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 year covered by these financial statements, set out on pages 88 to 142 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
15 March 2018

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 88 to 142 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 2017, 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 year ended on that date 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
15 March 2018

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 statements of financial position of the REIT as at 31 December 2017, the statements 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 year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 88 to 142.

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 2017 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 year ended on that date 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.

INDEPENDENT AUDITORS' REPORT

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

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 year. 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.

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 $811.1 million (2016: $810.7 million) as at 31 December 2017. 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 reversionary 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 compared 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 reversionary 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.
	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 Highlight, 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 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 year 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
15 March 2018

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Note	Group 2017 $'000	Group 2016 $'000	REIT 2017 $'000	REIT 2016 $'000
Non-current assets					
Investment properties	4	811,116	810,692	–	–
Plant and equipment	5	690	733	–	–
Interests in subsidiaries	6	–	–	525,088	526,707
Trade and other receivables	7	123	46	–	–
Deferred tax assets	8	22	208	–	–
		811,951	811,679	525,088	526,707
Current assets					
Trade and other receivables	7	4,160	8,279	189	1,290
Cash and cash equivalents	9	72,081	51,669	547	382
		76,241	59,948	736	1,672
Total assets		888,192	871,627	525,824	528,379
Non-current liabilities					
Loans and borrowings	10	215,500	140,442	147,690	70,657
Trade and other payables	11	1,843	1,869	–	–
Security deposits		4,461	6,693	–	–
Deferred tax liabilities	8	24,404	22,564	–	–
		246,208	171,568	147,690	70,657
Current liabilities					
Loans and borrowings	10	25,972	90,020	24,760	88,800
Trade and other payables	11	19,401	19,169	1,334	1,138
Security deposits		11,730	7,991	–	–
Current tax liabilities		1,832	1,493	–	–
		58,935	118,673	26,094	89,938
Total liabilities		305,143	290,241	173,784	160,595
Net assets		583,049	581,386	352,040	367,784
Represented by:					
Unitholders' funds	12	416,454	421,177	352,040	367,784
Non-controlling interests	13	166,595	160,209	–	–
		583,049	581,386	352,040	367,784
Units in issue ('000)	14	500,934	496,877	500,934	496,877
Net asset value per Unit attributable to Unitholders ($)		0.83	0.85	0.70	0.74

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

STATEMENTS OF TOTAL RETURN

YEAR ENDED 31 DECEMBER 2017

	Note	Group Year ended 31 December 2017 $'000	Group Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000	REIT Year ended 31 December 2017 $'000	REIT Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Gross rental income		57,725	59,172	–	–
Dividend income		–	–	8,300	–
Other income		6,794	7,062	–	–
Gross revenue		64,519	66,234	8,300	–
Business tax		(409)	(1,539)	–	–
Property-related tax		(5,035)	(5,069)	–	–
Property management fees and reimbursables		(2,179)	(2,182)	–	–
Other property operating expenses	16	(13,952)	(15,247)	–	–
Total property operating expenses		(21,575)	(24,037)	–	–
Net property income		42,944	42,197	8,300	–
Audit fees		(289)	(314)	(145)	(145)
Manager's management fees					
– Base fee		(2,000)	(1,904)	(2,000)	(1,904)
– Performance fee		(282)	(209)	(282)	(209)
Trustee's fees		(127)	(144)	(127)	(144)
Valuation fee		(62)	(60)	(62)	(60)
Other income (non–operating)		513	222	–	–
Other operating expenses	17	(606)	(490)	(514)	(395)
Finance income		720	427	–	–
Finance costs		(8,952)	(9,177)	(4,834)	(4,778)
Net finance costs	18	(8,232)	(8,750)	(4,834)	(4,778)
Total return before change in fair value of investment properties and unrealised foreign exchange loss		31,859	30,548	336	(7,635)
Change in fair value of investment properties	4	8,298	85,966	–	–
Foreign exchange loss – unrealised		(1)	(65)	–	–
Total return for the year/period before taxation		40,156	116,449	336	(7,635)
Taxation	19	(8,683)	(28,334)	–	–
Total return for the year/period after taxation		31,473	88,115	336	(7,635)
Attributable to:					
Unitholders		20,942	58,603	336	(7,635)
Non–controlling interests	13	10,531	29,512	–	–
Total return for the year/period after taxation		31,473	88,115	336	(7,635)
Earnings per Unit (cents)	20				
– Basic		4.20	11.86		
– Diluted		4.18	11.79		

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

DISTRIBUTION STATEMENTS

YEAR ENDED 31 DECEMBER 2017

	Note	Group Year ended 31 December 2017 $'000	Group Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000	REIT Year ended 31 December 2017 $'000	REIT Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Amount available for distribution to Unitholders at 1 January 2017/ 18 November 2015 ("Date of Constitution")		9,154	–	9,154	–
Total return for the year/period attributable to Unitholders		20,942	58,603	336	(7,635)
Distribution adjustments	A	(941)	(39,565)	19,665	26,673
Income for the year/period available for distribution to Unitholders	B	20,001	19,038	20,001	19,038
Distribution to Unitholders during the year/ period:					
– Distribution of 2.85 cents per Unit for period from 11 December 2015 to 30 June 2016		–	(9,884)	–	(9,884)
– Distribution of 2.60 cents per Unit for period from 1 July 2016 to 31 December 2016		(9,075)	–	(9,075)	–
– Distribution of 2.74 cents per Unit for period from 1 January 2017 to 30 June 2017		(9,954)	–	(9,954)	–
		(19,029)	(9,884)	(19,029)	(9,884)
Amount available for distribution to Unitholders at end of the year/period		10,126	9,154	10,126	9,154
Distribution per unit (cents)	*	5.47	5.45		

* The distribution per unit relates to the distributions in respect of the relevant financial year/period.

