]	–	24,455
– Property Manager's management fees paid/payable in Units	737	–
– Transfer to statutory reserve	(1,082)	–
– Other adjustments [(1)]	237	–
Net effect of distribution adjustments	(39,565)	26,673

(1) Excludes share attributable to non-controlling interests

Note B – Income for the period available for distribution to Unitholders

	Note	Group	REIT
Comprises:			
– from operations		–	–
– from Unitholders' contribution		19,038	19,038
Total Unitholders' distribution	15	19,038	19,038

The accompanying notes form an integral part of these financial statements.

Statements of Movements in Unitholders' Funds

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

	Group Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000	REIT Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Operations		
Total return for the period after taxation attributable to Unitholders	58,603	(7,635)
Transfer to statutory reserve	(1,082)	–
Net increase/(decrease) in net assets resulting from operations	57,521	(7,635)
Foreign currency translation reserve		
Translation differences from financial statements of foreign operations	(12,845)	–
Statutory reserve		
Transfer from operation	1,082	–
Unitholders' transactions		
Issue of new Units on listing	394,180	394,180
Creation of Units paid/payable to manager		
– Units issued and to be issued as satisfaction of the portion of Manager's management fees payable in Units	2,113	2,113
– Units issued and to be issued as satisfaction of the portion of Property Manager's management fees payable in Units	737	737
Issue expenses	(11,727)	(11,727)
Distributions to Unitholders	(9,884)	(9,884)
	375,419	375,419
Unitholders' funds as at end of the period	421,177	367,784

The accompanying notes form an integral part of these financial statements.

Portfolio Statement

AS AT 31 DECEMBER 2016

Group Description of leasehold property	Location	Term of lease (years)	Lease expiry	Valuation as at 31 December 2016 RMB'000	Valuation as at 31 December 2016 SGD'000	Percentage of Unitholders' funds 31 December 2016 %
Beijing Wanliu	No.2 Bagou Road, Haidian District, Beijing	30	2044	2,235,000	465,784	111%
Chengdu Konggang	No. 166 Jinhua Road second section, Shuangliu County, Chengdu	32	2047	631,000	131,503	31%
Hefei Mengchenglu	No.99 Mengcheng Road, Luyang District, Hefei	30	2044	584,000	121,708	29%
Xining Huayuan	Nos.16-19 Shipo street, Chengzhong District, Xining	34	2048	278,000	57,936	14%
Dalian Jinsanjiao	No.18 Huadong Road, Ganjingzi District, Dalian	33	2042	162,000	33,761	8%
Investment properties, at valuation					810,692	193%
Other assets and liabilities (net)					(229,306)	(54%)
Net assets					581,386	139%
Net assets attributable to non-controlling interests					(160,209)	(39%)
Net assets attributable to Unitholders					421,177	100%

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

	Note	Group Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Cash flows from operating activities		
Total return for the period before taxation		116,449
Adjustments for:		
Finance income		(427)
Finance costs		9,177
Depreciation of plant and equipment		239
Manager's management fees paid/payable in Units	(i)	2,113
Property Manager's management fees paid/payable in Units	(ii)	737
Change in fair value of investment properties		(85,966)
Foreign exchange loss – unrealised		65
Operating income before working capital changes		42,387
Changes in:		
Trade and other receivables		(4,215)
Trade and other payables		(8,486)
Cash generated from operating activities		29,686
Tax paid		(4,807)
Net cash from operating activities		24,879
Cash flows from investing activities		
Acquisition of investment properties and other assets, net of cash acquired		(468,709)
Capital expenditure on investment properties		(6,037)
Purchase of plant and equipment		(124)
Interest received		427
Net cash used in investing activities		(474,443)
Cash flows from financing activities		
Distribution to Unitholders		(9,884)
Increase in restricted cash		(13,296)
Proceeds from issue of Units		394,180
Payment of transaction costs related to issue of Units		(11,727)
Payment of transaction costs related to loans and borrowings		(1,386)
Proceeds from borrowings		174,877
Repayment of borrowings		(34,442)
Interest paid		(9,421)
Net cash from financing activities		488,901

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows (cont'd)

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

	Note	Group Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Increase in cash and cash equivalents		39,337
Cash and cash equivalents at 18 November 2015 ("Date of Constitution")		–
Effect of foreign exchange rate changes on cash balances		(964)
Cash and cash equivalents at 31 December 2016	9	38,373

Notes:

Significant non–cash transactions

(i) The Manager's management fees for the period from Date of Constitution to 31 December 2016 was $2,113,000. $1,441,000 was paid during the period through the issue of 2,042,000 Units. The remaining $672,000 will be paid through the issue of 1,046,000 Units subsequent to the period end.

(ii) The Property Manager's management fees for the period from Date of Constitution to 31 December 2016 was $737,000. $562,000 was paid during the period through the issue of 793,000 Units. The remaining $175,000 will be paid through the issue of 271,000 Units subsequent to the period end.

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Manager and the Trustee on 28 February 2017.

1. GENERAL

BHG Retail REIT (the "REIT") is a Singapore–domiciled unit trust constituted pursuant to trust deed dated 18 November 2015 ("Date of Constitution") (the "Trust Deed") between BHG Retail Trust Management Pte. Ltd. (the "Manager") and DBS Trustee Limited (the "Trustee"). The Trust Deed is governed by the laws of the Republic of Singapore. The Trustee is under a duty to take into custody and hold the assets of the REIT held by it or through its subsidiaries (the "Group") in trust for the holders of units ("Units") in the REIT.

The REIT was formally admitted to the Official List of the Singapore Exchange Securities Trading Limited (the "SGX-ST") on 11 December 2015 (the "Listing Date").

The principal activities of the REIT are those relating to investment in a diversified portfolio of income–producing properties located primarily in the People's Republic of China ("China") and used primarily for retail purposes.

The principal activities of the subsidiaries are those of investment holding of properties located in China and used for retail purposes.

The Group has entered into several service agreements in relation to the management of the REIT and its property operations. The main fee structures for these services are as follows:

(i) Trustee's fees

Pursuant to Clause 15.5 of the Trust Deed, the Trustee's fee shall not exceed 0.1% per annum of the value of deposited property, subject to a minimum of $10,000 per month, excluding out-of-pocket expenses and Goods and Services Tax.

