

# CORPORATE GOVERNANCE

## INTRODUCTION

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

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

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

The report describes the corporate governance practices with specific reference to the 2012 Code. Where there are deviations from the principles and guidelines of the 2012 Code, explanations are provided within this Annual Report.

## THE MANAGER

The Manager has general powers of management over the assets of the REIT, and is responsible for setting the strategic direction of the REIT. The Manager's primary responsibility is to manage the assets and liabilities of the REIT for the benefit of the Unitholders of the REIT. Broadly, the Manager's strategy is:

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

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

## BOARD MATTERS

### The Board's Conduct of Affairs

#### *Principle 1: Effective Board to lead and control the Company*

The Board, which is responsible for the long-term success of the REIT, is entrusted with overall responsibility for the corporate governance of the Manager. The Board is also responsible for the strategic business direction and risk management of the REIT. To this end, the Board has set in place a framework of internal controls for effective management of risks within the business. All Directors exercise reasonable diligence and independent judgment when making decisions and are obliged to act honestly and consider the interests of the Manager and the REIT at all times.

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

# CORPORATE GOVERNANCE

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

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

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

- Audit and Risk Committee (“ARC”); and
- Nominating and Remuneration Committee (“NRC”).

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

The Board and the ARC meet at least once every quarter to review key business activities. The NRC meets at least annually. Where it is not possible for a Director to attend in person, that Director may participate via teleconferencing, videoconferencing, or other similar means of telecommunication. Four Board meetings were held during the financial year ended 31 December 2017 (“FY 2017”). The attendance of the Directors at Board meetings and Board committee meetings are set out at page 29 of this report.

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

Each newly appointed Director goes through an orientation and induction programme. The programme aims to familiarise the new Director with his duties as a director and how to discharge those duties, the laws and regulations that govern the operation of a REIT, and to familiarise the new Director with the REIT’s business and organisation structure and governance practices. Following their appointment, Directors are provided with opportunities for continuing education in areas such as Director’s duties and responsibilities, changes to laws, regulations, accounting standards, and industry-related matters so as to be updated on matters that may affect

or enhance their performance as Directors of the Board, or of the Board’s Committees. In FY 2017, Directors were briefed and updated on sustainability reporting and changes to the Companies Act.

## Board Composition and Guidance

### *Principle 2: Strong and Independent Element on the Board*

The Board presently comprises six members:

Mr Francis Siu Wai Keung	Chairman/ Independent Director
Mr Ben Yeo Chee Seong	Independent Director
Mr Lau Teck Sien	Independent Director
Mr Yang Feng	Non-Executive Director
Mr Xiong Zhen	Non-Executive Director
Mr Peng Ge	Non-Executive Director

Each Director is a respected individual with the appropriate experience to act as the Directors of the Manager. The profiles of the Directors may be found from page 19 to 20 of the Annual Report. The Board is headed by Mr Francis Siu Wai Keung, who presides as Chairman. The Board encompasses a diverse set of skills, experience, and knowledge of the REIT and its portfolio properties. The Board will review the composition of the Board from time to time to ensure that the size of the Board provides effective and efficient decision-making, and that the Board is sufficiently independent.

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

- The Chairman of the Board should be a Non- Executive Director of the Manager;
- The Board should comprise Directors with a broad range of commercial experience including expertise in fund management, audit and accounting, and the property industry; and
- At least one-third of the Board should comprise Independent Directors.

Mr Yang Feng, Mr Xiong Zhen and Mr Peng Ge are salaried employees of other entities within the Beijing Hualian Group and accordingly are treated as Non-Independent Directors. The independence of Mr Francis Siu Wai Keung, Mr Ben Yeo Chee Seong and Mr Lau Teck Sien are assessed against the requirements of the 2012 Code and Regulation 13E of the draft amendments to the Securities and Futures (Licencing and Conduct of Business) Regulations. There are no instances where the Board considers a director to be independent where there is the existence of a relationship as stated in the 2012 Code that would otherwise deem a director not to be independent.