The distribution relating to 1 July 2017 to 31 December 2017 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 year ended 31 December 2017 and for the period from the Listing Date to 31 December 2016 amounted to approximately S$5.4 million and S$5.6 million respectively.

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

DISTRIBUTION STATEMENTS

YEAR ENDED 31 DECEMBER 2017

Note A – Distribution adjustments

	Note	Group Year ended 31 December 2017 $'000	Group Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000	REIT Year ended 31 December 2017 $'000	REIT Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Distribution adjustment items:					
– Amortisation of debt establishment costs		330	327	110	105
– Change in fair value of investment properties (1)		(4,369)	(56,597)	–	–
– Deferred taxation (1)		1,275	14,700	–	–
– Manager's management fees paid/payable in Units		2,212	2,113	2,212	2,113
– Net income of subsidiaries not distributed to the REIT (1)		–	–	17,343	24,455
– Property Manager's management fees paid/ payable in Units		737	737	–	–
– Transfer to statutory reserve		(1,241)	(1,082)	–	–
– Other adjustments (1)		115	237	–	–
Net effect of distribution adjustments		(941)	(39,565)	19,665	26,673

(1) Excludes share attributable to non-controlling interests

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

	Note	Group 2017	Group 2016	REIT 2017	REIT 2016
Comprises:					
– from operations		–	–	–	–
– from Unitholders' contribution		20,001	19,038	20,001	19,038
Total Unitholders' distribution	15	20,001	19,038	20,001	19,038

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

STATEMENTS OF MOVEMENTS IN UNITHOLDERS' FUNDS

YEAR ENDED 31 DECEMBER 2017

	Group		REIT	
	Year ended 31 December 2017 $'000	Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000	Year ended 31 December 2017 $'000	Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Unitholders' funds as at beginning of the year/ period	421,177	–	367,784	–
Operations				
Total return for the year/period after taxation attributable to Unitholders	20,942	58,603	336	(7,635)
Transfer to statutory reserve	(1,241)	(1,082)	–	–
Net increase/(decrease) in net assets resulting from operations	19,701	57,521	336	(7,635)
Foreign currency translation reserve				
Translation differences from financial statements of foreign operations	(9,585)	(12,845)	–	–
Statutory reserve				
Transfer from operation	1,241	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	2,212	2,113	2,212	2,113
– Units issued and to be issued as satisfaction of the portion of Property Manager's management fees payable in Units	737	737	737	737
Issue expenses	–	(11,727)	–	(11,727)
Distributions to Unitholders	(19,029)	(9,884)	(19,029)	(9,884)
	(16,080)	375,419	(16,080)	375,419
Unitholders' funds as at end of the year/period	416,454	421,177	352,040	367,784

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

PORTFOLIO STATEMENT

AS AT 31 DECEMBER 2017

Group Description of leasehold property	Location	Term of lease (years)	Lease expiry	Valuation as at 2017 RMB'000	Valuation as at 2016 RMB'000	Valuation as at 2017 SGD'000	Valuation as at 2016 SGD'000	Percentage of Unitholders' funds 2017 %	Percentage of Unitholders' funds 2016 %
Beijing Wanliu	No.2 Bagou Road, Haidian District, Beijing	30	2044	2,287,000	2,235,000	470,101	465,784	113	111
Chengdu Konggang	No. 166 Jinhua Road second section, Shuangliu County, Chengdu	32	2047	633,000	631,000	130,116	131,503	31	31
Hefei Mengchenglu	No.99 Mengcheng Road, Luyang District, Hefei	30	2044	584,000	584,000	120,044	121,708	29	29
Xining Huayuan	Nos.16-19 Shipo street, Chengzhong District, Xining	34	2048	280,000	278,000	57,555	57,936	14	14
Dalian Jinsanjiao	No.18 Huadong Road, Ganjingzi District, Dalian	33	2042	162,000	162,000	33,300	33,761	8	8
Investment properties, at valuation						811,116	810,692	195	193
Other assets and liabilities (net)						(228,067)	(229,306)	(55)	(54)
Net assets						583,049	581,386	140	139
Net assets attributable to non-controlling interests						(166,595)	(160,209)	(40)	(39)
Net assets attributable to Unitholders						416,454	421,177	100	100