(ii) Manager's management fees

The Manager is entitled under Clauses 15.1 of the Trust Deed to the following management fees:

- a base fee of 10% per annum of the annual distributable income; and
- a performance fee of 25% per annum of the difference in distribution per unit ("DPU") in a financial year with the DPU in the preceding financial year (calculated before accounting for the performance fee but after accounting for the base fee in each financial year) multiplied by the weighted average number of Units in issue for such financial year.

For the purpose of computing the performance fee for FY2016, 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.

The Manager may elect to receive the management fees in cash or Units or a combination of cash and/or Units (as it may in its sole discretion determine).

Notes to the Financial Statements

1. GENERAL (CONT'D)

(iii) Property management fees

Under the property management agreement in respect of each property, the property manager ("Property Manager") will provide lease management services, property tax services and marketing co–ordination services in relation to the property. The Property Manager is entitled to the following fees:

- 2% per annum of the gross revenue of the property; and
- 2.5% per annum of the net property income of the property.

The property manager fees are payable to the Property Manager in the form of cash and/or Units.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with the recommendations of the Statement of Recommended Accounting Practice ("RAP") 7 *Reporting Framework for Unit Trusts* issued by the Institute of Singapore Chartered Accountants, the applicable requirements of the Code on Collective Investment Schemes (the "CIS Code") issued by the Monetary Authority of Singapore ("MAS") and the provisions of the Trust Deed. RAP 7 requires that accounting policies adopted should generally comply with the principles relating to recognition and measurement of the Singapore Financial Reporting Standards ("SFRS").

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except as otherwise described in the notes below.

2.3 Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "functional currency"). The consolidated financial statements of the Group are presented in Singapore dollars, which is the functional currency of the REIT. All financial information presented in Singapore dollars has been rounded to the nearest thousand, unless otherwise stated.

2. BASIS OF PREPARATION (CONT'D)

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with RAP 7 requires the Manager to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year includes the valuation of investment properties under Note 4.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement (with Level 3 being the lowest).

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Notes to the Financial Statements

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Group entities.

3.1 Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group's acquisition of subsidiaries are primarily accounted for as acquisitions of assets as the subsidiaries are special purpose vehicles established for the sole purpose of holding assets.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(ii) Loss of control

Upon loss of control, the REIT derecognises the assets and liabilities of a subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the statement of total return.

If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Basis of consolidation (cont'd)

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income or expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iv) Accounting for subsidiaries by the REIT

Investments in subsidiaries are stated in the REIT's statement of financial position at cost less accumulated impairment losses.

3.2 Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated at the foreign exchange rates at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognised in the statement of total return, except for differences arising on the retranslation of monetary items that in substance form part of the Group's net investment in a foreign operation (see Note 3.2 (iii)) and financial derivatives designated as hedges of the net investment in a foreign operation (see Note 3.2 (iv)).

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.2 Foreign currency (cont'd)

(ii) Foreign operations

The assets and liabilities of foreign operations, excluding goodwill and fair value adjustments arising on acquisition, are translated to Singapore dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Singapore dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in the foreign currency translation reserve. However, if the foreign operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the statement of total return on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to the non-controlling interests.

(iii) Net investment in a foreign operation

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation. These are recognised in Unitholders' funds and are presented in the foreign currency translation reserve.

(iv) Hedge of net investment in foreign operation

Foreign currency differences arising on the retranslation of a financial instrument designated as a hedge of a net investment in a foreign operation are recognised in Unitholders' funds to the extent that the hedge is effective, and are presented in the foreign currency translation reserve. To the extent that the hedge is ineffective, such differences are recognised in the statement of total return. When the hedged net investment is disposed of, the cumulative amount in the foreign currency translation reserve is transferred to the statement of total return as an adjustment to the gain or loss arising on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.3 Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group has loans and receivables as its non-derivative financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables and cash and cash equivalents.

Cash and cash equivalents comprise cash balances and short-term deposits with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

(ii) Non-derivative financial liabilities

Financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.3 Financial instruments (cont'd)

(ii) Non-derivative financial liabilities (cont'd)

The Group has the following non-derivative financial liabilities: trade and other payables, security deposits and loans and borrowings. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.4 Investment properties

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in the statement of total return.

Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Fair value is determined in accordance with the Trust Deed, which requires the investment properties to be valued by independent registered valuers at least once a year in accordance with the CIS Code issued by the MAS.

Subsequent expenditure relating to investment properties that have already been recognised is added to the carrying amount when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset will flow to the Group.

All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

When an investment property is disposed of, the resulting gain or loss recognised in the statement of total return is the difference between the net disposal proceeds and the carrying amount of the property.

Investment properties are not depreciated. The properties are subject to continued maintenance and regularly revalued on the basis set out above.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.5 Plant and equipment

(i) Recognition and measurement

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

Gains or losses arising from the retirement or disposal of plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the statement of total return on the date of retirement or disposal.

(ii) Subsequent costs

The cost of replacing part of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The cost of the day-to-day servicing of plant and equipment are recognised in the statement of total return as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised as an expense in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of plant and equipment, unless it is included in the carrying amount of another asset. Depreciation is recognised from the date that the plant and equipment are installed and are ready for use.

Plant and machinery	–	5-10 years
Motor vehicles	–	5-10 years
Furniture, fittings and equipment	–	5-10 years

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at each reporting date.

Notes to the Financial Statements

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.6 Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through the statement of total return is assessed at each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor will enter bankruptcy.

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the statements of total return and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through the statement of total return.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.6 Impairment

(ii) Non-financial assets

The carrying amounts of the Group's non–financial assets, other than investment properties, and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit ("CGU") exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of total return. Impairment losses recognised in respect of the CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.7 Unitholders' funds

Unitholders' funds represent the residual interests in the Group's net assets upon termination and are classified as equity.

Expenses incurred in connection with the issuance of Units in the REIT are deducted directly against the Unitholders' funds.

Notes to the Financial Statements

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.8 Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of total return as incurred.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.9 Distribution policy

The REIT's distribution policy is to distribute 100.0% of its amount available for distribution to Unitholders for the financial period from 11 December 2015 ("Listing Date") to 31 December 2016. Thereafter, the Manager will distribute at least 90.0% of the REIT's amount available for distribution with the actual level of distribution to be determined at the discretion of the Board of Directors of the Manager. Distribution to Unitholders will be made semi-annually based on the half-yearly results of the REIT.

3.10 Revenue recognition

(i) Rental income

Rental income receivable under operating leases is recognised on a straight–line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives granted are recognised as an integral part of the total rental to be received. Contingent rentals, which include gross turnover rental, are recognised as income in the accounting period on an earned basis. No contingent rental is recognised if there are uncertainties due to the possible return of the amounts received.