For FY 2017, the NRC has reviewed and determined that the Independent Directors of the Manager are independent according to the 2012 Code and Regulation 13E of the draft amendments to the Securities and Futures (Licencing and Conduct of Business) Regulations.

None of the Independent Directors have served the Board beyond nine years from the date of their first appointments.

The Board is confident that the Directors act in good faith and exercise due diligence and care in the exercise of their duties, and is presently of an appropriate size. For FY 2017, the Board is of the opinion that its current Board size and composition is reasonable, effective and efficient considering the nature, size and scope of the Manager's and the REIT's business operation.

The Non-Executive Directors contribute to the Board process by monitoring and reviewing Management's performance against goals and objectives. Their view and opinions provide alternative perspectives to the Manager's business and enable the Board to make informed and balanced decisions. The Non-Executive Directors also work with Management to help shape the strategic process.

When reviewing Management proposals or decisions, the Non-Executive Directors bring their objective judgement to bear on business activities and transactions involving conflicts of interest and other complexities. The Non-Executive Directors meet without the presence of Management on a need-basis.

### Chairman and Chief Executive Officer

#### *Principle 3: Clear division of responsibilities and balance of power and authority*

To maintain an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making, the roles and responsibilities between the of Chairman and CEO are held by separate individuals. Mr Francis Siu Wai Keung is our Chairman and Ms Chan Iz-Lynn is our CEO. The Chairman brings with him a wealth of experience. He leads the Board and bears responsibility for the working of the Board. Mr Siu is responsible for creating the conditions for the overall effectiveness and direction of the Board, Board Committees and individual Directors. He ensures that the Board receives accurate, timely and clear information and that the Board meetings are held as and when necessary, and sets the agenda of Board meetings in consultation with the other Directors and Management. He assists in ensuring compliance with the guidelines on corporate governance and facilitates the effective contribution of Non-Executive Directors.

The CEO, Ms Chan Iz-Lynn, works with the Board to determine the strategy for the REIT. She also works with the other members of the management team to ensure that the REIT operates in accordance with the Manager's stated investment strategy. Further, she is responsible for the future strategic development, overall day-to-day management and operations of BHG Retail REIT, and works with the Manager's investment, asset management, financial and compliance personnel in meeting the strategic, investment and operational objectives of BHG Retail REIT.

The Chairman and the CEO are not immediate family members. The separation of the roles of the Chairman and the CEO and the clarity of roles provide a healthy professional relationship between the Board and Management, and facilitate robust deliberations on the business activities of the Manager and the REIT.

# CORPORATE GOVERNANCE

## Board Membership

### *Principle 4: Formal and transparent process for the appointment and re-appointment of Directors to the Board*

The Board is cognizant of the requirements of the 2012 Code, and accordingly the Board has established the Nominating and Remuneration Committee (“NRC”), which comprises the following three members, all of whom, including the Chairman, are Independent Directors:

Mr Ben Yeo Chee Seong	Chairman
Mr Francis Siu Wai Keung	Member
Mr Lau Teck Sien	Member

The NRC is regulated by a set of written Terms of Reference and is responsible for making recommendations to the Board on appointment and remuneration matters. The NRC will review and make recommendations on succession plans for the Board and executive officers.

The responsibilities of the NRC as set out in the Terms of Reference include:

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

The NRC reviews the independence of each Director annually. In respect of the Company’s Independent Directors, Mr Francis Siu Wai Keung, Mr Ben Yeo Chee Seong and Mr Lau Teck Sien, the Board is of the view that they are independent for the financial year under review, taking into account the circumstances set

forth in the 2012 Code and any other salient factors. The Independent Directors had also confirmed their independence in accordance with the 2012 Code.

In appointing a new Director to the Board, the Board considers the needs of the REIT and the relevant expertise of the candidate. Further, the Board considers the principles stated on page 26 of the Annual Report. The NRC further reviews the composition of the Board periodically, taking into account the need for progressive renewal of the Board and each Director’s competencies, commitment, contribution and performance. Candidates with the appropriate profile are shortlisted for nomination and are recommended to the Board for approval. The search for candidates is conducted through referrals, and the NRC may seek advice from external search consultants where necessary. The Board does not appoint alternate directors as recommended by the 2012 Code.