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

STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2017

	Note	Group Year ended 31 December 2017 $'000	Group Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Cash flows from operating activities			
Total return for the year/period before taxation		40,156	116,449
Adjustments for:			
Finance income		(720)	(427)
Finance costs		8,952	9,177
Loss on disposal of plant and equipment		2	–
Depreciation of plant and equipment		135	239
Manager's management fees paid/payable in Units	(i)	2,212	2,113
Property Manager's management fees paid/payable in Units	(ii)	737	737
Change in fair value of investment properties		(8,298)	(85,966)
Foreign exchange loss – unrealised		1	65
Operating income before working capital changes		43,177	42,387
Changes in:			
Trade and other receivables		4,002	(4,215)
Trade and other payables		1,397	(8,486)
Cash generated from operating activities		48,576	29,686
Tax paid		(5,555)	(4,807)
Net cash generated from operating activities		43,021	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		(3,213)	(6,037)
Purchase of plant and equipment		(105)	(124)
Interest received		720	427
Net cash used in investing activities		(2,598)	(474,443)
Cash flows from financing activities			
Distribution to Unitholders		(19,029)	(9,884)
Dividend paid to non-controlling interests		(3,719)	–
Increase in restricted cash		(15,433)	(13,296)
Proceeds from issue of Units		–	394,180
Payment of transaction costs related to the issue of Units		–	(11,727)
Payment of transaction costs related to loans and borrowings		(77)	(1,386)
Proceeds from borrowings		24,760	174,877
Repayment of borrowings		(13,026)	(34,442)
Interest paid		(8,345)	(9,421)
Net cash (used in)/generated from financing activities		(34,869)	488,901

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

STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2017

	Note	Group Year ended 31 December 2017 $'000	Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Increase in cash and cash equivalents		5,554	39,337
Cash and cash equivalents at 1 January 2017/ 18 November 2015 (Date of Constitution)		38,373	–
Effect of foreign exchange rate changes on cash balances		(575)	(964)
Cash and cash equivalents at 31 December	9	43,352	38,373

Notes:

Significant non–cash transactions

(i) The Manager's management fees for the year was $2,282,000. $1,512,000 was paid during the year through the issuance of 2,103,000 Units. The remaining $770,000 will be paid through the issuance of 939,000 Units and $70,000 in cash subsequent to the year end. 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 issuance of 2,042,000 Units. The remaining $672,000 have been paid through the issuance of 1,046,000 Units subsequent to the period end.

(ii) The Property Manager's management fees for the year was $737,000. $545,000 was paid during the year through the issuance of 757,000 Units. The remaining $192,000 will be paid through the issuance of 258,000 Units subsequent to the year end. 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 issuance of 793,000 Units. The remaining $175,000 have been paid through the issuance 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

YEAR ENDED 31 DECEMBER 2017

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Manager and the Trustee on 15 March 2018.

1. GENERAL

BHG Retail REIT (the "REIT") is a Singapore–domiciled unit trust constituted pursuant to the 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 fees 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 FY 2016, the DPU for 2016 (being 1 January 2016 to 31 December 2016, both dates inclusive) was 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

YEAR ENDED 31 DECEMBER 2017

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 management 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.

2.4 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

2. BASIS OF PREPARATION (CONT'D)

2.4 Use of estimates and judgements (cont'd)

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

YEAR ENDED 31 DECEMBER 2017

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 Group entities, except as described below.

Disclosure Initiative (Amendments to FRS 7)

From 1 January 2017, as a result of the amendments to FRS 7, the Group has provided additional disclosure in relation to the changes in liabilities arising from financing activities for the year ended 31 December 2017. Comparative information has not been presented (see note 10).

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 the 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.

(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 statements of financial position at cost less accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

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)).

(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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.2 Foreign currency (cont'd)

(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.

3.3 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.3 Financial instruments (cont'd)

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

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 statement of total return 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

YEAR ENDED 31 DECEMBER 2017

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.6 Impairment (cont'd)

(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

YEAR ENDED 31 DECEMBER 2017

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.11 Lease payments

Payment made under operating leases are recognised in statement of total return 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.

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, at the time of the transaction, that affects neither accounting nor taxable profit; and
- temporary differences relating to investments in subsidiaries to the extent that the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.14 Taxation (cont'd)

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.

3.15 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 year. 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. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.17 New standards and interpretations not yet adopted

A number of new standards, amendments to standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however the Group has not early applied the following new or amended standards in preparing these financial statements.

(a) Applicable to 2018 financial statements

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

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.

The Group does not expect the impact on the financial statements to be significant. The Group plans to adopt the standard when it becomes effective in 2018.

(ii) FRS 109 *Financial Instruments*

FRS 109 replaces most of the existing guidance in FRS 39 *Financial Instruments: Recognition and Measurement*. 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.

The Group does not expect the impact on the financial statements to be significant.

The Group does not expect a significant change to the measurement basis arising from adopting the new classification and measurement model under FRS 109. Loans and receivables that are currently accounted for at amortised cost will continue to be accounted for using amortised cost model under FRS 109. For financial assets currently held at fair value, the Group expects to continue measuring most of these assets at fair value under FRS 109.