(ii) Dividend income

Dividend income is recognised when the right to receive payment is established.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.11 Lease payments

Payment made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

3.12 Expenses

(i) Property expenses

Property expenses are recognised on an accrual basis.

(ii) Manager's management fees, property management fees and Trustee's fees

These are recognised on an accrual basis based on the applicable formula stipulated in Note 1.

3.13 Finance income and finance costs

Finance income comprises interest income recognised in the statement of total return as it accrues, using the effective interest method.

Finance costs which comprise interest expense on borrowings and expense incurred in connection with borrowings are recognised in the statement of total return, using the effective interest method over the period of the borrowings.

3.14 Taxation

Tax expenses comprises current and deferred tax. Taxation is recognised in the statement of total return except to the extent that it relates to items recognised directly in Unitholders' fund.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.14 Taxation (cont'd)

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and

- temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.15 Earnings per Unit

The Group presents basic and diluted earnings per unit ("EPU") data for its Units. Basic EPU is calculated by dividing the total return attributable to Unitholders of the Group by the weighted average number of ordinary Units outstanding during the period. Diluted EPU is determined by adjusting the total return attributable to Unitholders and the weighted average number of Units outstanding for the effects of all dilutive potential Units.

3.16 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision–Makers ("CODMs"). The CODMs has been identified as the Chief Executive Officer and the Chief Financial Officer of the Manager.

Segment results that are reported to the CODMs include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly other receivables, cash and cash equivalents, trade and other payables, and interest-bearing borrowings.

Segment capital expenditure is the total cost incurred during the year to acquire plant and equipment and capital expenditure on investment properties.

3.17 New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 18 November 2015 and have not been applied in preparing these financial statements, for those new standards and amendments to standards that are expected to have an effect on the financial statements of the Group and the REIT in future financial periods, the Group will assess the transition options and the potential impact on its financial statements, and to implement these standards. The Group does not plan to adopt these standards early.

Notes to the Financial Statements

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.17 New standards and interpretations not yet adopted (cont'd)

(a) Applicable to financial statements for financial year beginning on or after 1 January 2018

(i) FRS 115 *Revenue from Contracts with Customers* ("FRS 115")

FRS 115 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It also introduces new cost guidance which requires certain costs of obtaining and fulfilling contracts to be recognised as separate assets when specified criteria are met.

When effective, FRS 115 replaces existing revenue recognition guidance, including FRS 18 Revenue, FRS 11 Construction Contracts, INT FRS 113 *Customer Loyalty Programmes*, INT FRS 115 *Agreements for the Construction of Real Estate*, INT FRS 118 *Transfers of Assets from Customers* and INT FRS 31 *Revenue – Barter Transactions Involving Advertising Services*.

FRS 115 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. FRS 115 offers a range of transition options including full retrospective adoption where an entity can choose to apply the standard to its historical transactions and retrospectively adjust each comparative period presented. When applying the full retrospective method, an entity may also elect to use a series of practical expedients to ease transition.

(ii) FRS 109 *Financial instruments* ("FRS 109")

FRS 109 replaces most of the existing guidance in FRS 39 *Financial Instruments: Recognition and Measurement* ("FRS 39"). It includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from FRS 39.

FRS 109 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Retrospective application is generally required, except for hedge accounting. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Restatement of comparative information is not mandatory. If comparative information is not restated, the cumulative effect is recorded in opening equity as at 1 January 2018.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.17 New standards and interpretations not yet adopted (cont'd)

(b) Applicable to financial statements for financial year beginning on or after 1 January 2019

(i) FRS 116 *Leases* ("FRS 116")

FRS 116 eliminates the lessee's classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. Applying the new model, a lessee is required to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

FRS 116 substantially carries forward the lessor accounting requirements in FRS 17 *Leases* ("FRS 17"). Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases using the FRS 17 operating lease and finance lease accounting models respectively. However, FRS 116 requires more extensive disclosures to be provided by a lessor.

When effective, FRS 116 replaces existing lease accounting guidance, including FRS 17, INT FRS 104 *Determining whether an Arrangement* contains a Lease; INT FRS 15 *Operating Leases – Incentives*; and INT FRS 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

FRS 116 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted if FRS 115 is also applied.

Based on initial assessment, management does not expect adoption of these standards to have significant impact to the financial statements of the REIT and its subsidiaries.

4. INVESTMENT PROPERTIES

	Group 31 December 2016 $'000
At 18 November 2015	–
Acquisition of initial portfolio	737,865
Additions during the period	6,037
	743,902
Changes in fair value	85,966
Translation differences	(19,176)
At 31 December 2016	810,692

Notes to the Financial Statements

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

4. INVESTMENT PROPERTIES (CONT'D)

Investment properties comprise retail properties that are held mainly for use by tenants under operating leases. The acquisition of these retail properties was completed on Listing Date. The retail properties form the initial portfolio of the REIT (see Portfolio Statement for details)

Contingent rents, representing income based on sales achieved by certain tenants, recognised in the statement of total return during the period amounted to $5.1 million.

Fair value

Investment properties are stated at fair value based on valuation as at 31 December 2016 performed by independent professional valuers, Knight Frank Petty Limited, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. In determining the fair value, the valuers have used valuation methods which involve certain estimates. The Manager reviews the key valuation parameters and underlying data including market-corroborated capitalisation rates, term and reversion rates and discount rates adopted by the valuers and is of the view that the valuation methods and estimates are reflective of the current market conditions.

The fair values are based on open market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction wherein the parties had each acted knowledgeably and without compulsion.

The valuers have considered valuation techniques including the direct comparison, income capitalization and discounted cash flows approaches in arriving at the open market value as at the reporting date.

The discounted cash flows method involves the estimation and projection of an income stream over a period and discounting the income stream with a risk adjusted discount rates to arrive at the market value. The income capitalisation approach assesses the value of a property by capitalising the current passing rental income and estimates revisionary rental income of the property.

4. INVESTMENT PROPERTIES (CONT'D)

Level 3 fair values

The following table shows the significant unobservable inputs used in the valuation models:

Valuation methods	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows approach	Discount rates from 7.25% to 8.50% per annum Terminal rates from 3.25% to 4.50%	The fair value increases as discount rates and terminal rates decreases.
Income Capitalisation approach	Term yield from 4.00% to 5.50% Revisionary rates from 5.75% to 6.75%	The fair value increases as term yield and revisionary rates decreases.