Where a Director has multiple Board representations, the NRC also considers whether or not the Director is able to and has adequately carried out his duties as a Director of the Manager, taking into consideration the Director’s number of listed company board representations and other principal commitments.

The 2012 Code further recommends that the Board should determine the maximum number of listed company board representations, which any Director may hold. The Board has voluntarily and unanimously agreed that with effect from FY 2018, each Director may hold a maximum of six listed company directorships.

The NRC has evaluated and is satisfied that each Director has provided sufficient time and attention on the affairs of the Manager to fulfil their responsibilities, notwithstanding their other commitments. For FY 2017, the Directors have attended Board meetings and have participated constructively in discussion of the activities of the REIT. The Board is of the view that, despite the external appointments, the Directors are not hindered from carrying out their duties as Directors of the Manager.

The number of meetings held by the Board, the ARC and the NRC and the attendance of Directors at the meetings during FY 2017 are set out as follows:

	Board Meetings No. of meetings held: 4 Attended	ARC Meetings No. of meetings held: 4 Attended	NRC Meetings No. of meetings held: 1 Attended
Francis Siu Wai Keung	4	4	1
Ben Yeo Chee Seong	4	4	1
Lau Teck Sien	4	4	1
Yang Feng	3	-	-
Xiong Zhen	4	-	-
Peng Ge	4	-	-

Information in respect of the academic and professional qualification, date of first appointment as a director, date of last re-appointment as a director, and directorship or chairmanship, both present and those held over the preceding three years in other listed companies, and other principal commitments, is set out in the "Board of Directors" section of the Annual Report.

### Board Performance

#### *Principle 5: Formal assessment of the effectiveness of the Board as a whole and the contribution by each Director to the effectiveness of the Board*

The Board has implemented a formal system of evaluating Board's performance, which is carried out by the NRC, for assessing the effectiveness of the Board as a whole, the Board Committees and the individual Directors through the use of a performance assessment checklist.

The evaluation of the Board's performance as a whole deals with matters on Board composition, information, process, accountability, performance benchmark, CEO/top management, risk management and internal controls and standards of conduct. The Board Committees' evaluation deals with the efficiency and effectiveness of each Board Committee in assisting the Board. The criteria for the evaluation of individual Directors include, among others, the Directors' attendance and participation at Board and Board Committees meetings, understanding of business plans and strategies, and ability to articulate thoughts and opinions in a clear and concise manner.

Each Director is required to objectively assess his personal performance and collectively, the performance of the Board as a whole and its Board Committees. For FY 2017, each Director completed the performance assessment checklists and returned them to the Company Secretary. The Company Secretary has compiled the results of the evaluation and tabled the summary at the NRC meeting for the NRC's review. The NRC is satisfied that:

- All performance objectives for FY 2017 have been met for the Board, Board committees and for each individual Director; and
- Each Independent Director has met and continues to meet the requirements of the 2012 Code.

Pursuant to the NRC's review, the Board is satisfied that it has achieved its performance objectives for FY 2017.

The Manager believes the Board's performance is best evidenced and reflected through the REIT's achievements. For FY 2017, the distribution per unit ("DPU") for the financial period from 1 January 2017 to 31 December 2017 of 5.47 cents has exceeded the DPU for the same period in 2016 by 2.8%. Similarly, the amount available for distribution to Unitholders was 7.5% higher year-on-year. The net property income in RMB was 8.7% higher year-on-year. The Board's performance is reviewed once a year by the NRC.

# CORPORATE GOVERNANCE

## Access To Information

*Principle 6: Board members should be provided with complete, adequate and timely information*

The Manager provides the Board with complete, adequate and timely information prior to Board meetings, and on an ongoing basis. This includes quarterly financial reports and financial statements from the Manager. The Manager's executives and external consultants may also provide presentations on specific business areas. Further, each Director has separate and independent access to members of the Manager, and this ensures that the Directors are not dependent solely on what is volunteered by the Manager.