The Group plans to apply the simplified approach and record lifetime expected impairment losses on all trade receivables and any contract assets arising from the application of FRS 115. On adoption of FRS 109, the Group does not expect a significant increase in the impairment loss allowance.

The Group plans to adopt the standard when it becomes effective in 2018.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

(b) Applicable to 2019 financial statements

(i) FRS 116 *Leases*

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 (ROU) 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*. 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 Group.

The Group plans to adopt the standard when it becomes effective in 2019.

4. INVESTMENT PROPERTIES

	Group	
	2017 $'000	2016 $'000
At beginning of the year/period	810,692	–
Acquisition of initial portfolio	–	737,865
Additions during the year/period	3,213	6,037
	813,905	743,902
Changes in fair value	8,298	85,966
Translation differences	(11,087)	(19,176)
At end of the year/period	811,116	810,692

Investment properties comprise retail properties that are held mainly for use by tenants under operating leases. These 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 year amounted to $4.6 million (2016: $5.1 million).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

4. INVESTMENT PROPERTIES (CONT'D)

Fair value

Investment properties are stated at fair value based on valuation as at 31 December 2017 performed by independent professional valuers, Cushman & Wakefield, 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 reversionary 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 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 capitalizing the current passing rental income and estimates reversionary rental income of the property.

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 7.0% to 8.0% (2016: 7.25% to 8.50%) per annum Terminal rates from 3.0% to 5.0% (2016: 3.25% to 4.50%)	The fair value increases as discount rates and terminal rates decrease.
Income capitalisation approach	Term yield from 4.5% to 6.0% (2016: 4.00% to 5.50%) Reversionary rates from 5.0% to 6.5% (2016: 5.75% to 6.75%)	The fair value increases as term yield and reversionary rate decrease.

Security

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

5. PLANT AND EQUIPMENT

	Plant and machinery $'000	Motor vehicles $'000	Furniture, fittings and equipment $'000	Total $'000
Group				
Cost				
At 18 November 2015				
(Date of Constitution)	–	–	–	–
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
Additions during the year	–	–	105	105
Reclassification	205	(237)	32	–
Disposal/written off	–	–	(7)	(7)
Translation difference on consolidation	(52)	(4)	(45)	(101)
At 31 December 2017	3,784	267	3,324	7,375
Accumulated depreciation				
At 18 November 2015				
(Date of Constitution)	–	–	–	–
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
Charge for the year	4	–	131	135
Reclassification	188	(51)	(137)	–
Disposal/written off	–	–	(5)	(5)
Translation difference on consolidation	(50)	(3)	(37)	(90)
At 31 December 2017	3,591	254	2,840	6,685
Carrying amounts				
At 18 November 2015				
(Date of Constitution)	–	–	–	–
At 31 December 2016	182	200	351	733
At 31 December 2017	193	13	484	690

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

6. INTERESTS IN SUBSIDIARIES

	REIT	
	2017 $'000	2016 $'000
Equity investment, at cost	1,474	737
Non-trade amounts due from subsidiaries	523,614	525,970
	525,088	526,707

(a) Details of the subsidiaries are as follows:

Name of subsidiaries	Place of incorporation/business	Effective equity held by the Group 2017 %	2016 %
Held by the REIT			
Petra 1 (China) Mall Pte. Ltd.*	Singapore	100%	100%
Petra 2 (China) Mall Pte. Ltd.*	Singapore	100%	100%
Petra 3 (China) Mall Pte. Ltd.*	Singapore	100%	100%
Petra 4 (China) Mall Pte. Ltd.*	Singapore	100%	100%
Petra 6 (China) Mall Pte. Ltd.*	Singapore	100%	100%
Held through subsidiaries			
Beijing Hualian Wanmao Shopping Mall Management Co., Ltd. **	People's Republic of China	60%	60%
Hefei Hualian Rui An Shopping Mall Commercial Operation Co., Ltd. **	People's Republic of China	100%	100%
Qinghai Xinglian Real Property Co., Ltd. **	People's Republic of China	100%	100%
Chengdu Hairong Xingda Real Property Co., Ltd. **	People's Republic of China	100%	100%
Dalian Hualian Commercial Facilities Operation Co., Ltd. **	People's Republic of China	100%	100%

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

6. INTERESTS IN SUBSIDIARIES (CONT'D)

(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 losses.