Security

The investment properties are pledged as security to secure credit facilities (note 10).

5. PLANT AND EQUIPMENT

	Plant and machinery $'000	Motor vehicles $'000	Furniture, fittings and equipment $'000	Total $'000
Group				
Cost				
At 18 November 2015	–	–	–	–
Acquisition of initial portfolio*	3,813	533	3,271	7,617
Additions during the period	–	–	124	124
Translation difference on consolidation	(182)	(25)	(156)	(363)
At 31 December 2016	3,631	508	3,239	7,378

Notes to the Financial Statements

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

5. PLANT AND EQUIPMENT (CONT'D)

	Plant and machinery $'000	Motor vehicles $'000	Furniture, fittings and equipment $'000	Total $'000
Accumulated depreciation				
At 18 November 2015	–	–	–	–
Acquisition of initial portfolio*	3,622	323	2,865	6,810
Charge for the period	–	–	239	239
Translation difference on consolidation	(173)	(15)	(216)	(404)
At 31 December 2016	3,449	308	2,888	6,645
Carrying amounts				
At 31 December 2016	182	200	351	733

* Plant and equipment with carrying amounts of $807,000 was acquired at the same time as the retail properties on Listing Date.

6. INTERESTS IN SUBSIDIARIES

	REIT 31 December 2016 $'000
Equity investment, at cost	737
Non-trade amounts due from subsidiaries	525,970
	526,707

(a) Details of the subsidiaries are as follows:

Name of subsidiaries	Place of incorporation/business	Effective equity held by the Group 31 December 2016 %
Held by the REIT		
Petra 1 (China) Mall Pte. Ltd.*	Singapore	100%
Petra 2 (China) Mall Pte. Ltd.*	Singapore	100%
Petra 3 (China) Mall Pte. Ltd.*	Singapore	100%
Petra 4 (China) Mall Pte. Ltd.*	Singapore	100%
Petra 6 (China) Mall Pte. Ltd.*	Singapore	100%

6. INTERESTS IN SUBSIDIARIES (CONT'D)

(a) Details of the subsidiaries are as follows: (cont'd)

Name of subsidiaries	Place of incorporation/business	Effective equity held by the Group 31 December 2016 %
Held through subsidiaries		
Beijing Hualian Wanmao Shopping Mall Management Co., Ltd. **	People's Republic of China	60%
Hefei Hualian Rui An Shopping Mall Commercial Operation Co., Ltd. **	People's Republic of China	100%
Qinghai Xinglian Real Property Co., Ltd. **	People's Republic of China	100%
Chengdu Hairong Xingda Real Property Co., Ltd. **	People's Republic of China	100%
Dalian Hualian Commercial Facilities Operation Co., Ltd. **	People's Republic of China	100%

* Audited by KPMG LLP Singapore
** Audited by KPMG China

(b) The non-trade amounts due from subsidiaries are unsecured and settlement is neither planned nor likely to occur in the foreseeable future. As these amounts are, in substance, a part of the REIT's net investments in the subsidiaries, they are stated at cost, less accumulated impairment.

Notes to the Financial Statements

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

7. TRADE AND OTHER RECEIVABLES

	Group 31 December 2016 $'000	REIT 31 December 2016 $'000
Trade receivables	23	–
Impairment losses	(1)	–
	22	–
Other receivables	1,922	1,212
Impairment losses	(86)	–
	1,836	1,212
Loans and receivables	1,858	1,212
Prepayments	6,467	78
	8,325	1,290
Current	8,279	1,290
Non-current	46	–
	8,325	1,290

Concentration of credit risk relating to loans and receivables is limited as the Group has many varied tenants located in several cities in China and a credit policy of obtaining security deposits from tenants for the lease of Units in the Group's investment properties. These tenants comprise retailers engaged in a wide variety of consumer trades.

The maximum exposure to credit risk for loans and receivables at the reporting date (by geographical area) is:

	Group 31 December 2016 $'000	REIT 31 December 2016 $'000
Beijing	516	–
Chengdu	136	–
Hefei	248	–
Qinghai	8	–
Dalian	8	–
Singapore	942	1,212
	1,858	1,212

7. TRADE AND OTHER RECEIVABLES (CONT'D)

Impairment losses

The ageing of loans and receivables at the reporting date is:

	Gross 31 December 2016 $'000	Impairment 31 December 2016 $'000
Group		
Not past due	1,544	73
Past due 1 – 30 days	2	–
Past due 31 – 60 days	19	1
Past due 61 – 90 days	10	–
More than 90 days past due	370	13
	1,945	87

REIT

The aging of the loans and receivables of the REIT at the reporting date are not past due.

The movement in the allowance for impairment in respect of loans and receivables during the period is as follows:

	Group Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
At 18 November 2015	–
Impairment losses on loans and receivables	(87)
At 31 December 2016	(87)

The majority of the trade receivables are mainly from tenants that have good credit records with the Group. The allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly.

The Group's historical experience in the collection of loans and receivables falls within the recorded allowances. The Manager believes that no additional credit risk beyond the amounts provided for collection losses is inherent in the Group's loans and receivables, based on historical payment behaviours and the security deposits held (if applicable).

Notes to the Financial Statements

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

8. DEFERRED TAX ASSETS/(LIABILITIES)

The movement in deferred tax assets/(liabilities) during the financial period is as follows:

Group	At 18 November 2015 (Date of Constitution) $'000	Recognised in statement of total return (Note 19) $'000	Translation difference $'000	At 31 December 2016 $'000
Deferred tax assets				
Allowance for doubtful receivables	805	(555)	(42)	208
Deferred tax liabilities				
Investment properties	–	21,489	–	21,489
Tax on unrepatriated profits	–	1,077	(2)	1,075
	–	22,566	(2)	22,564

9. CASH AND CASH EQUIVALENTS

	Group 31 December 2016 $'000	REIT 31 December 2016 $'000
Cash at banks and in hand	51,669	382
Restricted cash	(13,296)	–
Cash and cash equivalents in statement of cash flows	38,373	382

10. LOANS AND BORROWINGS

	Group 31 December 2016 $'000	REIT 31 December 2016 $'000
Secured loan	231,491	159,800
Less: Unamortised transaction costs	(1,029)	(343)
	230,462	159,457
Current	90,020	88,800
Non-current	140,442	70,657
	230,462	159,457

Terms and debt repayment schedule

Terms and conditions of the outstanding interest–bearing loans and borrowings at the reporting date are as follows:

	Nominal interest rate per annum %	Year of maturity	Face value $'000	Carrying amount $'000
Group				
SGD secured floating rate loan	1.31	2017	1,800	1,800
SGD secured floating rate loan	1.28-1.56	2017	10,000	10,000
SGD secured fixed rate loan	2.65	2017	77,000	77,000
SGD secured floating rate loan	3.38	2019	32,000	32,000
SGD secured floating rate loan	3.35-3.44	2019	39,000	38,657
RMB secured floating rate loan	5.08	2017-2019	57,728	57,728
RMB secured floating rate loan	5.08	2017-2019	13,963	13,277
			231,491	230,462
REIT				
SGD secured floating rate loan	1.31	2017	1,800	1,800
SGD secured floating rate loan	1.28-1.56	2017	10,000	10,000
SGD secured fixed rate loan	2.65	2017	77,000	77,000
SGD secured floating rate loan	3.38	2019	32,000	32,000
SGD secured floating rate loan	3.35-3.44	2019	39,000	38,657
			159,800	159,457

Notes to the Financial Statements

10. LOANS AND BORROWINGS (CONT'D)

Security

The Group has put in place two onshore secured borrowing facilities of RMB 280 million and RMB 71 million, and an offshore secured borrowing facility of $148 million. As at 31 December 2016, the RMB 280 million facility and $148 million facility were fully drawn down, while RMB 70 million was drawn down from the RMB 71 million onshore facility.

The onshore facilities are collectively secured by a legal mortgage over the Group's investment properties, and a pledge over the receivables of the five subsidiaries in China.

The offshore facility is secured by way of a charge on 100% REIT's shareholding in the Singapore holding companies, an equity pledge on Petra 1 (China) Mall Pte. Ltd.'s 60% equity interest in Beijing Hualian Wanmao Shopping Mall Management Co., Ltd., and equity pledges on the remaining four Singapore holding companies' 100% equity interest in the respective subsidiaries in China.

In addition to the above facilities, the Group has also obtained credit facilities amounting to $11.8 million. The facilities were fully drawn down to finance the payment of first half 2016 distribution and interest payment of the borrowings on 19 September 2016 and 13 December 2016, respectively. The credit facilities are secured by the restricted cash from the five subsidiaries in China.

11. TRADE AND OTHER PAYABLES

	Group 31 December 2016 $'000	REIT 31 December 2016 $'000
Trade payables	6,474	–
Dividend payable	713	–
Interest payable	915	–
Other payables	7,185	693
Accrued operating expenses	1,898	445
Deposits and advances from tenants	3,853	–
	21,038	1,138
Current	19,169	1,138
Non-current	1,869	–
	21,038	1,138

12. UNITHOLDERS' FUNDS

	Note	Group Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000	REIT Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Net assets resulting from operations		57,521	(7,635)
Statutory reserve	(a)	1,082	–
		58,603	(7,635)
Foreign currency translation reserve	(b)	(12,845)	–
Unitholders' contributions		375,419	375,419
		421,177	367,784

(a) Statutory reserve

The subsidiaries incorporated in China are required to transfer 10% of their profits after taxation, as determined under the accounting principles and relevant financial regulations of China to the statutory reserve until the reserve balance reaches 50% of registered capital. The transfer to this reserve must be made before distribution of dividends to its shareholders.

Statutory reserve can be used to make good previous years' losses, if any, and may be converted to registered capital in proportion to the existing interests of the shareholders, provided that the balance after such conversion is not less than 25% of the registered capital.

(b) The foreign currency translation reserve comprises:

(i) foreign exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the presentation currency of the REIT; and

(ii) the foreign exchange differences on monetary items which form part of the Group's net investment in foreign operations, provided certain conditions are met.

Notes to the Financial Statements

13. NON-CONTROLLING INTERESTS

One of the subsidiaries of the REIT, Beijing Hualian Wanmao Shopping Mall Management Co., Ltd has 40% non-controlling interests ("NCI") that is material to the Group.

The following summarised financial information for the subsidiary are prepared in accordance with FRS, modified for fair value adjustments on acquisition and differences in the Group's accounting policies.

	31 December 2016 $'000
Non-current assets	466,045
Current assets	34,776
Non-current liabilities	(80,773)
Current liabilities	(19,526)
Net assets	400,522
Net assets attributable to NCI	160,209
Revenue	38,993
Total return after taxation	73,781
Total return after taxation attributable to NCI	29,512
Cash flows from operating activities	17,296
Cash flows from investing activities	311
Cash flows used in financing activities	(3,638)
Net increase in cash and cash equivalents	13,969

There are no dividends paid to NCI in 2016.

14. UNITS IN ISSUE

	31 December 2016 Number of Units $'000
Issue of new Units relating to:	
– initial public offering	492,725
– payment of Manager's management fees	2,042
– payment of Property Manager's management fees	793
	495,560
Units to be issued:	
– payment of Manager's management base fees	720
– payment of Manager's management performance fees	326
– payment of Property Manager's management fees	271
	1,317
Total Units in issue and to be issued at the end of period	496,877

Units issued during the period from 11 December 2015 ("Listing Date") to 31 December 2016 are as follows:

(a) On 11 December 2015, the REIT issued 492,725,000 new Units at an issue price of $0.8000 per Unit as its initial public offering;

(b) On 31 August 2016, the REIT issued 646,000 new Units at an issue price of $0.8015 per Unit as payment of the base component of the Manager's management fees for the period from 11 December 2015 to 31 March 2016;

(c) On 31 August 2016, the REIT issued 270,000 new Units at an issue price of $0.8015 per Unit as payment of the Property Manager's management fees for the period from 11 December 2015 to 31 March 2016;

(d) On 5 September 2016, the REIT issued 726,000 new Units at an issue price of $0.6489 per Unit as payment of the base component of the Manager's management fees for the period from 1 April 2016 to 30 June 2016;

Notes to the Financial Statements

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

14. UNITS IN ISSUE (CONT'D)

(e) On 5 September 2016, the REIT issued 267,000 new Units at an issue price of $0.6489 per Unit as payment of the Property Manager's management fees for the period from 1 April 2016 to 30 June 2016;

(f) On 23 December 2016, the REIT issued 670,000 new Units at an issue price of $0.6746 per Unit as payment of the base component of the Manager's management fees for the period from 1 July 2016 to 30 September 2016; and

(g) On 23 December 2016, the REIT issued 256,000 new Units at an issue price of $0.6746 per Unit as payment of the Property Manager's management fees for the period from 1 July 2016 to 30 September 2016.