Board meetings are scheduled in advance to ensure that each Director has sufficient time to arrange his schedule and commitments. Board papers and related materials are generally circulated at least three days in advance to allow each Director to be fully prepared for a Board meeting. During a Board meeting, executives may be invited as attendees in the event the Directors require further clarification on matters being discussed.

Further, the Company Secretary, who attends all Board meetings, ensures that all relevant rules, regulations and procedures are complied with. Where requested, Directors may have access to professional advice. The ARC also meets with internal & external auditors without the presence of management and has unfettered access to information.

The appointment and removal of the Company Secretary is subject to the approval of the Board as a whole.

In furtherance of their duties, the Directors, individually or as a group, may seek independent professional advice on matters relating to the businesses of the REIT, at the Manager's expense, subject to approval by the Board.

## REMUNERATION MATTERS

### Procedure for Developing Remuneration Policies

*Principle 7: Formal and transparent procedure for developing policies on executive remuneration and for fixing the remuneration packages of individual Directors*

## Level and Mix of Remuneration

*Principle 8: Level of remuneration of Directors should be appropriate but not excessive*

### Disclosure on Remuneration

*Principle 9: Clear disclosure of remuneration policy, level and mix of remuneration, and procedure for setting remuneration*

The REIT is externally managed by the Manager and accordingly has no personnel of its own. Remuneration of all Directors and employees of the Manager are paid by the Manager and not by the REIT. The Manager adopts the principle that remuneration for the Board and Management should be assessed holistically. The remuneration structure supports the continuous development of the management bench strength to ensure robust talent management and succession planning.

While the Manager is not a listed entity, the Board has established the NRC. As regards remuneration policies, the Terms of Reference of the NRC include:

- Reviewing and recommending to the Board a general framework of remuneration for the Board and the executive officers; and
- Reviewing the REIT's obligations arising in the event of termination of Executive Directors' and executive officers' contracts of service and ensuring that such contracts of service contain fair and reasonable termination clauses.

The NRC recommends a framework of remuneration for the Board and key management personnel to the Board for endorsement. There is a formal and transparent procedure for fixing the remuneration packages of the Directors. No individual Director is involved in fixing his own remuneration. Independent Directors are paid Directors' fees annual on a standard fee basis.

The NRC operates on delegated authority from the Board. For FY 2017, the Manager has not engaged a remuneration consultant. The Manager has put in place a remuneration policy with an aim toward retention of talent, building the strength of management, and developing key executives. This ensures that the business of the Manager remains sustainable, and provides a stable environment with room for continual growth and improvement.

In establishing the remuneration structure of the CEO and key management personnel, the NRC ensures that the level and mix of remuneration is competitively benchmarked against the relevant industry market rates and tied to the performance of the Manager and the individual employee. The remuneration package of the CEO and key management personnel comprises a base fixed cash component, including the base salary and compulsory employer contribution to the key executive's Central Provident Fund ("CPF") account, and a variable cash component.

The variable cash component is linked to whether the CEO and the key management personnel meet performance targets, both personal and that of the Manager and the REIT. This aligns the achievements of the CEO and key management personnel with that of Unitholders.

The CEO and key management personnel are paid in cash only and do not receive any remuneration in Units.

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

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

The Directors' fees for Independent Directors for FY 2017 are set out as follows:

Director	S(\$)
Mr Francis Siu Wai Keung	98,294
Mr Ben Yeo Chee Seong	86,706
Mr Lau Teck Sien	85,000

The Manager does not use contractual provisions to allow the Manager to reclaim incentive components of remuneration from the CEO and key management

personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Manager. The CEO owes a fiduciary duty to the Manager. The Manager should be able to avail itself to remedies against the CEO in the event of such breach of fiduciary duties.