7. TRADE AND OTHER RECEIVABLES

	Group		REIT	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Trade receivables	31	23	–	–
Impairment losses	–	(1)	–	–
	31	22	–	–
Other receivables	1,573	1,922	97	1,212
Impairment losses	(89)	(86)	–	–
	1,484	1,836	97	1,212
Loans and receivables	1,515	1,858	97	1,212
Prepayments	2,768	6,467	92	78
	4,283	8,325	189	1,290
Current	4,160	8,279	189	1,290
Non-current	123	46	–	–
	4,283	8,325	189	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		REIT	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Beijing	556	516	–	–
Chengdu	177	136	–	–
Hefei	442	248	–	–
Qinghai	224	8	–	–
Dalian	19	8	–	–
Singapore	97	942	97	1,212
	1,515	1,858	97	1,212

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

7. TRADE AND OTHER RECEIVABLES (CONT'D)

Impairment losses

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

	Gross		Impairment	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Group				
Not past due	950	1,544	–	73
Past due 1 – 30 days	37	2	12	–
Past due 31 – 60 days	112	19	–	1
Past due 61 – 90 days	109	10	–	–
More than 90 days past due	396	370	77	13
	1,604	1,945	89	87

REIT

The ageing 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 year is as follows:

	Group	
	Year ended 31 December 2017 $'000	Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
At 1 January 2017/18 November 2015 (Date of Constitution)	(87)	–
Impairment losses on loans and receivables	(2)	(87)
At 31 December	(89)	(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

YEAR ENDED 31 DECEMBER 2017

8. DEFERRED TAX ASSETS/(LIABILITIES)

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

Group	At 18 November 2015 (Date of Constitution) $'000	Recognised in statements of total return (Note 19) $'000	Translation difference $'000	At 31 December 2016 $'000	Recognised in statements of total return (Note 19) $'000	Translation difference $'000	At 31 December 2017 $'000
Deferred tax assets							
Allowance for doubtful receivables and unutilised losses	805	(555)	(42)	208	(182)	(4)	22
Deferred tax liabilities							
Investment properties	–	21,489	–	21,489	2,075	(235)	23,329
Tax on unrepatriated profits	–	1,077	(2)	1,075	–	–	1,075
	–	22,566	(2)	22,564	2,075	(235)	24,404

9. CASH AND CASH EQUIVALENTS

	Group 2017 $'000	Group 2016 $'000	REIT 2017 $'000	REIT 2016 $'000
Cash at banks and in hand	72,081	51,669	547	382
Restricted cash	(28,729)	(13,296)	–	–
Cash and cash equivalents in statement of cash flows	43,352	38,373	547	382

10. LOANS AND BORROWINGS

	Group 2017 $'000	Group 2016 $'000	REIT 2017 $'000	REIT 2016 $'000
Secured loan	242,237	231,491	172,760	159,800
Less: Unamortised transaction costs	(765)	(1,029)	(310)	(343)
	241,472	230,462	172,450	159,457
Current	25,972	90,020	24,760	88,800
Non-current	215,500	140,442	147,690	70,657
	241,472	230,462	172,450	159,457

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

10. LOANS AND BORROWINGS (CONT'D)

Terms and debt repayment schedule

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

	Nominal interest rate per annum %	Year of maturity	Face value $'000	Carrying amount $'000
2017				
Group				
SGD secured floating rate loan	1.49-1.62	2018	500	500
SGD secured floating rate loan	1.24-1.79	2018	9,100	9,100
SGD secured floating rate loan	1.40-1.71	2018	1,700	1,700
SGD secured floating rate loan	1.56-1.77	2018	9,960	9,960
SGD secured floating rate loan	1.70	2018	1,000	1,000
SGD secured floating rate loan	1.71	2018	700	700
SGD secured floating rate loan	1.71	2018	1,800	1,800
SGD secured floating rate loan	2.87	2019	77,000	76,923
SGD secured floating rate loan	3.25-3.38	2019	32,000	32,000
SGD secured floating rate loan	3.41-3.47	2019	39,000	38,767
RMB secured floating rate loan	5.08	2017-2019	56,322	56,322
RMB secured floating rate loan	5.08	2017-2019	13,155	12,700
			242,237	241,472
REIT				
SGD secured floating rate loan	1.49-1.62	2018	500	500
SGD secured floating rate loan	1.24-1.79	2018	9,100	9,100
SGD secured floating rate loan	1.40-1.71	2018	1,700	1,700
SGD secured floating rate loan	1.56-1.77	2018	9,960	9,960
SGD secured floating rate loan	1.70	2018	1,000	1,000
SGD secured floating rate loan	1.71	2018	700	700
SGD secured floating rate loan	1.71	2018	1,800	1,800
SGD secured floating rate loan	2.87	2019	77,000	76,923
SGD secured floating rate loan	3.25-3.38	2019	32,000	32,000
SGD secured floating rate loan	3.41-3.47	2019	39,000	38,767
			172,760	172,450

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

10. LOANS AND BORROWINGS (CONT'D)

	Nominal interest rate per annum %	Year of maturity	Face value $'000	Carrying amount $'000
2016				
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

Facilities and securities

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 2017, 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 REIT has refinanced part of its $148 million facility due in December 2017. During 2017, the Group had repaid RMB 3 million of each of the onshore facilities, in accordance with the facility agreements.