The issue prices for item (b) to (g) were determined based on the volume weighted average traded price for all trades done on the SGX–ST in the ordinary course of trading for the last 10 business days of the relevant periods in which the management fees accrue.

Each Unit in the REIT represents an undivided interest in the REIT. The rights and interests of Unitholders are contained in the Trust Deed and include the right to:

- one vote per Unit;
- receive income and other distributions attributable to the Units held;

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

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

14. UNITS IN ISSUE (CONT'D)

- participate in the termination of the REIT by receiving a share of all net cash proceeds derived from the realisation of the assets of the REIT less any liabilities, in accordance with their proportionate interests in the REIT. However, a Unitholder has no equitable or proprietary interest in the underlying assets of the REIT and is not entitled to the transfer of any assets (or part thereof) or any estate or interest in any asset (or part thereof) of the REIT; and

- attend all Unitholders' meetings. The Trustee or the Manager may (and the Manager shall at the request in writing of not less than 50 Unitholders or one–tenth in number of Unitholders, whichever is lesser) at any time convene a meeting of Unitholders in accordance with the provisions of the Trust Deed.

The restrictions of a Unitholder include the following:

- a Unitholder's right is limited to the right to require due administration of the REIT in accordance with the provisions of the Trust Deed; and

- a Unitholder has no right to request the Manager to redeem his Units while the Units are listed on the SGX-ST.

A Unitholder's liability is limited to the amount paid or payable for any Unit in the REIT. The provisions of the Trust Deed provide that no Unitholder will be personally liable to indemnify the Trustee or any creditor of the Trustee in the event that the liabilities of the REIT exceed its assets.

15. TOTAL UNITHOLDERS' DISTRIBUTION

Unitholders' distribution for the period is accounted for as distribution from Unitholders' contributions:

This refers to the amount of distribution made by the REIT for the financial period where the underlying cash is not, or may not be, received or receivable as income by the REIT during that period. Such distribution comprises mainly the following:

- profits from operations arising from the investment properties which are declared as dividend income after the financial period, as the case may be, and accordingly also received as dividends by the REIT after that period;

- adjustment for changes in fair value and the related deferred taxation of investment properties;

- adjustment for amortisation of debt establishment costs;

- adjustment for statutory reserve transferred from subsidiaries' profits; and

- adjustments for REIT expenses that are paid in Units and certain unrealised expenses.

Notes to the Financial Statements

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

15. TOTAL UNITHOLDERS' DISTRIBUTION (CONT'D)

Income available for distribution to Unitholders at end of the period

Distributions are made on a semi-annual basis, with the amount calculated as at 30 June and 31 December each period for the six–month period ending on each of the said dates. In accordance with the provisions of the Trust Deed, the Manager is required to pay distributions within 90 days from the end of each distribution period. Distributions, when paid, will be in Singapore dollars.

Distributions for the period from 11 December 2015 to 30 June 2016 had been paid on 21 September 2016. Distributions for the period from 1 July 2016 to 31 December 2016 will be paid within 90 days from the end of the distribution period, in accordance with the provisions of the Trust Deed.

16. OTHER PROPERTY OPERATING EXPENSES

	Group Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Advertising and promotion	1,217
Depreciation of plant and equipment	239
Impairment losses on loans and receivables	87
Repair and maintenance	3,299
Staff costs	246
Utilities	9,542
Others	617
	15,247

Included in staff costs is contribution to defined contribution plans of $23,000.

17. OTHER REIT OPERATING EXPENSES

	Group Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000	REIT Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Professional fees	273	208
Others	217	187
	490	395

18. FINANCE INCOME AND FINANCE COSTS

	Group Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000	REIT Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Finance income:		
– financial institutions	427	–
Finance costs:		
– loans and borrowings	(9,177)	(4,778)
Net finance costs recognised in statements of total return	(8,750)	(4,778)

Notes to the Financial Statements

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

19. TAXATION

	Note	Group Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000	REIT Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Current taxation			
Current period		5,101	–
Withholding tax		112	–
		5,213	–
Deferred taxation			
Origination of temporary differences	8	23,121	–
Income tax expense		28,334	–
Reconciliation of effective tax rate			
Total return for the period before taxation		116,449	(7,635)
Tax calculated using Singapore tax rate of 17%		19,796	(1,298)
Adjustments:			
Effect of different tax rates in foreign jurisdictions		7,090	–
Income not subject to tax		(63)	–
Expenses not deductible for tax purposes		1,376	–
Deferred tax assets not recognised		23	–
Tax losses not allowed to be carried forward		–	1,298
Withholding tax		112	–
		28,334	–

20. EARNINGS PER UNIT

Basic earnings per Unit

The calculation of basic earnings per Unit is based on weighted average number of Units during the period and total return for the period after taxation and non–controlling interests.

	Group Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Total return for the period after taxation and non–controlling interests	58,603

	Number of Units '000
Issued Units	
– Initial public offering	492,725
– Manager's management fees paid/payable in Units	972
– Property Manager's management fees paid/payable in Units	382
Weighted average number of issued and issuable Units at end of the period	494,079

Diluted earnings per Unit

The calculation of diluted earnings per Unit is based on weighted average number of Units during the period and total return for the period after taxation and non–controlling interests.

	Group Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Total return for the period after taxation and non–controlling interests	58,603

Notes to the Financial Statements

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

20. EARNINGS PER UNIT (CONT'D)

	Number of Units '000
Issued Units	
– Initial public offering	492,725
– Manager's management fees paid/payable in Units	3,088
– Property Manager's management fees paid/payable in Units	1,064
Weighted average number of issued and issuable Units at end of the period	496,877

21. RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common significant influence. Related parties may be individuals or other entities. The Manager, being BHG Retail Trust Management Pte. Ltd. is an indirect wholly-owned subsidiary of the Sponsor of the REIT. The Property Manager, being BHG Mall (Singapore) Property Management Pte Ltd is indirect wholly–owned subsidiaries of the Sponsor of the REIT.

In the normal course of the operations of the REIT, the Manager's management fees and the Trustee's fees have been paid or are payable to the Manager and Trustee respectively. The property management fees and reimbursable have been paid or are payable to the Property Manager.