The 2012 Code and the Notice to All Holders of a Capital Markets Service Licence for Real Estate Investment Trust Management require REIT managers to disclose (1) the remuneration of the CEO and each individual director on a named basis, with a break down (in percentage or dollar terms) of each Director's and the CEO's remuneration earned through base/fixed salary, variable or performance-related income/bonuses, benefits-in-kind, stock options granted, share-based incentives and awards and other long-term incentives, and (2) the remuneration of at least the top five key management personnel (who are not also Director or the CEO, on a named basis, in bands of S\$250,000.

The Board has assessed and decided against such disclosure of the remuneration of the CEO and top key management personnel and believes that the interests of the Unitholders will not be prejudiced as a result of such non-disclosure, for the following reasons:

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

There were no employees who were immediate family members of a Director or the CEO during FY 2017 and whose remuneration exceeds S\$50,000 during the year. Based on the Listing Manual of the SGX-ST "Immediate family" in relation to a person, means the person's spouse, child, adopted child, step-child, sibling and parent.

No remuneration or compensation was paid or is to be paid in the form of share options, since the Manager does not currently have any plan to implement share option or share incentive schemes. However, this does not rule out the possibility of the Manager doing so in the future.

# CORPORATE GOVERNANCE

## ACCOUNTABILITY AND AUDIT

### Accountability

#### *Principle 10: Presentation of a balanced and understandable assessment of the Company's performance, position and prospects.*

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

The Manager believes in conducting itself in ways that seek to deliver maximum sustainable value to Unitholders. Best practices are promoted as a means to build an excellent business for Unitholders and the Manager is accountable to Unitholders for the REIT's performance. Prompt fulfilment of statutory and regulatory reporting requirements is but one way to maintain Unitholders' confidence and trust in the capability and integrity of the Manager.

### Risk Management and Internal Controls

#### *Principle 11: Sound system of risk management and internal controls*

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

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

Further, the Manager has further engaged KPMG Services Pte. Ltd. ("KPMG") to conduct quarterly reviews to mitigate the risk of non-compliance with regulatory requirements. The ARC is kept updated on findings reported by Deloitte and KPMG, and the ARC takes these findings into consideration when assessing the Manager's risk appetite. The Manager has also adopted

an Enterprise Risk Management ("ERM") Framework, which formalises the Manager's risk management and internal controls practice.

For FY 2017, the Manager has conducted two Control Self-Assessment Exercises on itself and on each of the portfolio properties in the REIT to evaluate its ERM Framework. More information on the ERM Framework can be found on the Enterprise and Risk Management section of the Annual Report.

Based on the internal controls established and maintained by the Manager, work performed by the internal and external auditors, and reviews performed by the Management, the Board with the concurrence of the ARC, is of the opinion that the Manager's risk management and internal controls put in place during the financial year, addressing financial, operational, compliance and information technology risks, and risk management systems were adequate and effective taking into account the nature, scale and complexity of the Manager's operations. For FY 2017, the Board has received assurances from the CEO and Chief Financial Officer of the Manager that:

- the financial records of the Group (comprising the REIT and its subsidiaries) have been properly maintained and the financial statements for FY 2017 give a true and fair view of the Group's operations and finances, and are prepared in accordance with the relevant accounting standards; and
- the system of risk management and internal controls in place within the Group (including financial, operational, compliance, and information technology) are adequate and effective in addressing the material risks in the Group in its current business environment.

The system of internal controls and risk management provides reasonable, but not absolute, assurance that the REIT will not be severely affected by any event that could be reasonably foreseen as the REIT strives to achieve its business objectives. However, the Board also notes that no system of internal controls and risk management can provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, losses, fraud or other irregularities.

## Audit and Risk Committee

### *Principle 12: Establishment of Audit and Risk Committee with written terms of reference*

The ARC comprises the following three members, all of whom, including the Chairman, are Independent Directors:

Mr Francis Siu Wai Keung	Chairman
Mr Ben Yeo Chee Seong	Member
Mr Lau Teck Sien	Member

The Board is of the opinion that the members of the ARC collectively have experience in audit, accounting and fund management experience. Further, the ARC meets at least once every quarter. During ARC meetings, they may be briefed and updated on any changes to accounting standards and issues which have a direct impact on financial statements. Accordingly, they are qualified to discharge the ARC's responsibilities.