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 REIT has obtained and drawn down from other bank facilities an amount totalling $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 the restricted cash from the five subsidiaries in China.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

10. LOANS AND BORROWINGS (CONT'D)

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Loans and borrowings $'000	Interest payables $'000	Total $'000
Balance at 1 January 2017	230,462	915	231,377
Changes from financing cash flows			
Payment of transaction costs related to loans and borrowings	(77)	–	(77)
Proceeds from borrowings	24,760	–	24,760
Repayment of borrowings	(13,026)	–	(13,026)
Interest paid	–	(8,345)	(8,345)
	11,657	(8,345)	3,312
Non-cash changes			
Effects of changes in foreign exchange rates	(317)	(153)	(470)
Amortisation of borrowing costs	(330)	–	(330)
Interest expense	–	8,622	8,622
	(647)	8,469	7,822
Balance at 31 December 2017	241,472	1,039	242,511

11. TRADE AND OTHER PAYABLES

	Group		REIT	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Trade payables	8,983	6,474	–	–
Dividend payable	–	713	–	–
Interest payable	1,039	915	702	693
Other payables	4,700	7,185	72	–
Accrued operating expenses	2,562	1,898	560	445
Deposits and advances from tenants	3,960	3,853	–	–
	21,244	21,038	1,334	1,138
Current	19,401	19,169	1,334	1,138
Non-current	1,843	1,869	–	–
	21,244	21,038	1,334	1,138

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

12. UNITHOLDERS' FUNDS

	Note	Group		REIT	
		Year ended 31 December 2017 $'000	Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000	Year ended 31 December 2017 $'000	Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
At 1 January 2017/18 November 2015 (Date of Constitution)		421,177	–	367,784	–
Net assets resulting from operations		19,701	57,521	336	(7,635)
Statutory reserve	(a)	1,241	1,082	–	–
		442,119	58,603	368,120	(7,635)
Foreign currency translation reserve	(b)	(9,585)	(12,845)	–	–
Unitholders' (distributions)/ contributions		(16,080)	375,419	(16,080)	375,419
		416,454	421,177	352,040	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

YEAR ENDED 31 DECEMBER 2017

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.

	2017 $'000	2016 $'000
Non-current assets	478,670	466,045
Current assets	38,340	34,776
Non-current liabilities	(79,690)	(80,773)
Current liabilities	(20,831)	(19,526)
Net assets	416,489	400,522
Net assets attributable to NCI	166,595	160,209
Revenue	38,478	38,993
Total return after taxation	26,328	73,781
Total return after taxation attributable to NCI	10,531	29,512
Cash flows from operating activities	14,156	17,296
Cash flows from investing activities	591	311
Cash flows used in financing activities	(10,562)	(3,638)
Net increase in cash and cash equivalents	4,185	13,969

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

14. UNITS IN ISSUE

	2017 Number of Units '000	2016 Number of Units '000
Issue of new Units relating to:		
– as at beginning of the year/initial public offering	495,560	492,725
– payment of Manager's management fees	3,149	2,042
– payment of Property Manager's management fees	1,028	793
	499,737	495,560
Units to be issued:		
– payment of Manager's management base fees	561	720
– payment of Manager's management performance fees	378	326
– payment of Property Manager's management fees	258	271
	1,197	1,317
Total Units in issue and to be issued at the end of year/period	500,934	496,877

Units issued during the year ended 31 December 2017 are as follows:

(a) On 9 March 2017, the REIT issued 720,000 and 326,000 new Units at an issue price of $0.6425 per Unit as payment of the base component of the Manager's management fee for the period from 1 October 2016 to 31 December 2016 and as payment of the performance component of the Manager's management fees for the period from 1 January 2016 to 31 December 2016 respectively. The REIT also issued 271,000 new Units at an issue price of $0.6425 per Unit as payment of the Property Manager's management fees for the period from 1 October 2016 to 31 December 2016.

(b) On 15 June 2017, the REIT issued 724,000 and 248,000 new Units at an issue price of $0.6981 per Unit as payment of the base component of the Manager's management fees and Property Manager's management fees respectively, for the period from 1 January 2017 to 31 March 2017.

(c) On 4 September 2017, the REIT issued 680,000 and 250,000 new Units at an issue price of $0.7240 per Unit as payment of the base component of the Manager's management fees and Property Manager's management fees respectively, for the period from 1 April 2017 to 30 June 2017.

(d) On 12 December 2017, the REIT issued 699,000 and 259,000 new Units at an issue price of $0.7365 per Unit as payment of the base component of the Manager's management fees and Property Manager's management fees respectively, for the period from 1 July 2017 to 30 September 2017.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

14. UNITS IN ISSUE (CONT'D)

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

(e) 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;

(f) On 31 August 2016, the REIT issued 646,000 and 270,000 new Units at an issue price of $0.8015 per Unit as payment of the base component of the Manager's management fees and Property Manager's management fees respectively, for the period from 11 December 2015 to 31 March 2016;

(g) On 5 September 2016, the REIT issued 726,000 and 267,000 new Units at an issue price of $0.6489 per Unit as payment of the base component of the Manager's management fees and Property Manager's management fees respectively, for the period from 1 April 2016 to 30 June 2016;

(h) On 23 December 2016, the REIT issued 670,000 and 256,000 new Units at an issue price of $0.6746 per Unit as payment of the base component of the Manager's management fees and Property Manager's management fees respectively, for the period from 1 July 2016 to 30 September 2016.