22. FINANCIAL RATIOS

	Group 2016
Ratio of expenses to average net asset value [1]	
– including performance component of Manager's management fees	0.70%
– excluding performance component of Manager's management fees	0.65%
Portfolio turnover rate [2]	Not applicable

Notes:

(1) The annualised ratio is computed in accordance with the guidelines of the Investment Management Association of Singapore. The expenses used in the computation relate to expenses at the Group level, excluding property related expenses and borrowing costs.

(2) The annualised ratio is computed based on the lesser of purchases or sales of underlying investment properties of the Group expressed as a percentage of weighted average net asset value. There is no purchase or sales of the investment properties during the period.

23. OPERATING SEGMENTS

The Group has 5 reportable segments, as described below, which are the Group's investment properties. The investment properties are managed separately because they require different operating and marketing strategies. For each of the investment properties, the CODMs review internal management reports on a monthly basis.

All of the Group's reportable segments are investment properties located in China used primarily for retail purposes. The reporting segments are as follows:

- Beijing Hualian Wanmao Shopping Mall Management Co., Ltd. ("Beijing Wanliu")
- Hefei Hualian Rui An Shopping Mall Commercial Operation Co., Ltd. ("Hefei Mengchenglu")
- Qinghai Xinglian Real Property Co., Ltd. ("Xining Huayuan")
- Chengdu Hairong Xingda Real Property Co., Ltd. ("Chengdu Konggang")
- Dalian Hualian Commercial Facilities Operation Co., Ltd. ("Dalian Jinsanjiao")

Segment revenue comprises mainly income generated from its tenants. Segment net property income represents the income earned by each segment after allocating property operating expenses. This is the measure reported to the CODMs for the purpose of assessment of segment performance. In addition, the CODMs monitor the non–financial assets as well as financial assets attributable to each segment when assessing segment performance.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly the REIT's financial assets and liabilities and its expenses. Segment capital expenditure is the total cost incurred during the period to improve segment assets that are expected to be used for more than one year.

Information regarding the Group's reportable segments is presented in the tables in the following pages.

For the purpose of monitoring segment performance, the Group's CODMs monitor the non–financial assets as well as financial assets attributable to each segment.

Notes to the Financial Statements

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

23. OPERATING SEGMENTS (CONT'D)

Information about reportable segments

	Beijing Wanliu $'000	Hefei Mengchenglu $'000	Chengdu Konggang $'000	Xining Huayuan $'000	Dalian Jinsanjiao $'000	Total $'000
External revenues:						
– Gross rental income	35,305	8,208	9,570	3,575	2,514	59,172
– Others	3,688	1,507	1,867	–	–	7,062
– Gross revenue	38,993	9,715	11,437	3,575	2,514	66,234
Segment net property income	24,994	5,846	5,922	3,218	2,217	42,197
Finance income	317	83	31	16	16	463
Finance costs	2,895	1,071	468	–	–	4,434
Reportable segment total return before taxation	95,772	8,030	5,224	7,386	7,305	123,717
Segment assets	500,941	138,409	141,172	62,281	37,637	880,440
Segment liabilities	299,386	134,413	140,763	58,506	33,030	666,098
Other segment items:						
Depreciation	167	31	40	1	–	239
Impairment losses on loans and receivables, net	13	49	25	–	–	87
Net change in fair value of investment properties	73,789	3,218	(358)	4,198	5,119	85,966
Capital expenditure	221	55	5,885	–	–	6,161

23. OPERATING SEGMENTS (CONT'D)

Reconciliations of reportable segment revenue, total return, assets and liabilities and other material items

	Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Revenue	
Total revenue for reporting segments	66,234
Total return	
Total return for reportable segments before taxation	123,717
Unallocated amount:	
– Other corporate expenses	(7,268)
Total return before taxation	116,449
Assets	
Total assets for reportable segments	880,440
Other unallocated amount	(8,813)
Consolidated assets	871,627
Liabilities	
Total liabilities for reportable segments	666,098
Other unallocated amount	(375,857)
Consolidated liabilities	290,241

	Reportable segment total $'000	Unallocated amount $'000	Consolidated total $'000
Other material items 18 November 2015 ("Date of Constitution") to 31 December 2016			
Finance income	463	(36)	427
Finance costs	4,434	4,743	9,177

23. OPERATING SEGMENTS (CONT'D)

Geographical segments

All of the Group's investment properties are used for retail purposes and are located in China.

Major tenant

Revenue from one tenant of the Group, which is a related party of the Sponsor, contributed approximately $9.8 million of the Group's total revenue.

24. COMMITMENTS

The Group leases out its investment properties. Operating lease rentals are receivable as follows:

	Group 31 December 2016 $'000
Receivable:	
– within 1 year	26,654
– after 1 year but within 5 years	60,909
– after 5 years	106,479
	194,042

25. CAPITAL AND FINANCIAL RISK MANAGEMENT

Capital management

The Group's objectives when managing capital are to optimise Unitholders' value through the combination of available capital sources which include debt and equity instruments whilst complying with statutory and constitutional capital and distribution requirements, maintaining aggregate leverage and interest service coverage ratio within approved limits. As a key part of the Group's overall strategy, the Board of the Manager reviews the Group's and the REIT's debt and capital management cum financing policy regularly so as to optimise the Group's and the REIT's funding structure. The Board also monitors the Group's and the REIT's exposure to various risk elements by closely adhering to clearly established management policies and procedures.

The Group is subject to the aggregate leverage limit as defined in Appendix 6 of the CIS Code ("Property Fund Appendix"). The Property Fund Appendix stipulates that the total borrowings and deferred payments (together, the "Aggregate Leverage") of a property fund should not exceed 45.0% of its Deposited Property. The Group's aggregate leverage limit did not exceed 45.0% during the period, and was 31.0% as at 31 December 2016.

25. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONT'D)

Capital management (cont'd)

There were no changes in the Group's approach to capital management during the financial period.

Financial risk management

Overview

The Group's returns are primarily from net operating income and capital appreciation of its assets. However, these returns are exposed to financial risks including credit, liquidity, interest rate and foreign currency risks.

Financial risk management is integral to the whole business of the Group. The Group adopts an integrated approach to manage the financial risks arising in the normal course of the Group's business. The Group has written risk management policies and guidelines, and established processes to monitor and manage significant exposures. Risk management policies and processes are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group adheres to standardised accounting and financial policies and exercises effective controls over the financial affairs of its subsidiaries. This is achieved by ensuring group–wide adherence to a comprehensive set of guidelines covering contracts, policies and procedures and other requirements. Adequate measures are in place to ensure that the reliability and integrity of financial information compiled from subsidiaries are kept intact.