The ARC is authorised by the Board to investigate any matters within its Terms of Reference. Management is required to provide the full cooperation in providing information and resources, and in implementing or carrying out all requests made by the ARC. The ARC has direct access to the internal and external auditors and full discretion to invite any Director or key management personnel to attend its meetings. Similarly, both the internal and external auditors are given unrestricted access to the ARC.

The ARC is regulated by a set of written Terms of Reference and its principal functions include:

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

- Reviewing internal audit reports to ensure that where deficiencies in internal controls have been identified, appropriate and prompt remedial action is taken by Management; and
- Reviewing the appointment, re-appointment and removal of external auditors.

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

The ARC has full access to and the cooperation of Management and reasonable resources to enable it to discharge its functions properly. The ARC meetings are held with the external auditors and by invitation, any Director and representatives from Management. The ARC also meets with the external and internal auditors without the presence of Management, at least annually, to discuss any problems and concerns they may have. The ARC had met with the internal and external auditors, Deloitte and Messrs KPMG LLP, in the absence of Management during FY 2017.

The ARC reviewed the nature and extent of non-audit services provided by the external auditors during FY 2017 and the fees paid for such services. The external auditors have also provided confirmation of their independence to the ARC. The aggregate amount of fees paid and payable to the external auditors for audit services is approximately S\$289,000. There are no non-audit fees paid and payable to the external auditors for FY 2017.

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

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

In the review of the Group's financial statements, the ARC discussed with Management the accounting principles that were applied and considered the clarity of key disclosures in the financial statements. In addition, the

# CORPORATE GOVERNANCE

ARC reviewed, amongst other matters, the key audit matter, as reported by external auditors for the financial year ended 31 December 2017, relating to the valuation of investment properties.

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

None of the members of the ARC were previous partners or directors of the Company's existing auditing firm within the previous 12 months or hold any financial interest in the auditing firm.

## Internal Audit

### *Principle 13: Effective and independent internal audit function*

The Board recognises the importance of maintaining a system of internal controls, procedures and processes for safeguarding the Unitholders' investment and the Manager's and the REIT's assets.

The internal audit function has been outsourced to an independent external service provider: Deloitte. To ensure that it performs its function adequately and effectively, Deloitte employs suitably qualified staff with the requisite skill sets and experience. The ARC reviews and approves the internal audit plan to ensure the adequacy of the scope of audit. The ARC also reviews the needs of the internal audit function on a regular basis, including overseeing and monitoring the implementation of the improvements required for various internal control weaknesses identified by Management and the external auditors.

During FY 2017, Deloitte conducts an audit review based on the approved internal audit plan. The results of the review are reported to the ARC. Key findings are highlighted for follow-up action. The ARC has reviewed the internal audit function and has concluded that the internal audit function was adequately resourced and effective.

The ARC is satisfied that the appointed internal auditors are adequately qualified (given, inter alia, its adherence to standards set by internationally recognised professional bodies) and resourced, and has the appropriate standing in the Manager to discharge its duties effectively and independently. This is evidenced through the unimpeded access to the Manager's documents and records and the access the ARC has to Deloitte without the presence of Management.

## UNITHOLDERS RIGHTS AND RESPONSIBILITIES

### *Principle 14: Unitholder Rights*

### *Principle 15: Communication with Unitholders*

### *Principle 16: Conduct of Unitholder Meetings*

The Manager is committed to treating all Unitholders fairly and equitably. All Unitholders enjoy specific rights under the Trust Deed and the relevant laws and regulations. These rights include, among other things, the right to participate in profit distributions. They are also entitled to attend general meetings and are accorded the opportunity to participate effectively and vote at general meetings.

The Manager's Constitution allows any shareholder, who is unable to attend the general meetings in person, to appoint not more than two proxies to attend and vote in his/her place at the general meetings via proxy forms submitted in advance (i.e. not less than forty-eight hours before the time appointed for holding the general meeting). The proxy form is sent with the notice of general meetings to Unitholders.

