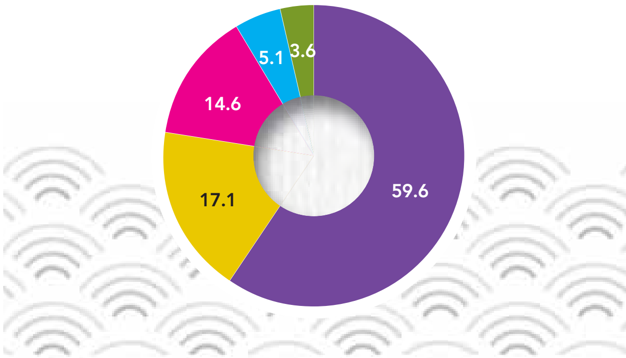
# FINANCIAL REVIEW

## GROSS REVENUE[1]

Gross revenue in RMB and SGD was RMB 15.2 million (5.0%) and S$1.9 million (3.1%) higher year-on-year respectively. These were due mainly to strong rental reversion for new and renewed leases, and an increase in occupancy in the current financial year. The higher revenue was partially offset by the adoption of nation-wide VAT reform in China which came into effect from 1 May 2016 where 5% VAT was netted off against gross revenue, where the full effect was recorded for the full year 2017.

## GROSS REVENUE (%) (12M 2017[1])




| Gross Revenue[1] | RMB'000 | | Change | S$'000 | | Change |
|---|---|---|---|---|---|---|
| | 12M 2017[1] | 12M 2016[1] | (%) | 12M 2017[1] | 12M 2016[1] | (%) |
| **MULTI-TENANTED MALLS** | | | | | | |
| Beijing Wanliu | 188,315 | 177,101 | 6.3 | 38,478 | 36,873 | 4.4 |
| Chengdu Konggang | 53,844 | 51,900 | 3.7 | 11,002 | 10,805 | 1.8 |
| Hefei Mengchenglu | 46,148 | 44,020 | 4.8 | 9,430 | 9,164 | 2.9 |
| | 288,307 | 273,021 | 5.6 | 58,910 | 56,842 | 3.6 |
| **MASTER-LEASED MALLS** | | | | | | |
| Xining Huayuan | 16,141 | 16,198 | (0.4) | 3,298 | 3,372 | (2.2) |
| Dalian Jinsanjiao | 11,312 | 11,388 | (0.7) | 2,311 | 2,371 | (2.5) |
| | 27,453 | 27,586 | (0.5) | 5,609 | 5,743 | (2.3) |
| **Portfolio** | **315,760** | **300,607** | **5.0** | **64,519** | **62,585** | **3.1** |

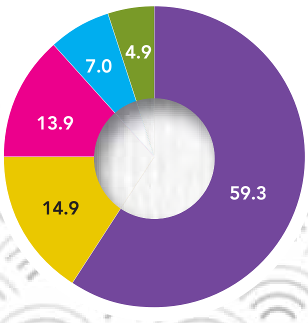
1. *"12M 2017" and "12M 2016" refers to "1 January to 31 December 2017", and "1 January to 31 December 2016". "12M" was adopted in place of "FY" to facilitate comparative purposes, as the financial period 2016 ("FY 2016") included an additional 21 days from 11 December 2015 ("Listing Date") to 31 December 2015.*

## NET PROPERTY INCOME[1]

Net property income in RMB and SGD was RMB 16.8 million (8.7%) and SGD 2.7 million (6.6%) higher year-on-year respectively. The higher net property income was due mainly to an increase in rental revenue, as well as lower property operating expenses.

Lower property operating expenses were due mainly to the VAT reform where Business Tax (which was previously parked under Property Operating Expenses) was replaced with VAT with effect from 1 May 2016, where VAT is netted off against gross revenue, where the full effect was recorded for the full year 2017. The portfolio property operating expenses decreased in spite of an increase in property tax as a result of the change in Beijing's property tax policy, which took effect on 1 July 2016. The change was a move by the Beijing State Government to charge property tax based on revenue. This change in treatment aligns Beijing's property tax policy with the other cities where the four other portfolio properties are situated.

## NET PROPERTY INCOME (%) (12M 2017[1])




| Net Property Income[1] | RMB'000 | | Change | S$'000 | | Change |
|---|---|---|---|---|---|---|
| | 12M 2017[1] | 12M 2016[1] | (%) | 12M 2017[1] | 12M 2016[1] | (%) |
| **MULTI-TENANTED MALLS** | | | | | | |
| Beijing Wanliu | 124,532 | 114,653 | 8.6 | 25,445 | 23,882 | 6.5 |
| Chengdu Konggang | 31,271 | 27,362 | 14.3 | 6,390 | 5,702 | 12.1 |
| Hefei Mengchenglu | 29,407 | 26,738 | 10.0 | 6,009 | 5,569 | 7.9 |
| | 185,210 | 168,753 | 9.8 | 37,844 | 35,153 | 7.7 |
| **MASTER-LEASED MALLS** | | | | | | |
| Xining Huayuan | 14,659 | 14,603 | 0.4 | 2,995 | 3,040 | (1.5) |
| Dalian Jinsanjiao | 10,303 | 10,051 | 2.5 | 2,105 | 2,093 | 0.6 |
| | 24,962 | 24,654 | 1.2 | 5,100 | 5,133 | (0.6) |
| **Portfolio** | **210,172** | **193,407** | **8.7** | **42,944** | **40,286** | **6.6** |