Credit risk

While it is necessary to assume a certain level of tenant credit risks to remain competitive in China, the Group has established credit limits for tenants and monitors their balances on an ongoing basis. Risks associated with credit limits are reflected in the level of security deposits and bank guarantees placed as collateral in respect of the leases. Appropriate risk mitigating actions are in place to manage trade receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The allowance account in respect of trade and other receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the financial asset is considered irrecoverable and the amount charged to the allowance account is written off against the carrying amount of the impaired financial asset.

Cash and fixed deposits are placed with banks and financial institutions which are regulated.

Notes to the Financial Statements

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

25. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONT'D)

Liquidity risk

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a reasonable period, including the servicing of financial obligations.

The following are the contractual maturities of non–derivative financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount $'000	Contractual cash flow $'000	Within 1 year $'000	After 1 year but within 5 years $'000	After 5 years $'000
31 December 2016					
Group					
Loans and borrowings	230,462	231,491	90,050	141,441	–
Trade and other payables	21,038	21,038	19,169	1,869	–
Security deposits	14,684	14,684	7,991	6,209	484
	266,184	267,213	117,210	149,519	484
REIT					
Loans and borrowings	159,457	159,800	88,800	71,000	–
Trade and other payables	1,138	1,138	1,138	–	–
	160,595	160,938	89,938	71,000	–

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

In addition, the Group maintains the following debt facilities and programme as at 31 December 2016:

Chinese Renminbi ("RMB") denominated facility:
- RMB 344 million four-year secured term loan facilities

$ denominated facilities:
- $77 million two-year secured term loan facilities
- $32 million three-year secured term loan facilities
- $39 million four-year secured term loan facilities
- $11.8 million credit facilities

As at 31 December 2016, the Group has drawn down $220.9 million of its term loan facilities.

The Group also monitors and observes the Property Fund Appendix issued by the MAS concerning limits on total borrowings.

25. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONT'D)

Interest rate risk

The Manager adopts a proactive interest rate management policy to manage the risk associated with changes in interest rates on the Group's loan facilities while also seeking to ensure that the ongoing cost of debt remains competitive.

The Manager proactively seeks to minimise the level of interest rate risk by locking a portion of the Group's borrowings at fixed rates.

Effects of a 100 basis point ("bp")* movement in interest rate at the reporting date would increase/(decrease) statements of total return and Unitholders' funds by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

* 100 basis point is equivalent to 1 percentage point

	Statements of total return		Unitholders' funds	
	100 bp increase $'000	100 bp decrease $'000	100 bp increase $'000	100 bp decrease $'000
Group and REIT				
31 December 2016				
Variable rate instruments	(88)	88	–	–
Cash flow sensitivity (net)	(88)	88	–	–

Foreign currency risk

The Group is exposed to foreign currency risk on cash holdings and operating expenses that are denominated in a currency other than the respective functional currencies of the Group entities. The currencies giving rise to this risk are primarily RMB.

As the REIT intends to be a long term investor in China, the Manager has taken a view not to hedge the RMB equity exposure arising from its investments in China unless certain risks are specifically identified. The Manager's strategy is to achieve a natural hedge through local RMB financing and any non–RMB denominated loan will be hedged into RMB where possible, to protect the going concern of the REIT in the event of large currency fluctuation. However, the Manager will hedge the RMB cash flow from operations if it is determined with certainty that they are to be remitted back to Singapore for distribution purposes.

Notes to the Financial Statements

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

25. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONT'D)

Foreign currency risk (cont'd)

The Group exposures to foreign currency are as follows:

	RMB $'000	Total $'000
Group		
31 December 2016		
Cash and cash equivalents	50,463	50,463

The REIT is not exposed to significant foreign currency risks.

Sensitivity analysis

A 10% strengthening of Singapore dollar against and RMB at the reporting date would increase/(decrease) total return after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Statement of total return	
	Group $'000	REIT $'000
31 December 2016		
RMB	(5,046)	–

A 10% weakening of Singapore dollar against RMB would have had equal but opposite effect on RMB to the amounts shown above, on the basis that all other variables remain constant.

25. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONT'D)

Accounting classifications and fair values

The carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy are as follows. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount			Fair value			
	Loans and receivables $'000	Other financial liabilities within scope of FRS 39 $'000	Total carrying amount $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Group							
31 December 2016							
Financial assets not measured at fair value							
Trade and other receivables	1,858	–	1,858				
Cash and cash equivalents	51,669	–	51,669				
	53,527	–	53,527				
Financial liabilities not measured at fair value							
Trade and other payables	–	21,038	21,038				
Security deposits	–	14,684	14,684		14,201		14,201
Loans and borrowings	–	230,462	230,462				
	–	266,184	266,184				
REIT							
31 December 2016							
Financial assets not measured at fair value							
Trade and other receivables	1,290	–	1,290				
Cash and cash equivalents	382	–	382				
	1,672	–	1,672				
Financial liabilities not measured at fair value							
Trade and other payables	–	1,138	1,138				
Loans and borrowings	–	159,457	159,457				
	–	160,595	160,595				

Notes to the Financial Statements

FOR THE PERIOD FROM 18 NOVEMBER 2015 (DATE OF CONSTITUTION) TO 31 DECEMBER 2016

25. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONT'D)

Estimation of fair value

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments of the Group and REIT.

Interest–bearing borrowings

The carrying amounts of the floating rate loans approximates its fair value as these amounts are interest-bearing of market interest rates that reprice every quarter.

The carrying amounts of the fixed rate loans approximates its fair value because of the short period to maturity.

Other financial assets and liabilities

The carrying amounts of financial assets and liabilities (including non-trade amounts due from subsidiaries, trade and other receivables, cash and cash equivalents, trade and other payables and current security deposits) are assumed to approximate their fair values because they are either short term in nature, or effect of discounting is immaterial. All other financial assets and liabilities (non-current security deposits) are discounted to determine their fair values.

Interest rates used in determining fair values

The interest rates used to discount estimated cash flows, where applicable, are based on the forward yield curve as at 31 December 2016 plus an adequate constant credit spread, and are as follows:

	31 December 2016 % p.a.
Security deposits	3.75

26. SUBSEQUENT EVENTS

On 23 February 2017, the Manager declared a distribution of 2.60 cents per Unit to Unitholders in respect of the period from 1 July 2016 to 31 December 2016.

27. COMPARATIVE INFORMATION

No comparative information has been presented as the REIT was constituted on 18 November 2015.