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

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

The Manager has a dedicated Investor Relations Manager who facilitates communication with Unitholders, members of the investment community and potential investors. In FY 2017, the CEO and Investor Relations Manager have met with potential investors and analysts through meetings and roadshows.

In accordance with the Prospectus for Initial Public Offering of the REIT dated 2 December 2015, the REIT's distribution policy is to distribute 100.0% of the REIT's Distributable Income for the Forecast Period 2015 and the Projection Year. Thereafter, the REIT will distribute at least 90.0% of its Distributable Income for each financial year.

For FY 2017, the Manager had made a distribution of 2.74 Singapore cents per unit for the period from 1 January 2017 to 30 June 2017 on 27 September 2017. A second distribution of 2.73 Singapore cents per unit for the period from 1 July 2017 to 31 December 2017 will be made on 28 March 2018.

Separate resolutions on each distinct issue are tabled at general meetings and voting on each resolution by poll is carried out systematically with proper recording of votes cast and the resolutions passed. "Bundling" of resolutions are kept to a minimum and are done only where the resolutions are interdependent so as to form one significant proposal and only where there are reasons and material implications justifying the same.

Further, the Manager has established procedures to ensure current Unitholders are informed in advance of meetings. They are encouraged to attend and participate in the process of these meetings, especially if they have questions as regards the resolutions that have been put up to be decided upon. Unitholders who are unable to attend meetings are provided with the option to appoint up to two proxies, who may then vote on behalf of the Unitholder. Representatives of the Trustee, Directors (including the chairpersons of the Board, the ARC and the NRC), the Manager's senior management and the external auditors, are present at general meetings to address any queries that Unitholders may have.

The Manager records minutes of all general meetings and questions and comments from Unitholders together with the responses of the Board and Management. These are available to Unitholders at their request.

All resolutions will be voted by way of poll to ensure transparency and better reflect Unitholders' interest. The Manager will announce the detailed results showing the number of votes cast for and against each resolution and the respective percentages via the SGXNet after the conclusion of the general meeting. An independent voting agent is appointed by the Manager for general meetings who will explain the rules, including the voting procedures, that govern the general meetings of Unitholders.

## ADDITIONAL INFORMATION

### Dealings in BHG Retail REIT Units

The Manager has adopted an internal compliance standard operating policy to provide guidance to its Directors, key officers and employees in respect of dealings in the REIT's Units. The policy permits the Directors and the Manager's key officers and employees to purchase Units, but sets clear limits on the transaction:

- Any officer or employee who wishes to purchase Units must complete a Staff Dealing Application Form and obtain approval from the Compliance Manager, CEO and Chairman of the Manager;
- A blackout period is imposed two weeks prior to quarterly announcements of the REIT's results and one month prior to the annual announcement of the REIT's results. During the blackout period, Directors, key employees and related companies of the Beijing Hualian Group are strictly prohibited from dealing in Units; and
- Directors, key officers and employees are further prohibited from dealing in Units if they are in possession of insider information.

Directors, officers and employees should not deal in Units on short-term considerations.

### Conflict of Interests

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

- The Manager will not manage any other REIT which invests in the same type of properties as BHG Retail REIT;
- All key executive officers will work exclusively for the Manager and will not hold other executive positions in other entities;
- In respect of matters in which a Director or his associates (as defined in the Listing Manual) has an interest, direct or indirect, such Director will abstain from voting. In such matters, the quorum must comprise a majority of the Directors (excluding such Interested Directors);
- All resolutions in writing of the Directors in relation to matters concerning the REIT must be decided by at least a majority vote of the Directors (excluding any Interested Director), including at least one Independent Director;

## CORPORATE GOVERNANCE

- At least one-third of the Board shall comprise Independent Directors;
- In respect of matters in which the Sponsor and/or its subsidiaries have an interest, direct or indirect, any nominees appointed by the Sponsor and/or its subsidiaries to the Board to represent their interest will abstain from deliberation and voting on such matters. In such matters the quorum must comprise a majority of the Independent Directors and must exclude Nominee Directors of the Sponsor and/or its subsidiaries. The Manager is an indirect wholly owned subsidiary of the Sponsor; and
- The Manager will ensure that the Property Manager puts in place the necessary procedures to prevent the unauthorised disclosure of confidential information relating to BHG Retail REIT.