The issue prices for item (a) to (d) and (f) to (h) 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 (the "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 Strategic 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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

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 year is accounted for as distribution from Unitholders' contributions:

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

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

- 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

YEAR ENDED 31 DECEMBER 2017

15. TOTAL UNITHOLDERS' DISTRIBUTION (CONT'D)

Income available for distribution to Unitholders at end of the year

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 1 January 2017 to 30 June 2017 had been paid on 27 September 2017. Distributions for the period from 1 July 2017 to 31 December 2017 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	
	Year ended 31 December 2017 $'000	Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Advertising and promotion	1,315	1,217
Depreciation of plant and equipment	135	239
Impairment losses on loans and receivables	2	87
Repair and maintenance	3,128	3,299
Staff costs	229	246
Utilities	8,561	9,542
Others	582	617
	13,952	15,247

Included in staff costs is contribution to defined contribution plans of $30,000 (2016: $23,000).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

17. OTHER OPERATING EXPENSES

	Group		REIT	
	Year ended 31 December 2017 $'000	Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000	Year ended 31 December 2017 $'000	Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Professional fees	305	273	281	208
Others	301	217	233	187
	606	490	514	395

18. FINANCE INCOME AND FINANCE COSTS

	Group		REIT	
	Year ended 31 December 2017 $'000	Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000	Year ended 31 December 2017 $'000	Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Finance income:				
– financial institutions	720	427	–	–
Finance costs:				
– loans and borrowings	(8,952)	(9,177)	(4,834)	(4,778)
Net finance costs recognised in statements of total return	(8,232)	(8,750)	(4,834)	(4,778)

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

19. TAXATION

	Note	Group Year ended 31 December 2017 $'000	Group Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000	REIT Year ended 31 December 2017 $'000	REIT Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Current taxation					
Current year/period		5,913	5,101	–	–
Withholding tax		513	112	–	–
		6,426	5,213	–	–
Deferred taxation					
Origination of temporary differences	8	2,257	23,121	–	–
Income tax expense		8,683	28,334	–	–
Reconciliation of effective tax rate					
Total return for the year/period before taxation		40,156	116,449	336	(7,635)
Tax calculated using Singapore tax rate of 17%		6,827	19,796	57	(1,298)
Adjustments:					
Effect of different tax rates in foreign jurisdictions		2,614	7,090	–	–
Income not subject to tax		(2,639)	(63)	(1,411)	–
Expenses not deductible for tax purposes		4	–	–	–
Deferred tax assets not recognised		–	23	–	–
Tax losses not allowed to be carried forward		1,364	1,376	1,354	1,298
Withholding tax		513	112	–	–
		8,683	28,334	–	–

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

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 year/period and total return for the year/period after taxation and non–controlling interests.

	Group	
	Year ended 31 December 2017 $'000	Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Total return for the year/period after taxation and non–controlling interests	20,942	58,603

	Group	
	Year ended 31 December 2017 Number of units '000	Period from 18 November 2015 (Date of Constitution) to 31 December 2016 Number of units '000
Issued Units		
– As at beginning of the year/initial public offering	496,877	492,725
– Manager's management fees paid/payable in Units	1,073	972
– Property Manager's management fees paid/payable in Units	381	382
Weighted average number of issued and issuable Units at end of the year/period	498,331	494,079

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YEAR ENDED 31 DECEMBER 2017

20. EARNINGS PER UNIT

Diluted earnings per Unit

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

	Group	
	Year ended 31 December 2017 $'000	Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Total return for the year/period after taxation and non–controlling interests	20,942	58,603
	Number of Units '000	Number of Units '000
Issued Units		
– As at beginning of the year/initial public offering	496,877	492,725
– Manager's management fees paid/payable in Units	3,042	3,088
– Property Manager's management fees paid/payable in Units	1,015	1,064
Weighted average number of issued and issuable Units at end of the year/period	500,934	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 an indirect wholly–owned subsidiary 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 reimbursables have been paid or are payable to the Property Manager.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

22. FINANCIAL RATIOS

	Group 2017 %	Group 2016 %
Ratio of expenses to average net asset value (1)		
– including performance component of Manager's management fees	0.79	0.70
– excluding performance component of Manager's management fees	0.72	0.65
Ratio of expenses to net asset value (2)	4.28	4.41
Portfolio turnover rate (3)	Not applicable	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 total property expenses, including all fees and charges paid to the Manager and related parties for the financial year/period (2017: $24,941 and 2016: $25,614) and as a percentage of net asset value as at end of financial year/period.