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## DISTRIBUTION

Total distribution per unit ("DPU") for 12M 2017 was 5.47 cents, exceeding 12M 2016 DPU of 5.32 cents by 2.8%. The aggregate distribution per unit translated to a distribution yield of 7.39%, based on the closing price of S$0.74 as at 31 December 2017.

| DPU (cents) | 12M 2017 | 12M 2016 | Change (%) |
|---|---|---|---|
| 1Q 2017 | 1.39 | 1.37 | 1.5 |
| 2Q 2017 | 1.35 | 1.35 | - |
| 3Q 2017 | 1.41 | 1.29 | 9.3 |
| 4Q 2017 | 1.32 | 1.31 | 0.8 |
| **Total** | **5.47** | **5.32** | **2.8** |

1. *"12M 2017" and "12M 2016" refers to "1 January to 31 December 2017", and "1 January to 31 December 2016". "12M" was adopted in place of "FY" to facilitate comparative purposes, as the financial period 2016 ("FY 2016") included an additional 21 days from 11 December 2015 ("Listing Date") to 31 December 2015.*


**+2.8%**
Distribution per Unit ("DPU")

## INDEPENDENT VALUATION OF INVESTMENT PROPERTIES

As at 31 December 2017, BHG Retail REIT's investment properties were valued at RMB 3,946 million. The valuation represents an increase of RMB 56 million, or 1.4%, from the independent valuation as at 31 December 2016 of RMB 3,890 million.

| Investment Properties | RMB millions | | S$ millions | |
|---|---|---|---|---|
| | As at 31 Dec 2017[1] | As at 31 Dec 2016[2] | As at 31 Dec 2017[1] | As at 31 Dec 2016[2] |
| Beijing Wanliu | 2,287.0 | 2,235.0 | 470.1 | 465.8 |
| Chengdu Konggang | 633.0 | 631.0 | 130.1 | 131.5 |
| Hefei Mengchenglu | 584.0 | 584.0 | 120.0 | 121.7 |
| Xining Huayuan | 280.0 | 278.0 | 57.6 | 57.9 |
| Dalian Jinsanjiao | 162.0 | 162.0 | 33.3 | 33.8 |
| **Portfolio** | **3,946.0** | **3,890.0** | **811.1** | **810.7** |

1. *Based on independent valuation from Cushman & Wakefield Limited as at 31 December 2017.*
2. *Based on independent valuation from Knight Frank Petty Limited as at 31 December 2016.*


**7.39%**
Annualised Distribution Yield

# FINANCIAL REVIEW

## CAPITAL MANAGEMENT

BHG Retail REIT has put in place an offshore secured borrowing facility of S$148 million ("Facility 1"), and two onshore secured borrowing facilities of RMB 280 million and RMB 71 million ("Facility 2" and "Facility 3", respectively). As at 31 December 2017, Facility 1 and Facility 2 were fully drawn down, while RMB 70 million was drawn down from Facility 3.

Facility 2 and Facility 3 have been each repaid RMB 3.0 million in the prior financial year, and a further RMB 3.0 million this year, in accordance to the facility agreements.

In addition to the abovementioned facilities, BHG Retail REIT has obtained and drawn down further credit facilities of S$24.8 million. The facilities were obtained mainly for the purpose of financing the payment of distribution, and interest payment of the borrowings. The credit facilities are secured by restricted cash from the REIT's five subsidiaries in China. The REIT has repaid S$10.0 million in September 2017 from dividends declaration and partial repayment by subsidiaries in Singapore.

The REIT has refinanced its loan of S$77.0 million that matured in December 2017 from part of the S$148 million facility.

Total borrowings drawn down as at 31 December 2017 aggregated to S$242.2 million, with about 70% of debt denominated in SGD and 30% denominated in RMB.

BHG Retail REIT adopts a prudent and proactive capital management strategy. Gearing remained low at 32.2%. Weighted average term to maturity was 1.7 years as at 31 December 2017.

With regard to the REIT's debt maturity profile, S$24.8 million of SGD-denominated borrowings and S$1.2 million of RMB-denominated borrowings will be due in 2018, while S$148.0 million of SGD-denominated borrowings and S$68.2 million of RMB- denominated borrowings will be due in 2019.

| Key Financial Indicators as at 31 December 2017 | |
|---|---|
| Gearing (%) | 32.2 |
| Interest coverage ratio (times) | 5.6 |
| Weighted average term to maturity (years) | 1.7 |
| Average cost of debt (%) | 3.70 |