It is also provided in the Trust Deed that if the Manager is required to decide whether or not to take any action against any person in relation to any breach of any agreement entered into by the Trustee for and on behalf of the REIT with a related party of the Manager, the Manager shall be obliged to consult with a reputable law firm (acceptable to the Trustee) who shall provide legal advice on the matter. If the said law firm is of the opinion that the Trustee has a prima facie case against the party allegedly in breach under such agreement, the Manager shall be obliged to take appropriate action in relation to such agreement. The Directors of the Manager (including its Independent Directors) will have a duty to ensure that the Manager so complies. Further, the Manager shall inform the Trustee as soon as it becomes aware of any breach of any agreement entered into by the Trustee for and on behalf of the REIT with a related party of the Manager and the Trustee may take such action as it deems necessary to protect the rights of Unitholders and/or which is in the interests of Unitholders. Any decision by the Manager not to take action against a related party of the Manager shall not constitute a waiver of the Trustee's right to take such action as it deems fit against such related party.

### Interested Party Transactions

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

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

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

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

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

### Fees Payable to the Manager

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

The Manager earns a management fee for the management of the REIT's portfolio. For FY 2017, the Manager has elected to receive its management fee in the form of Units and cash. The fee comprises two components: the base fee and performance fee, which are detailed as follows:

### Base Fee

The base fee is calculated as a percentage of the distributable income and is payable on a quarterly basis. This fee allows the Manager to cover administrative and operation overheads. The Manager is entitled to receive a base fee not exceeding 10.0% per annum (or such lower percentage as the Manager may determine in its absolute discretion) of the annual distributable income. The Manager may elect to receive the fee in cash, Units, or a combination of cash and Units in any proportion it may determine, and the base fee shall be payable quarterly in arrears.

### Performance Fee

The performance fee is calculated based on an objective which aligns with the interest of Unitholders as a whole – it is payable only if the DPU in any financial year exceeds the DPU in the preceding financial year. The Manager may elect to receive the fee in cash, Units, or a combination of cash and Units in any proportion it may determine, and the performance fee shall be payable annually.

For the purpose of computation of the performance fee, the DPU is calculated based on all income arising from the operations of the REIT. These include, but are not limited to, rentals, interest, dividends and other similar payments and income arising from the authorised investments of the REIT, but exclude one-off income such as income arising from any sale or disposal of real estate (whether directly or indirectly through one or more SPVs) or any part thereof, and any investments forming part of the deposited property or any part thereof. For the purpose of computation of the performance fee for FY 2017, the DPU for 2017 (being 1 January 2017 to 31 December 2017, both dates inclusive) is compared against the DPU in 2016. This method of computation is provided for in the Trust Deed.

### Other Fees – Acquisition Fee

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

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

### Other Fees – Divestment Fee

The Manager is entitled to a divestment fee under clause 15.2 of the Trust Deed, and is earned upon the completion of a divestment. The payment of the fee seeks to incentivise and motivate the Manager in actively seeking to maximise the value of the REIT by optimizing its portfolio. The fee is equivalent to 0.50% for divestments. In accordance with the Property Funds Appendix, where the Manager receives a percentage-based fee when the REIT divests real estate to an Interested Party, the divestment fee should be in the form of Units issued by the REIT, and these Units should not be sold within one year from the date of their issuance.



## **PRESERVING BEST ASSET MANAGEMENT PRACTICES**

Our malls' strong success in attracting new retailers while retaining quality tenants, was attributed to proactive leasing activities, tenant engagement, as well as astute asset management.



NURTURING  
ORGANIC  
GROWTH