(3) 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 year/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")
- Chengdu Hairong Xingda Real Property Co., Ltd. ("Chengdu Konggang")
- Qinghai Xinglian Real Property Co., Ltd. ("Xining Huayuan")
- 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 year 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

YEAR ENDED 31 DECEMBER 2017

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
2017						
External revenues:						
– Gross rental income	34,962	7,903	9,251	3,298	2,311	57,725
– Others	3,516	1,527	1,751	–	–	6,794
– Gross revenue	38,478	9,430	11,002	3,298	2,311	64,519
Segment net property income	25,445	6,009	6,390	2,995	2,105	42,944
Finance income	198	508	79	32	36	853
Finance costs	2,907	1,346	–	–	–	4,253
Reportable segment total return before taxation	32,694	5,121	4,793	3,396	2,116	48,120
Segment assets	512,842	153,934	145,328	61,980	37,708	911,792
Segment liabilities	300,187	147,516	142,063	57,021	32,522	679,309
Other segment items:						
Depreciation	56	28	51	–	–	135
Impairment losses on loans and receivables, net	–	(4)	(6)	12	–	2
Net change in fair value of investment properties	9,822	(10)	(1,925)	411	–	8,298
Capital expenditure	867	15	2,436	–	–	3,318

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

23. OPERATING SEGMENTS (CONT'D)

Information about reportable segments (cont'd)

	Beijing Wanliu $'000	Hefei Mengchenglu $'000	Chengdu Konggang $'000	Xining Huayuan $'000	Dalian Jinsanjiao $'000	Total $'000
2016						
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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

23. OPERATING SEGMENTS (CONT'D)

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

	Year ended 31 December 2017 $'000	Period from 18 November 2015 (Date of Constitution) to 31 December 2016 $'000
Revenue		
Total revenue for reporting segments	64,519	66,234
Total return		
Total return for reportable segments before taxation	48,120	123,717
Unallocated amounts:		
– Other corporate expenses	(7,964)	(7,268)
Total return before taxation	40,156	116,449
Assets		
Total assets for reportable segments	911,792	880,440
Other unallocated amounts	(23,600)	(8,813)
Consolidated assets	888,192	871,627
Liabilities		
Total liabilities for reportable segments	679,309	666,098
Other unallocated amounts	(374,166)	(375,857)
Consolidated liabilities	305,143	290,241

	Reportable segment totals $'000	Unallocated amounts $'000	Consolidated totals $'000
Other material items 31 December 2017			
Finance income	853	(133)	720
Finance costs	4,253	4,699	8,952
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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

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 \$8.4 million (2016: \$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	
	2017 $'000	2016 $'000
Receivable:		
– within 1 year	44,949	26,654
– after 1 year but within 5 years	56,605	60,909
– after 5 years	104,671	106,479
	206,225	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% (2016: 45.0%) of its Deposited Property. The Group's aggregate leverage limit did not exceed 45% (2016: 45.0%) during the year, and was 32.2% (2016: 31.0%) as at 31 December 2017.

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

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

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

YEAR ENDED 31 DECEMBER 2017

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 2017					
Group					
Loans and borrowings	241,472	257,651	34,639	223,012	–
Trade and other payables	21,244	21,244	19,401	1,843	–
Security deposits	16,191	16,191	11,730	2,703	1,758
	278,907	295,086	65,770	227,558	1,758
REIT					
Loans and borrowings	172,450	183,160	29,943	153,217	–
Trade and other payables	1,334	1,334	1,334	–	–
	173,784	184,494	31,277	153,217	–

	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	–

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

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

Liquidity risk (cont'd)

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 2017:

Chinese Renminbi ("RMB") denominated facility:

- RMB 338 million four-year secured term loan facilities

$ denominated facilities:

- $77 million four-year secured term loan facilities
- $32 million three-year secured term loan facilities
- $39 million four-year secured term loan facilities
- $24.8 million credit facilities

As at 31 December 2017, the Group has drawn down $24.8 million (2016: $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.

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 exploring different avenues to securing 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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

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

Interest rate risk (cont'd)

	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 2017				
Variable rate instruments	(86)	86	–	–
Cash flow sensitivity (net)	(86)	86	–	–
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

YEAR ENDED 31 DECEMBER 2017

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 2017		
Cash and cash equivalents	70,655	70,655
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.

	Statements of total return	
	Group $'000	REIT $'000
31 December 2017		
RMB	(7,066)	–
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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

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 2017							
Financial assets not measured at fair value							
Trade and other receivables	1,515	–	1,515				
Cash and cash equivalents	72,081	–	72,081				
	73,596	–	73,596				
Financial liabilities not measured at fair value							
Trade and other payables	–	21,244	21,244				
Security deposits	–	16,191	16,191		15,674		15,674
Loans and borrowings	–	241,472	241,472				
	–	278,907	278,907				
REIT							
31 December 2017							
Financial assets not measured at fair value							
Trade and other receivables	97	–	97				
Cash and cash equivalents	547	–	547				
	644	–	644				
Financial liabilities not measured at fair value							
Trade and other payables	–	1,334	1,334				
Loans and borrowings	–	172,450	172,450				
	–	173,784	173,784				

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

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

Accounting classifications and fair values (cont'd)

	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

YEAR ENDED 31 DECEMBER 2017

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 2017 plus an adequate constant credit spread, and are as follows:

	2017 % p.a.	2016 % p.a.
Security deposits	3.71	3.75

26. SUBSEQUENT EVENTS

On 23 February 2018, the Manager declared a distribution of 2.73 cents per Unit to Unitholders in respect of the period from 1 July 2017 to 31 December 2017.